Annual Report 2007 Ten Top-Speed Years

Key Data

All amounts in € million

	2007	2006	2005	2004	2003
Revenues	335.2	262.5	194.4	145.9	115.6
EBITDA	+34.9	+21.2	+5.8	+3.2	-28.5
EBIT	-10.6	-7.2	-18.7	-22.7	-61.9
Net loss	-10.4	-5.3	-18.2	-21.6	-60.6
Earnings per share[1] (in €)	-0.08	-0.04	-0.17	-0.21	-0.58
Equity[2]	154.5	160.6	85.0	70.2	89.5
Balance sheet total[2]	371.9	299.9	151.3	116.0	132.7
Equity ratio (in percent)	41.5	53.6	56.2	60.5	67.4
Capital expenditures	122.9	40.1	20.1	15.9	8.5
Liquidity[2]	79.4	108.9	56.4	40.3	54.3
Share price[2] (in €)	2.90	5.00	3.86	3.66	3.03
Number of shares[2]	136,358,315	133,897,686	115,033,078	105,502,729	105,037,396
Market capitalization[2]	395.4	669.5	444.0	386.1	318.3
Employees[2]	820	675	450	367	373

Consolidated Financials Statements 2004 to 2007 under IFRS, 2003 under U.S. GAAP

[1] basic and diluted
[2] as of December 31

Highlights 2007

100 new cities for HanseNet
In January, HanseNet and QSC broaden their wholesale partnership that had begun in 2006. QSC provides 300 additional central offices in 100 cities and towns, which HanseNet uses as the basis for offering its Alice ADSL2+ product that provides broadband speeds of up to 16 Mbit/s.

QSC with new premium look & feel
In advance of the CeBIT tradeshow, QSC debuts its new look & feel in March. The new logo, the new website and all documents underscore its premium positioning. The new design shows clearly: QSC stands for simple, straightforward telecommunications solutions in premium quality for enterprises.

QSC networks Europe-wide
In May, QSC signs a contract with Vorwerk subsidiary Hectas to network 51 European locations. The multi-year agreement includes building and managing an IP-VPN network. The 24 German locations are linked via the QSC network, while the Company partners with local carriers in France, Poland and four further countries.

QSC wins eco award
In June, QSC again wins an award from the German Internet Federation (eco) in the "Best Business Customer ISP" category. What were judged were the quality of the access network, the range of offerings, installation times and prices, as well as service and support.

New wholesale partner 1&1 Internet
In July, QSC signs a framework agreement with 1&1 Internet AG to market ADSL2+ technology. Since the autumn of 2007, this United Internet subsidiary has been offering unbundled ADSL2+ connections on the basis of QSC's nationwide infrastructure.

Innovation for SMEs
QSC debuts an IP-based virtual telephone system for small and medium-size enterprises: IPfonie centraflex. It utilizes a software solution to shift the functions of a conventional telephone system to the network and offers efficient call management, even across multiple locations.

Merger with Broadnet concluded
Earlier than anticipated, the merger between Broadnet and QSC goes into effect on October 31. Only some 16 months after acquiring a majority stake in this broadband provider, integration of the networks and optimization of the administration, in particular, is enabling QSC to now achieve synergies.

Key Data Highlights 2007

Ten Top-Speed Years

1997 Dr. Bernd Schlobohm and Gerd Eickers
form QS Communication Service GmbH
as a consulting firm for telecommunications,
the Internet and multimedia in Cologne.

Focus on high speed early on

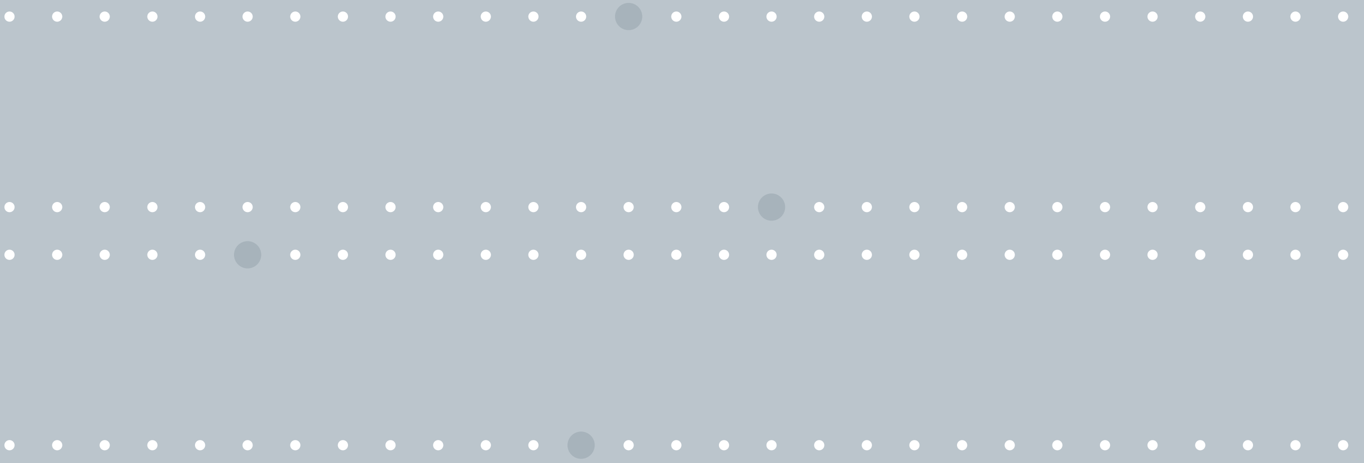
In 1997, the majority of Internet users were still going on the Net at a speed of up to 64 Kbit/s, and considered this to be the maximum that was possible and necessary. However already recognizing the growing need for broadband, the two QSC founders built their own infrastructure-based business model. The DSL boom is proving them to be correct: Ten years later, millions of households are already surfing the Net 100 times faster.

2007

2000 To finance building of the nationwide network, QSC goes public in Frankfurt and on the NASDAQ in New York in April.

2002 With its products and solutions, QSC focuses on the high-margin business with enterprises as customers early on.

1999 QSC brings its first upstream DSL product to market and, now operating as a stock corporation, makes preparations to build its own DSL network in Germany.



Top-speed for enterprise customers

In selecting their telecommunications provider, enterprises not only pay attention to price, but also to quality, service and a convincing security concept, in particular. And it is precisely with these issues that QSC shines as a premium provider. QSC intentionally foregoes a presence in the price-sensitive mass market, preferring to concentrate on enterprises of every size as customers.

2007

2005 QSC is one of the first providers to upgrade its network in Germany to an IP-capable Next Generation Network.

2006 Utilizing ADSL2+ technology, QSC builds its high-growth wholesale business with various strong partners.

2004 QSC earns its first positive EBITDA, and since then has been generating an increasing operating profit each year.

Strong growth in Voice over IP on the basis of its NGN

Keen interest in this TecDAX share on the part of 18 analysts

EBITDA rises to € 34.9 million

Its own DSL network in over 200 cities

Good revenue quality with 85 percent enterprise customers

Strong wholesale partners for ADSL2+ technology

Stable circle of shareholders with founders never selling a single share

2007

»The QSC growth story is intact, because in 2007 QSC grew its revenues by 28 percent and its EBITDA by 65 percent, in spite of major challenges. Like many investors, though, we had anticipated even more at the outset of the year.«

The broadband era has only just begun

Dr. Bernd Schlobohm has developed QSC into a successful and innovative telecommunications provider over the course of the past ten years. With issues such as Unified Communications, Voice over IP and Communication as a Service in 2008, this engineer intends to continue to earn good marks from customers and on the stock market again.

In 2007, the trading price of QSC shares fell by 42 percent. After ten top-speed years, is the QSC growth story now over?

There's no question but that the share price decline in 2007 hurt very much. However the growth story is still intact, because in 2007 QSC grew its revenues by 28 percent and its operating profit, its EBITDA, by 65 percent, in spite of major challenges. Like many investors, though, we had anticipated even more at the outset of the year.

Why didn't these expectations materialize?

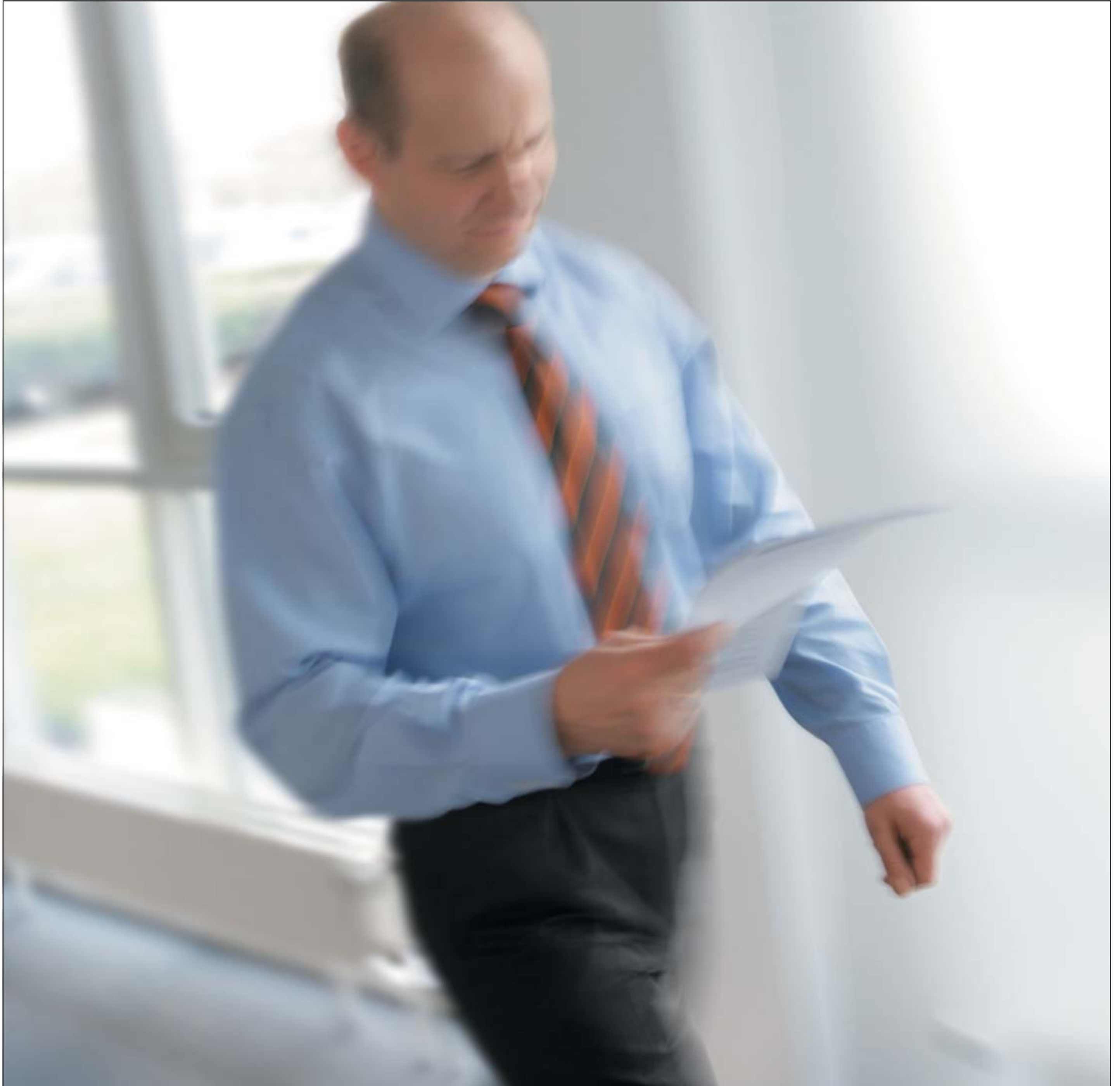
Our new orders rose by 120 percent in 2007. However we were unable to satisfy all of them because we unexpectedly received far too few unbundled local loops. However these local loops are our raw materials, which we have to have in order to be able to connect customers to the QSC network. As a result, our revenues and profitability were much lower than we had planned.

