

ANNUAL REPORT 2002

QSC AT A GLANCE

	01/01/-31/12/	01/01/-31/12/
	2002	2001
All amounts in million EUR		
Revenues	47.1	29.4
EBITDA ¹	-60.3	-85.4
EBIT ²	-101.1	-113.0
Net loss	-102.6	-104.9
Net loss per common share ³ (in EUR)	-1.01	-1.04
Equity	145.3 ⁴	240.0 ⁵
Balance Sheet Total	194.6 ⁴	298.0 ⁵
Equity ratio (in %)	74.7	80.5
Capital Expenditure	11.5	41.7
Liquidity	87.6 ⁴	153.8 ⁵
Share price as of 31/12/ (in EUR)	0.39	1.25
Number of shares as of 31/12/	105,008,714	105,008,714
Market capitalisation as of 31/12/	41.0	131.3
Employees	433 ⁴	263 ⁵

¹ Earnings before interest, taxes, depreciation and amortization

² Earnings before interest and taxes

³ basic and diluted

⁴ as of December 31, 2002

⁵ as of December 31, 2001

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

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M "MEDIUM TERM, WE INTEND
TO ESTABLISH OURSELVES AS
THE MOST RECOGNIZED TELECOMMU-
NICATION PROVIDER FOR BUSINESS
CUSTOMERS."

LETTER TO THE SHAREHOLDERS
MANAGEMENT AND SUPERVISORY BOARD
REPORT OF THE SUPERVISORY BOARD

Dear Shareholders,

In late 2002, Deloitte & Touche Consulting honored QSC as the fastest growing German technology company – a distinction that filled our team with pride and underscored the enormous strides our company has made. Only at the end 1999 did QSC begin to build a nationwide broadband infrastructure. Today, we have already positioned ourselves as a professional provider of integrated telecommunication solutions. Medium term, we intend to establish ourselves as the most recognized telecommunication provider for business customers in Germany.

The past fiscal year was crucial in achieving this ambitious goal. We systematically broadened our competence as a solutions provider. At the time of CeBIT 2002, we had already showcased such innovations as Q-VPN, Q-Security and QSC-Voice. Q-VPN enables corporates to build and operate their own networks, without the need for investing in hardware and software.

Q-Security protects the networks against unwanted attacks from the Internet, and QSC-Voice enables a DSL line to be used simultaneously for voice and data services.

In 2002, we made a successful entry into the field of project business with major accounts. Within only a few months, we succeeded in convincing a number of prominent companies of the quality of our solutions. This year, a sales organization that is stronger in terms of both headcount and quality will focus on winning further customers from among Germany's Top 100 companies.

The acquisition of Düsseldorf-based Ventelo GmbH in December 2002 was a milestone in QSC's development. QSC can now offer both data and voice services and thus cater to the needs of business customers for one-stop shopping for telecommunication solutions. The integration of Ventelo will be an important aspect during the current fiscal year. QSC will be taking a cautious approach that will support the respective strengths of both. The task will be to rigorously foster the natural synergies in our technology infrastructures and sales organizations and to make efficient use of cross-selling potential. Both the geographical proximity between our headquarters in Cologne and Düsseldorf as well as our compatible corporate cultures and our common focus on business customers will simplify collaboration.

With Ventelo, QSC is
fast becoming a provider
of integrated solutions

Break-even on
EBITDA basis in the
course of 2003

During the past fiscal year, new solutions and new customers played a key role in helping us to achieve the fiscal year targets we announced in February 2002. In the wake of a very difficult economic environment, we were able to convince even sceptics with an increase of revenues by 60 percent to EUR 47.1 million and a decrease of EBITDA loss by nearly 30 percent to EUR -60.3 million.

Nevertheless, we continue to view our share price level at the end of March 2003 as being unsatisfactory. One of the key tasks of QSC's management during the course of the coming months will be to interact with investors and other capital markets participants in order to illustrate the potential that is now available to QSC in the German broadband market. After all, in spite of a dramatic hesitancy to invest in the IT and communication segment, market researchers expect to see double-digit growth rates in our core business.

When we went public in April 2000, we presented a business plan that called for us to reach the EBITDA break-even point in 2003. In spite of the enormous downturn in the economic environment and our sector, this statement continues to be valid. We plan to reach this breakeven point by the close of the current fiscal year and the cash flow break-even point during the course of the coming year.

This ambitious goal can only be achieved thanks to a professional and committed team. At this point, I would therefore like to express my sincere gratitude to our colleagues. With this outstanding team – now augmented by the employees of Ventelo – we will sustain our growth course this year. And, fellow shareholders, the capital markets, too, will ultimately reward our steadfastness and our opportunities. I join you in looking forward to that happening.

Yours sincerely,



Dr. Bernd Schlobohm

MANAGEMENT.

**Dr. Bernd Schlobohm**

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

**Gerd Eickers**

The second QSC founder focuses on customer service, order management and regulation.

**Markus Metyas**

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

**Bernd Puschendorf**

With many years of first hand sales experience, he is responsible for the areas sales and marketing.

SUPERVISORY BOARD.

John C. Baker

Chairman of the Supervisory Board

Founder of Baker Capital and a General Partner in the Baker Communications Funds which represent the largest shareholder of QSC.

Herbert Brenke

Deputy Chairman of the Supervisory Board

The independent consultant in the telecommunications industry built up the mobile telecommunication provider E-Plus.

Ashley Leeds

The General Manager of Baker Capital has been focusing on the telecommunication sector for years.

David Ruberg

A computer scientist and former Chairman currently representing Baker Capital on the boards of high tech companies.

Claus Wecker

The lawyer is partner of the international law firm White & Case, Feddersen.

REPORT OF THE SUPERVISORY BOARD FOR THE FINANCIAL YEAR 2002 REGARDING THE COMPANY AND THE GROUP.

In accordance with legal requirements and the articles of incorporation, the Supervisory Board monitored and advised the Management Board in the financial year 2002.

With effect from March 6, 2002 the Supervisory Board appointed Mr. Bernd Puschendorf as member of the Management Board. Mr. Puschendorf's responsibilities are marketing and sales.

At his own request Mr. Manjit Dale resigned from the Supervisory Board with effect from expiry of December 31, 2002 and we would like to take this opportunity to thank him for his co-operation.

In four meetings held on March 14, May 15, September 11, and November 13, 2002, as well as in three telephone conferences on April 16, June 24/25 and July 3, 2002 and by means of several written submittals regarding specific topics the Supervisory Board was informed in detail, on the basis of the Management's monthly reporting including target/actual comparison, about the course of business, the company's economic situation and about all transactions of significance for the profitability and cash flow situation of the company. Regrettably Mr. Dale could not attend the meetings and conferences, but kept continuously informed on the basis of the written submittals and minutes and took part in resolutions passed in writing without a meeting.

Since May 2001 the Supervisory Board established a "Compensation Committee", consisting of Mr. John C. Baker, Mr. Herbert Brenke and Mr. David Ruberg. The Committee has specific responsibility for negotiating, closing and changing the employment contracts of the Management Board including remuneration issues. The Compensation Committee held a meeting following each Supervisory Board Meeting, communicated by telephone in between the meetings and regularly reported on its activities to the Supervisory Board.

The Supervisory Board discussed key aspects of the company's business policies and development as well as risk management with the Management Board. Its approval was obtained for all measures for which such approval is required by law, the Articles of Incorporation or the rules of procedure of the Management Board.

Major topics of the Supervisory Board Activities during the past financial year were current development of the business, business planning and strategy, selecting the new member of the Management Board, the review of the actual results versus budget, the cash burn rate, the execution of the merger of former subsidiaries GINKO AG and COMpoint GmbH which had been approved in the preceding year, the discussion of potential acquisition opportunities and the acquisition of Ventelo GmbH as well as evaluating the results of the risk management

system and the level of compliance with the German Corporate Governance Code. Together with the Management Board the Supervisory Board issued the compliance statement according to § 161 of the Stock Corporation Act.

The annual financial statements of QSC AG pursuant to HGB (German Commercial Code) as at December 31, 2002 as well as the consolidated financial statements pursuant to US GAAP as at December 31, 2002, the management report and the consolidated management report were presented to the members of the Supervisory Board, examined by the Supervisory Board and - as well as potential risks resulting from future developments - discussed with Ernst & Young Revisions- und Treuhandgesellschaft mbH, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft (former Arthur Andersen Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft mbH, a firm of chartered accountants and tax consultants), Eschborn/Frankfurt am Main, the auditors mandated by the Supervisory Board, namely, at the meeting on March 20, 2003. The HGB-annual financial statements of the company for the year 2002 were granted an unqualified auditor's certificate. The consolidated financial statements were also reviewed by Ernst & Young and received an unqualified auditor's certificate, too.

Having conducted its own examination, the Supervisory Board has no objections against the annual financial statements of QSC AG for the 2002 financial year pursuant to HGB and the consolidated financial statements pursuant to US GAAP as well as the management report and the consolidated management report and concurs with the findings of the auditors.

The Supervisory Board approved the consolidated financial statements pursuant to US GAAP as well as the annual financial statements pursuant to HGB, the latter has therefore been formally established.

The Supervisory Board would like to thank the Management Board and all employees of the company for their commitment and dedication, without which the company's successful development in the past financial year would not have been possible.

On behalf of the Supervisory Board



John C. Baker
Chairman of the Supervisory Board

01 / 1997

FORMED AS A CONSULTING FIRM FOR TELECOMMUNICATION, INTERNET AND MULTIMEDIA

04 / 1999

FOCUS ON DSL BUSINESS

11 / 1999

FIRST STEP IN BUILDING ITS OWN DSL INFRASTRUCTURE

11 / 1999

FIRST PRODUCT FOR INTERNET SERVICE PROVIDERS: SPEEDW@Y-DSL

04 / 2000

IPO ON THE NEUER MARKT AND NASDAQ: CAPITAL STOCK INCREASED TO OVER EUR 420 MILLION

03 / 2001


ENTRY INTO DIRECT SALES WITH THE Q-DSL PRODUCT


FROM SOCKET TO SOLUTION.

High-speed Internet, corporate networks, voice telephony // Today, QSC offers business customers a wide range of products and services, and has established a firm presence in the market as a supplier of integrated telecommunications solutions. The company's rapid advance began in 1999 with the decision to create its own broadband network in all of Germany's most important economic agglomerations. This network now covers the 40 largest cities in Germany, thus reaching a quarter of the entire population. More than a million companies are able to utilise this high-performance network.

The acquisition in December 2002 of Ventelo, an infrastructure based telecommunications company, has greatly boosted the company's development from a specialised provider of DSL lines to a supplier of integrated telecommunications solutions for business customers. In conjunction with Ventelo, QSC can offer companies of all sizes the tailored solutions for voice and data communication that they require.

BROADBAND MAKES KNOW-HOW MOBILE  COMPANIES CAN NOW CONNECT THEIR VARIOUS SITES WITH THE HELP OF THE QSC NETWORK AND A VARIETY OF ADDITIONAL SERVICES, THUS ENABLING THEM TO EXCHANGE DATA AT HIGH SPEEDS, OR CREATE WORKING GROUPS THAT ARE NO LONGER TIED TO A PARTICULAR LOCATION.

BROADBAND STIMULATES INDUSTRIES  COMPANIES VALUE QSC AS AN ALTERNATIVE BROADBAND PROVIDER THAT ENABLES THEM TO WORK IN 21ST CENTURY STYLE – I.E. FAST AND EFFICIENTLY. ARCHITECTS, ADVERTISING AGENCIES AND ENGINEERS ARE RELIANT ON THEIR ABILITY TO TRANSFER LARGE DATA FILES WITHIN SECONDS AND BEING ABLE TO WORK ON SUCH FILES TOGETHER – QSC GIVES THEM THE PRODUCTS AND SERVICES THEY REQUIRE.

BROADBAND GETS THE ECONOMY MOVING  MORE AND MORE COMPANIES ARE COMING TO REALISE THE SHEER POTENTIAL THAT DSL CAN OPEN UP FOR THEM. DOCTORS CAN EXCHANGE PATIENT EXAMINATION DATA IN SECONDS, OR EVEN PERFORM OPERATIONS REMOTELY; HOSPITALS CAN RESHAPE THEIR ORGANISATION IN A FUNDAMENTAL WAY. THE QSC NETWORK ENABLES THIS ECONOMIC REVOLUTION.

05 / 2001

EXPANSION OF THE NETWORK IN GERMANY'S 40 LARGEST CITIES COMPLETED

01 / 2002

STRATEGIC FOCUS ON THE BUSINESS CUSTOMER SEGMENT

03 / 2002

EXPANSION OF THE PORTFOLIO OF SERVICES TO INCLUDE NEW PRODUCTS LIKE Q-VPN, Q-SECURITY AND QSC-VOICE

04 / 2002

BEGINNING OF INDIVIDUALIZED PROJECT BUSINESS WITH MAJOR CORPORATIONS

12 / 2002

ACQUISITION OF VENTELO – MIGRATION INTO AN INTEGRATED TELECOMMUNICATION PROVIDER FOR BUSINESS CUSTOMERS

01 / 2003

LAUNCH OF THE NEW Q-DSLMAX PRODUCT LINE. QSC SHARES INCLUDED IN THE PRIME STANDARD



"QSC SUPPLIED NOT ONLY THE RIGHT CONCEPT,
BUT ALSO A SUPERB SERVICE DURING IMPLEMENTATION."

Friedrich Jonas, Head of IT, Wormland GmbH & Co. KG

BROADBAND MAKES KNOW-HOW MOBILE.

Working when and where I want // Using latest technology, more and more companies are turning this age-old desk workers' dream into reality. They do this by installing Virtual Private Networks (VPNs) to connect different sites and workplaces via a proprietary corporate infrastructure. An essential requirement for such networks are high-speed Internet connections, because otherwise work away from the office would be dominated by waiting time.

Information when and where I want it // The opportunities that today's VPNs open up extend far beyond the fast-growing teleworking sector. Companies are networking different sites with each other so that data can be exchanged securely and inexpensively. Online trading and centralised bookkeeping also require efficient transmission lines for data. QSC offers companies tailor-made VPN solutions based on its high-performance DSL network, complementing these solutions with add-on services such as web and server hosting.



MEN'S FASHIONS – FULLY NETWORKED. WORMLAND, A RETAIL CHAIN OF MEN'S OUTFITTERS, CHOSE A VPN SOLUTION FROM QSC TO JOIN ITS 14 OUTLETS TO THE FIRM'S MERCHANDISE INFORMATION SYSTEM. THE VPN CONNECTS THE POINT OF SALE SYSTEMS WITH THE HEAD OFFICE, THUS PERMITTING STATE-OF-THE-ART PURCHASING AND LOGISTICS OPERATIONS. DATA ENCRYPTION SECURES THE SYSTEM AGAINST UNAUTHORISED ACCESS.



QSC MANAGES THE SYSTEM AND SO CAN GUARANTEE 24-HOUR AVAILABILITY. THIS WAS A KEY REQUIREMENT ON THE PART OF WORMLAND, PARTICULARLY SINCE, IN ADDITION TO MATERIALS MANAGEMENT, EMPLOYEE TIME KEEPING AND THE CORPORATE HELP DESK ARE ALSO MANAGED VIA THE NEW VPN. FRIEDRICH JONAS, HEAD OF IT AT WORMLAND, HAS ALSO NOTED THAT AN INTRANET FEATURE AND FURTHER FUNCTIONALITIES MAY BE ADDED IN FUTURE.

STRIDING TO A FUTURE AS SOLUTIONS PROVIDER.

Focus on business customers // During the past year, QSC continued its evolution as a provider of integrated telecommunications solutions. The company accomplished a targeted extension of its product range and focused its internal organisation on the needs of business customers. The company's rapid progress in 2002 is documented by five events in particular:

- At the CeBIT fair in March 2002, the company presented its strategy of concentrating on business customers and underscored its expertise in this field by launching the new Q-Security, Q-VPN and QSC-Voice products.
- In the months that followed, QSC installed a two-tier sales system. Major companies are now managed directly by QSC; small and medium-sized enterprises receive customised telecommunications solutions from strong sales and distribution partners in the respective regions.
- In summer, QSC publicised its first big-name customer for project business – Kaufhof, the department store group. QSC networked around 60 'Galeria Kaufhof' stores with a DSL-based VPN solution.
- After completing the test phase in the Cologne area, QSC-Voice was launched in six German cities in late summer. This innovative voice product enables normal telephone over a DSL line, parallel to data upload and download.
- In December 2002, QSC acquired Ventelo, a telecommunications company that has nationwide operations in Germany and provides voice services specially designed for business customers. By making this acquisition, QSC extended its product range and established itself as a provider of integrated telecommunications solutions for business customers.

