QUARTERLY REPORT III/2001

QSC AT A GLANCE

All amounts in million EUR, except per share amounts	01/01/ to 30/09/2000	01/01/ to 30/09/2001
Revenues	1.7	20.2
Net loss	-51.7	-78.3
Cash Flow	200.0	-118.8
Loss per Share in EUR	-0.73	-0.77
Capital Expenditure	60.3	36.9
Liquidity	294.8*	175.9***
Equity	339.1*	264.2***
Cities	38**	46***
Metropolitan Service Centers	42**	45***
Central Offices	567**	970***
DSL-Lines	3,200**	17,557***
Employees	149**	247***

* as at December 31, 2000
** as at September 30, 2000
*** as at September 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.

Growth under difficult market conditions

Despite a weakening economy, QSC AG succeeded in boosting its third-quarter sales to EUR 7.8 million (Q3/2000: EUR 1.2 million). Cumulative sales for the first nine months of the current business year resulted in EUR 20.2 million (01/01/-30/09/2000: EUR 1.7 million). The total number of lines sold as at September 30, 2001 was 17,557. This sales success underlines QSC's position as the leading alternative provider of DSL services in Germany.

As in previous quarters, earnings before interest, tax, depreciation and amortization (EBITDA) were better than planned, at EUR -64.6 million for the first nine months of the current business year (01/01/-30/09/2000: EUR -44.0 million). A comparison of the third-quarter EDITDA figure of EUR -18.9 million and the second-quarter figure of EUR -23.6 million shows that the operating result has reached the turning point. The same is true of quarterly cash flow development. Following completion of the entire broadband network in 46 German cities, the cash burn rate in the third quarter of 2001 fell by 9.2% to EUR 35.5 million, compared to EUR 39.1 million in the second quarter of 2001. As at September 30, 2001, QSC AG had cash and cash equivalents totalling EUR 175.9 million.

THE SALES SUCCESS UNDERLINES QSC'S POSITION AS THE LEADING ALTERNATIVE PROVIDER OF DSL SERVICES IN GERMANY.

Since the summer months, the company has felt the impact of the rapid downturn in the economy as business customers, especially, are holding back on telecommunications and IT investments. In August 2001, QSC adjusted its full year forecasts to take account of this negative business environment. However, with its high-quality Q-DSL product portfolio, the company remains well positioned for the growing DSL market.

Q-DSL - TV on the Internet

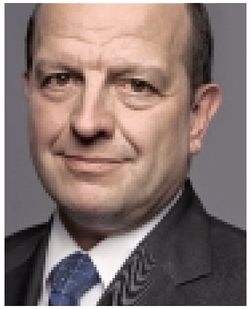
In the third quarter of 2001, QSC rounded off its product portfolio for end users under the Q-DSL brand umbrella. In addition to Q-DSL home for residential customers and Q-DSL business for the corporate clientele, a DSL solution for small companies and the SoHo customers was also launched – Q-DSL office. The latter allows up to ten workstations to be connected to the company's own network and operates at a download speed of up to 1.5 megabits per second (Mbit/s) and an upload speed of up to 256 kilobits per second (kbit/s).

In August, QSC enhanced the benefits provided by its Q-DSL home product – the DSL line for premium residential customers – by doubling the upload speed to 256 kbit/s whilst keeping the price constant. A significantly faster upload speed combined with a download speed of up to 1,024 kbit/s makes Q-DSL home a clearly superior product to those offered by major competitors.

With maximum download speeds between 1

Gerd Eickers

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



Mbit/s and up to 2.3 Mbit/s, all Q-DSL products provide a new generation of Internet experience - films, sports transmissions and rock concerts, for example, can now be viewed over the Internet on large screens and in a quality very close to existing TV standards.

Business customers are learning to appreciate the advantages of broadband Internet access, for example to send and receive large volumes of data, or to participate in video conferences with smooth image quality permitting a maximum of telepresence. The successful "Try & Buy" campaign, which enables business customers to test Q-DSL business for one month and enjoy broadband access speeds of up to 2.3 Mbit/s for only EUR 99, is aimed at encouraging companies to decide in favour of QSC products.