Is this raw material still in short supply?

No, Deutsche Telekom is now doing a far better job of supplying us. This is presumably the result of public pressure and the intervention of the German Federal Network Agency. On the other hand, the demand for DSL lines is still rising. So as quickly as possible, we will now be making up for the months we lost last year, and will be taking our expanded network to the break-even point.

Had you intended back in 1997 to be operating such as huge "factory"?

As founders, we definitely didn't view ourselves as factory owners. In all seriousness, though: A network is always merely a tool for being able to offer top-flight products and services at a high level of quality. Today, in addition to our DSL network, we are therefore also operating a nationwide IP-based Next Generation Network, which we can use to drive voice and data integration throughout the country. Moreover, we are utilizing a WLL network as a backup technology and also to enable us to connect enterprise locations in areas with poor infrastructures.



Why did you contribute the DSL network tool to a joint venture with TELE2?
QSC continues to be the majority shareholder in Plusnet. However consolidation of the networks in Germany is necessary, because over the medium term a maximum of only three alternative national network operators will be able to find a relevant market. And at the same time, cost pressure is rising. Moreover, in 2007 we intelligently expanded the network with our partner TELE2, and will now be making it profitable swiftly through the growing demand on the part of our wholesale partners. This will have a positive impact on our pricing for enterprise customers – which has always been our true objective. Against this backdrop, I view Plusnet as being a true innovation and pointing the way for the market.

Do you often see QSC as a pioneer in the marketplace?
Yes, our pioneering role has been accompanying us since our founding. At the time, it was a pioneering achievement to build a DSL network at all. However Voice over IP is the best example. When we decided in 2005 to upgrade the entire network to an IP-capable Next Generation Network, many still had doubts about the success of this technology and pointed to the poorer quality of the connections. We were the first to bring a true Voice over IP product to market. Today, QSC numbers among the market leaders in this extremely high-growth line of business. And it is no longer possible to notice whether a telephone call is being routed via IP or ISDN. Our enterprise customers, in any event, are enthusiastic about it.

What are the reasons QSC is concentrating on enterprise customers?
Our company is committed to first-class quality in both our technology and our services. Enterprise customers value that. What counts for residential customers in Germany, on the other hand, tends to be name recognition and low prices. We prefer to leave this market to those providers who see their strengths there.

Where are the focuses?

There are three strategic lines of business today: Firstly, Managed Services, i.e. solutions business relating to individual enterprise networking and network-related services, with which we ultimately sell greater productivity to our customers. Secondly, Direct Access business with products, where we offer enterprises data and voice over one and the same DSL line, and thus considerable cost advantages. And thirdly, our wholesale and reseller business, where we offer preliminaries, and thus our technology and process competence, to carriers and Internet service providers.

What growth opportunities do these lines of business offer?

In all three cases, we are operating on growth markets that offer good contribution margins. And year in and year out, additional growth opportunities are opening up in these markets. Just think of Unified Communications, the integration and automation of an enterprise's entire communications, where enormous market potential is opening up. The foundation for this consists of IP-based networks, and this is precisely where QSC numbers among the trailblazers. Or look at Software as a Service business. A billion-dollar market is taking shape here, and QSC has been a part of it right from the very beginning. We call our offerings in this field "Communication as a Service," because we handle the network-related services, while IT companies supply the software. Believe me: The broadband era has only just begun!

So you anticipate a new spurt of growth for the telecommunications industry?

Definitely. Analogously to the Internet, many are already talking about a Telco 2.0 era. Now, in 2008, we are seeing the convergence of IT and TC structures at enterprises. And now, in 2008, enterprises are beginning to increase their productivity on the basis of a convergent ICT structure. The boundaries between workplace and network, between PC and telephone, are increasingly vanishing. At the end of the day, this will greatly streamline communications.

Why doesn't the QSC trading price reflect this potential?

Because we disappointed expectations in 2007 due to the raw materials problem I mentioned before. However during the current fiscal year, we are going to regain the confidence of investors. The best way to do that is through good development of our operating business, and I am highly confident that we will see this in 2008. Because QSC has gotten off to a very good start in fiscal year 2008. The level of new orders continues to rise, and the bottlenecks in connection with the supply of local loops are gradually being eliminated. In addition, we will continue to benefit from the dynamics of our three strategic lines of business, and will be using the forward-looking issues I mentioned before to open up further growth potential.

What is your personal trading price goal for 2008?

Eighteen analysts are now indicating share price targets for QSC; my own prediction is unimportant. My goal as QSC's Chief Executive Officer is for all of our shareholders, including shareholder Bernd Schlobohm, to achieve a higher valuation for QSC shares.

Is QSC shareholder Schlobohm satisfied with his investment?

I certainly am not for 2007. Yet that looks much better when viewed over the course of the past ten years. Up until now, though, I have never sold a single share, as I am convinced that this company still has a great deal more value to offer.

And you want to achieve that in 2008?

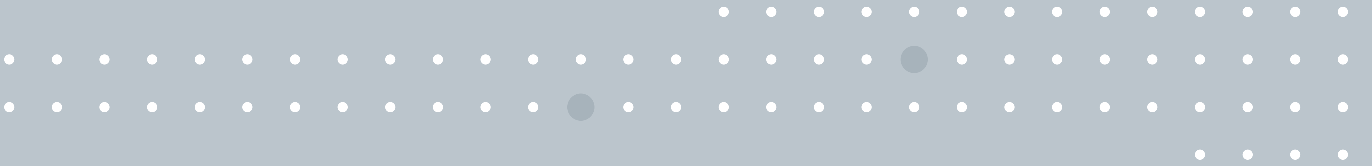
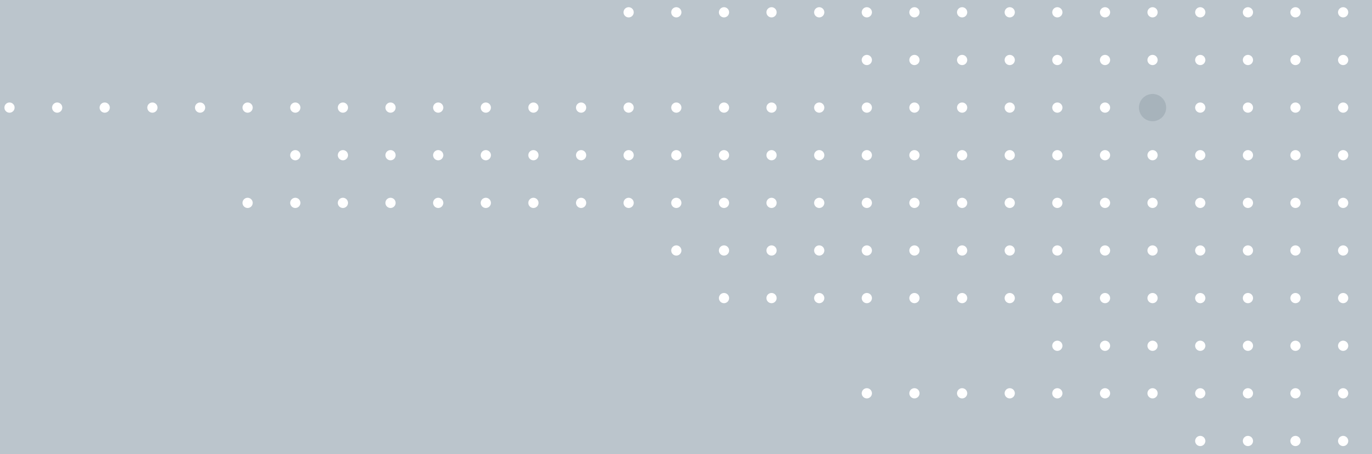
Yes, together with all of our people! The success of the past ten years has been the success of the entire QSC team and a corporate culture that is characterized by fairness, respect in our dealings with one another, willingness and courage. That's important to me.

»During the year 2008, we are going to regain the confidence of investors. The best way to do that is through good development of our operating business, and I am highly confident that we will see this in the current fiscal year.«

Greater value creation. QSC systematically broadens its portfolio to include further network-related services for enterprises, thus moving up the value chain.

Rising profitability. QSC is anticipating an EBITDA of between € 50 and € 60 million on revenues of between € 385 and € 405 million.

Growing markets. QSC is operating in growth markets in all of its strategic lines of business; market researchers anticipate significant revenue growth here in 2008.

2008

»QSC has gotten off to a very good start in fiscal year 2008. The level of new orders continues to rise, and the bottlenecks in connection with the supply of local loops are gradually being eliminated. In addition, we will continue to benefit from the dynamics in our three strategic lines of business.«

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To Our Shareholders

In the tenth year since its formation, QSC again grew at high speed in spite of major challenges. In 2008, the Company will directly connect even more customers to its network, while simultaneously increasing its creation through new network-related services. The key objective is to sustainably grow the value of the Company.