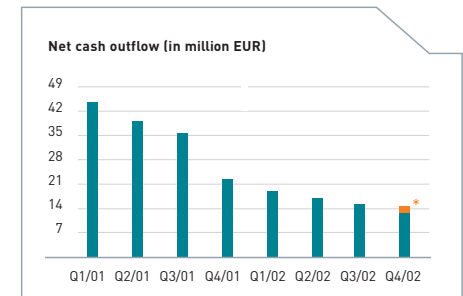
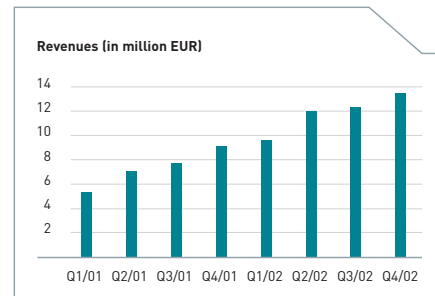
Strong revenue growth demonstrates the success of strategic focus on business customers // Despite severe economic weakness in Germany, QSC revenues increased in 2002 fiscal year by 60 percent to EUR 47.1 million (2001: EUR 29.4 million). In Q4/2002 alone, the company achieved revenues of EUR 13.5 million, compared to EUR 9.2 million in the same period a year before. This growth, accomplished in a very tough macroenvironment, underlines the success of the company's strategic and rigorous focus on the telecommunications needs of business customers. Persistent consolidation in the Internet service provider (ISP) market, and the resulting slight declines in revenues with semi-fabricates for broadband services, have corroborated QSC's continuing concentration on products for final customers.

QSC boosts revenues by 60 percent despite economic weakness

Declining network expenses and rising revenues demonstrate scalability of business model

Rigorous cost management is generating payback // Network expenses, which include operating expenses for the proprietary QSC backbone and leasing expenses for fibre optic lines and co-location rooms ('central offices'), were at EUR 93.6 million for 2002, thus constituting the largest expense item. Compared to the 2001 fiscal year, network expenses were reduced by 10 percent (2001: EUR 103.5 million), despite 60 percent growth in revenue. This substantial improvement is attributable to the various measures adopted by QSC to optimise network operations and highlights the potential to be gained from the scalability of the QSC business model – strong revenue growth can be achieved at constant or even decreasing expense for the high-performance network, thus leading to disproportionate improvements in operating result.

Sales expenses increased in the past fiscal year to EUR 32.0 million (2001: EUR 21.3 million). This increase relative to the 2001 fiscal year is a clear manifestation of QSC's intensified business activity. In 2002, the company enlarged its sales team in a controlled fashion. A key account management team comprising 22 employees in total is responsible for customer acquisition, and now manages large accounts directly. Further sales personnel are also deployed in the six German sales offices to advise and support sales partners and ISPs.



* Net effect of Ventelo acquisition

N NET CASH OUTFLOW IS DECREASING
SUBSTANTIALLY FROM ONE QUARTER
TO THE NEXT. QSC FORECASTS NET
CASH AND CASH EQUIVALENTS OF EUR
50 MILLION AT THE END OF 2003

BUSINESS DEVELOPMENT
SOLUTIONS

SALES
MARKET
COMPETITION
EMPLOYEES
OUTLOOK

Improved EBITDA
result due to growth
in direct business

The EBITDA earnings for the year were EUR -60.3 million, and came in at the low end of the figure originally forecast in early 2002 (EUR -60 to -70 million). This substantial, 30-per-cent reduction in losses relative to the 2001 EBITDA figure of EUR -85.4 million is primarily attributable to growth in the higher-margin business customer and project-related business, as well as to consistent cost management. In the fourth quarter of 2002, EBITDA earnings were EUR -14.9 million (Q4/2001: EUR -20.8 million). The net loss for 2002, at EUR -102.6 million, was better than the previous year's figure, despite a total write-off of EUR 4.1 million for the strategic acquisition in 2000 of holdings in Netchemya S.p.A., Milan, and a special write-off of EUR 4.8 million on the bookvalue of fixed investments in unused central offices.

QSC lowers net cash outflow for the seventh time in a row In the fourth quarter of 2002, outflow of cash and cash equivalents by ongoing operations fell considerably again by EUR 2.3 million to EUR 12.8 million. Although the year-end cash position was reduced by an additional EUR 2.2 million due to payment of the first purchase price tranche for the acquisition of Ventelo, the voice carrier, total cash outflow was still less than that in Q3/2002, at EUR 15.0 million (Q3/2002: EUR -15.1 million). As at December 31, 2002, cash and cash equivalents totalled EUR 87.6 million and negligible financial debt.

For the current fiscal year, QSC plans for revenues of between EUR 105 and 115 million, and an EBITDA loss of between EUR -25 and -30 million. QSC plans to reach break-even on an EBITDA basis in the fourth quarter of 2003, and on cash flow basis in the course of 2004. As at year-end 2003, QSC forecasts net cash and cash equivalents of EUR 50 million. This target is contingent on reducing cash outflow by an average of least EUR 2 million each quarter. According to the sale and purchase agreement, the second and final purchase price tranche for the acquisition of Ventelo – amounting at most to EUR 5.2 million – is not planned to affect the cash position until the first half of the 2004 fiscal year.

Successful entry
into market for
project business

BROADBAND SOLUTIONS TO MATCH EVERY TARGET GROUP.

From socket to solution The QSC range of products and services extend from single DSL connections to integrated communications solutions for companies with several branches or outlets. The company used the past fiscal year in a consistent and rigorous manner to extend its high-speed Internet access range to include intelligent products and innovative solutions. In the project business, QSC is now able to offer complete communications solutions from a single source to multisite companies, such as the Kaufhof department store group or the O₂ mobile telephony provider. In autumn 2002, e.g. QSC networked more than 100 O₂ shops in Germany. Since then, employees at local shop level can enable mobile phone subscribers and handle all commercial processes through a virtual private network (VPN).

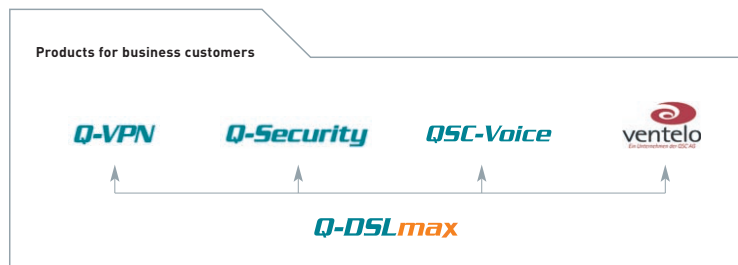
A corporate solution team comprising 12 employees and 6 system engineers devise a tailor-made solution for each project customer. With fast broadband access as the foundation, they design and implement VPNs as well as integrated security modules and backup solutions. Where required, they also provide web and server hosting services.

Q-VPN: Cutting-edge product for secure corporate networks The solutions developed in our project business are based on products that QSC first presented at CeBIT 2002. From the very first day, special interest was generated in Q-VPN, the product for swift implementation of VPNs. It is easy to install and operate, enabling companies to create and securely operate closed corporate networks without having to invest in additional hardware and software. The inexpensive Q-VPN is often an excellent alternative to costly leased lines. With its new Q-Security product, QSC offers corporate customers a high-quality, network-based firewall that similarly obviates any need for additional hardware and software investments.

Roll-out of QSC-Voice in 25 cities by mid-2003

Successful start for QSC-Voice // The third innovation is QSC-Voice, a digital voice communication product presented by QSC at the CeBIT fair 2002. In addition to familiar ISDN convenience and security features, QSC-Voice includes up to eight parallel voice channels on a single broadband line, and is based on established, current-generation digital networking standards (e.g. ATM). QSC-Voice, which was successfully launched in six cities in the late summer of 2002, enables business customers to handle their entire voice and data communication with QSC as their partner. The strong interest shown by business customers bolsters QSC's belief in its strategy to provide this innovative product in a total of 25 cities by mid-2003.

In the summer 2002, QSC also presented a new platform for video transfer. This uses the QSC network to enable high-quality video images to be sent and received over the Internet, thus giving the media industry an opportunity to diversify into new fields of business. Hamburger MediaServe GmbH was the first customer to exploit this technological platform in order to sell its Video-on-Demand (VoD) services. This solution is also a pioneering step forward for communication within large companies or the health services.



Q-DSLmax: Performance that pays

Q-DSLmax delivers large bandwidth // Since January 2003, QSC has been selling a new, high-performance DSL product for companies of all sizes – Q-DSLmax. This replaces the previous business customer products Q-DSL business and Q-DSL office.

Q-DSLmax is an SDSL product that gives companies maximum Q-DSL bandwidth of up to 2.3 Mbit/s at a minimum price. As far as pricing is concerned, QSC has designed a transparent system that features a very inexpensive entry-level tariff. Small companies, especially, can therefore gain from the benefits of SDSL technology. The basic monthly charge of EUR 99 plus VAT essentially covers the data volume of an average-sized company with a workforce of ten, of whom five post 30 e-mails a day, send various text or image files and spend about one hour per day researching on the Internet.

Proprietary network ensures market lead // The constantly high quality of Q-DSLmax is guaranteed by QSC's proprietary network. This is based on an intelligent combination between existing capacities and cutting-edge communications technology. On the last mile – from the subscriber's telephone line to the nearest 'central office' – QSC enhances an existing but unused telephone line owned by Deutsche Telekom. QSC deploys its own high-tech solutions to connect these central offices. Of key importance are the 43 Metropolitan Service Centres, which are company-owned technology sites within the national QSC network. In these centres, QSC operates high-performance routers and servers, connects them to fibre optic lines and thus enables, for example, the seamless transfer of entire feature films. In contrast to many competitors, the whole network is based on SDSL technology. This allows data to be sent and received at the same speed in each direction – a decisive factor for business customers when selecting their DSL provider.

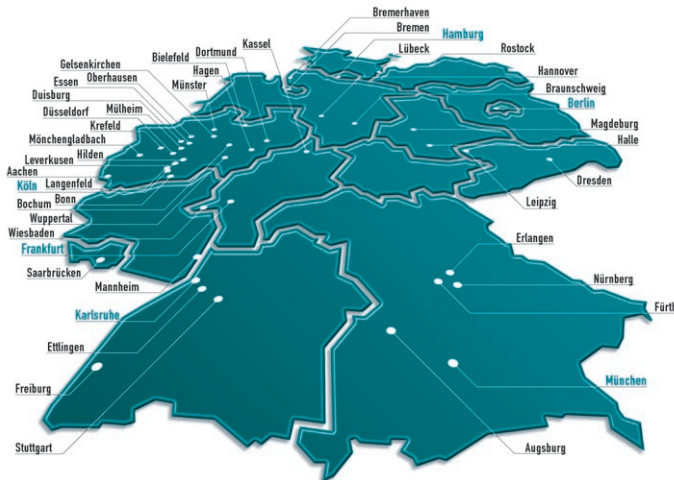
The high quality of QSC products based on this network is documented with various awards in comparative tests. In October 2002, Stiftung Warentest gave the QSC product range the highest grade among 19 Internet providers (issue 10/2002). Capital, a business magazine, awarded the highest number of points to one product only – that of QSC (issue 6/2002). Germany's leading IT magazine, c't, deemed the new video platform to be "qualitatively the best VoD service on offer" (issue 3/2003).

JOINTLY WITH VENTELO,
QSC CAN PROVIDE COMPANIES
OF ALL SIZES WITH INTEGRATED,
SINGLE-SOURCE SOLUTIONS FOR
THEIR TELECOMMUNICATION NEEDS

BUSINESS DEVELOPMENT
SOLUTIONS
SALES
MARKET
COMPETITION
EMPLOYEES
OUTLOOK

Boost for residential customer business // Positive reports in the media have also been fostering sales of Q-DSL home, the premium-segment product for residential customers. In the course of concentrating our focus on business customers, management created a separate business unit to cater to this very interesting segment. The business unit wields separate responsibility for marketing and selling to residential customers, and is therefore able to respond faster and in a more targeted manner to the needs of this special clientele.

More than 8000
business customers
phone with Ventelo



The QSC network covers more than 40 cities and can reach over a million business customers

A SINGLE SOURCE FOR DATA AND VOICE.

Two partners, one mastery: intelligent telecommunications // In December 2002, QSC acquired Ventelo GmbH, the Düsseldorf-based voice carrier. Throughout Germany, Ventelo provides voice services to business customers and is therefore an ideal complement to QSC's range of DSL-based broadband products. By acquiring Ventelo, QSC has developed into a provider of integrated telecommunications with one of Germany's most modern networks.

Ventelo was founded in 1994 as Plusnet, a subsidiary of Thyssen Telecom. Esprit Telecom, a British company, took over Plusnet in 1998 and included it in its merger a year later with GTS, an American telecommunication company. The return to independence began in 2000 when European operations for corporate customers were spun-off to form a separate new company, a predecessor of today's Ventelo in Germany. As at December 31, 2002, the latter employed a total of 123 people and catered to around 8000 large and medium-sized companies, including Arag, ThyssenKrupp and the Warsteiner brewery.

Its mission – to deliver customised telecommunications solutions – is manifested in the extensive range of products available. These extend from integrated voice-data solutions (Ventelo Direct Solutions) to a call-by-call product (preselect 0 10 40). Depending on telephony traffic, telephony behaviour patterns and technical aspects, Ventelo offers preselection tariffs as well as subscriber phone connections via leased line or a router. Value-added services and a proprietary directory enquiries services round of the product range.

Scale effects through partnership // In the current business year as well, Ventelo will operate in the market as an autonomous company, catering to and expanding its existing customer base. At the same time QSC AG like Ventelo can both immediately offer its existing customers a range of additional services in a product segment that it has not covered to date (data and voice communications respectively). Joint marketing of an integrated telecommunications solution for data and voice services is also accelerating QSC's advance to become a provider of integrated solutions for business customers.

Scale effects are being generated by combining and consolidating redundant systems and infrastructures. Cost savings can be achieved above all by integrating the two backbones to form a single, integrated voice-data backbone.

“Q-DSL IS SIMPLY FASTER AND LESS EXPENSIVE THAN OUR PREVIOUS SYSTEM, AND THE IDEAL SOLUTION FOR ESTABLISHING OUR INFRASTRUCTURE.” Annette Hermsstedt, Sales Director, Hermsstedt AG

BROADBAND STIMULATES INDUSTRIES.

The name of the game is speed // The proliferation of the Internet throughout the service sector revolutionizes traditional working flows. Where the progress speed of major projects could previously be dictated by postal times or couriers, architect's plans or advertising campaigns can nowadays be sent in seconds by a simple mouse click. Even within an office, broadband networks can speed up considerably the pace at which people work together.

Intelligence is winning // Intelligent telecommunications solutions are the basis for efficient working structures in the 21st century. They ensure not only fast, efficient data transmission, but also the integration of Internet platforms into day-to-day work. At the same time, today's high-performance networks protect all authorised users against external attacks.

QSC delivers the goods // QSC gives service providers a winning solution in a single package. Data can be sent at speeds up to 2.3 Mbit/s using conventional copper wires. Intelligent products for networks (Q-VPN), data security (Q-Security) and the integration of voice services (QSC-Voice) round off the range of services.



MEGABITS – PER SECOND. FOR COMMUNICATION BOTH INSIDE THE COMPANY AND WITH CUSTOMERS, HERMSTEDT AG RELIES ON QSC. A SPECIALIST FOR DIGITAL COMMUNICATION, HERMSTEDT SELLS HARDWARE AND SOFTWARE SOLUTIONS FOR FAST DATA COMMUNICATION TO ADVERTISERS AND PRINT SHOPS. ANNETTE HERMSTEDT INSISTS THAT “WE CAN ONLY SELL PRODUCTS WELL WHEN WE ARE ABSOLUTELY CONVINCED OF THEIR QUALITY AND PERFORMANCE”.

A PRIME EXAMPLE: IN A PACKAGE DEAL, HERMSTEDT PROVIDES ITS FILE TRANSFER SERVER IN COMBINATION WITH A Q-DSL LINE. THE MANNHEIM-BASED COMPANY ALSO MANAGES ITS WEB SHOP AND TESTS COMMUNICATIONS SYSTEMS FOR CUSTOMERS USING QSC'S SDSL TECHNOLOGY. PLANS ARE ALREADY IN PLACE TO USE QSC-VOICE, AND TO CONNECT HOME OFFICES TO THE COMPANY WITH A VIRTUAL PRIVATE NETWORK.

Key account management designs customized solutions for large companies

ADVANCING TO SUCCESS ON TWO LEVELS.