Focus on intensive marketing

Targeted marketing campaigns lent substantial support to sales of QSC products among residential and business customers during the third quarter. QSC advertised offline for its Q-DSL product portfolio with print campaigns in leading newspapers and magazines, and online with advertisements in web portals geared to the relevant target groups. Online marketing activities proved to be highly successful among residential customers, especially – half of all new customers for Q-DSL home ordered their connections on the Internet.

EXPERIENCING BROADBAND: JOINTLY WITH KIRCH INTERMEDIA, QSC PRESENTS PREMIER LEAGUE FOOTBALL IN THE INTERNET IN WHAT IS ALMOST TELEVISION QUALITY.

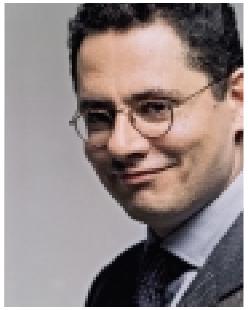
QSC is focusing its marketing increasingly on close collaboration with major content providers in the media industry. The cooperation entered into at the beginning of November with Kirch Intermedia GmbH – the multimedia arm of the Kirch Group – is of key importance. Football fans can now watch excerpts from the "ran" sports programme on the Internet only hours after the final whistle in German premier league football matches. Only Q-DSL users have the opportunity to watch matches in what is almost television quality - at speeds of 1.0 Mbit/s. With this exclusive content offer, QSC is communicating the advantages of its products to a broad public and stimulating demand for the residential customer product, Q-DSL home. This is also the aim of various marketing activities jointly conducted with the "ran" programme. These activities include QSC TV spots in conjunction with the "ran" broadcast on SAT.1, as well as online advertising on the Kirch web portals Sport1.de, ProSieben.de and N24.de. Medium-term plans include not only expansion of broadband content to cover other sports, but also joint development of "pay per content" services.

Sales through distributors and partners gaining pace

In the past 18 months, QSC AG established a nationwide network of sales partners both in the corporate and

Markus Metyas

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



EVERY SECOND HOUSEHOLD WILL HAVE BROADBAND ACCESS BY THE YEAR 2005.

residential consumer areas. More than 300 companies are now selling the products and services of QSC AG, either directly or indirectly. In the third quarter of 2001, for example, one of the largest independent ISPs in Europe, Netscalibur, joined the ranks of resellers marketing QSC's speedw@y-DSL lines to medium-sized companies.

In the third of quarter of 2001, QSC intensified the expansion of its retail sales network for the Q-DSL family of products. These products are now being directly sold by no less than 210 electronics retailers, mobile telephony providers and PC dealers. QSC provides training to optimise the know-how of these distributors. At the start of the pre Christmas season, more than 250 employees from partner companies will have received training in the functional operation, quality aspects, installation and price structure of Q-DSL products.

In order to enhance the market presence of these products, QSC is also collaborating with leading retail chains for electronics goods. For example, the Q-DSL products for end customers are demonstrated on the Compaq stand in the world's largest electrical goods store – Saturn in Hamburg.

DSL remains the leading broadband technology

Market researchers continue to predict rapid growth in the German and European market for broadband Internet access. The European Commission assumes that half of all households and small businesses will have broadband access by the year 2005. Mummert + Partner, a business consultancy, believes that DSL will become the most important telecommunications technology in the year 2002.

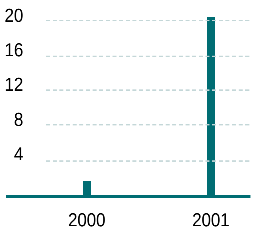
Alternative technologies such as wireless local loop, cable or fibre optics are either meeting little acceptance in the market at present, or continue to require major investments before they can be launched, or are quite simply too expensive for the vast majority of residential users and medium-sized companies. Following the sale of the cable TV infrastructure to foreign investors by Deutsche Telekom, and the gradual upgrade of the networks for interactivity, QSC expects that visible and regionally confined offerings from these companies – enabling TV cables to be used for Internet and telephony as well – will not occur until 2003 at the earliest, and even then to residential customers only.

On the DSL market itself, the consolidation is gaining speed and intensity. Some competitors are withdrawing from the market. This situation means that there is no major price-based pressure in the market - QSC was able to keep its prices at a stable level on the whole during the third quarter of 2001.