Letter to Our Shareholders

Dear Shareholders,

QSC's focus on enterprise customers early on has paid off

QSC continued to sustain its growth in the tenth year of the Company's history: In fiscal year 2007, revenues rose by 28 percent to € 335.2 million, while EBITDA advanced by 65 percent to € 34.9 million. Given major challenges, both external and internal, our focus on enterprise customers early on has paid off; in fact, the Company's wholesale business, which was only established in 2006, posted the highest growth rates for the past fiscal year.
Although strong demand for DSL lines had prompted us to anticipate even greater revenue and profitability growth at the outset of the year, in late October we were forced to significantly reduce our forecast for the 2007 fiscal year. The principal reason for this was the sluggishness on the part of Deutsche Telekom in the provision of unbundled local loops; like all of its competitors, QSC is dependent upon these local loops as a preliminary, in spite of the Company's nationwide infrastructure. During the second half of the year, in particular, QSC was provided with a significantly lower number of these lines, in spite of the rising level of new orders, thus seriously impairing its ability to satisfy the strong demand and achieve its planned revenues.
This undersupply of raw material, which is so crucial for QSC, had an especially negative impact on profitability in 2007, as Plusnet, the joint network operating company with TELE2, was implementing a network expansion project that same year which involved unusually intensive capital expenditures. Increasing the number of central offices by nearly 70 percent within the course of a single fiscal year inevitably led to a planned increase in fixed network expenses, which were to be offset by revenues stemming from a greater number of planned customer connections – this was prevented by the shortage of local loops. In fact, this shortage impacted profitability even greater, as it forced QSC to temporarily connect individual enterprise customers via costly leased lines.

The capital markets reacted to this lowering of the forecast with understandable disappointment; various investors also voiced skepticism about the scalability of QSC's business model. We will be refuting these concerns in 2008 through the positive development of our operating business, again opening up new potential for our shares. Because it would appear that the bottleneck in the provision of unbundled local loops has been largely overcome.

On December 21, 2007, the German Federal Network Agency – after two years of consultations – decided on a new standard local loop offer that is more conducive to competition. While this contract will not go into effect for QSC until April 1, 2008, there had already been a significant increase in the number of local loops provided in advance of that date. In the month of January 2008, alone, QSC received more than 45,000 local loops, more than had been provided during the entire third quarter of 2007, and around 70 percent of the total number for the fourth quarter of 2007.

Yet it was not only this external bottleneck that posed major challenges for QSC during the past fiscal year. In addition, in 2007 we also had to take into account the enormous pace of growth that we had experienced in recent years, for which the previous organizational structure was no longer suitable. Since October 2007, a new organizational structure has been in place at our Company that is even more strongly aligned to the needs of our three strategic segments of Large Accounts, Business Customers and Wholesale/Resellers; this new organization structure has already contributed toward noticeably accelerating our processes.

New organization structure is already accelerating the processes noticeably

The entire QSC team was very swift and committed in mastering this reorganization. We would like to express our thanks for the willingness and commitment on the part of all of our people. We especially welcome how this team integrated the colleagues from Broadnet in a spirit of partnership during 2007; following the merger on October 31, 2007, we are now formally all one company. During the months leading up to that, both the preparations for this merger as well as the massive expansion of the DSL network posed further challenges for QSC, tying up corresponding resources. Thanks to the unexpectedly swift registration of the merger, though, we are now in a position to achieve significant growth and cost synergies. At the same time, the network expansion, as well as the simultaneous expansion of the backbone and the upgrade of the entire network with SHDSL technology, had been largely concluded by the beginning of fiscal year 2008.

After mastering both the external and internal challenges of the past fiscal year, QSC can now return to its customary strong and profitable growth in 2008: We are planning revenues of between € 385 and € 405 million, as well as an EBITDA of between € 50 and € 60 million. Once again, our wholesale business is expected to generate the strongest revenue growth, as DSL providers who do not possess their own infrastructure are increasingly counting on collaboration with alternative infrastructure providers.

We also expect to see a significant rise in revenues with large accounts and business customers: Firstly, the integration of voice and data communication over one and the same DSL line will be sustained in 2008. Efficiency and cost considerations are prompting more and more enterprises to migrate their telephony to Voice over IP technology. By upgrading the QSC network to a an IP-capable Next Generation Network throughout early on, QSC has set the stage for this change, and in 2008 is thus likely to also finally overcome the setbacks stemming from stiff price competition in conventional voice telephony.
Secondly, the shift of business processes to the Internet is continuing. QSC benefits from this in two ways: The demand for broadband is rising, along with the willingness on the part of enterprises to outsource major elements of their value chain to telecommunications providers. One good example of this is Software as a Service business, where enterprise customers no longer keep software solutions on their own computers, but instead enable the individual users to obtain their applications from a service provider over a broadband line on an as-needed basis.
As we see it, this shows that we are currently experiencing a convergence of IT and TC services; analogously to the Internet, it would be fair to call it Telco 2.0. With its nationwide DSL infrastructure, its Next Generation Network and its focus on enterprise customers early on, QSC is perfectly aligned for this Telco 2.0 business. During the current fiscal year, we intend to utilize these advantages to win new enterprises as customers and to cover a larger part of the value chain at our existing customers.

QSC is perfectly aligned for the Telco 2.0 business

We debuted this evolution of the QSC strategy on February 14, 2008, also at the analyst and press conference and then at road shows in Frankfurt, London and Paris, with keen interest in it being expressed by analysts and investors. And this, too, gives us the confidence that the capital market will overcome its skepticism during the course of the year 2008, enabling QSC shares to end their phase of weakness and return to their former strength.
Dear fellow Shareholders, we know that the 2007 fiscal year was a disappointment for you. You invested in QSC as growth shares and were forced to incur a bitter setback during the course of the year. We would like to take this opportunity to sincerely thank you for your sustained confidence. At the same time, we want to assure you that our key objective for the 2008 fiscal year will be to increase the Company's sustained shareholder value, thus opening up new share price potential.

Cologne, March 18, 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

The Management Board

Dr. Bernd Schlobohm (CEO)
A postgraduate engineer, he founded QSC in 1997 together with Gerd Eickers, and has been at the helm of the Company without interruption for the past ten years. Following the reorganization in the autumn of 2007, he has been responsible on the Management Board for Strategy, Technology, Quality and Complaint Management, Human Resources and Corporate Communications, as well as for the Managed Services Business Unit. This engineer views the top speeds of up to 400 megabits per second that are offered by the QSC network as being a necessary tool for implementing modern telecommunications solutions.

Markus Metyas
A postgraduate economist and seasoned investment banker, he assumed the position of Chief Financial Officer in advance of QSC's IPO in the year 2000. Today, he is responsible on the Management Board for Finance, Law and Investor Relations, as well as for the Products Business Unit, and additionally plays the lead role in moving M&A projects forward, most recently the merger of Broadnet into QSC. He views the Company's strong and profitable growth over the past years as well as its ability to swiftly integrate the companies it has acquired as best documenting the top speed at which QSC operates.

Bernd Puschendorf
A businessman and seasoned sales manager, he has been augmenting the QSC Management Board since 2002. And since that time, he has been in charge of Sales and Marketing; since the reorganization in 2007, he has also headed up the Wholesale Business Unit. In recent years, he systematically built QSC's nationwide direct sales operation for enterprises and the Company's more than 140 sales partnerships. It is his conviction that the top speed at which his team responds to customer inquiries and presents custom-tailored solutions underscores QSC's positioning as a premium provider.

The Supervisory Board

Over the course of ten top-speed years, the QSC workforce has also seen strong growth. Pursuant to legal requirements, this will result in a new composition of the Company's six-member Supervisory Board: In the future, this body will comprise four shareholder representatives and two employee representatives. Supervisory Board members of long years' standing Ashley Leeds and Norbert Quinkert have therefore waived their re-election at the Annual Shareholders Meeting on May 21, 2008.

John C. Baker • Chairman
Since 2000, the founder and general partner of the Baker Capital Group, a private equity fund based in the U.S., has represented QSC's largest shareholder on the Supervisory Board. A Harvard graduate, he has been active in the private equity industry for more than 25 years, and had already invested in QSC prior to its initial public offering in 1999.

Gerd Eickers
After three years on the Management Board, the second QSC co-founder returned to the Supervisory Board in June 2004. Since February 2005, this postgraduate economist has additionally been serving as the president of VATM, the premier telecommunications industry association in Germany.

Norbert Quinkert
Having served for years as the chief executive officer of Motorola GmbH, he is now utilizing his global network as a partner in the Quinkert Herbold Fischer executive search consultancy. His term of office will end upon the termination of the Annual Shareholders Meeting on May 21, 2008.

Herbert Brenke • Vice Chairman
An independent telecommunications consultant, he has been a member of the QSC Supervisory Board since its IPO. In the 1990s he had built mobile communications provider E-Plus, and was in charge of its business from 1993 to 1998. Prior to that, he had been in charge of Thyssen Rheinstahl Technik and had been a member of the management board at Thyssen Handelsunion since 1983.

Ashley Leeds
A former general manager of the Baker Capital Group, she had already been focusing on the areas of telecommunications and media as an investment banker at Lehman Brothers. Her term of office will end upon the termination of the Annual Shareholders Meeting on May 21, 2008.

David Ruberg
This postgraduate information technology professional has been the CEO of Netherlands-based InterXion, a leading European provider of data centers and managed services, since November 2007. A native of the United States, he has been a member of the QSC Supervisory Board since 2000.

Report of the Supervisory Board

for the fiscal year 2007 regarding the Company and the Consolidated Group

In 2007, QSC AG grew its revenues by 28 percent, gross profit by 29 percent and EBITDA by 65 percent in a dynamic and competitive environment. Major accomplishments for QSC in 2007 included: the closing of the merger of Broadnet AG with QSC AG, the expansion of the QSC network to some 1,700 central offices and the reorganization of the internal company structure to focus on three strategic markets. Major challenges for 2007 included: the non-recurring cost of the Broadnet AG merger, the logistics of the network expansion and the ramp up of QSC's new wholesale partners. QSC accomplished this while maintaining liquidity of € 79.4 million at year-end, which positions the Company for a strong year in 2008 where it projects revenue growth of 15 to 20 percent and EBITDA growth of 45 to 70 percent.