Concentration on the Top 100 customers // The new, two-tiered sales concept operated by QSC is an ideal way to meet business customer requirements. QSC gives direct support to large companies with operations throughout Germany. The key account management system established in 2002 designs and implements customized, single-source telecommunications solutions specially for the biggest 100 companies in Germany – from Internet connections to proprietary corporate networks. The fact that QSC offers key customers with complex requirements a central, highly skilled relationship interface is a valuable service that is greatly appreciated by those responsible for telecommunications in this customer segment.

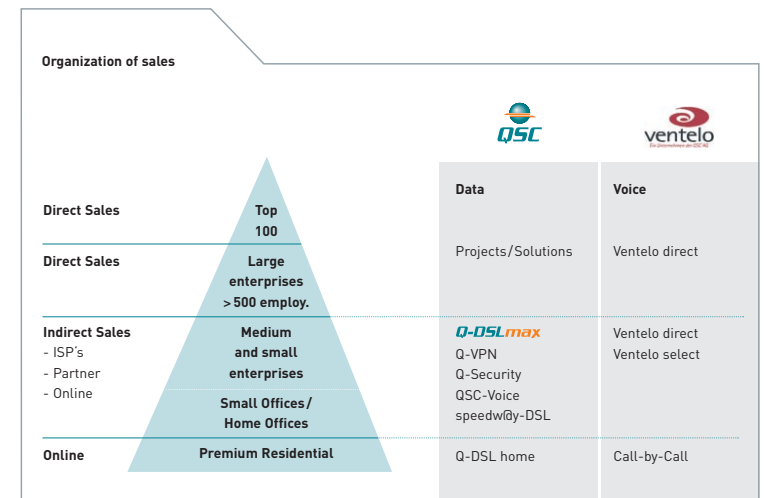
In the direct project-related business, targeted customers also include all companies with more than 500 employees. These generally spend in excess of a million euros each year on telecommunications and expect their providers to supply integrated, all-inclusive solutions. Experienced regional project managers operate as the key contact for each customer in this customer category, thus ensuring fast, effective service and by that founding the basis for a long-lasting partnership.

Distribution of QSC products and services to smaller enterprises is handled by strong external sales and distribution partners in the various regions. Among medium-sized companies, particularly, proximity to the customer and short distances between distributor and buyer are crucial factors. The network of authorised sales partners supplements a large number of specialised engineering consultancies, IT providers and telecommunications providers. What they all have in common is a high level of expertise in the respective industry, which helps QSC to ensure that every customer receives the solution that is tailored to its needs.

QSC provides around-the-clock technical support to all its sales partners. Dedicated marketing activities foster sales within their region. Targeted point-of-sale campaigns and training schemes guarantee a high level of local consulting expertise. PR work plays a key role in this context. The excellent reviews given by IT journalists to QSC products and solutions provide valuable arguments during sales meetings with customers. An additional positive impact is achieved by the growing number of reports on QSC in the national media and specialist magazines that have been of key importance in significantly enhancing the awareness of our brand.

Aside from the successes achieved with business customers and the project-related business, the speedw@y-DSL reseller product we launched in 2000 continues to be an essential element in the QSC business model. With its speedw@y-DSL product, QSC focuses on providing the pure internet access only and leaves additional service functionalities such as billing to the reseller. Today, QSC's reselling partners include major Internet service providers and carriers such as clara.net, Tiscali and BT Ignite.

Q-DSL home established as independent product // Since the summer of 2002, the new business unit for Q-DSL home has been responsible for marketing this premium product for residential customers primarily by using online marketing tools. In 2002, more than 90 percent of all Q-DSL home lines were sold and ordered via the Internet. In addition to the company's platform (www.q-dsl-home.de), high-end users of bandwidth consuming Internet applications, such as MP3 file sharing, form the main customer target group for this business unit.



E BY 2006, BUSINESS CUSTOMER EXPENDITURE ON DSL WILL QUADRUPLE TO MORE THAN EUR 1.8 BILLION

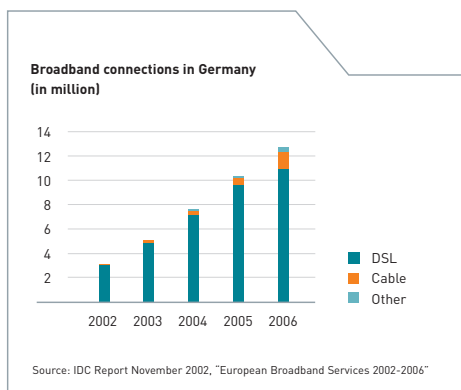
DSL PACING AHEAD.

Weak economy, strong broadband market // The economic downturn in the key industrialised nations was the dominant factor affecting business in 2002; in Germany, the gross national product grew by a mere 0.2 percent. Companies throughout all sectors exercised considerable investment restraint, and stagnation took hold in the IT and telecommunications sectors. Business customers postponed investments and concentrated spending on procurements that would amortise themselves in less than twelve months. Price-based competition intensified accordingly.

DSL technology was one of the few exceptions to these general trends. The progressive networking of workplaces and the increasing extent to which complex business transactions are processed via the Internet are compelling companies of all sizes to switch from conventional telecommunications to broadband solutions. Residential DSL customers are also increasing in numbers, particularly since the unimpeded use of innovative Internet applications such as online gaming and file sharing was first made possible with broadband.

This rapid growth of DSL technology will continue in the years ahead. According to a study by IDC, a US market research company, the number of DSL connections in Germany will more than treble – from just under 3.2 million in December 2002 to 10.8 million in 2006.

Germany is a DSL country



Business customers, the core target group of QSC, form a particularly interesting market. According to IDC, the number of business subscriber lines may increase from 0.7 million at present to 1.9 million – by 2006, far more than half of all German enterprises will be equipped with DSL technology. Spending by business customers will quadruple, says IDC, to more than EUR 1.8 billion by 2006. This sharp increase reflects the growing complexity of integrated telecommunications based on broadband technology – an aspect that QSC addresses with highest priority.

DSL virtually without competition in the broadband market // Germany's high-standard telecommunications infrastructure enables DSL-technology to make major progress. IDC estimates that it will attract more than 80 percent of all expenditure on broadband services over the next few years. The cable TV network, a serious alternative in many countries, would have to be upgraded almost completely in Germany, because so far the reverse channel essential for data transport has not existed. Even after an upgrade this broadband technology will only command significance in the residential customer segment, because the TV cable network is based on a shared infrastructure which means a given capacity has to be shared among several users. This makes it considerably more difficult to allocate a guaranteed bandwidth – the basic requirement for business applications.

Large-scale investments would be necessary to expand wireless broadband networks on the last mile – so-called Wireless Local Loops. Of those providers who entered the market with this technology in the late 1990s, by far the most are no longer in existence. Both technical and financial problems are preventing the growth of Powerline technology, in which data are transported via the power grid. Broadband connections based on optical fibre are of interest only for head offices of major corporations. For medium-sized companies, the investment level necessary for such a high-speed line is prohibitive.

Mobile networks complement fixed networks // Both the UMTS networks, due to be launched in 2003, and wireless LAN networks at highly frequented "hot spots" such as airports or trade fairs also rely on broadband technology. In the case of UMTS, however, the bandwidth of up to 2 Mbit/s that is theoretically available has little relevance in real practice. Within each cell, the technology splits the available bandwidth among all participants – the more participants who are online, the narrower the bandwidth and hence the slower the transmission speed per participant. The tariff structure that can be expected in light of the enormous costs for UMTS licences may lead to generally low-bandwidth mobile connections being an addition to, but in no way a replacement for inexpensive broadband lines over the fixed network.

Mobile broadband technologies complement DSL

Wireless LAN opens up a new market for DSL. This mobile technology provides business travellers in particular with wireless broadband access to the Internet at hot spots. These hot spots are usually connected via DSL lines, offering attractive opportunities to QSC. In companies, wireless LAN is unlikely to be an alternative to DSL lines via the fixed subscriber network, since DSL lines use an already existing and high-performance carrier network. The fixed workplace remains a domain for fixed subscriber lines and therefore, in this age of broadband, for DSL subscriber lines.

Broadband is an inspiration for business // Architects can already work on joint plans from different locations, retailers can coordinate their stocks online with suppliers and doctors can send complete patient records to fellow doctors by e-mail, including X-ray images. In all these examples, the prerequisite is an efficient and operational broadband solution – in other words, DSL. This trend is amplified by the rapid growth of teleworking; according to estimates by the Empirica market research institute in Germany, six million people are already working from home or from mobile locations at least part of the time. For DSL providers, the mere provision of high-speed lines is an inadequate response to these modern forms of work organisation. Business customers expect complete telecommunications solutions that also cover security and networking aspects.

Successful migration of 700 Riodata customers

QSC EXPLOITS CLEANSING OF MARKET.

Dramatic consolidation process // Few companies were able to profit last year from rapid growth in the DSL market. Whereas QSC succeeded in boosting its revenues by 60 percent, even competitors of high renown were forced into retreat. Lack of follow-up financing and excess capacities were major factors behind this cleansing of the market. When Riodata, the broadband service provider, filed for insolvency, QSC succeeded in seamlessly migrating around 700 customers to its own network. In the third quarter of 2002, QSC also took over 100 business customers from the insolvent ISP Energis-Ision.

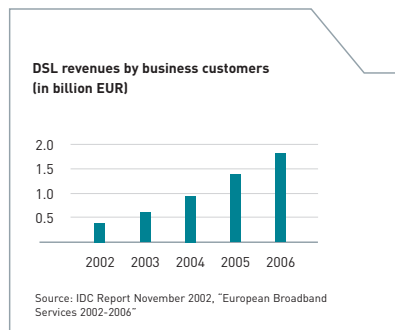
Success in the niche // If one analyses the market shares of the surviving DSL providers, one is struck by the dominance of the former monopolist, Deutsche Telekom AG, whose market share is estimated at 97 percent. Inadequate regulation and highly aggressive price policies have favoured this trend. In response, QSC decided in early 2002 to concentrate on high-quality DSL services for business customers and to leave the mass market to powerful competitors and their dumping price approach.

Three factors shape competition for business customers:

- Pressures to increase productivity and optimise cost structures are continuously intensifying. One key factor in this respect is professional and efficient exploitation of the Internet.
- Companies reward individual solutions tuned to their needs more than standard, mass-market products.
- In selecting solutions providers, companies are careful to have a 'second source' support, since they know the problems associated with any monopolistic position.

During the past year, QSC adapted to these factors and concentrated on delivering the solutions required. To an increasing degree, the company is competing against leased-line products sold by major telecommunications groups. There are three arguments favouring a switch to DSL technology: lower costs, greater flexibility in networking workstations and sites, and the easier integration of voice services. This means that, with QSC-Voice, companies can use a single, inexpensive DSL line to send and receive data, while phoning simultaneously.

In 2002, QSC observed persistent consolidation in the core reseller business, mainly among ISPs. Many ISPs merged or withdrew from the market, thus leading in the case of QSC itself to slight and temporary declines in revenues from the speedway-DSL product. Against this background, the decision made in spring 2001 to establish our own family of products has proved to be correct and far-sighted.



CLEAR FOCUS ON SALES OPERATIONS.

Ventelo-team strengthens QSC // As at December 31, 2002, QSC had a total workforce of 433 employees, an increase of 170 employees within twelve months. More than two thirds of that growth results from the acquisition of Ventelo and its 123 employees as at December 31, 2002. A further, slight increase in the number of reported QSC employees resulted from the merger of GINKO and COMpoint, two Internet service providers.

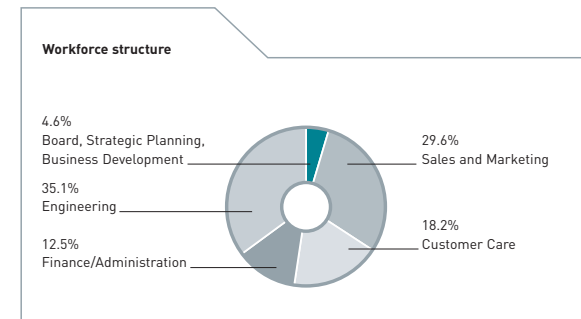
The workforce structure reflects the progression being made by QSC from a pure infrastructure provider to a solutions-centric service provider for business customers. The weight of sales and marketing activities within the QSC team was further boosted by the acquisition of Ventelo, a highly sales-oriented company. As at December 31, 2002, this business division employed 29.6 percent of all employees (31.12.2001: 20.5 percent). At QSC itself, the creation of key account management and establishment of the two-tier sales system led to new recruitment of sales staff. At the same time, the number of marketing experts fell slightly.

Technical operations, which dominated during the initial launching phase, accounted for 35.1 percent of employees as at December 31, 2002 (31.12.2001: 40.7 percent). QSC engineers and technicians ensure smooth network operations, as well as the fault-free operating of all products and services. In close collaboration with sales personnel, they develop and implement new solutions, and support the sales team in designing and creating customer-specific solutions. The number of employees in the commercial field showed little increase in 2002 – this experienced team mastered a growing volume of business with existing capacities.

In all fields, the current situation in the job market meant that even specialists could be recruited at short notice. In summer 2002, QSC took over employees from a former competitor, Riodata. Some of these employees have many years' experience in the broadband business and are therefore a valuable addition to the QSC team.

Skilled staff at all levels // Every third employee has a university or polytechnic degree; far more than half began their careers after specialised training. QSC attaches considerable value to the continuous expansion of know-how within the company and for that reason provides a broad range of continuing training measures. In 2002, efforts in this area were predominantly focused on customer orientation.

Technical operations supports the sales team in designing and creating solutions



 QSC PLANS TO REACH BREAK-EVEN
ON AN EBITDA BASIS IN THE FOURTH
QUARTER OF 2003, AND ON CASH-FLOW
BASIS IN THE COURSE OF 2004.

CONTINUATION OF RAPID GROWTH.

Focus on marketing In the three years since starting to build its proprietary DSL network, QSC has become increasingly established in the German market as a provider of integrated telecommunications solutions for voice and data services. To that extent, QSC has established the basis for achieving break-even (on EBITDA basis) within the current fiscal year – as announced at the IPO in April 2000. The central focus of QSC's activities in 2003 will be on marketing voice and data services for business customers.

Expectation of
substantial growth in
project business

Special attention will be devoted to the project business. A key account management is concentrating on direct contact with companies with more than 500 employees. QSC offers them customised telecommunication solutions from a single source that excel over competitor products in terms of quality, innovation, flexibility and price. One main thrust of the sales team's efforts is to acquire customers amongst Germany's Top 100 companies.

The company experienced a noticeable sales impact following the launch of Q-DSLmax in January 2003. Positive coverage in the media and a number of sales promotion activities helped boost sales of this high-performance DSL product from the very first day. QSC expects Q-DSLmax to generate substantial revenue growth in the current fiscal year. The same applies to the digital voice product, QSC-Voice. By mid-2003, this innovative product will be available in 25 cities, giving business customers the capability of making several calls over a single DSL line, as well as uploading and downloading data with high bandwidth – all simultaneously.

QSC plans revenues
of between EUR 105 and
115 million in 2003

By acquiring Ventelo, QSC now covers all corporate customer requirements in respect of voice and data communication. It is planned to intensify the integration of all products and services in the course of 2003. Ventelo itself will continue to be a separate company, nurturing and expanding its own established customer base. The QSC and Ventelo sales organisations will closely collaborate during the current year to provide their respective customers with a range of additional services in the product segment not covered to date (voice and data communication, respectively). This means that Ventelo customers can benefit by replacing their leased line with an inexpensive Q-DSLmax line; QSC customers, for their part, can cut their costs for voice telephone services by using innovative Ventelo products.

As a provider of integrated voice/data services, QSC plans revenues of between EUR 105 and 115 million, and an EBITDA loss of between EUR -25 and -30 million for the current financial year. The company plans to reach break-even on an EBITDA basis in the fourth quarter of 2003, and on cashflow basis in the course of 2004. QSC forecasts net cash and cash equivalents of EUR 50 million at the end of 2003. This target is contingent on reducing cash outflow by an average of at least EUR 2 million each quarter. This forecast for 2003 is based on organic growth of the QSC group, and comprises the financials of Ventelo that was acquired in December 2002.

T "THE CRUCIAL FACTORS THAT LED US TO CHOOSE QSC WERE THE HIGH FAULT-FREE TRANSMISSION SPEED, THEIR NETWORK COVERAGE AND THE QUALITY OF SERVICE."

Dr. Dr. Robert Sader, Deputy Director, High-Tech Research Centre, TU Munich

BROADBAND GETS THE ECONOMY MOVING.

Internet for all // According to a recent IBM study, 98 percent of all companies are now online. In many cases, however, Internet presence is still confined to a company home page and sending/receiving eMails. Only one company in four is making active use of electronic supply chains and digital networking. In the medium term, savings in time and expense are likely to result in extensive broadband networking through all sectors of the economy.