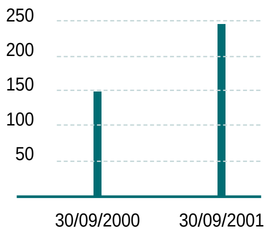
Market development dependent upon implementation of regulatory decisions

The third quarter of 2001 witnessed a key regulatory decision that substantially reinforces the market position of QSC AG. The Upper Administrative Court in Münster issued a final verdict in August that Deutsche Telekom must offer

Revenues 01/01/ to 30/09/
(in EUR million)



Employees



line sharing to its competitors immediately, as previously ordered by the regulatory authority. Line sharing gives alternative providers the opportunity to supply their voice and data services over phone lines already used by Deutsche Telekom subscribers. Implementation is proving to be a tough issue, however. QSC is currently negotiating with Deutsche Telekom on the details of line sharing arrangements.

QSC team complete

Only few additions were made to QSC AG's workforce during the third quarter of 2001. As at September 30, 2001, the workforce comprised 247 employees in total (30/09/2000: 149 employees). The sales and marketing departments profited most from new recruitment in the third quarter. A total of 53 people now work in these two departments, supported by an additional 56 employees in Customer Service and Customer Care. This means that customer-focused activities now account for 44.1% of the total workforce. Technical operations, the dominant field of activity at the beginning of the year, now account for 38.2% of all employees. This shift within the workforce composition reflects the key importance of sales and customer service following the completion of the network construction in Germany. Growth in workforce size will remain moderate in the years ahead.

Rigorous cost management is having an impact

The QSC business model involves major start-up losses because it requires to build the network infrastructure beforehand. At present, however, the company has already proven that it has met and overachieved its investment

THE LIQUIDITY OF THE COMPANY AMOUNTS TO EUR 175.9 MILLION AS AT SEPTEMBER 30, 2001.

and spending targets. This encouraging achievement is attributable to strict cost management. Flexible and innovative contracts, for example, mean that the company is profiting from falling prices for fibre-optic leased lines.

Network expenses continue to be the largest cost item for the company. In the first nine months of the current business year, these expenses totalled EUR 61.5 million (01/01/–30/09/2000: EUR 28.6 million). Besides expenses for fibre-optic leased lines, other network-related costs included those for operating QSC's own backbone, leasing expenses for the central offices (collocation rooms) and metropolitan service centres.

Marketing remains the second-largest cost item. In the first nine months of the current business year, marketing expenses totalled EUR 14.5 million, compared to EUR 9.7 million in the first nine months of the previous year. This increase is closely related to the growing medium and retail presence of QSC AG.

The financial situation of QSC as at September 30, 2001 is as robust as ever. With cash and cash equivalents amounting to EUR 175.9 million, the company has sufficient financial resources from the present vantage point

IN THE FOURTH QUARTER, QSC WILL LAUNCH ITS OFFER FOR VIDEO ON DEMAND.

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

* depend on the performance of the host servers on the public Internet

to finance its business plan until break-even has been achieved. As at September 30, 2001, QSC AG had total debts of only EUR 0.4 million.

Stock markets remained bearish

The management team continued to communicate intensively with the financial markets during the third quarter. QSC is in regular contact with analysts, institutional investors and journalists, and responds to questions put by private investors.

The economic weaknesses afflicting all industrialised nations are the prime factor affecting stock markets. Technology stocks, in particular, have suffered from the mistrust shown by many professional investors towards the viability of many business models. Against this background, QSC continues to attach high priority to informing the financial markets in an ongoing and open manner.

Growth despite economic downturn

QSC AG will continue to expand its sales in the fourth quarter of the current business year. The company expects a major thrust to come from its broad-based marketing offensive, which will drive sales of the Q-DSL home product for residential customers, especially.

QSC believes that an ideal sales platform is provided by the experience of watching premier league football games on the Internet, which enables residential users to appreciate at a glance the benefits of having broadband Internet access. Web surfers who first encounter sports broadcasts on the Net using conventional analogue or ISDN lines and the ensuring wait times on downloads, can switch to Q-DSL home with a few mouse clicks. QSC expects that 50% of all residential DSL connections will continue to be sold through online channels.

The fourth quarter will see the launching of Video on Demand over QSC's network. Q-DSL users will then have exclusive access to attractive content in return for a fee.

In the business customer market, collaboration with our sales partners is being intensified, with new partnerships being concluded on a selective basis. QSC assumes that small companies will switch increasingly to broadband Internet access. The growing demand for video conferencing and VPNs (virtual private networks) is generating greater levels of demand in this particular segment. However, the slowdown in the economy witnessed in recent months is causing many investments to be postponed.