Supervising the work of the Management Board • As the Supervisory Board, we provided the Management Board with advice and support, monitored its management of the Company and performed the duties required by and in accordance with statute, the Articles of Association and the Rules of Procedure. The Supervisory Board was directly involved in all decisions or measures of fundamental importance, in particular those relating to the Company's assets, finances or earnings. The Supervisory Board approved all measures for which its consent is required by statute, the Articles of Association or the Rules of Procedure of the Management Board.

The Management Board regularly informed the Supervisory Board on the business development

Issues of the Supervisory Board • The Management Board regularly informed us on the development of the business, including monthly and quarterly financial reports, as well as actual/target comparisons. Variances from plans and targets were explained in detail. Further inquiries and requests by the Supervisory Board for additional information were answered promptly and completely. The information from the Management Board covered the course of business, the Company's overall economic position, and, in particular, its revenue structure, new orders, receivables (including aging analysis), the methods and results of its risk identification and monitoring system, as well as all transactions of significance with respect to the Company's profitability and liquidity. It is the opinion of the Supervisory Board that the Company's internal risk monitoring and detection systems operate reliably. In joint meetings and telephone conferences, the Supervisory and Management Boards discussed key aspects of the Company's business policies and strategies, as well as its corporate development and planning. Moreover, the Chairmen of both boards conducted regular conversations to discuss current issues.

The main focus of the Supervisory Board's activities in the fiscal year 2007 were:

1. The restructuring of QSC AG
   In October 2007, the internal structure of QSC AG was thoroughly reorganized. The essential aspect in this connection was the creation of three separate business units (Managed Services, Products and Wholesale) which now comprehensively support their respective customer bases with a large degree of autonomy. The Supervisory Board was comprehensively informed about the restructuring.

2. The legal and operations integration of Broadnet AG
   In January 2007, the Management and Supervisory Boards made preparations for the merger of Broadnet AG and QSC AG. At that time, QSC AG held around 92 percent of the share capital of Broadnet AG. On April 1/2, 2007, QSC AG and Broadnet AG, with the consent of their supervisory boards, reached agreement regarding the merger and the ratio at which the Broadnet shares of outside shareholders would be exchanged for QSC shares. The annual shareholders meeting of Broadnet AG consented to the merger on May 23, 2007. In April 2007, QSC AG had succeeded in increasing its holdings of Broadnet AG to approximately 93.3 percent through the additional acquisition of 209,000 further Broadnet shares as contributions in kind. In return, QSC AG increased its nominal capital by 257,070 from authorized capital. The merger went into effect on October 31, 2007. At this point in time, outside shareholders of Broadnet AG received 12 QSC shares for every 11 Broadnet shares. To facilitate this exchange, 1,090,210 new QSC shares were created from authorized capital through capital increase. Prior to receiving the consent of the Supervisory Board, the Management Board explained to the Supervisory Board the objective that was being pursued and its significance for the strategic evolution of the QSC group.

3. Sales activities
   In 2007, the Supervisory Board continued to closely observe and monitor the development of sales activities, paying special attention to the order handling and provisioning processes required to support the strong growth.

Meetings of the Supervisory Board and its committees • Aside from the four regular meetings, the members of the Supervisory Board conducted four telephone conferences during the year covered by this Report. All members attended more than 50 percent of the Supervisory Board meetings in 2007 (cf. Point 5.4.8 of the German Corporate Governance Code). Where necessary, resolutions on individual issues were additionally adopted in writing.

The Compensation Committee that was formed in May 2001, consisting of John Baker, Herbert Brenke and David Ruberg, met after each of the regular meetings of the Supervisory Board; it thus met four times during the year under review. This Committee deliberated the employment contracts with the members of the Management Board and the compensation paid to them, and regularly reported to the Supervisory Board on its activities. In addition, it dealt in particular with questions relating to variable compensation and the targets for the members of the Management Board.

The Supervisory Board established two further committees in 2007

Moreover, in August 2007 the Supervisory Board for the first time established an Audit Committee, consisting of John Baker and Gerd Eickers, and again broadened its competencies in November 2007. The responsibilities of the Audit Committee, who acts in an advising and preparatory capacity to the Supervisory Board, now cover questions relating to accounting, risk management and compliance, the independence of the company auditor, preparations mandating the company auditor, stipulation of the audit focuses and the fee agreement with the company auditor. This Committee met twice during the past fiscal year, primarily evaluating proposals from independent auditing firms for the audit of the financial statements of QSC AG, and reported thereon to the Supervisory Board. In 2008, the Audit Committee prepared for the review of the financial statements that is performed by the Supervisory Board.

Moreover, a Nominating Committee was established in November 2007, whose responsibility it is to submit to the Supervisory Board suitable candidates to be nominated at the Annual Shareholders Meeting in connection with an upcoming election of shareholder-representative members of the Supervisory Board. The members of the Nominating Committee are John Baker, Herbert Brenke and David Ruberg. This Committee met once in 2007 and made preparations for the nominations by the Supervisory Board for the upcoming election of shareholder-representative members of the first Supervisory Board of QSC AG under the German One-Third Participation Act in 2008.

In the future, one-third of the members of the Supervisory Board will be employee-elected

Composition of the Supervisory Board • Since QSC AG typically employs more than 500 but fewer than 2,000 people, on January 11, 2008, the Management Board initiated so-called status proceedings, in which it was found that in the future the provisions of §§ 96, Sub-Para. 1, 4. Alt., 101, Sub-Para. 1, German Stock Corporation Act (AktG), as well as §§ 1, Sub-Para. 1, No. 1, 4, Sub-Para. 1, German One-Third Participation Act (DrittelbG) will be definitive for the composition of the Supervisory Board. Under this legislation, one-third of the members of the Supervisory Board must be employee-elected members, while two-thirds of the Supervisory Board members must be shareholder-elected members. The notification in the Electronic German Federal Gazette pursuant to § 97, Sub-Para. 1, German Stock Corporation Act, was effected on January 16, 2008. No motion was made for a judicial decision on the composition of the Supervisory Board. Pursuant to § 97, Sub-Para. 2, Sent. 3, German Stock Corporation Act, the terms of office of the current members of the Supervisory Board will terminate upon the adjournment of the Annual Shareholders Meeting on May 21, 2008.

Corporate Governance • The Supervisory Board continuously monitored the evolution of the German Corporate Governance Code and its implementation at QSC AG. Following the requirements of the Code, the Supervisory Board also reviewed the efficiency of its own activities. At its meeting on November 29, 2007, the Supervisory Board reviewed and confirmed that QSC AG was in compliance with the recommendations of the German Corporate Governance Code during the preceding year pursuant to the Declaration of Conformity that had been adopted the year before. At the same time, the Management and Supervisory Boards jointly issued an updated Declaration of Conformity pursuant to § 161 of the German Stock Corporation Act (AktG) and made this statement permanently available to the shareholders on the Company's website.
At the Annual Shareholders Meeting on May 23, 2006, it was resolved under Agenda Item 7 to extend the term of the convertible bonds under the "2001 QSC Stock Option Program." Various shareholders of QSC AG filed lawsuits for invalidation and nullification against this resolution. Following a judgment by the Regional Court of Cologne on June 15, 2007, dismissing these lawsuits, the appeal by one of the plaintiffs from the first instance was rejected by a decision of the Superior Court of Cologne on January 16, 2008. All lawsuits have thus been dismissed in the final instance.

Personnel matters • In view of the new composition of the six-member Supervisory Board, Ashley Leeds and Norbert Quinkert waived their re-election at the Annual Shareholders Meeting on May 21, 2008. The Supervisory Board wishes to express its sincere thanks to these two members for their remarkable commitment in the past.

Audit • Ernst & Young AG Wirtschaftsprüfungsgesellschaft, of Eschborn/Frankfurt am Main, Germany, audited both the Annual Financial Statements of QSC AG for the year ended December 31, 2007, which were prepared by the Management Board in accordance with the accounting principles set forth in the German GAAP (HGB), along with the Consolidated Financial Statements for the year ended December 31, 2007, which were prepared in accordance with International Financial Reporting Standards (IFRS), as well as the Management Reports regarding the Company and the Consolidated Group. The audit contract had been awarded by the Supervisory Board in accordance with the resolution adopted by the Annual Shareholders Meeting on June 5, 2007. The major focus of the audit included the completeness and plausibility of the Notes, the realization of revenues, the completeness and the valuation of the provisions and the valuation of long-term liabilities of minority interests.

The independent auditor issued an unqualified opinion on the Company's Annual Financial Statements presented in accordance with HGB accounting principles as well as on the Consolidated Financial Statements presented in accordance with IFRS for the year 2007. In its meeting on March 19, 2008, the Supervisory Board discussed all of the above-indicated documents as well as the auditor's reports – including the practicality of utilizing accounting and valuation latitude as well as the potential risks resulting from future developments – with the Management Board and the independent auditor.