QSC offers unlimited possibilites // In the future, doctors will be able to access patient files online, and tradespeople can switch to web-based bookkeeping. A high-performance Internet connection enables workflows and the organisation structures to be radically modernised, even in personnel-intensive sectors such as health care. QSC offers tailored broadband solutions from a single source to companies in every sector.



SPEED FOR HEALTH. IN THE 'INTER-FACE' PROJECT, THE HIGH-TECH RESEARCH CENTRE AT THE TU OF MUNICH IS EXPERIMENTING WITH THE OPPORTUNITIES PRESENTED BY VIDEOCONFERENCING IN EVERYDAY PRACTICE. EXPERTS AT THE PLASTIC SURGERY CLINIC IN STUTTGART'S MARIENHOSPITAL AND AT DÜSSELDORF'S ORTHODONTOLOGY CLINIC CAN NOW USE VIDEOCONFERENCING TO PLAN OPERATIONS JOINTLY WITH SPECIALISTS IN PRIVATE PRACTICE.

CONNECTING PARTICIPANTS MEETING FOR CONSULTATIONS IN VIRTUAL SPACE IS ACHIEVED WITH SDSL LINES PROVIDED BY QSC. WHEN EXCHANGING SENSITIVE DATA ON PATIENTS, UTMOST SECURITY PRECAUTIONS ARE IMPERATIVE. A VPN, WITH TOTAL FIREWALL PROTECTION, SHIELDS THE RESEARCH PROJECT AT TECHNICAL UNIVERSITY MUNICH AGAINST ATTEMPTS AT ACCESS BY THIRD PARTIES.

QSC GOING WITH THE PRIME STANDARD.

Third weak stock market year in a row // In 2002, the DAX lost 44 percent of its value. In fact, the Nemax All Share Index, which also included QSC, slumped by nearly two-thirds. The last time financial markets had experienced a three-year, accelerating bear market was during the global economic crisis of the early 1930s. In addition to the weak economies of many industrialized nations and political uncertainties, individual publicly traded companies themselves contributed to the slide: Criticism included both dubious accounting practices as well as high levels of debt and overpriced acquisitions. Often enough, capital market participants received only insufficient and belated information about the resulting consequences.

Against this backdrop, QSC welcomes the decision by Deutsche Börse to re-segment the German equities market. In the future, companies in the General Standard will merely have to satisfy the statutory minimum requirements. A listing in the Prime Standard, on the other hand, will necessitate far-reaching transparency as well as fair and balanced information for all capital market participants. The standards include comprehensive quarterly reporting, the application of international accounting standards, publication of a corporate calendar, at least one analyst conference per year, as well as ad-hoc press releases and ongoing reporting in both German and English.

QSC has been satisfying all of the requirements of the Prime Standard since going public in April 2000 and has been approved for trading in the new quality segment of the Frankfurt Stock Exchange since January 15, 2003.

Focusing on the Frankfurt Stock Exchange // In February 2002, QSC decided to terminate its listing on the NASDAQ technology stock exchange in the United States. This move was prompted by two reasons: During the fourth quarter of 2001, around 97 percent of all trading in QSC share had been concentrated at the Frankfurt Stock Exchange. Plus the not insignificant effort and expenses involved in a listing in United States. Trading in QSC on the NASDAQ in the form of American Depositary Shares (ADS) was terminated on April 2, 2002.

Intensive communication with the capital market // During the past fiscal year, our investor relations activities focused on measures aimed at building and sustaining confidence as well as on providing ongoing information to the financial community about the progress we were making in our operating business. During more than 80 meetings and conversations in 2002, the management presented the company and its strategy to analysts, investors and opinion leaders in the capital market. QSC regularly participated in capital market conferences and informed the media in press conferences and interviews. Providing timely responses to all inquiries from institutional and retail investors, analysts and journalists was just as much a part of the principles of our investor relations work as our strict observance of fair disclosure.

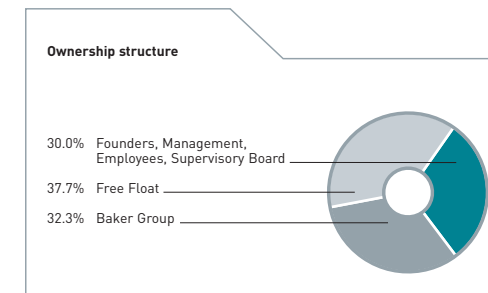
QSC has been listed in the Prime Standard segment since January 2003

QSC aims for inclusion in the TecDax index within the medium term

QSC will continue this intensive communication with financial markets in 2003. Key issues during the initial months of the year will be the development of the company into an integrated provider of telecommunication solutions as well as its steadily improving profitability and liquidity positions. On December 31, 2002, QSC shares were trading at an unsatisfactory price of EUR 0.39; on the other hand, QSC had liquid assets that were the equivalent of EUR 0.83 per share. However both the development of share prices and, in particular, trading volumes during the first months of 2003 document increasing interest in QSC shares.

Stable shareholder structure // Our stable shareholder structure since going public in the spring of 2000 underscores the confidence of our pre-IPO shareholders in the future viability of our business model. With 32.3 percent of our total shares, the Baker Group remained our largest shareholder in fiscal 2002; founders, management, employees and members of the Supervisory Board continue to hold 30.0 percent.

New index membership // The decision by Deutsche Börse to include QSC in the telecommunication industry index has been simplifying access to institutional investors in this sector since the beginning of 2003. Prior to that, QSC had been considered an Internet issue. As an integrated telecommunication provider, our medium-term goal is to be included in the new TecDax Index.



ALIGNED FOR CORPORATE GOVERNANCE RIGHT FROM THE VERY BEGINNING.

QSC lives Corporate
Governance

Transparency and responsibility are business as usual at QSC // Publicly traded stock corporations operate with the capital provided to them by their shareholders. It is their willingness to share in the entrepreneurial risk that makes it possible to form, operate and develop high-growth companies like QSC. This is why open and transparent communication with all investors, efficient risk management and value-driven corporate leadership number among the key elements of QSC's corporate philosophy. Right from the very first day it was traded on the stock market, QSC has been rigorously living the kind of Corporate Governance that was formulated in writing for the first time in 2002 by a government commission on this subject.

Nevertheless, the institution of the German Corporate Governance Code prompted QSC to review all of its corporate management, control and information processes. It was found that there was virtually no need for change. In December 2002, the company submitted for the first time the declaration of compliance required under the new legislation. It confirmed that, apart from only a few exceptions, QSC is in compliance with all of the Code's recommendations. As for the few rules QSC is not in complete compliance with, the company believes that those rules are tailored to the management and control of large corporate groups and fail to take into account the special requirements of a lean and modern enterprise.

Entrepreneurial Management Board responsible for day-to-day business // QSC's business is managed by a four-person Management Board. Its members include the company's two founders, Dr. Bernd Schlobohm and Gerd Eickers, who each hold over 13 percent of the company's shares and have never participated in any stock option plan. In this situation, the cumbersome variable compensation system called for under the Code, with its stipulated comparison parameters for Management Board members, is not very suitable. Aside from the two founders, the complete management team, like all other employees, participates in the current stock option plan. QSC believes that it has a stock option plan that in the interest of its shareholders is designed to attract and retain employee talent in a competitive environment and ensures a balanced risk-reward profile for the participants.

QSC's bylaws and rules of procedure stipulate that the consent of the Supervisory Board be obtained in connection with decisions that materially impact the company's assets, finances and earnings. Over and above these issues, the Management and Supervisory Boards collaborate closely and in a spirit of trust.

Shareholders'
Meeting: The most
important event on its
annual calendar

Effective control assured by high-caliber Supervisory Board // QSC's Supervisory Board was selected with great care; with their various qualifications and experience, its members complement one another ideally to the benefit of the company. It is for this reason that this body intentionally decided not to form an audit committee as recommended by the German Corporate Governance Codex. During the past fiscal year, the Supervisory Board conducted four meetings. Between meetings, telephone conferences assure an ongoing flow of information between Management and the Supervisory Board.

Annual Shareholders Meeting decides on key questions // QSC convenes its Annual Shareholders Meeting during the first five months of the fiscal year and submits all fundamental questions to this gathering of shareholders for decision. Management is keenly aware of the enormous trust that shareholders place in it when they buy QSC shares, and views the Annual Shareholders Meeting as the most important event on its annual corporate calendar. In the future, the key content of this Annual Shareholders Meeting will be available online.

Accounting satisfies international standards of quality // The method of accounting employed by QSC AG conforms to United States Generally Accepted Accounting Principles (US GAAP). In addition, the company also prepares financial statements pursuant to the rules contained in the German Commercial Code (HGB). The consolidated financial statements are audited by an independent auditor appointed by the Annual Shareholders Meeting. Over and above the legal requirements, this auditor also performs an audit review of the quarterly reports. The high quality of our interim reporting necessitates up to 60 days of intensive work following the close of each reporting period instead of 45 days as recommended by the German Corporate Governance commission.

Comprehensive information assures transparency // QSC attaches top priority to comprehensive and timely communication with all stakeholders. Management embraces fair disclosure, equal treatment of all shareholders. QSC utilizes the Internet as a central medium, where all information of relevance for the capital market is available.

DECLARATION PURSUANT TO § 161 OF THE CORPORATION ACT

Declaration Pursuant to § 161 of the Corporation Act on Compliance with the German Corporate Governance Code at QSC AG // Upon the effective date of the German Transparency and Publicity Act, a new § 161 was inserted into the German Corporation Act, requiring the Management and Supervisory Boards of exchange-listed companies to declare once a year whether their companies comply with the German Corporate Governance Code and which recommendations of the German Corporate Governance Code are not applied.

Since its formation, QSC AG has assigned high priority to corporate governance. In the autumn of 2002, the company revised its own corporate governance principles, which largely correspond to those of the German Corporate Governance Code. The company deviates from the Code in a few respects only, namely

- Fixed Benchmarks for Variable Compensation Components
(Item 4.2.3(1), Sentence 2 of the Code)
- Formation of Audit Committee
(Item 5.3.2(1), Sentence 1 of the Code)
- Compensation of the members of the Supervisory Board taking into account the economic situation and performance of the enterprise as well as the chair and membership in committees
(Item 5.4.5 of the Code)
- Publication of Interim Reports within 45 days
(Item 7.1.2 of the Code)

QSC's corporate governance principles are under periodical review by the Management and Supervisory Board. Any future changes as to compliance with the German Corporate Governance Code will be published on the company's website.

Cologne, January 17, 2003

For the Management Board
Dr. Bernd Schlobohm

For the Supervisory Board
John C. Baker

INDEPENDENT AUDITOR'S REPORT
 STATEMENTS OF OPERATIONS
 BALANCE SHEETS
 STATEMENTS OF CASH FLOWS
 STATEMENTS OF EQUITY
 NOTES
 MANAGEMENT REPORT

REPORT OF INDEPENDENT AUDITORS.

We have audited the consolidated financial statements of QSC AG as of December 31, 2002, including the consolidated balance sheet and the related consolidated statements of income, cash flows, changes in shareholders' equity and notes for the year then ended. The legal representatives of the company are responsible for the preparation and content of the consolidated financial statements. Our responsibility is to express an opinion, based on our audit, whether these consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (US GAAP).

We conducted our audit in accordance with the German Auditing Rules and in compliance with the generally accepted standards of auditing prescribed by the German Institute of Certified Public Accountants (Institut der Wirtschaftsprüfer) and in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatements. In establishing the audit procedures we considered our knowledge about the group's business operations, its economic and legal environment, and expectations of possible errors. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. The audit also includes assessing the accounting principles used and significant estimates made by the legal representatives, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present a true and fair view of the group's financial position, results of operations and cash flows in accordance with United States generally accepted accounting principles.

Our audit which also includes the management report for the fiscal period from January 1, 2002 to December 31, 2002 which is the responsibility of the Board of Directors has not given rise to any reservations. In our opinion the management report/ additional disclosures in the consolidated financial statements conveys a suitable presentation of the situation of the QSC AG taken as a whole and presents the risks to its future developments adequately. Additionally, we confirm that the consolidated financial statements and the group's management report for the fiscal period from January 1, 2002 to December 31, 2002 meet the requirements for an exemption to prepare consolidated financial statements and the group's management report in accordance with the rules and regulations of the German Commercial Code.

Eschborn/Frankfurt am Main, March 14, 2003

Ernst & Young
 Revisions- und Treuhandgesellschaft mbH
 Wirtschaftsprüfungsgesellschaft
 Steuerberatungsgesellschaft

Fluck Janssen
 Wirtschaftsprüfer Wirtschaftsprüfer

STATEMENTS OF OPERATIONS

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

	for the years ended December 31,	
	2002	2001
Net revenues	47,088	29,433
Cost of revenues	93,594	103,480
(including TEUR 2,042 in non-cash compensation in 2002; 2001: TEUR 1,785)		
Gross loss	(46,506)	(74,047)
Selling and marketing expenses	31,998	21,326
(including TEUR 1,023 in non-cash compensation in 2002; 2001: TEUR 869)		
General and administrative expenses	20,594	15,410
(including TEUR 2,925 in non-cash compensation in 2002; 2001: TEUR 2,046)		
Research and development expenses	1,994	2,241
(including TEUR 924 in non-cash compensation in 2002; 2001: TEUR 905)		
Operating loss	(101,092)	(113,024)
Other income (expenses)		
Interest income	4,233	10,605
Interest expenses	(192)	(215)
Share of post acquisition losses of equity method investees	(5,432)	(2,299)
Other non-operating income (loss)	(138)	32
Net loss before income taxes	(102,621)	(104,901)
Income taxes	-	-
Net loss	(102,621)	(104,901)
Net loss per common share (basic and diluted)	(1.01)	(1.04)
Weighted average shares outstanding (basic and diluted)	101,134,647	101,134,647

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

BALANCE SHEETS

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

	as of December 31,	
	2002	2001
ASSETS		
Current assets		
Cash and cash equivalents	43,095	153,776
Marketable securities	44,526	-
Trade accounts receivable, net	16,948	15,581
Trade accounts receivable due from related parties	7	681
Unbilled receivables	239	7,256
Other receivables	9,476	17,430
Prepayments and other current assets	4,410	2,316
Total current assets	118,701	197,040
Non-current assets		
Investment in equity method investees	301	4,996
Other non-current assets	460	603
Plant and equipment, net		
Networking equipment and plant	61,463	82,096
Operational and office equipment	6,837	7,576
Total plant and equipment, net	68,300	89,672
Intangible assets, net		
Licenses	2,004	2,205
Software	2,420	2,043
Others	5	8
Total intangible assets, net	4,429	4,256
Goodwill	2,393	1,407
Total non-current assets	75,883	100,934
Total assets	194,584	297,974

	as of December 31,	
	2002	2001
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Current liabilities		
Short-term debt and current portion of long-term debt	-	357
Trade accounts payable	25,917	23,591
Trade accounts payable due to related parties	504	13,199
Accrued liabilities	17,871	18,769
Deferred revenues	2,028	883
Other current liabilities	2,549	807
Total current liabilities	48,869	57,606
Non-current liabilities		
Convertible bonds	50	39
Accrued pensions	321	162
Other non-current liabilities	90	201
Total non-current liabilities	461	402
Total liabilities	49,330	58,008
Shareholders' Equity		
Common stock, 189,996,037 and 187,546,037 shares authorized at December 31, 2002 and 2001, respectively; 105,008,714 shares issued and outstanding at December 31, 2002 and 2001, respectively	105,009	105,009
Treasury stock 358,747 and 1,125,473 shares at December 31, 2002 and 2001, respectively	(266)	(3,312)
Additional paid-in capital	473,442	473,480
Deferred compensation	(5,058)	(12,086)
Receivables due from shareholders	(1)	(1)
Accumulated deficit	(427,872)	(323,124)
Total Shareholders' Equity	145,254	239,966
Total liabilities and Shareholders' Equity	194,584	297,974