Given that QSC is now more strongly positioned in the residential customer market than originally planned, the company continues to expect at least 40,000 lines to have been sold by the end of the year. Total sales in the current business year are expected to range between 26 and 34 million EUR, with an EBITDA result of between -85 and -100 million EUR.

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

	for the period from		for the period from	
	Jul 01, 2001- Sep 30, 2001 in TEUR	Jul 01, 2001- Sep 30, 2000 in TEUR	Jan 01, 2001- Sep 30, 2001 in TEUR	Jan 01, 2000 - Sep 30, 2000 in TEUR
Net revenues	7,784	1,247	20,201	1,659
Cost of revenues	19,100	14,271	61,493	28,611
Gross loss	(11,316)	(13,024)	(41,292)	(26,952)
Selling and marketing expenses	4,865	2,476	14,494	9,735
General and administrative expenses	2,503	2,974	7,896	6,456
Research and development expenses	234	416	942	839
Amortization of goodwill	90	0	174	0
Depreciation and amortization (including TEUR 3.795 in non-cash compensation in the 9 months ended Sep. 30, 2001; 9 months ended Sep. 30, 2000: TEUR 6.388)	7,297	5,032	18,853	12,596
Operating loss	(26,305)	(23,922)	(83,651)	(56,578)
Other income (deductions)				
Interest income	3,098	2,661	7,650	5,166
Interest expense	(85)	0	(216)	(3)
Share of post acquisition losses of equity method investees	(309)	(259)	(2,120)	(259)
Other non-operating income (loss)	4	0	32	(1)
Net loss before taxes on income	(23,597)	(21,520)	(78,305)	(51,675)
Tax benefit on income	0	0	0	24
Net loss after taxes on income	(23,597)	(21,520)	(78,305)	(51,651)
Loss attributable to common shareholders	(23,597)	(21,520)	(78,305)	(51,651)
Net loss per common share (basic and diluted)	(0.23)	(0.21)	(0.77)	(0.73)
Weighted average shares outstanding (basic and diluted)	101,134,647	101,134,647	101,134,647	70,672,251

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

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

ASSETS	as of Sep. 30, 2001 in TEUR (unaudited)	Dec. 31, 2000 in TEUR (audited)
Current assets		
Cash and cash equivalents	175,944	294,780
Trade accounts receivable, net	12,636	15,239
Trade accounts receivable due from related parties	283	1,237
Unbilled receivables	7,163	11,747
Other receivables	14,203	11,225
Prepayments and other current assets	4,303	2,648
Total current assets	214,532	336,876
Non-current assets		
Property, plant and equipment, net		
Networking equipment and plant	84,811	67,212
Operational and office equipment	8,064	6,075
Total property, plant and equipment, net	92,875	73,287
Intangible assets, net		
Licenses	2,276	2,491
Software	2,125	1,271
Goodwill	1,216	0
Others	9	11
Total intangible assets, net	5,626	3,773
Investment in equity method investees	4,210	5,427
Other non-current assets	597	317
Total non-current assets	103,308	82,804
Total assets	317,840	419,680

	as of	
	Sep. 30, 2001 in TEUR (unaudited)	Dec. 31, 2000 in TEUR (audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt	242	0
Trade accounts payable	16,916	12,744
Trade accounts payable due to related parties	11,185	22,900
Accrued liabilities	23,741	43,638
Deferred revenues	438	239
Other current liabilities	713	874
Total current liabilities	53,235	80,395
Non-current liabilities		
Convertible bonds	14	15
Accrued pensions	153	130
Other non-current liabilities	210	0
Total non-current liabilities	377	145
Total liabilities	53,612	80,540
Shareholders' Equity		
Share capital	105,009	105,009
Additional paid-in capital	472,954	477,304
Treasury stock	(4,527)	(4,125)
Deferred compensation	(13,370)	(21,515)
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(295,837)	(217,532)
Total Shareholders' Equity	264,228	339,140
Total liabilities and Shareholders' Equity	317,840	419,680