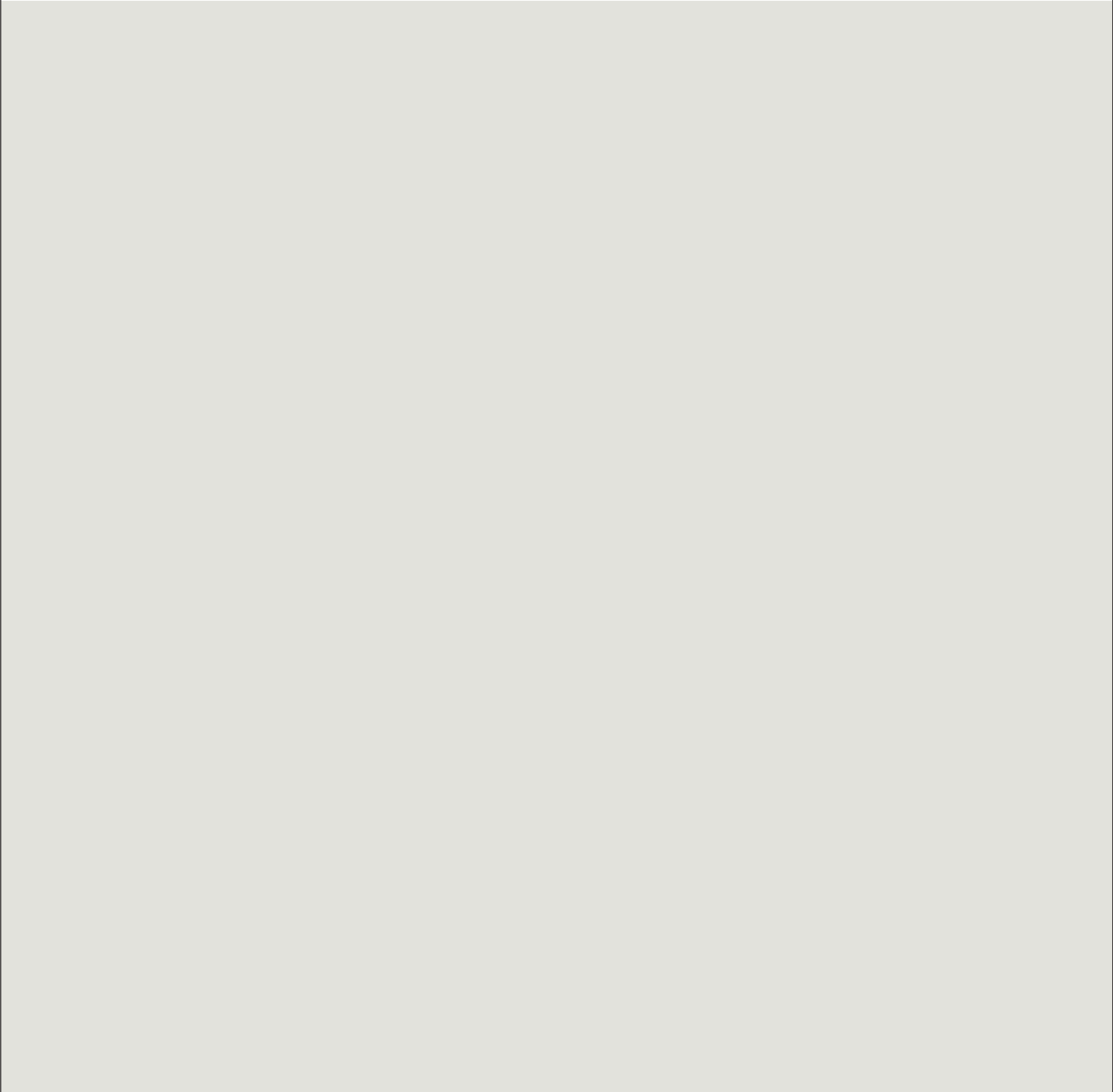
Having conducted its own examination, the Supervisory Board has no objections to the Annual Financial Statements of QSC AG for the fiscal year 2007 presented in accordance with HGB accounting principles, the Consolidated Financial Statements presented in accordance with IFRS or the Management Report regarding QSC AG and the Management Report regarding the Consolidated Group, and concurs with the findings of the independent auditor. The Supervisory Board approves both the Consolidated Financial Statements presented in accordance with IFRS as well as the Annual Financial Statements presented in accordance with HGB accounting principles, with the latter thereby being formally adopted.

The Supervisory Board approves the Consolidated Financial Statements of QSC

At last, we wish to express our thanks both to the Management Board as well as to the entire QSC team for their tremendous commitment during the challenging fiscal year 2007.

Cologne, March 19, 2008
On behalf of the Supervisory Board

John C. Baker
Chairman of the Supervisory Board



The QSC Share Performance

QSC shares were forced to sustain a bitter setback in 2007, with their value dropping sharply. Given the good development of its operating business, QSC intends to create new latitude again for its share performance. 18 analysts from prominent financial institutions are now following the development of the Company's shares.

A Poor Stock Market Year for QSC

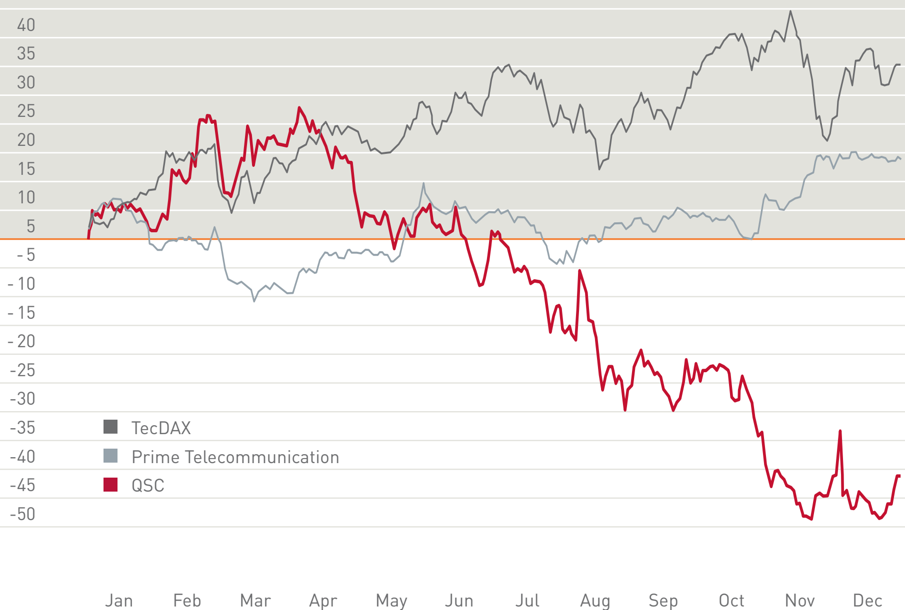
QSC share prices dip sharply • Over the course of the 2007 fiscal year, the trading prices of QSC shares fell by 42 percent to close at € 2.90 at year-end. After multiple years of upward movement, the price of QSC shares was forced to sustain a significant setback.

The development of share prices during the past fiscal year can roughly be divided into three phases: Following upward movement that lasted into April, shares came under pressure during subsequent months due to external factors. After the announcement of the preliminary results for the third quarter of 2007 and lower guidance for the full fiscal year on October 25, 2007, the trading price of QSC shares again slumped sharply.

Highest trading price in six years at € 6.35

The positive development of business in previous years as well as the dynamics of QSC's markets had prompted investors to often place very high expectations on the further course of business at the outset of 2007, and to assess QSC shares accordingly; as a result, on April 3, 2007, QSC shares reached their highest trading price since February 2001, at € 6.35. Discussions relating to the repercussions for the German market of Spanish-based telecommunications group Telefónica's investment in Telecom Italia led to initial corrections in these expectations by individual investors at the end of April 2007, although market observers had primarily cited strategic considerations in Latin America as the reason for this investment. Negative reactions on the part of investors were also triggered by heightened price competition for residential customers in the telecommunications market, even though QSC focuses successfully on business with enterprise customers.

QSC share price performance in 2007 (indexed)



Given this background, investors took a closer look at their expectations with the announcement of the quarterly numbers on May 16, 2007: Although QSC had grown its revenues by 41 percent to € 76.8 million and its EBITDA by 271 percent to € 8.9 million in the first quarter of 2007, some analysts and fund managers had expected to see even stronger growth.
In the second half of the year, the discussions relating to collateralized U.S. subprime mortgage loans triggered a reassessment of risks; in addition to small and mid caps, this also increasingly involved technology shares, thus burdening QSC shares. In the operating business, there were operative delays and bottlenecks in the Company's collaboration with its wholesale partners, as well as initial strike-related delays and then unforeseeable shortages in the supply of preliminaries in the form of local loops by Deutsche Telekom.
This bottleneck made it difficult to realize the planned revenues, despite the rising order income. On October 25, 2007, immediately after QSC had obtained an overview of the development of business in the third quarter of 2007, it reduced the forecast for the full 2007 fiscal year that it had issued in February 2007. As a result, QSC shares reached their low for the year of € 2.40 on November 13, 2007.

Positive stock market environment • With their trading prices declining by 42 percent, QSC shares significantly underperformed the relative indices. Until late summer, the capital market had been characterized by broad-based upward movement, before the discussions relating to collateralized U.S. subprime mortgage loans put a damper on the positive stock market environment. In spite of the setbacks toward year-end, the DAX rose by 22 percent over the course of the year to 8,067 points, while the TecDAX gained 30 percent during the same period to close the stock market year at 974 points.

High trading volumes coupled with declining trading prices • The high volatility of QSC shares during the 2007 stock market year went hand in hand with a strong rise in trading volumes on German exchanges. In spite of the declining trend of share prices, the trading volumes of QSC shares rose by more than 80 percent to € 655.8 million. The average daily trading volume amounted to more than 600,000 QSC shares, twice as high as in 2006. On peak trading days, more than two million QSC shares changed hands. This again numbered QSC among the 30 most actively traded technology shares in Germany in 2007, strengthening the Company's position in the TecDAX.

Average daily trading volume has doubled in 2007

An above-average number of analysts regularly follows QSC

Keen interest on the part of analysts • With Exane BNP Paribas, JPMorgan and Metzler Equities, three further prominent financial institutions began regularly following QSC in 2007, publishing their first studies on the Company. This means that 18 European and U.S. financial institutions were regularly publishing research on QSC at year-end 2007. According to a survey conducted by the German Investor Relations Association (DIRK), an average of 9.3 of these analysts follow SDAX corporations and 13.9 TecDAX corporations. This underscores the capital market's keen interest in QSC as a small-cap corporation.

Intensive investor relations work • Skepticism toward telecommunications shares as well as the weaker-than-anticipated development of business posed particular challenges for QSC's investor relations activities during the past fiscal year. Irrespective of the development of its share price, the Company sustained its intensive communications with the capital market. Management Board members presented QSC at twelve road shows in all major financial hubs in Europe, and additionally participated in capital market conferences conducted by such leading financial institutions as Commerzbank, Deutsche Bank, Morgan Stanley, UBS, UniCredit and WestLB. Around 20 field trips of investors to corporate headquarters in Cologne additionally document the keen interest that exists on the part of institutional investors.