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

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STATEMENTS OF CASH FLOWS

Consolidated Statements of Cash Flows
 (EUR amounts in thousands (TEUR))

	for the years ended December 31,	
	2002	2001
Cash flow from operating activities		
Net loss	(102,621)	(104,901)
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	6,914	5,605
Depreciation and amortization	33,873	21,972
Gain on sale of equipment	(70)	(4)
Bad debt expense	1,273	-
Share of post acquisition losses of equity method investees	5,432	2,299
Non-cash interest expense	82	126
Change in operating activities		
Decrease in trade accounts receivable, net	5,775	508
Decrease in trade accounts receivable due to related parties	674	-
Decrease in unbilled receivables	9,971	4,491
Decrease/(Increase) in other receivables	8,760	(6,049)
Decrease/(Increase) in prepayments and other current assets	(1,243)	340
Decrease/(Increase) in other non-current assets	143	(286)
Increase/(Decrease) in trade accounts payable	(16,805)	912
Decrease in other accounts payable	(211)	-
Decrease in accrued liabilities	(5,685)	(25,011)
Increase in deferred revenues	1,145	644
Decrease in accrued taxes	-	(56)
Decrease in other current liabilities	(1,699)	(75)
Increase in accrued pensions	28	32
Net cash used in operating activities	(54,264)	(99,453)

	for the years ended December 31,	
	2002	2001
Cash flow from investing activities		
Purchases of held-to-maturity securities	(41,537)	-
Purchases of available-for-sale securities	(2,989)	-
Acquisition of business, net of cash acquired	(9,384)	(2,930)
Purchases of intangible assets	(491)	(1,369)
Purchases of plant and equipment	(1,902)	(37,405)
Proceeds from sale of equipment	231	27
Net cash used in investing activities	(56,072)	(41,677)
Cash flow from financing activities		
Payments of short-term debt and current portion of long-term debt	(357)	(269)
Issuance of convertible bonds	12	24
Reissue of treasury stock	-	371
Net cash (used in) provided by financing activities	(345)	126
Net decrease in cash and cash equivalents	(110,681)	(141,004)
Cash and cash equivalents at beginning of the year	153,776	294,780
Cash and cash equivalents at end of the year	43,095	153,776
Supplemental disclosure of cash flow information		
Cash paid during the period for		
Interest expenses	111	88

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

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STATEMENTS OF EQUITY

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

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compensation Account	Receivab. Due from Share- holders'	Accumu- lated Deficit	Total Share- holders' Equity
	Shares	Amount TEUR	Shares	Amount TEUR					
Balance at January 1, 2001	105,008,714	105,009	934,954	(4,125)	477,304	(21,515)	(1)	(217,532)	339,140
Purchase of treasury stock (January 1, 2001)			88,512	(66)	(890)	890			(66)
Convertible bonds forfeited due to termination of employment (January 1, 2001)					(23)	23			-
Purchase of treasury stock (May 1, 2001)			366,052	(286)	(3,674)	3,674			(286)
Convertible bonds forfeited due to termination of employment (May 1, 2001)					(136)	136			-
Initial deferred compensation recorded (July 1, 2001)					441	(441)			-
Purchase of treasury stock (July 1, 2001)			9,126	(50)	(68)	68			(50)
Reissue of treasury stock (October 1, 2001)			(273,171)	1,215					1,215
Initial deferred compensation recorded (October 1, 2001)					526	(526)			-
Amount amortized during the period						5,605		(691)	4,914
Net loss								(104,901)	(104,901)
Balance at December 31, 2001	105,008,714	105,009	1,125,473	(3,312)	473,480	(12,086)	(1)	(323,124)	239,966
Reissue of treasury stock (January 1, 2002)			(575,000)	2,869				(2,127)	742
Convertible bonds forfeited due to termination of employment (January 1, 2002)					(45)	45			-
Reissue of treasury stock (April 1, 2002)			(191,726)	177	76				253
Convertible bonds forfeited due to termination of employment (April 1, 2002)					(46)	46			-
Convertible bonds forfeited due to termination of employment (October 1, 2002)					(23)	23			-
Amount amortized during the period						6,914			6,914
Net loss								(102,621)	(102,621)
Balance at December 31, 2002	105,008,714	105,009	358,747	(266)	473,442	(5,058)	(1)	(427,872)	145,254

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

QSC AG

Notes to consolidated financial statements – December 31, 2002
 (EUR amounts in thousands (TEUR), except for per share amounts)

1. Organization and basis of presentation

- a) **Organization** // QSC AG (in the following referred to as "QSC") was incorporated in January 1997 as a limited liability company under the name QS Communication Service GmbH. In the second half of 1999, it was registered as a joint-stock company in Cologne, North Rhine Westphalia, Germany under the name QS Communications AG. The annual general meeting held on May 17, 2001, resolved that the Company changes its corporate name from "QS Communications AG" to "QSC AG".
 QSC offers its business and residential customers DSL-based (Digital Subscriber Line) broadband "always-on" connections to the Internet, with up and downstream data transfer rates of up to 2.3 Mbit/s and voice telephony services. DSL-technology makes efficient use of the last mile on the basis of unbundled network access, thus multiplying data traffic speeds compared with standard subscriber connections. The QSC broadband network covers the 40 largest cities in Germany and reaches more than a quarter of the entire population. QSC serves the end-user market selling its products and services either direct or through retail and distribution partners. QSC also provides some of its services through sales partners acting as resellers.
- b) **Basis of Presentation** // The consolidated financial statements of QSC have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). All amounts except share amounts are in thousands of EUR (TEUR).
- c) **Principles of Consolidation** // The consolidated financial statements include the accounts of QSC and its subsidiaries. All significant inter-company transactions have been eliminated in the consolidation. The equity method of accounting is used for companies and other investments in which QSC has significant influence. Generally this represents ownership of at least 20% and not more than 50%. The consolidated financial statements of QSC include following subsidiaries and investments:

	Share in %	Equity TEUR	Net loss TEUR
Ventelo GmbH, Germany *	100	10,797	(14,047)
Grell Beratungs GmbH, Germany *	49	849	(15)
NETCHEMYA S.p.A., Italy **	25	16,558	(3,471)

* as of December 31, 2002

** as of June 30, 2002 (NETCHEMYA S.p.A. is currently under liquidation)

2. Significant accounting policies

- a) **Recently issued statements of financial accounting standards** // Effective January 1, 2002, the Company adopted SFAS 144, "Accounting for the Impairment or Disposal of Long Lived Assets", which addresses financial accounting and reporting for the impairment and disposal of long-lived assets, and SFAS 142, with respect to the impairment. These statements supersede SFAS 121, "Accounting for the Impairment of Long Lived Assets to be Disposed Of". The adoption of these standards did not have a material impact on its consolidated financial positions or results of operations.
 The Company reviews the carrying value of its long-lived assets, including fixed assets, investments, goodwill, and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of long-lived assets, excluding goodwill, is assessed by a comparison of the carrying amount of the asset (or the group of assets, including the asset in question, that represents the lowest level of separately-identifiable cash flows) to the total estimated undiscounted cash flows expected to be generated by the asset or group. If the estimated future net undiscounted cash flows is less than the carrying amount of the asset or group, the asset or group is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the asset to its then fair value. Fair value is determined by discounting the cash flows expected to be generated by the asset, when the quoted market prices are not available for the long-lived assets. No adjustments were required to the carrying value of long-lived assets in 2002 or 2001.

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On January 1, 2002, the Company adopted SFAS 142, which prohibits the amortization of goodwill and indefinite life intangible assets. Instead, goodwill and indefinite life intangible assets will be tested for impairment at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in an impairment. Under SFAS 142, goodwill is assessed for impairment by using the fair value based method. The Company determines fair value by utilizing discounted cash flows. The fair value test required by SFAS 142 for goodwill and indefinite lived intangible assets includes a two-step approach. Under the first step, companies must compare the fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired and companies must proceed with step two. Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit's goodwill carrying value exceeds the "implied" fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognised intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in Step 1). In this step, companies must allocate the fair value of the reporting unit to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation).

SFAS 142 requires companies to perform the impairment test at least annually and also upon adoption. Any impairment loss resulting from the adoption of SFAS 142 is treated as a change in accounting principle.

Companies, whose financial year is the calendar year such as ourselves, adopted SFAS 142 as of January 1, 2002, for goodwill and intangible assets arising from business combinations completed prior to July 1, 2001, and we have applied SFAS 142 for goodwill and indefinite-lived intangible assets arising from business combinations completed after June 30, 2001. Upon adoption of SFAS 142, for US GAAP purposes, we stopped amortizing goodwill. The Company did not have any impairment loss as a result of adopting SFAS 142 and as a result of performing the required annual impairment test which the Company has elected to perform on October 31, 2002.

In accordance with SFAS 142, the Company discloses the following reconciliation of reported net loss to adjusted net loss assuming SFAS 142 had been adopted as of the beginning of the periods presented. As SFAS 142 was adopted by the Company on January 1, 2002, there are no reconciling differences for the year ended December 31, 2002.

	December 31, 2001 in TEUR
Reported net loss	(104,901)
Add back amortization of goodwill	276
Adjusted net loss	(104,625)

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. Currently, QSC does not anticipate any material impact on its results of operation or its financial position arising from the adoption of SFAS 143.

In June 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Disposal or Exit Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. However, this standard does not apply to costs associated with exit activities involving entities acquired under business combinations or disposal activities covered under SFAS 144. QSC does not anticipate that the adoption of SFAS 146 will have a material impact on its results of operations or its financial position.

In December 2002, the FASB issued SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure". This Statement provides additional disclosure requirements for stock-based compensation plans and alternative methods of transition for companies that elect to change from Accounting Principles Board ("APB") 25 "Accounting for Stocks Issued to Employees" to SFAS 123 "Accounting for Stock-Based Compensation" for stock-based compensation. Under SFAS 148 a company electing to adopt SFAS 123 apply SFAS 123 prospectively for new stock-based compensation awards, while continuing to account for existing stock based compensation awards under APB 25. SFAS 148 is effective for fiscal years ending after December 15, 2002. Beginning January 1, 2003, the Company has adopted a change in accounting principle for stock based compensation. Accordingly, under the provisions of SFAS 148, QSC will report this change in accounting principle using the prospective method, whereby, existing stock based compensation plans will continue to be accounted for under the provisions of APB 25 and stock based compensation awards granted after January 1, 2003, will be accounted for under SFAS 123.

- b) **Use of estimates in the preparation of the financial statements** // The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from estimates.
- c) **Foreign currency transactions** // QSC's financial statements are presented in Euro, its functional currency. Transactions in currencies other than the Euro are originally recorded at the exchange rate at the day the transaction is made between the Euro and the respective foreign currency. The difference between the exchange rate at the day the transaction was made and the exchange rate at the balance sheet date or at the day the transaction is finally closed, if sooner, are included in other income or other expense. In 2002 and 2001 those differences were TEUR 106 and TEUR 11, respectively.

- d) **Concentrations of credit risk** // QSC sells its products and services through sales partners and directly to end-users. In 2002, there was no one sales partner or end-user customer accounting for more than 10% of total revenues individually. QSC has taken several precautionary measures to manage its credit risk. Prior to signing contracts with potential sales partners, QSC obtains credit reports from a leading German credit information agency. QSC performs ongoing credit evaluations and secures bank guarantees from certain sales partners. In addition, QSC takes out insurance coverage against bad debts. Trade accounts receivables are stated at their nominal value net of allowances for doubtful accounts. Specific allowances are calculated on an item-by-item basis.
- e) **Cash and cash equivalents** // Cash and cash equivalents consist of highly liquid investments in bank balances, cash on hand and debt securities with original maturities of three months or less from the date of purchase.
- f) **Marketable securities** // In accordance with SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities", and based on the Company's intentions regarding these instruments, the Company has classified TEUR 41,537 marketable debt securities as held-to-maturity and has accounted for these investments at amortized cost.
- g) **Loss per share** // Under SFAS 128 "Earnings per share", loss per share is computed by dividing loss applicable to common stockholders by the weighted average number of shares of QSC's common stock outstanding exclusive of shares subject to repurchase if specified conditions are not met. Diluted earnings per share are calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and convertible bonds where these are dilutive. The loss per share calculation does not include 3,874,067 shares issued to employees through the exercise of convertible bonds, which are subject to forfeiture, nor does it include the effect of the possible conversion of convertible bonds into 5,007,376 shares of QSC common stock. For the periods ended December 31, 2002 and 2001, the dilutive effect of options was not considered because QSC recorded net losses and the impact of their assumed exercise would be anti-dilutive.

h) Derivative financial instruments and hedging activities share // In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and for Hedging Activities". SFAS 133 established accounting and reporting standards requiring that every derivative instrument be recorded in the balance sheet as either an asset or liability measured by its fair value. SFAS 133 also required that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met and that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. The Company does not use derivative financial instruments and does not have any embedded derivatives.

i) Unbilled receivables // Unbilled receivables represent amounts recognized as revenues related to services performed during the reporting period but for which invoices have not been generated yet by the end of the accounting period. Invoices are generally issued within 30 days of the services being performed. At such time, amounts classified as unbilled receivables are reclassified to accounts receivables.

j) Intangible assets // Intangible assets consist mainly of licenses based on the German Telecommunications Law and capitalized standard software. Amortization of software is calculated using the straight-line method over the useful life of 4 years. Licenses are amortized on a straight-line basis over an estimated useful life of 10 years.

k) Plant and equipment // Plant and equipment are recorded at historic cost less applicable depreciation and amortization. Maintenance and repairs which do not improve or extend the useful lives of the respective assets are expensed when incurred. Disposals are removed at amortized costs with the resulting gain or loss reflected in the statements of operations as non-operating income (loss). QSC capitalizes costs associated with the deployment and expansion of its network as and when the risk of loss related to equipment and facilities are transferred to QSC. Depreciation of assets is calculated using the straight-line method over the useful lives of the assets. Low value items (with acquisition costs under TEUR 0.4) are fully expensed in the year of acquisition.

The following estimated useful lives have been used in calculating depreciation expenses:

	Useful life in years
Networking equipment and plant	5 to 8
Leasehold improvements	8 to 10
Electronic communication equipment	up to 5
Office equipment and other assets	3 to 13
Buildings	20

l) Pensions // Provisions for pensions are determined using the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions". QSC has adopted the disclosure provisions of SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits".

m) Other reserves and accrued liabilities // The accompanying financial statements include provisions for accrued expenses and contingent liabilities to the extent that the incurrence of such amounts is probable and can be reasonably estimated.

n) Recognition of revenues and income // QSC primarily derives its revenues through the sale of DSL-based telecommunications services and voice telephony services. These sales are recorded as revenues in the month the services are provided. Revenues from DSL-based products and services and voice services are generated with sales partners and with end-user customers. QSC has agreements with various sales partners authorizing them to extend and to offer services of QSC. The sales partner acts as reseller of QSC services and as such is the principal interface to the customer and the sales partner assumes the credit risk associated with the payment of services by the customer.

During 2001, the Company successfully resolved a dispute with a vendor and received an option for equipment valued up to USD 4.8 million at no cost. During 2002 and 2001, the Company received and subsequently sold to third parties equipment for TEUR 1,018 and TEUR 1,840, respectively. The Company has included these sales in operating revenues as this equipment is also included in the Company's service offering. Revenues from non-recurring installation charges are capitalized and amortized over the estimated average customer subscription life of 12 months. Payments received in advance of providing services are recorded as deferred revenues until the period such services are provided.

- o) Cost of revenues** // Cost of revenues are our network expenses totaling TEUR 93,594 and TEUR 103,480 for 2002 and 2001, respectively. Cost of revenues consists of cost of services, personnel expense and depreciation. Cost of services are TEUR 51,205 for 2002 (2001: TEUR 72,897) and consist primarily of monthly rental fees for transmission lines between the end user and central office, between central office and Metropolitan Service Centre, between Metropolitan Service Centre and sales partner, for lines interconnecting the Metropolitan Service Centres and for points of interconnect with Deutsche Telekom. These costs also include line installation costs, interconnection fees, rental costs for the central offices and Metropolitan Service Centres and expenses associated with the design, the deployment and the operations of the network. The Company capitalizes installation costs and amortizes these costs over the estimated average customer subscription life of 12 months.
- p) Personnel expense** // Personnel expenses of fiscal year 2002 totaled TEUR 28,953 (2001: TEUR 19,080). TEUR 5,087 are included in the cost of revenues and TEUR 23,866 in selling, marketing and administration expenses. QSC employed an average of 337 persons in fiscal year 2002 (2001: 229).
- q) Advertising expense** // Advertising costs are expensed as incurred. Advertising expense was TEUR 7,380 in 2002 and TEUR 11,926 in 2001.
- r) Income taxes** // QSC utilizes the liability method of accounting for income taxes in accordance with SFAS 109, "Accounting for Income Taxes". Under the liability method, deferred taxes are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates. Valuation allowances are recorded to reduce deferred tax assets when it is not finally secured that a tax benefit will be realizable.
- s) Goodwill** // Goodwill consists of the excess purchase price over the fair value of the identifiable net assets acquired in acquisitions. Such amounts were amortized using the straight-line method over four years, until December 31, 2001. With the adoption of SFAS 142 as of January 1, 2002, goodwill is no longer amortized, but tested at least annually for impairment.
- t) Segment information** // QSC applies the "management approach" in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", for identifying reportable segments. The management approach designates the internal organization used by management for making operating decisions and assessing performance as the source of QSC's reportable segments. QSC is operating in one segment: fixed-wire integrated telecommunication services in Germany.
- u) Comprehensive income** // SFAS 130, "Reporting Comprehensive Income" requires companies to separately report components of Comprehensive Income. The Company has no components of Comprehensive Income, therefore, as in 2001, Comprehensive Income is equal to income.