The accompanying notes to condensed consolidated 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 Sep. 30, 2001 in TEUR	2000 in TEUR
Cash flow from operating activities		
Net loss	(78,305)	(51,651)
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	3,795	6,388
Depreciation and amortization	15,232	6,208
Loss/(Gain) on sale of equipment	(4)	1
Share of post acquisition losses of equity method investees	2,120	259
Non-cash interest expense	136	0
Decrease/(Increase) in accounts receivable, net	3,851	(1,644)
Decrease in unbilled receivables	4,584	976
Increase in other receivables	(2,822)	(7,637)
Increase in prepayments and other current assets	(1,647)	(11,363)
Increase in other non-current assets	(280)	(305)
Increase/(Decrease) in trade accounts payable	(7,777)	9,127
Increase in advance payments received	0	4
Increase/(Decrease) in other reserves and accrued liabilities	(20,039)	17,936
Increase in deferred revenues	199	105
Decrease in accrued taxes	(56)	0
Decrease in deferred income taxes	0	(24)
Decrease in other current liabilities	(169)	(397)
Increase in accrued pensions	23	23
Net cash used in operating activities	(81,159)	(31,994)

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for the period ended Sep. 30,

	2001 in TEUR	2000 in TEUR
Cash flow from investing activities		
Acquisition of business, net of cash acquired	(1,760)	(3,050)
Purchases of intangible assets	(1,262)	(1,959)
Purchases of plant and equipment	(33,877)	(55,315)
Proceeds from sale of equipment	9	13
Net cash used in investing activities	(36,890)	(60,311)
Cash flow from financing activities		
Increase in short-term debt and current portion of long-term debt	(384)	0
Proceeds from capital subscribed, net of issuance costs	0	293,232
Redemption of convertible bonds	(1)	6
Proceeds from borrowings on long-term debt	0	105
Long-term loan granted	0	(1,000)
Purchases of treasury stock	(402)	(80)
Net cash provided by (used in) financing activities	(787)	292,263
Net increase (decrease) in cash and cash equivalents	(118,836)	199,958
Cash and cash equivalents at beginning of period	294,780	137,197
Cash and cash equivalents at end of period	175,944	337,155
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest	80	3
Income taxes	0	0

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

STATEMENTS OF SHAREHOLDERS’ EQUITY FROM JANUARY 1, 2000 TO SEPTEMBER 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 York 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

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	Convertible Preferred Shares Shares	Convertible Preferred Shares Amount TEUR	Ordinary Shares Shares	Ordinary Shares Amount TEUR	Treasury Shares Shares	Treasury Shares Amount TEUR	Additional Paid-In Capital TEUR	Deferred Compen-sation Account TEUR	Compre-hensive Income/ (Loss) TEUR	Retained Earnings/ (Accumulated Deficit) TEUR	Receivables Due from Shareholders TEUR	Total Shareholders' Equity 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 20, 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
Purchase of treasury stock (July 1, 2001)					9,126	(50)	(68)	68				(50)
Amount amortized during the period								3,795				3,795
Accumulated deficit									(78,305)	(78,305)		(78,305)
Comprehensive loss									(78,305)			
Balance at September 30, 2001	0	0	105,008,714	105,009	1,398,644	(4,527)	472,954	(13,370)		(295,837)	(1)	264,228

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

QSC AG, COLOGNE

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

1. Organisation and Basis of Presentation

(a) Organisation

QSC AG (in the following referred to as “QSC”) was organized 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 stock company in Cologne, North Rhine Westphalia, Germany under the name QS Communications AG. QSC provides high-speed Internet and corporate network access over standard copper telephone lines. QSC uses digital subscriber line technology, known as DSL technology, to deliver always-on connections with data transfer rates of up to 2.3 megabits per second both to and from the user. The use of dedicated copper telephone lines ensures secure data transmission. QSC provides its services through sales partners, mainly national and local Internet service providers and local and long distance telephone companies, serving small- to medium-sized enterprises and small office/home office customers.

The annual general meeting held on May 17, 2001 resolved that the company change its corporate name from “QS Communications AG” to “QSC AG”.

(b) Basis of Presentation

The preparation of consolidated financial statements in conformity with the United States generally accepted accounting principles (“US GAAP”) 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 nine month periods ended September 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 US GAAP.