Financial institutions that issue studies on QSC

Financial institutions
Berenberg Bank
Commerzbank
Credit Suisse
DZ Bank
Exane BNP Paribas
Goldman Sachs
HSBC Trinkaus & Burkhardt
JPMorgan
Landesbank Baden-Württemberg
Landsbanki Kepler
Merck Finck & Co.
Merrill Lynch
Metzler Equities
Sal. Oppenheim
SES Research
UBS
UniCredit
WestLB

QSC utilizes its website at www.qsc.de/en/investor-relations.html as the key information platform for everyone who is interested in the Company. In addition to timely publication of all corporate news that is of relevance to capital markets, the Company also posts information there relating to its shares, analyst assessments, strategy and key performance indicators, upcoming dates and corporate governance, along with documents relating to the last Annual Shareholders Meetings as well as all financial reports. By signing up for an Investor Relations newsletter, interested parties can assure that they will be informed about news that is of relevance to capital markets immediately after it is announced.

QSC views its Annual Report as a key source of investor relations information. In manager magazin's annual analysis, the Company's Annual Report on the 2006 fiscal year entitled "Plus" took fifth place among all TecDAX shares, garnering an even higher score than the year before.

2006 Annual Report is garnering a high score from experts

Basic data about QSC shares

Trading symbol	QSC
ISIN	DE0005137004
Bloomberg symbol	QSC GR
Reuters symbol	QSCG.DE
Market segment	Prime Standard
Stock exchanges	Xetra and regional German stock exchanges
Index membership	TecDAX, F.A.Z.-Index, HDAX, CDAX,
	Midcap Market, Technology All Share,
	Prime All Share, Prime Telecommunication,
	Prime IG Fixed-Line Telecommunication
Designated sponsorship	HSBC Trinkaus & Burkhardt
	Landesbank Baden-Württemberg
	Sal. Oppenheim
Shares outstanding as of December 31, 2007	136,358,315
Share class	No-par-value registered shares of common stock
Xetra price, closing at December 29, 2006	€ 5.00
Xetra price, maximum in 2007	€ 6.35
Xetra price, minimum in 2007	€ 2.40
Xetra price, closing at December 2, 2007	€ 2.90

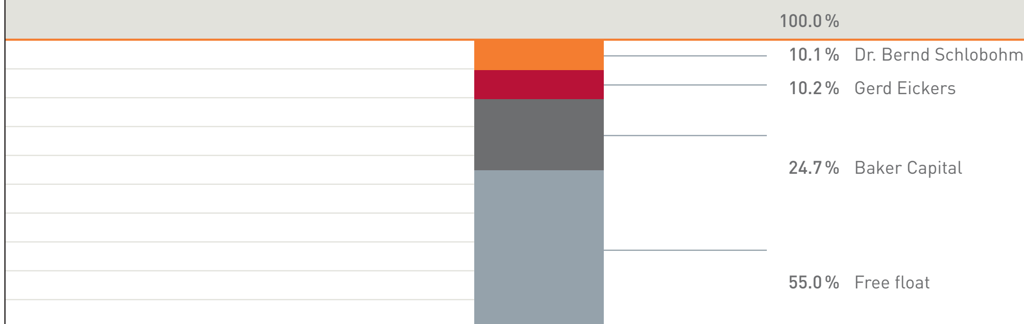
Continuity in Shareholder Structure

The founders have never sold a single share of QSC

Around 30,000 QSC shareholders • As in the year before, the number of holders of QSC bearer shares stood at around 30,000 at year-end according to the Register of Shares. The three largest shareholders continued to be the Company's two founders, Dr. Bernd Schlobohm and Gerd Eickers, each holding around 10 percent of the shares, as well as the U.S.-based Baker Capital investment company, which holds nearly 25 percent. Neither QSC's two founders nor Baker Capital have ever sold a single share of QSC stock since the Company first went public.
At year-end 2007, the free float stood at 55 percent. According to the Register of Shares, two-thirds of these shares are held by institutional investors, one-third by private investors. In this connection, Luxembourg-based Sal. Oppenheim jr. & Cie. S.C.A. notified the Company on July 3, 2007, that it held 5.11 percent of the voting rights at that point in time. QSC did not receive any further notices relating to voting rights limit overages and underages in 2007.

Rising number of shares in circulation • During the past fiscal year, the number of QSC shares rose by nearly 2.5 million to 136.4 million. There were two reasons for this: Firstly, the conclusion of the acquisition of Broadnet AG involved two further transactions: On April 16, 2007, QSC acquired 209,000 Broadnet shares against the issuance of 257,070 QSC shares; the merger that went into effect on October 31, 2007, then led to a further swap of 999,359 Broadnet shares for a total of 1,090,210 QSC shares. Secondly, in 2007 employees again converted the convertible bonds they had acquired under stock option plans to a total of 1,113,349 QSC shares.

Shareholder structure as of December 31, 2007



Strategy

Building upon its nationwide infrastructure, QSC will be growing strongly and profitably in its three strategic lines of business in 2008 and beyond, moving up the value chain as a premium provider for enterprise customers.

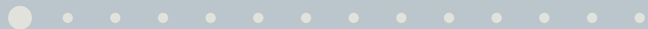
The Foundation: The High-Speed Network

More than 200 cities on the network • QSC is a nationwide telecommunications provider for enterprise customers and possesses its own broadband network. By December 31, 2007, the Company had already installed some 1,700 central offices, enabling it to offer direct access to the QSC network in more than 200 cities at speeds of up to 25 megabits per second. During the course of fiscal year 2008, QSC will be expanding this network to nearly 2,000 central offices, and will then be able to directly reach some 50 percent of all German households and some 70 percent of all locations that are of relevance for enterprise networking.

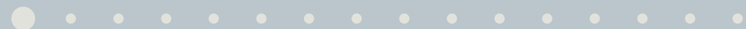
Maximum speed with WLL • With the acquisition of Broadnet, QSC also acquired a Wireless Local Loop (WLL) network in 42 German regions. This network offers transfer speeds of up to 400 megabits per second, and is an ideal supplement to the QSC infrastructure, especially on the outskirts of large population centers where there is not yet any DSL infrastructure in place. It also serves as a backup solution in connection with mission-critical applications.

Next Generation Network offers a wide range of growth opportunities • Since 2006, the entire QSC network has been an IP-based Next Generation Network. This enables QSC to offer data and voice services over one and the same line nationwide, the latter on the basis of Voice over IP technology. The employment of the Internet Protocol (IP) throughout additionally serves as the foundation for network-related services, i.e. Managed Services.

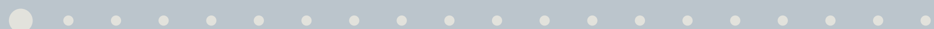
Wireless Local Loops in 42 regions



Nearly 2,000 central offices connected



Nationwide IP-based NGN



The Growth Engine: Enterprise Customers

Greater productivity for large accounts • QSC builds and operates IP-based virtual private networks (IP-VPNs) for large and medium-size enterprises, using them as the basis for offering such services as network-based telephone systems, housing and security solutions. The Company is systematically broadening its portfolio of offerings in this strategic line of business to include services that increase customer productivity while simultaneously enabling QSC to generate higher levels of value creation.

More direct access for business customers • QSC offers SME businesses direct connection of their voice and data communication to the QSC network. In addition to rising Internet usage, the integration of voice and data services over one and the same line is a key growth driver in this strategic line of business. Thanks to its Next Generation Network, QSC is able to offer voice telephony over data lines nationwide.

Strong demand for ADSL2+ among wholesale partners • In QSC's third strategic line of business, strong residential customer providers market DSL lines offering ADSL2+ speed in their own name and for their own account. In this connection, QSC benefits from the sustained high demand for DSL connections on the part of residential consumers, without itself having to invest in building a brand and a corresponding sales organization.

Network-related services for greater productivity

Nationwide enterprise networking

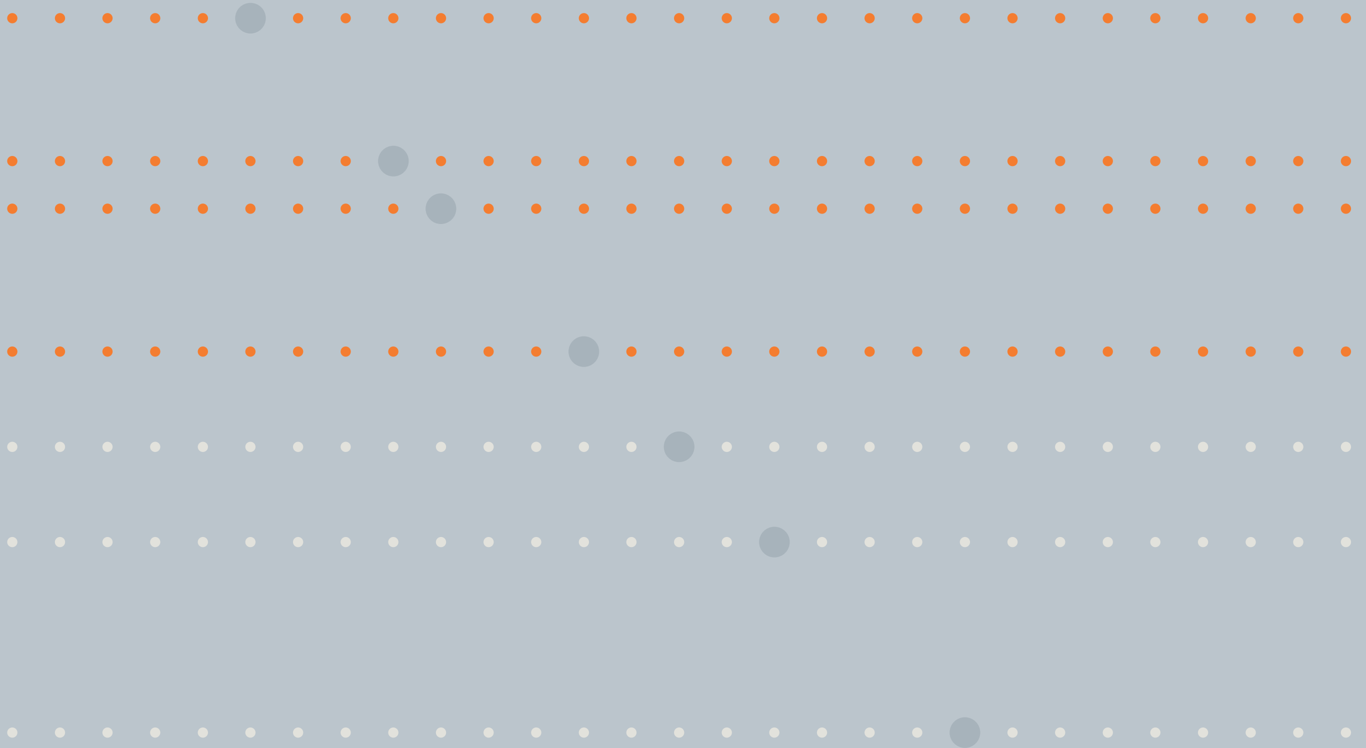
Calling and surfing with QSC

ADSL2+ for strong wholesale partners

The Turbo: Telco 2.0 Services

New growth opportunities for telecommunications providers • Up until now, enterprises have typically utilized separate service providers for their information technology (IT) and their telecommunications (TC). However the increasing shift of business and communication processes to the Internet will gradually lead to a convergence of IT and TC on the basis of modern communication infrastructures. Telecommunications providers are tapping into new markets in this connection with Unified Communications and Hosted Services.