3. Acquisitions and Investments

- a) Acquisitions** // On February 23, 2001, QSC acquired a 65% share in COMpoint Network Consulting GmbH, Vellmar ("COMpoint"). COMpoint, a limited liability company, is an Internet service provider offering telecommunications and network solutions to its customers. On April 22, 2002, QSC increased its share in COMpoint to 100%. Total acquisition cost for all shares amount to TEUR 1,285, paid in cash. QSC recorded TEUR 864 of goodwill in connection with the purchase of its share in COMpoint. QSC amortized TEUR 148 of this goodwill until December 31, 2001. The merger between QSC and COMpoint was recorded in the commercial register on July 1, 2002. The results of operations of the acquired business have been included in the consolidated financial statements since March 1, 2001. The acquisition was accounted for under the purchase method of accounting.

On April 24, 2001, QSC acquired a 41% share in Gesellschaft für Internet-Kommunikation AG, Aachen ("GINKO"). GINKO is an Internet service provider specializing in the provision of fast Internet access. On April 24, 2001, QSC participated in a capital increase and with purchases on December 14, 2001, and April 2, 3 and 8, 2002, QSC increased its share in GINKO to 100%. Total acquisition cost for all shares amount to TEUR 1,717 of which TEUR 1,378 was paid in cash and TEUR 339 in shares. QSC recorded TEUR 1,790 of goodwill in connection with the purchase of its share in GINKO. Whereas TEUR 822 relate to the shares acquired in 2002. TEUR 128 were amortized until December 31, 2001. The merger between QSC and GINKO was recorded in the commercial register on August 2, 2002. The acquisition of GINKO was made for reasons of vertical integration. The results of operations of GINKO have been included in the consolidated financial statements since May 1, 2001. The acquisition of GINKO was accounted for under the purchase method of accounting.

On December 13, 2002, QSC acquired 100% of Ventelo GmbH, Düsseldorf ("Ventelo"). Ventelo is a nationwide voice telephony carrier providing business customer with voice telephony services. Ventelo's market position in voice communications for business customers complements QSC's broadband data communications service to the same customer segment ideally. Ventelo will further enhance QSC's ability to offer integrated telecommunication solutions for all business customer segments. Total acquisition cost for Ventelo was TEUR 11,515, including direct acquisition costs of TEUR 90, and is subject to certain purchase price adjustments which could result in reductions of purchase price up to TEUR 5,200. The amount of TEUR 5,200 is withheld as restricted cash on an escrow account. On April 1, 2002, Ventelo was outsourced from its former parent company Ventelo Deutschland GmbH due §§ 159 et seqq. "Umwandlungsgesetz". Due to § 133 "Umwandlungsgesetz" Ventelo is responsible for potential liabilities of the former parent company for a period of five years. The estimated fair value of the identifiable net assets exceeds the purchase price resulting in a negative goodwill of TEUR 132 and reducing the acquired assets, on a pro rata basis, by this amount. The results of operations of Ventelo have been included in the consolidated financial statements since December 13, 2002.

In accordance with SFAS 141 the Company is disclosing the following condensed balance sheet showing the amount assigned to each major asset and liability caption of Ventelo at the acquisition date.

	in TEUR
Cash and cash equivalents	3,132
Trade accounts receivable, net	11,367
Other receivables	808
Prepayments and other current assets	849
Total current assets, net	16,156
Networking equipment and plant	9,297
Operational and office equipment	384
Licenses	87
Software	817
Total non-current assets, net	10,585
Trade accounts payable	6,437
Accrued liabilities	6,703
Other current liabilities	1,733
Total current liabilities	14,873
Accrued pensions	131
Other non-current liabilities	90
Total non-current liabilities	221
Total estimated fair value of net assets acquired	11,647
Negative Goodwill	(132)
Purchase price consideration	11,515

The following unaudited proforma combined information has been prepared assuming that the purchase of Ventelo by QSC had occurred as of April 1, 2002. The results cover the period from April 1, 2002 to December 31, 2002 as Ventelo was established on April 1, 2002 through a carve-out of assets from its former parent company. As Ventelo was previously included in the financial statements of its parent company, there is no discrete financial statements for Ventelo available prior to April 1, 2002. The unaudited proforma combined financial information is not necessarily indicative of the consolidated results that would have occurred had the acquisitions taken place at such date, nor is it necessarily indicative of results that may occur in the future.

	unaudited	2002
		in TEUR *
Revenues		100,501
Operating loss		(114,317)
Net loss		(115,817)
Earnings per share		(1.15)

* except for per share amounts

b) Investments // On April 26, 2001, the shareholders of ALCHEMIA S.p.A., Milan, Italy, one of QSC's strategic investments made in 2000, resolved to change the company's name to Netchemya S.p.A. ("Netchemya"). TISCALI S.p.A., a shareholder of Netchemya, made a strategic decision in the third quarter of 2002 to discontinue the resale of Netchemya's network based services and not to commit any further funding to Netchemya. This had a major adverse impact on Netchemya's future business activities and the shareholders took first measures to discontinue operations by way of voluntary liquidation. QSC has therefore written off its remaining investment in Netchemya of TEUR 4,136 which is included in share of post acquisition losses of equity method investee in the statement of operations.

On January 28, 2002, the Company acquired a 49% interest in Grell Beratungs GmbH, Cologne ("Grell"). Purchase price consideration consisted of 575,000 ordinary shares of QSC stock valued at EUR 1.29 per share which approximates the market price of the Company's stock when the acquisition was agreed to and announced. QSC uses the equity method for its investment in Grell. As a result of recent developments of this business, during the fourth quarter of 2002, QSC has recorded an impairment charge of TEUR 433 relating to Grell to reflect its estimated fair market value of TEUR 301. From January 28 to December 31, 2002, QSC recorded post-acquisition losses of TEUR 7 from its investment in Grell.

4. Related party transactions

During 2002, QSC participated in transactions with companies affiliated with members of the management. All contracts with these companies require approval of the Supervisory Board in advance. The business relationships and transactions with related parties during 2002 were all performed at arms-length and were as follows.

a) IN-telegence GmbH & Co. KG ("IN-telegence") // IN-telegence provides value added telecommunication services. Its customers are content providers, who via service numbers such as those with prefix 0800, 0180 and 0190 provide entertainment services, weather forecasts, stock quotes and other services to the public. The user of this service pays a premium on the price of the telephone call to these numbers to compensate the content provider for its service. Even though IN-telegence enters into direct contracts with the content providers, the public can only access the content providers' service numbers via the QSC switching facility and Deutsche Telekom's network. With its telecommunication licenses, the interconnection agreement concluded with Deutsche Telekom and the provision of the switching facility, QSC provides the infrastructure and regulatory basis for the IN-telegence business. IN-telegence maintains the infrastructure and supports QSC in operating the switching facility. The cash payments from QSC to IN-telegence result from QSC acting as an intermediary between IN-telegence and Deutsche Telekom, i.e. the equivalent payments are made from Deutsche Telekom to QSC. The payments from QSC to IN-telegence only become due after QSC has received the payments from Deutsche Telekom. QSC and IN-telegence have concluded service agreements governing the details of their co-operation. These contracts have been terminated on May 31 and June 30, 2002. Since April 1, 2002, IN-telegence supports QSC on the launch and the operations of DSL-based voice services. As at December 31, 2002, TEUR 490 (2001: TEUR 13,196) were recognized as accounts payable to IN-telegence and IN-telegence owed QSC an amount of TEUR 7 (2001: 679).

b) MVC Teleconferencing GmbH ("MVC") // QSC uses MVC's services to conduct national and international audio conferences. There were no accounts payable and receivables as at December 31, 2002 (2001: TEUR 0).

c) Teleport Köln GmbH ("Teleport") // Teleport operates and maintains QSC's private broadcast exchange. As at December 31, 2002, payables to Teleport amounted to TEUR 3 (2001: TEUR 3).

d) Baker Capital Corp. ("Baker") / / QSC incurred out-of pocket expenses for John Baker, Ashley Leeds and David Ruberg acting as members of the Supervisory Board. As at December 31, 2002 there were no payables to Baker (2001: TEUR 160).

e) microShare AG ("microShare") / / microShare provides consulting services on the conception, documentation and implementation of internal IT-based processes. As at December 31, 2002, payables to microShare amounted to TEUR 29 (2001: TEUR 0).

The following table sets forth the development of related party transactions from 2001 to 2002:

	Revenues in TEUR	Expenses in TEUR	Cash Received in TEUR	Cash Paid in TEUR
Fiscal Year 2001				
IN-telegence	267	220	2,521	115,413
MVC	5	1	4	1
Teleport	-	34	-	45
Baker	-	160	-	-
microShare	-	-	-	-
Fiscal Year 2002				
IN-telegence	796	34	1,595	38,343
MVC	-	1	2	1
Teleport	-	40	-	46
Baker	1	-	1	160
microShare	-	160	-	162

5. Cash and cash equivalents and marketable securities

	December 31,	
	2002 in TEUR	2001 in TEUR
Cash and cash equivalents	43,095	153,776
Held-to-maturity securities	41,537	-
Available-for-sale securities	2,989	-
	87,621	153,776

Unrealized gains and losses in available-for-sale securities were insignificant.

6. Trade accounts receivable, net and other receivables

	December 31,	
	2002 in TEUR	2001 in TEUR
Trade accounts receivable	18,221	15,643
Allowance for doubtful accounts	(1,273)	(62)
Trade accounts receivable, net	16,948	15,581
Other receivables		
Tax claims	8,556	16,536
Others	920	894
Other receivables	9,476	17,430

The following reflects QSC's activity in its allowance for doubtful accounts for the years ended December 31, 2001 and 2002:

	Beginning Balance in TEUR	Charged to Cost and Expenses in TEUR	Charged against Existing Reserves in TEUR	Ending Balance in TEUR
Year ended December 31, 2001	-	(62)	-	(62)
Year ended December 31, 2002	(62)	(1,211)	-	(1,273)

7. Plant and equipment, net

	Network equipment and plant in TEUR	Operational and office equipment in TEUR
Cost as of January 1, 2002	109,044	11,021
Additions	14,566	1,627
Disposals	(5,523)	(40)
Cost as of December 31, 2002	118,087	12,608
Accumulated depreciation as of January 1, 2002	26,949	3,444
Additions	29,705	2,328
Disposals	(30)	(1)
Accumulated depreciation as of December 31, 2002	56,624	5,771
Plant and Equipment, net as of December 31, 2002	61,463	6,837
Plant and Equipment, net as of December 31, 2001	82,096	7,576

Capital expenditures decreased in 2002 due to QSC having largely completed the network rollout in 2001.

8. Intangible assets, net

	Licences in TEUR	Software in TEUR	Other in TEUR
Cost as of January 1, 2002	2,867	2,866	13
Additions	87	1,185	-
Disposals	-	(65)	-
Cost as of December 31, 2002	2,954	3,986	13
Accumulated depreciation as of January 1, 2002	662	823	5
Additions	288	766	3
Disposals	-	(23)	-
Accumulated depreciation as of December 31, 2002	950	1,566	8
Intangible assets, net as of December 31, 2002	2,004	2,420	5
Intangible assets, net as of December 31, 2001	2,205	2,043	8

The accumulated annual amortization expense is estimated to be TEUR 3,504 for 2003, TEUR 4,391 for 2004, TEUR 5,035 for 2005, TEUR 5,422 for 2006 and TEUR 5,609 for 2007. QSC requires a class 3 license to operate transmission lines in Germany as well as a class 4 license for the provision of voice telephony services. These licenses are awarded by the German regulatory authority and are subject to an initial, one-time fee. QSC, together with other German license holders, took legal action appealing the authority's license fee directive. In its final ruling of September 19, 2001, the German Federal Administrative Court declared the license fee directive unlawful. QSC received a total of TEUR 2,038 in reimbursements for license fees it had already paid to the regulatory authority. A reassessment of the license fees is expected but it has yet to take place. TEUR 2,038 is therefore included in other liabilities. Intangible assets will be reassessed when the revised license fee directive is in place.

9. Goodwill

Upon acquisition of its shares in COMpoint and GINKO, QSC recorded as goodwill the excess purchase price over the fair value of the identifiable net assets acquired.

	Goodwill in TEUR
Cost as of January 1, 2002	1,683
Additions	986
Disposals	-
Cost as of December 31, 2002	2,669
Accumulated depreciation as of January 1, 2002	276
Additions	-
Disposals	-
Accumulated depreciation as of December 31, 2002	276
Goodwill as of December 31, 2002	2,393
Goodwill as of December 31, 2001	1,407

10. Investments at equity method

	Investment in equity method in TEUR
Acquisition cost as of January 1, 2002	8,688
Additions	742
Disposals	(5)
Acquisition cost as of December 31, 2002	9,425
Share of post acquisition losses as of January 1, 2002	3,692
Share of post acquisition losses	863
Impairment losses	4,569
Share of post acquisition losses as of December 31, 2002	9,124
Investment in equity method investees as of December 31, 2002	301
Investment in equity method investees as of December 31, 2001	4,996

The investment in Netchemya was impaired because TISCALI S.p.A. as major shareholder of Netchemya made a strategic decision in the third quarter of 2002 to discontinue the resale of Netchemya's network based services and not to commit any further funding to Netchemya. This had a major reverse impact on Netchemya's future business activities.

11. Other current and accrued liabilities, non-current liabilities

All non-current liabilities have a term less than 5 years.

	December 31,	
	2002	2001
	in TEUR	in TEUR
Other current liabilities		
Social security	651	340
Taxes	604	343
Others	1,294	124
Other current liabilities	2,549	807
Other accrued liabilities		
Outstanding invoices	14,014	15,750
Employee bonus and remuneration	2,620	2,141
Vacation outstanding	997	597
Workmen's compensation	100	50
Tax consulting and legal fees	140	231
Other accrued liabilities	17,871	18,769
	20,420	19,576

12. Employee benefit plan

As at December 31, 2002, there were employee benefit plans for one of QSC's executive managers and the executive manager of Ventelo. The commitments are reinsured. Pension benefits are fixed at a monthly amount after legal retirement age. The components of net periodic benefit costs were:

	December 31,	
	2002	2001
	in TEUR	in TEUR
Service cost	28	27
Interest cost	9	6
Net periodic benefit cost	37	33

The following table sets forth the funded status of QSC's pension plan, amounts recognized in QSC's balance sheets, and the principal weighted average assumptions inherent in their computation:

	December 31,	
	2002	2001
	in TEUR	in TEUR
Change in benefit obligation		
Benefit obligation at beginning of year	239	100
Service cost	23	27
Interest cost	6	6
Actuarial loss (gain)	21	(25)
Benefit obligation at end of year	289	108
Unfunded status	(289)	(108)
Unrecognized net actuarial loss (gain)	(32)	(54)
Accrued benefit cost	(321)	(162)
Weighted-average assumptions as of December 31,		
Discount rate	6%	6%
Expected return on plan assets	3%	3%
Rate of compensation increase	3%	3%

13. Share capital

The authorization of the annual general meeting of QSC on May 17, 2001, to acquire its own shares up to an imputed share in the capital stock in the total amount of TEUR 10,000 through the stock exchange or based on a public tender offer, was time-limited by law until October 31, 2002. Therefore this authorization was revoked at the annual general meeting on May 16, 2002, and replaced by a new identical authorization being in effect until October 31, 2003.

a) **Nominal share capital** // The nominal share capital of QSC consists of ordinary share capital of TEUR 105,009 and is divided into 105,008,714 ordinary shares having a notional value of EUR 1 each. Each share gives the registered holder one vote at the general meeting of shareholders and the right to fully share in dividends. There are no restrictions on voting rights. During 2002, there were no changes to QSC's nominal share capital.

b) **Conditional capital as per commercial register** // As at December 31, 2002, QSC had conditional capital of TEUR 34,987. TEUR 9,987 relates to stock option plans for QSC's employees as well as Advisory and Supervisory Board members and TEUR 25,000 for bonds which are to be underwritten by a banking syndicate with the obligation to offer the bonds for subscription to the shareholders.

c) **Treasury shares** // Since the initial grants of convertible bonds certain employees have terminated their employment with QSC. As a result, 463,690 shares were transferred back to QSC. QSC sold 766,726 of its treasury shares during 2002. The reissue price of the shares was below the acquisition price. The difference between the reissue price and the acquisition price was charged to retained earnings. As at December 31, 2002, QSC held 358,747 (2001: 1,125,473) treasury shares having a total notional value of TEUR 359 and representing 0.34% of total common stock. QSC intends to offer its treasury stock for sale to employees.