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 new format is compulsory for interim financial statements for the reporting period ending on September 30, 2001. QSC has adopted the new format 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) Recently issued statements of financial accounting standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, goodwill will no longer be amortised on a straight-line basis over its estimated useful life, but will be tested for impairment on an annual basis and whenever indicators of impairment arise. Additionally, goodwill on equity method investments will no longer be amortised; however, it will continue to be tested for impairment in accordance with Accounting Principles Board Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock". SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 although goodwill on business combinations consummated after July 1, 2001 will not be amortised. On adoption QSC may need to record a cumulative effect adjustment to reflect the impairment of previously recognised intangible assets. In addition, goodwill on prior business combinations will no longer be amortised. Had QSC adopted SFAS No. 142 on January 1, 2001, QSC would not have recorded a goodwill amortisation charge of TEUR 174 for the nine months ended September 30, 2001. QSC does not expect any material impact on its results of operation or its financial position from SFAS No. 141. In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognised in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalised as part of the carrying amount of the long-lived asset. SFAS No. 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 No. 143.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 establishes a single accounting model for long-lived assets to be disposed of by sale consistent with the fundamental provisions of SFAS No. 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be

Disposed Of". SFAS No. 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 No. 144 will have a material impact on its results of operations or its financial position arising from the adoption of SFAS No. 144.

(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) 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 September 30, 2000 and September 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 September 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 1,423,646 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.

(d) 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.

(e) Segment information

QSC applies the “management” approach in accordance with SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information”, for identifying reportable segments. The management approach designates the internal organization used by management for making operating decisions and assessing performance as the source of QSC’s reportable segments. QSC operates 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. 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 710 of goodwill in connection with the purchase of its share in COMpoint which is being amortised over its estimated useful life of four years. From March to September 2001, QSC amortised TEUR 103 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 nine months ended September 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 71 were amortised from May to September 2001. Pro-forma operating results for the nine months ended September 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 was requested on May 8, 2001, and declared on the same day. Bankruptcy 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.

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"). On the same day, the shareholders of Netchemya resolved to increase Netchemya's share capital by TEUR 10,000. QSC acquired 3,000,000 of the 10,000,000 newly issued shares. QSC paid TEUR 900 in cash for these shares during the reporting period.

From January 1 to September 30, 2001, QSC recorded post-acquisition losses of TEUR 2,120 from its investments in Netchemya and QSC Benelux. QSC uses the equity method of accounting for 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 September 30, 2001.

6. Debt

Other non-current liabilities of TEUR 210 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. The German Federal Administrative Court ruled in a test case that the license fee directive is unlawful. Any license fees paid under the license fee directive have been refunded. A reassessment of the license fees is yet to take place.

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. QSC generates no further revenues with these customers.

In March 2001, QSC took out insurance coverage against bad debts to improve its credit management. QSC purchases credit insurance for significant accounts. The insurer continuously monitors the credit worthiness of the accounts.

9. Events Subsequent to the Balance Sheet Date

On October 10, 2001, QSC reduced its share in Netchemya from 30% to 25% by selling 1,137,000 of its shares to Tiscali International B.V. QSC received TEUR 1,137 in cash for the shares.

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 970 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 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. 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 nine months ended on September 30, 2000, we calculated negative EBITDA of TEUR 43,982. For the equivalent period of 2001, we calculated negative EBITDA of TEUR 64,624, 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 completion of the network roll-out, 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 (nine months ended September 30, 2001 and nine months ended September 30, 2000)

Revenues

In the first nine months of 2001, we recorded revenues of TEUR 20,201. Compared with revenues of TEUR 1,659 in the first nine months of 2000, this represents an increase of 1,118%.

As at September 30, 2001, we had contracts to provide more than 17,500 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 September 30, 2001, we recognised TEUR 20,201 in revenues. TEUR 438 in installation charges are deferred to be recognised in future periods.

Cost of revenues

Cost of revenues are our network expenses totalling TEUR 61,493 in the first nine months of 2001. During the equivalent period in 2000, we recorded network expenses of TEUR 28,611. This represents an increase in network expenses of 115%.

Currently, network expenses represent approximately 59% of our total operating expenses reflecting the rapid progression of our network roll-out and the building of our operating infrastructure. As at September 30, 2001, Deutsche Telekom had provided us with co-location spaces in a total of 1,285 of their central offices. 970 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 14,494 for the nine months of 2001 and TEUR 9,735 for the equivalent period of 2000, representing an increase of 49%. 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 7,896 in the first nine months of 2001 and TEUR 6,456 during the equivalent period of 2000, representing an increase of 22%.