QSC to be the innovation leader for Telco 2.0 • With its IP-based Next Generation Network, QSC is outstandingly prepared for this Telco 2.0 era and the perfect partner for Software as a Service applications, for example. In 2007, the Company demonstrated its technology competence in this growth market with the introduction of an IP Centrex solution, a network-based telephone system.

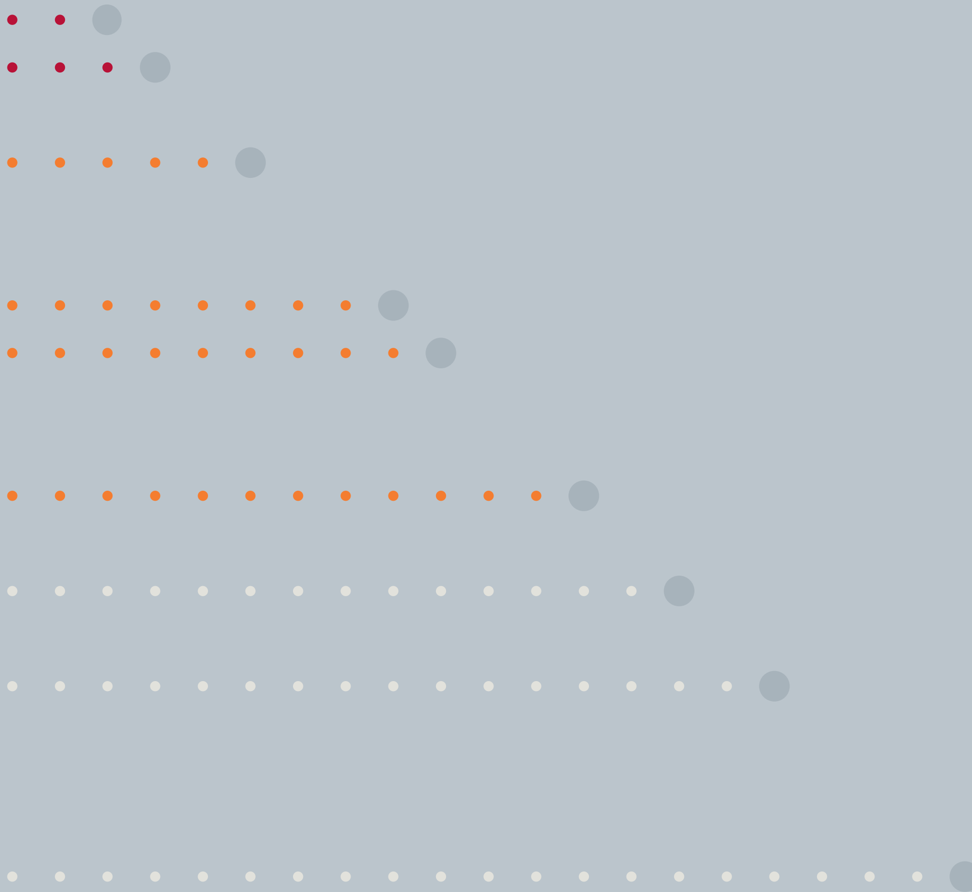


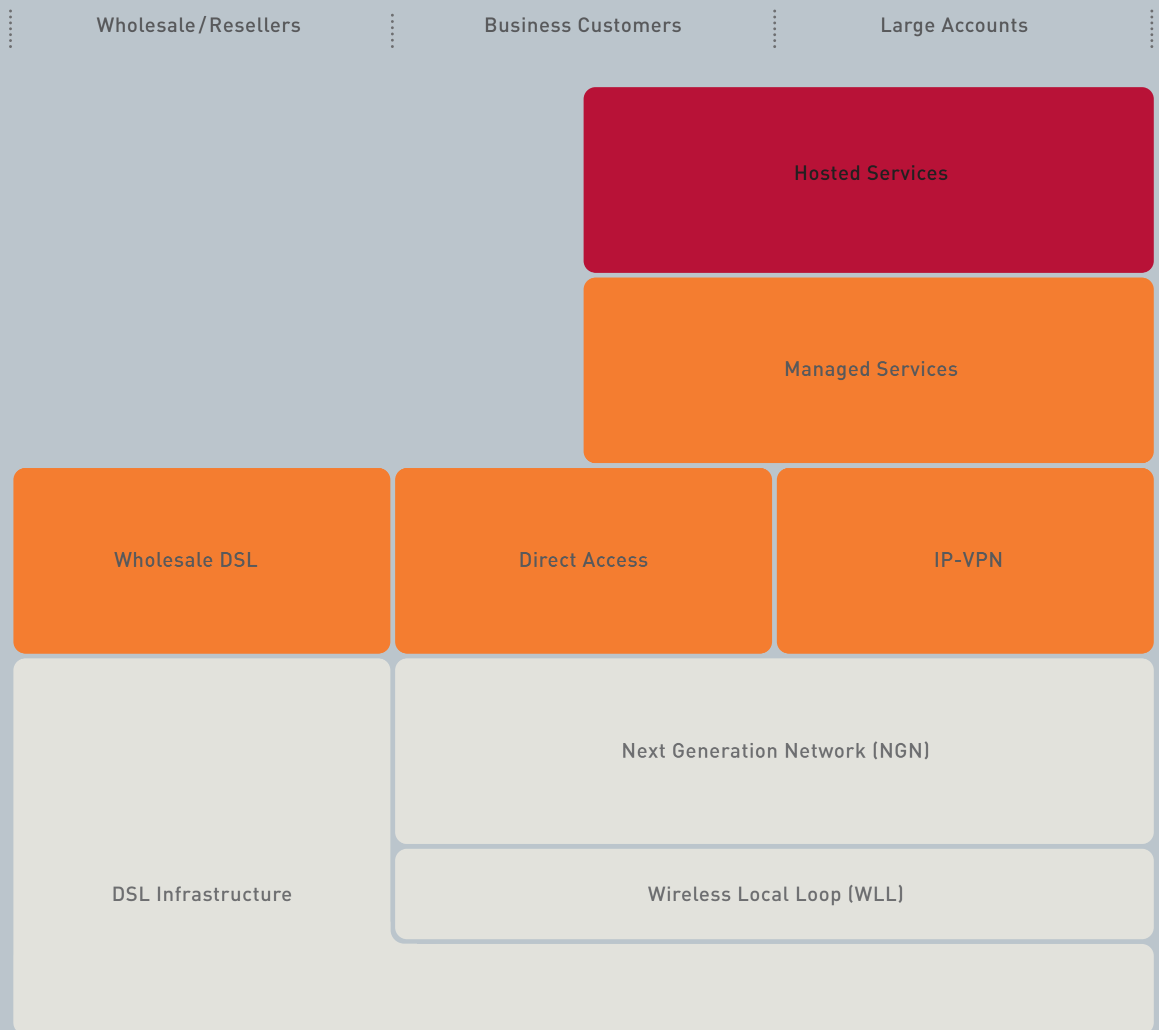
Entry into Software as a Service business

Network-based telephone systems from QSC

The Strategy: Moving up the Value Chain

Rigorous alignment to enterprise customers • QSC offers large accounts, business customers and wholesale/resellers a broad spectrum of voice and data services on the basis of its high quality nationwide network. With Managed Services, and more recently Hosted Services, as well, the Company is increasing its value creation potential and underscoring its role as the premium provider for enterprise customers in Germany.




Wholesale/Resellers
Business Customers
Large Accounts
Hosted Services
Managed Services
Wholesale DSL
Direct Access
IP-VPN
Next Generation Network (NGN)
DSL Infrastructure
Wireless Local Loop (WLL)

Group Management Report for the 2007 Fiscal Year

In 2007, QSC grew its revenues by 28 percent to € 335.2 million and its EBITDA by 65 percent to € 34.9 million. The Company intends to sustain its growth course in 2008 with revenues of between € 385 and € 405 million and an EBITDA of between € 50 and € 60 million.

QSC Masters Challenges

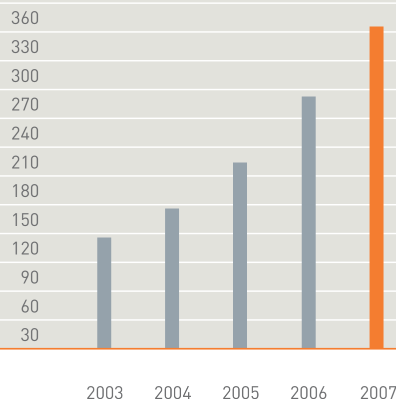
Growth in strategic segments • In a difficult market environment, QSC AG grew its revenues by 28 percent to € 335.2 million during the past fiscal year, as opposed to € 262.5 million in fiscal year 2006. During the fourth quarter of 2007, alone, revenues totaled € 95.6 million, up 15 percent from the previous quarter. A strong rise in wholesale business accounted for the lion's share of this quarter-to-quarter growth, as there was a noticeable improvement in the provision of preliminaries in the form of unbundled local loops as the year drew to a close.

During the course of the year, this bottleneck had prevented QSC from increasing its revenues, and thus its profitability, as well, to the degree that had originally been planned, in spite of a strong rise in new orders. The Company's wholesale business with strong market partners like HanseNet, freenet and 1&1, in particular, was affected by the shortage of local loops. Nevertheless, QSC generated its strongest revenue growth in the Wholesale/Reseller segment in fiscal year 2007, with revenues advancing by 87 percent to € 122.3 million. The Company increased its revenues by 17 percent to € 76.6 million in the Large Account segment, and by 12 percent to € 84.7 million in the Business Customer segment. Overall, this raised the share of total revenues accounted for by the Company's three strategic segments to 85 percent, as opposed to 79 percent in fiscal year 2006.