14. Employee equity incentive program

On May 16, 2002, the annual general meeting approved a fourth stock option plan ("SOP2002") authorizing the QSC Management Board to issue up to 2.45 million registered convertible bonds at 3.5% annual interest with a par value of EUR 0.01. The bonds have a term of up to five years. The authorization is limited until May 31, 2005. The holders of the convertible bonds have the right to convert each bond to a registered no-par value share of QSC. Convertible bonds may be allotted to employees of QSC and its affiliated companies, to members of the Advisory Board, the Supervisory Board and the Management Board, as well as advisers and consulting companies. The plan will be funded by a conditional capital increase of up to TEUR 2,450. The conversion price is the closing price of QSC shares on the Neuer Markt segment of the Frankfurt Stock Exchange on the day of the issue of the convertible bond. The conversion rights are subject to a lock-up period, during which the bonds may not be converted. The lock-up period ends one year after the issue of the bonds for 33% of the conversion rights, two years after the issue for an additional 33% and three years after the issue for the rest.

The following table summarizes activity under QSC's stock option plans for the years ended December 31, 2002 and 2001:

	Number of shares subject to option	Weighted average exercise price in EURO
Issued and subscribed, below market	4,157,623	2.11
Issued and subscribed, at market	3,843,281	2.43
Exercised	(3,874,067)	1.95
Forfeited	(222,453)	4.53
Outstanding at December 31, 2001	3,904,384	2.44
Issued and subscribed, below market	-	-
Issued and subscribed, at market	1,303,645	1.12
Exercised	-	-
Forfeited	(200,653)	3.51
Outstanding at December 31, 2002	5,007,376	0.69

QSC accounts for its stock option plans under provisions of APB 25 for options granted to employees under stock option plans. Under APB 25, compensation expense is recognized based on the amount by which the fair value of the underlying common stock exceeds the exercise price of the stock options at the measurement date. In the case of SOP2000, the measurement date is the date of grant. In the case of SOP2000A, the exercise price of 483,169 convertible bonds was reduced in November 2000. The 483,169 convertible bonds are therefore accounted for using variable plan accounting. All other convertible bonds and shares exercised under SOP2000A have a measurement date equal to the grant date. The same apply to the stock option plans SOP2001 and SOP2002. As at December 31, 2002, QSC had deferred compensation totalling TEUR 5,058. This amount is yet to be amortized as a charge to operations until will be ended. In 2002, QSC amortized TEUR 6,914 (2001: TEUR 5,605). QSC was not required to record any compensation expense in connection with the 483,169 convertible bonds subject to variable plan accounting as these bonds have a weighted average exercise price of EUR 4.23. QSC's stock closed at EUR 0.39 on the last trading day of 2002 at the Frankfurt Neuer Markt stock exchange.

Had compensation expense for share options granted under the plans been determined in accordance with SFAS 123, QSC's net loss and loss per share for the year ending on December 31, 2002, would have been reduced to reflect a compensation cost of TEUR 438 (2001: TEUR 3,053), being TEUR 5 for SOP2000 (2001: TEUR 63), TEUR 29 for SOP2000a (2001: TEUR 707), TEUR 399 for SOP2001 (2001: TEUR 2,283) and TEUR 5 for SOP2002 (2001: TEUR 0).

The proforma amounts are as shown below:

	December 31,	
	2002	2001
	in TEUR *	in TEUR *
Net loss as reported	(102,621)	(104,901)
Stock compensation expense recorded	6,914	5,605
SFAS 123 expense	(438)	(3,053)
Net loss pro forma	(96,145)	(102,349)
Earnings per share (basic and diluted)		
as reported	(1.01)	(1.04)
proforma	(0.95)	(1.01)

* except for per share amounts

The average fair value of options granted as of December 31, 2002 was estimated at EUR 0.08 (SOP2000), EUR 0.02 (SOP2000A), EUR 0.11 (SOP 2001) and EUR 0.19 (SOP2002). The following weighted average assumptions were used: dividend yield of 0% (2001: 0%), expected life of 5 years (2001: 5 years) and a risk free interest rate interpolated out of 2.84% for government bonds with a two year maturity, 3.13% for government bonds with a three year maturity, 3.40% for government bonds with a four year maturity and 3.63% for government bonds with a five year maturity depending on the remaining term of the convertible bond. A volatility of 72,3% (2001: 101,71%) was used in valuing options.

15. Income taxes and deferred taxes

The effective tax rates for 2001 and 2002 are as follows:

	2002	2001
	in %	in %
Corporate income taxes	20.3	20.3
Trade tax on income	18.8	18.8
Surcharge	1.1	1.1
	40.2	40.2

Temporary differences between book basis and tax basis of assets and liabilities result from declining balance depreciation used in the tax balance sheet, lump-sum allowances for accounts receivables, valuation differences for pension reserves and direct offering expenses. Income tax expense differs from the amount of income tax expense computed by applying statutory German tax rates to loss before income taxes. The reconciliation of the difference is as follows:

	December 31,	
	2002	2001
	in TEUR	in TEUR
Net loss before taxes	(102,621)	(104,901)
Income tax benefit based on the statutory tax rate	41,254	42,170
Share of post acquisition losses	1,259	901
Valuation allowance for treasury stock	51	812
Deferred revenues	(460)	(644)
Deferred cost	940	645
Pension accruals	(55)	(12)
Non-tax deductible stock compensation expense	(2,905)	(2,327)
Other	1,022	(1,072)
	41,106	40,473
Change valuation allowance	(41,106)	(40,473)
	-	-

As at December 31, 2002, QSC's accumulated losses for taxation purposes amounted to TEUR 310,772 (2000: TEUR 210,468). The tax effect from these losses is capitalized for US GAAP purposes. Based on a tax rate of 40.2% the tax effect is TEUR 126,765 (2001: TEUR 85,659). Based on the recent formation of QSC it is not secured that QSC will generate sufficient taxable income during the carry-forward period to utilize the tax-loss carry-forwards. As a result, a valuation allowance of TEUR 126,765 has been provided against all of these tax loss carry-forwards. There is no current or deferred tax income expense.

In connection with the initial public offering in 2000 QSC had expenses of offering of TEUR 18,728 and in connection with the private placement in 1999 these expenses were TEUR 5,667. These offering expenses are deducted directly from the gross proceeds of the offering and charged against the additional paid-in capital. Because the realization of the benefit of the tax loss carry-forward related to the offering expenses is not secured, the tax benefit is not taken into account.

The reconciliation of the tax benefit is as follows:

	December 31,		
	2002	2002	2001
	in TEUR	Tax asset in TEUR 40.2%	Tax asset in TEUR 40.2%
Deferred tax asset			
Declining method depreciation	-	-	3
At equity consolidation	(5,431)	(2,183)	(924)
Deferred revenues	[2,028]	[815]	[355]
Deferred cost	2,983	1,199	259
Pension reserve	[89]	[36]	[34]
Tax loss carry-forward	(310,772)	(124,930)	(84,608)
	(315,337)	(126,765)	(85,659)
Less valuation allowance		126,765	85,659
		-	-

The loss carry-forwards in Germany are valid for an indefinite period.

16. Litigation

In 2002, QSC had entered into a co-operation agreement with a media group for various media services. In this context a lawsuit was filed against QSC for payment of TEUR 877 relating to the agreement. The subject matter of the lawsuit is whether QSC has to pay remuneration for various media services, which in QSC's opinion, had either not been rendered or had been rendered insufficiently. Therefore, QSC had terminated the contract for cause on June 19, 2002 and recorded the above amount as liability.

17. Lease commitments and contingent liabilities

QSC has entered into leased line agreements with several carriers in Germany. QSC uses leased lines to connect its Metropolitan Service Centres to the co-location rooms within Deutsche Telekom's central offices and to its sales partners. QSC leases co-location space within Deutsche Telekom's central offices from the incumbent and it has entered into rental agreements for its Metropolitan Service Centres. QSC rents office space under various operating leases and leases its Company vehicles. As at December 31, 2002, QSC's commitments from operating leases with a non-cancellable lease term in excess of one year were as follows:

	Year ending December 31, in TEUR
2003	21,120
2004	11,361
2005	5,147
2006	3,291
2007	3,224
after 2007	6,108
Total	50,251

Lease commitments for 2002 were TEUR 29,580 (2001: TEUR 35,785). As of December 31, 2002 there were guarantee liabilities of TEUR 3,396 (2001: TEUR 5,644).

18. Management Board and Supervisory Board

a) Management Board // The members of the Management Board are

Dr. Bernd Schlobohm	Engineer	Chief Executive Officer
Gerd Eickers	Businessman	Chief Operating Officer
Markus Metyas	Businessman	Chief Financial Officer
Bernd Puschendorf	Businessman	Chief Sales Officer*

* since March 6, 2002

As of December 31, 2002, Markus Metyas is member of the Supervisory Board of LION Bioscience AG, Heidelberg and Netchemya S.p.A., Milan, Italy. Gerd Eickers is member of the Supervisory Board of microShare AG, Dortmund and MVC AG, Frankfurt and member of the Advisory Board of GTT GmbH, Duisburg.

The total remuneration awarded to the Management Board for financial year 2002 amounted to TEUR 1,856, in comparison to TEUR 1,731 for financial year 2001. For each board member at least 50% of the contractual compensation is variable and depending on the realization of targets.

Shares and conversion rights of members of the Management Board:

	December 31, 2002		December 31, 2001	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	-	13,818,372	-
Gerd Eickers	13,841,100	-	13,841,100	-
Markus Metyas	2,307	1,059,116	2,307	1,059,116
Bernd Puschendorf	-	1,000,000	-	-

b) Supervisory Board // The members of the Supervisory Board are

John C. Baker	Private Equity Investor	Chairman
Herbert Brenke	Businessman	Vice Chairman
Manjit Dale	Businessman	
Ashley Leeds	Private Equity Investor	
David Ruberg	Independent Consultant	
Claus Wecker	Lawyer	

John C. Baker is a member of the Board of Directors of Cherry Road Technologies Inc., Parsippany, New Jersey, USA, and of DemoGraFX Inc., Los Angeles, California, USA.

Herbert Brenke is Chairman of the Supervisory Boards of Telegate AG, Martinsried and ASKK Holding AG, Hamburg, as well as member of the Supervisory Boards of SHS Informationssysteme AG, Munich, EUTEX European Telco Exchange AG, Düsseldorf and ASR Auto-Stern von Russland AG, Moscow, Russia. Herbert Brenke is also a member of the advisory board of Küttner GmbH & Co. KG, Essen and vice president of administrative board of Euka AG, Zürich, Switzerland.

Ashley Leeds is a member of the Board of Directors of Connected Corporation, Framingham, Massachusetts, USA, and Zucotto Wireless Inc., San Diego, California, USA.

David Ruberg is chairman of the Board of Directors of DemoGraFX Inc., Los Angeles, California, USA, and of InterXion Inc., Amsterdam, Netherland and as well member of the Board of Directors of NeoCore Inc., Colorado Springs, USA, of Permabit Inc., Boston MA, USA and of Sand Video Inc., Boston MA, USA.

Claus Wecker is a member of the Supervisory Board of ASKK Holding AG, Hamburg. Manjit Dale is a member of the Board of Directors of New Lecta SA, Luxembourg, Lecta SA, Luxembourg, Rapala VMC Corporation, Finland, DN1 Holdings BV, Netherlands, Amertranseuro International Holdings Ltd., UK, Center Parcs Elveden Ltd., UK, Elveden Property Ltd., UK, Center Parcs (Operating Company) Ltd., UK, and of Sun CP Topco Ltd., UK.

The total remuneration of the Supervisory Board for financial year 2002 was TEUR 148, in comparison to TEUR 113 for financial year 2001. In 2002, under the stock option plan 2002, a total of 60,000 convertible bonds were allocated to the members of the Supervisory Board, of which 20,000 were subscribed at balance sheet date.
 Shares and conversion rights of Members of the Supervisory Board:

	December 31, 2002		December 31, 2001	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	9,130
Herbert Brenke	187,820	9,130	161,120	9,130
Manjit Dale	-	9,130	-	9,130
Ashley Leeds	9,130	-	9,130	-
David Ruberg	4,563	19,130	4,563	9,130
Claus Wecker	83,025	-	83,025	-

19. Declaration Pursuant to § 161 of the Corporation Act on Compliance with the German Corporate Governance Code

The Corporate Governance principles of the Company are under periodical review by the Management and Supervisory Board. The compliance with the German Corporate Governance Code and any future changes as to compliance with it will be published on the Company's website.

20. Major differences between the accounting, valuation and consolidation principles applied to the principles permitted under German commercial law

Applying the exemption provision of Sec. 292a HGB (German Commercial Code), the Company prepares and publishes its consolidated financial statements in accordance with US Generally Accepted Accounting Principles. The exemption provision may only be applied if the accounting principles used conform to the Seventh EU Directive and if the account-

ing, valuation and consolidation policies that deviate from German law are explained in the notes. QSC has prepared its consolidated financial statements in accordance with US GAAP and the provisions of Par. 292a HGB (German Commercial Code); therefore it is not obliged to prepare consolidated financial statements in accordance with Par. 290 HGB. According to GAS 1 and GAS 1a respectively US GAAP are internationally recognized accounting rules and comply with the 7th EU Directive.

There are the following main differences between the generally accepted accounting, valuation and group accounting principles which are applicable to large corporations under German commercial law:

In the US GAAP consolidated financial statements amounts are recorded as personnel expenses/income which result from employee stock ownership plans as a consequence of US accounting regulations (stock based compensation). In consolidated financial statements prepared according to German accounting principles, this approach need not be taken.

With regard to deferred taxes, contrary to German accounting principles, deferred tax assets are recognized for future benefits resulting from tax loss carry-forwards.

Goodwill and intangible assets have to be capitalized in accordance with US GAAP. Goodwill and intangible assets resulting from the purchase of businesses before July 1, 2001, have been amortized over their useful lives until December 31, 2001. Goodwill and intangible assets acquired after July 1, 2001, will no longer be amortized over the useful life but should be tested on impairment at least once a year.

Treasury shares which the Company acquired in the past fiscal year were offset against the consolidated equity in accordance with US GAAP.

21. Subsequent events

Since January 15, 2003 the Company is listed on Prime Standard, the new quality segment of the Frankfurt Stock Exchange.

QSC AG

MANAGEMENT REPORT FOR FINANCIAL YEAR 2002

Discussion and analysis of financial condition and results of operations
(EUR amounts in thousands (TEUR), except for per share amounts)

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

1. Overview

QSC commenced operations in January 1997 as a consulting company providing services in telecommunications and information technology. We phased out our consulting business at the end of December 1999. We were the first company in Germany to publicly announce plans for a nationwide network based on symmetric DSL-technology (digital subscriber line) on November 10, 1999. This Germany wide network rollout has been completed covering more than 20 million potential users and more than one million businesses.

We offer our business and residential customers broadband "always-on" connections to the Internet on the basis of standard copper subscriber lines. The acquisition of Ventelo and its market position in voice communications for business customers complements QSC's broadband data communications service to the same customer segment ideally. In the three years starting to build its proprietary DSL network, QSC has become increasingly established in the German market as a provider of integrated telecommunications solutions for voice and data services.

The telecommunications market was hit badly by the recession in the German economy as a whole in 2002. In Germany, the gross national product grew by a mere 0.2%. Companies throughout all sectors exercised considerable investment restraint, and stagnation took hold in the IT and telecommunications sectors. DSL technology was one of the few exceptions to this general trend. The progressive networking of workplaces and the increasing extent to which complex business transactions are processed via the Internet, are compelling companies of all sizes to switch from conventional telecommunications to broadband solutions. The rapid growth of DSL technology will continue in the years ahead. Germany's high-standard telecommunications infrastructure enables DSL technology to make major progress.

2. Factors affecting future operations

- a) **Revenues** // We derive the following types of revenues from our business:
- monthly recurring service charges for broadband connections from the end-user customer to our facilities;
 - monthly recurring charges for providing sales partners with broadband capacity on our network;
 - monthly recurring charges for providing equipment housing to our sales partners within our Metropolitan Service Centres;
 - monthly recurring charges for providing voice telephony services
 - non-recurring charges for installation and end-user equipment.

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

- b) **Operating expenses** // The following factors comprise our operating costs:
- Network expenses include monthly leasing and installation expenses for copper-lines, interconnection fees, operating expenses for the proprietary QSC backbone and leasing expenses for fibre optic lines and co-locations rooms. Other network expenses we incur are for repairs and maintenance, operation and for the design and deployment of our network.
 - Other operating expenses include costs for selling and marketing activities, research and development costs as well as general and administrative expenses.