The increase in general and administrative expenses is mainly attributable to growth in headcount in all areas of our company. 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 942 in the first nine months of 2001 and TEUR 839 in the first nine months of 2000, representing an increase of 12%.

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 September 30, 2001, we recorded a total of TEUR 19,027 in depreciation and amortisation costs. Depreciation and amortisation for the equivalent period of 2000 was TEUR 12,596, representing an increase of 51%.

In the first nine months of 2001 we recorded TEUR 15,058, or 79% 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 6,208. 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 nine months of 2001 we recorded amortisation of goodwill of TEUR 174. There were no goodwill amortisation expenses in the equivalent period in 2000.

Through September 30, 2001, we recorded a total of TEUR 3,795 of amortised non-cash, deferred compensation with an unamortised balance of TEUR 13,370 on our September 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 nine months to September 30, 2000, we recorded amortisation of non-cash compensation charges of TEUR 6,388.

Other income (deductions)

Other income (deductions) consists primarily of interest income on our cash balance. Interest income for the first nine months of 2001 was TEUR 7,650 in comparison to TEUR 5,166 in the first nine months of 2000. Interest expense in the first nine months of 2001 was TEUR 216. TEUR 136 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 nine months of 2001 we recorded total post acquisition losses of TEUR 2,120. TEUR 1,334 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 September 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 nine 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 September 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. Cash and cash equivalents on September 30, 2001 were TEUR 175,944.

The accumulated deficit of TEUR 295,837 contains TEUR 120,873 in dividends from a beneficial conversion feature in connection with our private placement in December 1999 and TEUR 14,798 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

September 2001 we incurred TEUR 14,798 in compensation expense.

From January 1 through to September 30, 2001, net cash outflow from operating activities was TEUR 81,159. This was due to net losses of TEUR 78,305 and decreases in accounts payable and accrued liabilities of TEUR 27,819, offset by non-cash expenses of TEUR 21,279 and decreases in assets of TEUR 3,686. We used TEUR 35,139 net cash for investing activities due to purchases of intangible assets, plant and equipment. During the first nine months of 2000 such investments were TEUR 57,274. The 39% decrease in investment is primarily due to QSC having entered its second network roll-out phase. We expect negative cash flows from investing activities in future periods, 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. 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 nine months ended on September 30, 2001 amounts to TEUR 787.

Recent Developments and Outlook

In the third quarter of 2001 we rounded off our Q-DSL product portfolio. After the launch of Q-DSL business, our business product, and Q-DSL home, our residential product, we introduced Q-DSL office on August 13, 2001. 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.

We increasingly focus on close co-operation with content providers. At the beginning of November we launched an exclusive sports content offer together with Kirch Intermedia GmbH.

In August, the Upper Administrative Court in Münster issued a final verdict that Deutsche Telekom AG must offer line-sharing to its competitors. Line-sharing allows us to supply voice and data services over one and the same line simultaneously with Deutsche Telekom AG. We intend to use line-sharing in the future and are currently negotiating with Deutsche Telekom AG the details of implementing it.

Since the beginning of 2001 we have hired additional personnel. As at September 30, 2001, we had 247 employees in total. We expect the number of employees to moderately increase in future periods.

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 Supervisory Board

	Shares	Conversion Rights
John Baker	0	9,130
Herbert Brenke	161,120	9,130
Manjit Dale	0	9,130
Ashley Leeds	9,130	0
David Ruberg	4,563	9,130
Claus Wecker	83,025	0
	257,838	36,520

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	1.059,116
	27,661,779	1.059,116

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 management board of QSC AG, Cologne

We reviewed the accompanying interim financial statements of QSC AG, Cologne, for the period from July 1, 2001 to September 30, 2001, 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	Berg
Wirtschaftsprüfer	Wirtschaftsprüfer

Eschborn/Frankfurt am Main, November 13, 2001

CALENDAR

Annual Report 2001
March 26, 2002

Shareholder's Meeting
May 16, 2002

Quarterly Reports
May 28, 2002
August 27, 2002
November 26, 2002

Conferences
December 4, 2001, Penton Media Europe
"Last Mile Europe"

February 14, 2002
The Economist, 13th Annual European
Communications Conference

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