- c) **EBITDA** // In addition to other measurements, which are reflected in our statements of operations, we measure our financial performance by EBITDA. EBITDA consists of net loss excluding interest, taxes, share of post acquisition losses of equity method investments, amortization of deferred stock compensation, other non-operating income, depreciation and amortization of non-current assets and amortization of goodwill. We believe that EBITDA is a meaningful measure of performance because it is commonly used in the telecommunications industry. However, other companies may calculate it differently from us. We present EBITDA to enhance your understanding of our operating results.

You should not construe it as an alternative to operating income as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of liquidity. For the year ended on December 31, 2001, we calculated negative EBITDA of TEUR 85,448. For the equivalent period of 2002, we calculated negative EBITDA of TEUR 60,305. The decrease is primarily caused by the increase in revenues and the measures which have been taken to optimise the network utilization.

- d) **Capital expenditures** // The Germany wide network rollout has been completed. We primarily incur the following additional capital expenditures:
- purchase and installation of equipment for our Metropolitan Service Centres;
 - purchase and installation of equipment for our network management systems;
 - demand-based expenditures for purchasing end-user DSL line cards and customer premise equipment.

We expect that the average cost of both line cards and customer premise equipment will decrease in the next few years. We may have to purchase further equipment in future periods depending on new and additional services we want to offer to our customers.

3. Results of operations (year ended December 31, 2002 and 2001)

- a) **Revenues** // In financial year 2002, we recorded revenues of TEUR 47,088. Compared with revenues of TEUR 29,433 in financial year 2001, this represents an increase of 60%, which is mainly due to the increasing number of customers and the selling of complete solutions as opposed to lines only. Persistent consolidation in the Internet service provider market, and the resulting slight declines in revenues with semi-fabricates for broadband services, have corroborated QSC's continuing concentration on products for final customers.
- The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements" ("SAB 101") in December 1999. SAB 101 requires that, in certain circumstances, revenues received in the first month of a contract be recognized over an extended period of time instead of in the first month of the contract. QSC has adopted the provisions of SAB 101. Accordingly, we do not recognize revenues from non-recurring installation charges in the month they are invoiced, but we recognize them over the estimated average subscription contract life of 12 months. For the period ended on December 31, 2002 TEUR 2,028 in installation charges are deferred and will be recognized in future periods.

- b) **Cost of revenues** // Cost of revenues are our network expenses totalling TEUR 93,594 for financial year 2002. During the equivalent period in 2001, we recorded network expenses of TEUR 103,480. This represents a decrease in network expenses of 10%. Although the number of customers has increased, network expenses were reduced. This substantial improvement is attributable to the various measures adopted by QSC to optimise network operations. The scalability of the QSC business model will support revenue growth at constant or even decreasing expense for the high-performance network. We expect increasing network expenses in future periods only due to a growing subscriber base resulting in an increase of usage-based expenses.

- c) **Selling and marketing expenses** // Selling and marketing expenses for the twelve months to December 31, 2002 were TEUR 31,998 in comparison to TEUR 21,326 in the equivalent period of 2001, representing an increase of 50%. Selling and marketing expenses increased, reflecting an increase in personnel in particular and reflecting our efforts to market and sell our end-user products. Selling and marketing expenses consist primarily of salaries, commissions to our sales partners, costs incurred for promotional and advertising campaigns and the development of corporate identity. We expect selling and marketing expenses to further increase as we continue to promote our services.

- d) **General and administrative expenses** // General and administrative expenses were TEUR 20,594 in financial year 2002 and TEUR 15,410 during the equivalent period of 2001 – an increase of 34%. The increase in general and administrative expenses is mainly due to the increased number of employees. We expect our general and administrative expenses to increase in future periods as we expand our business and manage our organizational growth.

- e) **Research and development expenses** // We recorded research and development costs of TEUR 1,994 in financial year 2002 and TEUR 2,241 in financial year 2001, representing a decrease of 11%. Research and development costs primarily consist of development costs for advanced solutions and applications for our DSL business. We expect our research and development expenses to increase moderately in future periods as we continue to develop value added services and new voice telephony products.

- f) **Other income (expenses)** // Other income (expenses) consists primarily of interest income on our cash and cash equivalents balance. Interest income for the twelve months to December 31, 2002 was TEUR 4,233 in comparison to TEUR 10,605 in the equivalent period of 2001, which is due to a lower cash balance in 2002. Interest expense in the period ended December 31, 2002 was TEUR 192. Interest expense was incurred from short-term loans, minority interests in the net income of our majority-owned subsidiary COMpoint and the interest accreted to the estimated strike price of the option to acquire the remaining 35% of COMpoint which took place on April 22, 2002. We recorded TEUR 215 interest expense during the equivalent period of 2001.
- For the period from January 1 until December 31, 2002, we recorded share of post acquisition losses of TEUR 863 and impairment losses of TEUR 4,569. For the equivalent period in 2001, we recorded TEUR 2,299.

4. Liquidity, capital resources and investments

Our operations have required substantial capital investment for the network rollout. We financed our operations through equity. From 1999 through to December 31, 2002, we raised total net proceeds of TEUR 428,871 through private placements, our public share offering in April 2000 and our employee equity incentive programs. Cash, cash equivalents and securities on December 31, 2002 were TEUR 87,621.

The accumulated deficit of TEUR 427,872 includes TEUR 120,873 in dividends from a beneficial conversion feature in connection with our private placement in December 1999 and TEUR 23,521 deferred compensation resulting from the issuance of convertible bonds. The non-cash beneficial conversion feature results from the structure of our private placement in December 1999, when we sold shares in series B preferred stock at a price per share deemed below the fair value per share for accounting purposes. We recognized the difference between the deemed fair value per share and the actual price per share as a non-cash dividend of TEUR 120,873 in connection with the beneficial conversion feature. The non-cash deferred compensation amount results from the terms of our stock option plans, under these terms we sold convertible bonds at a price per share deemed below the fair value per share for accounting purposes. In financial year 2002, we incurred TEUR 6,914 in compensation expense.

From January 1 through to December 31, 2002, net cash outflow from operating activities was TEUR 54,264. This was due to net losses of TEUR 102,621, decreases in liabilities of TEUR 24,400 and increases in assets of TEUR 1,243, offset by non-cash expenses of TEUR 46,231 and decreases in assets of TEUR 26,596 and increases in liabilities of TEUR 1,173. We used TEUR 56,072 net cash for investing activities including TEUR 44,526 for investments in marketable securities. The balance of TEUR 11,546 was due to financial investments and purchases of intangible assets, plant and equipment. During the equivalent period of 2001, financial investments and purchases of intangible assets, plant and equipment were TEUR 41,677. The 72% decrease is primarily due to our network rollout being completed. We expect further network related cash outflows, mainly from the purchase of DSL end user equipment and line cards. As such, we anticipate that future capital expenditures will correlate with end user growth.

Net cash used by financing activities during financial year 2002 amounts to TEUR -345. Due to the expansion of our business and network coverage, we expect to experience net cash outflows from both operating and investing activities in future periods. We may make investments in future periods in entities that are complementary in order to further support the growth of our business. We believe that our existing cash will be sufficient to fund those investments.

5. Recent developments

Only three years after we publicly announced plans for a nationwide network based on symmetric DSL-technology, QSC is an established provider of integrated voice telephony and data services in Germany. In 2003, QSC will focus on offering these services to business customers.

We will focus our attention on the project business addressing the top 100 companies in Germany through our Key Account Management. QSC will offer customized solutions for these companies that will be superior to competition in terms of innovation, flexibility and pricing.

The launch of Q-DSLmax in January 2003 was successful. The marketing of the new product has been supported by immediate and positive public feedback as well as sales supporting activities. Therefore QSC expects a noticeable increase of revenues by Q-DSLmax.

QSC-Voice, the innovative voice telephony product enables normal telephony over a DSL line, parallel to transmitting data, without any loss in quality and is expected to be successful as well. The service will be available in 25 cities during 2003.

The acquisition of Ventelo was a milestone in QSC's development. Ventelo will further enhance QSC's ability to offer integrated telecommunication solutions for all business customers segments. The integration of Ventelo will be an important aspect during the current fiscal year taking a cautious approach that will support the respective strength of both companies. The task will be to crystallize the natural synergies in our two technology infrastructures and sales organizations and to make efficient use of cross-selling potential.

Although the general market environment remains challenging, QSC expects further growth in revenues and further improvement in profitability. For the current fiscal year, QSC plans revenues between EUR 105 and 115 million. As at year-end 2003, QSC forecasts net cash and cash equivalents including marketable securities of EUR 50 million.

6. Forward-looking statements and risk factors

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.

The Company's risk management system, as required and implemented under § 91 para. 2 of the Stock Corporation Act was extended further in financial year 2002. In particular, systems and structures in indicator-based reporting, documenting guidelines, internal audits and quality management were established and developed. In financial year 2003, improvements are planned in integrating the risk management system with procedural and structural organization in particular. This includes linking identified risks to strategic success factors and communicating risks better through introducing threshold values as an early warning function.

There will always be uncertainties and risks, despite the Company's increasing experience in the deregulated telecommunications market and the DSL segment. Assumptions that could cause actual results to vary materially from future results include, but are not limited to: The economic environment remains difficult, and there are no signs of any economic recovery as yet. If the recession persists, and the Company cannot reach its conservative planned sales and revenue volumes, its business plan is also at risk. This might mean having to seek additional sources of finance.

Deutsche Telekom still dominates local networks, for example, and with them the DSL market, so its aggressive pricing policy could affect sales of QSC's products.

There is also a risk that new technologies could undermine implementation of QSC's business plan, although this has relativized considerably in the past year. DSL is demonstrably well ahead of all alternative broadband infrastructures.

GLOSSARY.

- ADSL** Asymmetrical Digital Subscriber Line; asymmetric data transmission technology with downstream rates between 1.5 Mbit/s and 8 Mbit/s and upstream rates between 16 kbit/s and 640 kbit/s.
- ASP** Application Service Provider; service providers that host, manage, support, and deliver software applications and database to customers from a remote data center over the Internet or wide area networks.
- Backbone** High-speed network that interconnects networks with lower speeds/capacities.
- Bandwidth** The transmission capacity of a line.
- Broadband** Data transmission capacity in excess of 128 Kilobit per second.
- CO** Central office or co-location room; local access switching facility of Deutsche Telekom, where the "last mile" begins.
- ISDN** Integrated Services Digital Network; digital switching technology allowing the transmission of any and all forms of telecommunication through a single line.
- ISP** Internet service provider. They facilitate customer data communication by provision of Internet access and related services, e.g. e-mail management.
- Last Mile** The distance from the telephone outlet to the nearest local switching center (central office).
- Leased Line** Any permanently available connection; no time lost due to dialling in and the setting up of a connection.
- Line Sharing** Shared use of a local loop for voice and broadband data services. Both services can be provided by different operators due to a separation of the frequency spectrum used.
- Mbit/s / kbit/s** Megabit per second / Kilobit per second; measuring units of data transmission speed.
- MSC** Metropolitan Service Centre; QSC's local access network mode where local broadband traffic is bundled and connected with Internet and/or the PoTS (Plain old Telephony System) world. The MSC's also house broadband application servers.
- QoS** Quality of Service; in order to ensure an agreed transmission service level, the transport protocol, e.g. must support Quality of Service. Quality of Service for instance, ensures that a video transmitted via QSC speedw@dy-DSL will reach the user without distortions.
- SDSL** Symmetric Digital Subscriber Line; symmetric transmission technology, allows for data transfer into both directions at equal speeds of up to 2.3 Megabit per second.
- TKG** "German Telecommunication Law" of 1998. It constitutes the legal basis for the liberalisation of the Telecoms sector in Germany.
- Video-on-Demand** The future of home entertainment. Via the Web, movies can be ordered and copied almost 'live' through the telephone line. Due to QSC's DSL technology, the virtual video library as well as countless other multimedia services will grow from a technical concept stage to real consumer availability.
- Voice over DSL** The possibility to transmit voice and data simultaneously within the framework of DSL technology.
- Web-Hosting** Service providers offer server capacities mainly to business subscribers for their Internet applications.

CALENDAR

Shareholders' Meeting

May 15, 2003

Quarterly Reports

May 27, 2003

August 26, 2003

November 25, 2003

Conferences/Events

May 7, 2003

4. ZfTM-Workshop:

Reform of TKG

May 21, 2003

Euroforum-Conference:

Alternatives to cable

IMPRINT

Overall responsibility

QSC AG, Cologne

Research

Page 24 and 26, IDC "European Broadband

Services 2002- 2006", November 2002,

IDC #HG16j

Photos

Page 11, Dieter Klein, STOCK4B

Page 21, Robert Daly, Getty Images

Page 33, Ed Honowitz, Getty Images

Layout

sitzgruppe, Düsseldorf

Print

Karl Fries GmbH & Co. KG, Cologne

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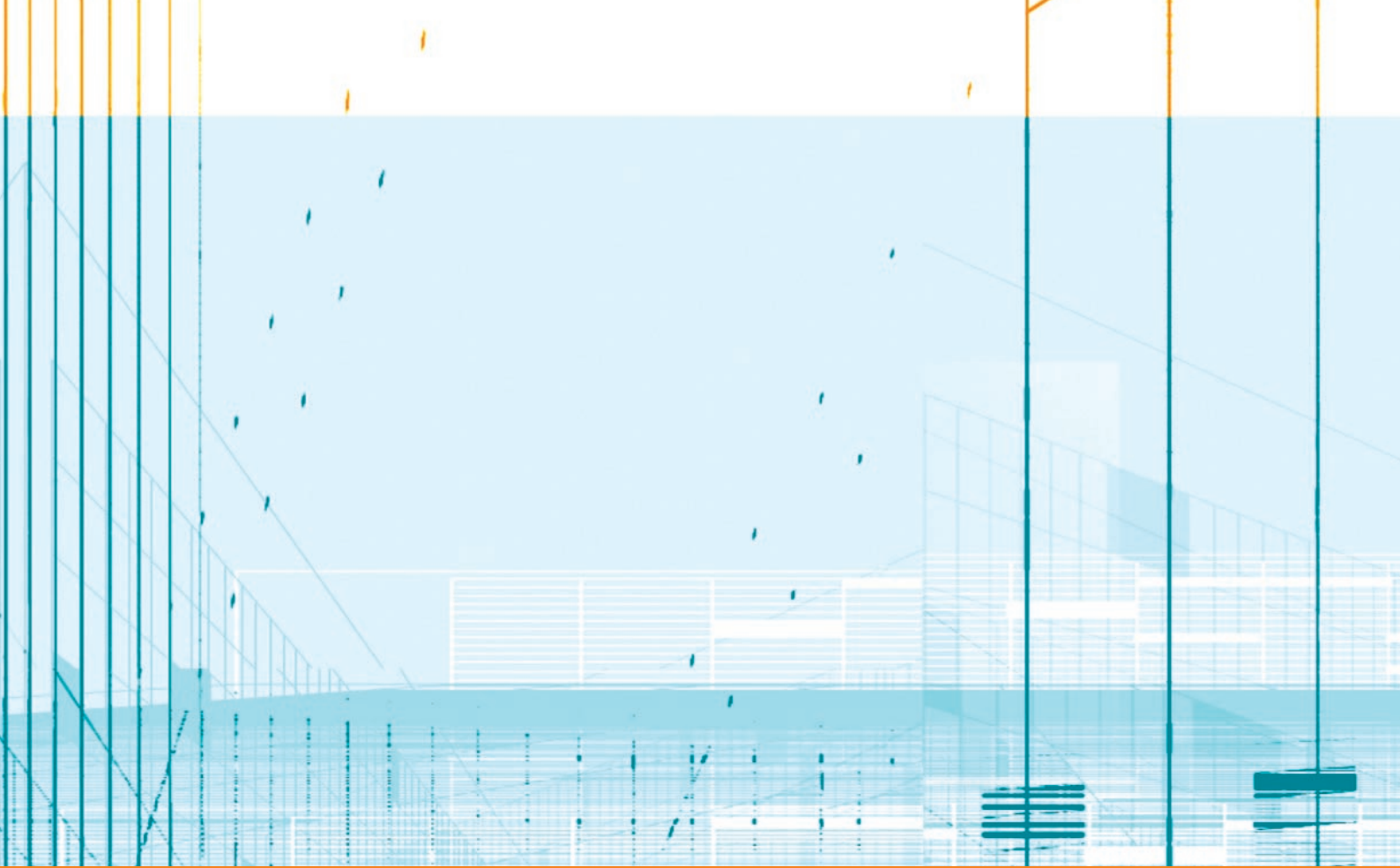
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