Percentage of revenues accounted for by the strategic segments rises to 85 percent in 2007

This further improvement in revenue quality resulted in a disproportionately high improvement in EBITDA in 2007: QSC grew its EBITDA by 65 percent to € 34.9 million, as opposed to € 21.2 million in fiscal year 2006. Since at the same time depreciation expense including non-cash share-based payments rose to € 45.5 million, as opposed to € 28.3 million, the Company's EBIT reached € -10.6 million in 2007, as opposed to € -7.2 million the year before.

Revenues (in € million)



As the year drew to a close, the weaker-than-anticipated course of business necessitated that the Company forego the originally planned capitalization of loss carryforwards that would have produced a correspondingly positive tax effect, forcing it to record a net loss of € -10.4 million for the full 2007 fiscal year, as opposed to € -5.3 million in fiscal year 2006.

The network operating company Plusnet that is funded and operated jointly with TELE2 expanded the nationwide DSL network as planned in 2007, connecting 700 further central offices by year-end, in addition to the total of around 1,000 central offices at the beginning of the year. At the same time, QSC also expanded its backbone and upgraded the entire network with SHDSL technology in 2007 for efficiency reasons. Together with customer-related capital expenditures, this network expansion project led to a significant rise in capital expenditures (without goodwill) to € 122.9 million, as opposed to € 40.1 million in fiscal year 2006.

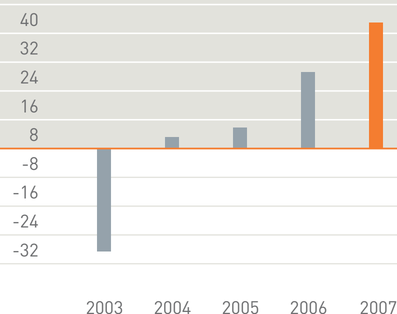
Network expansion project to create the foundation for anticipated growth in 2008

This means that QSC had already largely concluded its capital expenditure-intensive network expansion project in 2007, and now has enough capacity available for the strong customer growth it anticipates. Because due to the bottlenecks in connection with local loops, especially during the third and fourth quarters of 2007, the lion's share of customer-related capital expenditures will still be available for customer connections (i.e. initial switch on customer lines) in 2008.

The Company is planning capital expenditures of between € 60 and € 80 million for the current fiscal year, with customer-related capital expenditures likely to account for around 70 percent of this total. Far in excess of one half thereof will be attributable to capitalized installation costs; the majority of these costs will be repaid to QSC by its customers within one to two months in the form of installation fees.

After gradually overcoming the bottlenecks in connection with the provision of local loops and accelerating its order handling process, QSC plans to return to its strong and profitable growth during the current fiscal year: The Company anticipates revenues of between € 385 and € 405 million and an EBITDA of between € 50 and € 60 million.

EBITDA (in € million)



A Premium Provider for Enterprise Customers

BUSINESS OPERATIONS

Broadband communication for enterprises • QSC is a nationwide telecommunications provider with its own infrastructure and offers enterprise customers and resellers throughout Germany the entire spectrum of high-quality broadband communication – from complete site networking (IP-VPN), including Managed Services right through to the provision of voice and data services. The Company operates in three strategic segments in this connection:

Large Accounts • QSC offers corporates and medium enterprises direct, one-stop shopping for custom-tailored, high-quality telecommunications solutions through its own key account management. These Managed Services typically build upon IP-based virtual private networks that are built and operated by QSC. In addition, QSC also assumes local network services for enterprises, such as maintaining local area networks and end-user devices. With IP-VPNs serving as the basis, QSC offers numerous services, such as operating software-based telephone systems (IP-Centrex), thus increasing the productivity of its customers. One major element of all Managed Services consists of assuring high security standards.

Network expansion project to create the foundation for anticipated growth in 2008

Business Customers • With products from QSC, both small and medium-size businesses as well as freelance professionals can operate all of their voice and data communication over one and the same broadband line. The spectrum of offerings ranges from broadband Internet connections and direct access to the QSC voice network right through to standardized security modules. QSC works closely with regional marketing partners in providing sales support for business customers.

Wholesale/Resellers • A growing number of Internet service providers and telecommunications providers who do not possess infrastructures of their own are marketing DSL lines from QSC and the add-on services that build upon them under their own name and for their own account. In this connection, QSC supplies its customers, which also include international carriers, with network-related preliminaries. Wholesale business, in which partners with mass-market experience handle marketing of ADSL2+ lines to residential customers, is posting especially strong growth.
Moreover, QSC is also active to a limited extent with voice and data products in the Residential Customer segment. These offerings serve first and foremost to provide better network utilization outside customary business hours, with its data services primarily addressing premium customers with their corresponding quality expectations.

The offerings in all segments are based upon QSC's nationwide infrastructure. The Company possesses a Next Generation Network (NGN), which affords nationwide utilization of Voice over IP technology throughout the entire network. Over the last mile, Plusnet, a network operating company that was formed in 2006 together with TELE2, operates a nationwide DSL network that has been upgraded to ADSL2+ technology. Following the merger with Broadnet, QSC additionally possesses a Wireless Local Loop network in 42 regions.

This cutting-edge infrastructure serves as the core of QSC's scalable business model. As long as this infrastructure is not being utilized to capacity, the Company can directly connect new customers without the need for any corresponding network expenses. Following the expansion of the network in fiscal year 2007, the infrastructure is currently operating at around 25 percent of line capacity on average. As a result, each additional euro in revenue generates above-average growth in profitability.

Cutting-edge infrastructure serves as the core of the scalable business model

RESEARCH AND DEVELOPMENT

Broadband necessitates ongoing innovation • Broadband technology is one of the centerpieces of modern information and communication technology, thus making it a key technology of the 21st century. It is characterized by an ongoing innovation process, which the majority of users see in the form of higher bandwidths and new products.

For providers like QSC who specialize in enterprise customers, though, innovation primarily means innovations in quality and processes, as well as the development of additional network-related services. These innovations assure smooth migration of complex customer IT and telecommunications systems to the QSC world, and serve as a key prerequisite for long-term collaboration.

QSC repeatedly develops new products and services on the basis of these kinds of projects. With VirtuOS ACD (Automatic Call Distribution), for example, the Company has brought to market a software-based solution for efficient and flexible call center management, which operates without the need for any investments at all in hardware or software on the part of the customer. This solution operates independently of a telephone system, which makes it suitable for universal application.

The key role that is played by innovations and the way they are integrated into customer projects can also be seen from the organizational structure of research and development operations at QSC: New ideas are not developed by a separate, dedicated department, but instead are a central task for all employees. Especially in connection with process innovations, staff from sales and marketing, and technology operations collaborate closely in order to ensure that customers receive premium service.

ORGANIZATIONAL STRUCTURE

Reorganization in fiscal year 2007 • For years, QSC has been growing with strong dynamics; this necessitates a high degree of flexibility and integration power on the part of the organization. During the course of fiscal year 2007 it was found that individual processes in order handling had nevertheless become too complex and were unnecessarily delaying decisions. In the autumn of 2007, QSC therefore introduced a new organizational structure with three business units for Managed Services, Direct Access and Wholesale, which is further strengthening the role of the three strategic segments. Since then, these business units have been responsible for the entire order handling process, including the adaptation and development of customer-specific services, enabling them to make the necessary decisions on their own and faster. On the one hand, the new organizational structure enables indispensable automation to be driven in wholesale business, while focusing even more on custom-tailored solutions in connection with large accounts business.

Focus on core competencies • QSC AG is the parent corporation of the corporate group. It does business in the strategic segments of Large Accounts, Business Customers and Wholesale/Resellers. In this connection, the Company has traditionally focused on its core competencies in technology and selling operations, and collaborates with service providers in the upstream and downstream value creation stages. 732 people at both headquarters in Cologne and in sales and technology locations throughout Germany support enterprise customers of every size, from initial contract and the development of custom-tailored IP-VPN solutions right through to billing of services. Following the merger of Broadnet with QSC effective October 31, 2007, the approximately 180 employees of this company now also belong to QSC AG. A major portion of them will continue to be located at the former Broadnet headquarters in Hamburg.

Staff of QSC subsidiary Plusnet is responsible for the network expansion project

One major equity investment consists of network operating company Plusnet GmbH & Co. KG; QSC holds 67.5 percent of its shares, the German subsidiary of the Swedish-based TELE2 telecommunications group the remaining 32.5 percent. The 81 Plusnet employees operate a nationwide DSL network and are responsible for expanding it to nearly 2,000 central offices. Located at QSC headquarters in Cologne, this company provides basic DSL services exclusively to its two shareholders on a full-cost basis; the two shareholders then enhance these DSL preliminaries for their respective target groups and go on to market them.

Q-DSL home GmbH is where QSC has consolidated its DSL residential customer business. Its spin-off into an autonomous organization underscores QSC's own focus on strategic business with enterprise customers.

MANAGEMENT

An entrepreneurial company • QSC's business is managed by a three-member Management Board under the leadership of co-founder Dr. Bernd Schlobohm, who through his personal involvement represents the highly entrepreneurial spirit that prevails throughout the entire organization. The Compensation Report, which is an integral part of the Group Management Report, informs about the compensation paid to the members of the Management Board. In connection with the reorganization, the Company has also instituted a twelve-person Executive Board as a second-tier management body, whose composition consists of the heads of the three business units, Managed Services, Direct Access and Wholesale, as well as the individuals who head up the corporate staff departments, such as Finance and Strategy, in addition to the members of the Management Board. A six-member Supervisory Board monitors the activities of the Management Board and advises it in an ongoing dialog.

An Executive Board has been instituted to support the work of the Management Board

QSC's operating business is divided into four segments. The Company employs the respective segment EBITDA, which is calculated as the respective net revenues less all costs directly attributable to that segment, as the key management parameter. EBITDA is also the central management parameter at the group level. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation and amortization on property, plant and equipment, and goodwill.

QSC reviews the profitability of new products and projects on the basis of multi-tier contribution margin calculations. These are structured analogously to the respective segment reporting, thus ensuring that decisions are made with a view to anticipated target margins.

Network expansion and operation are managed by subsidiary Plusnet, whose two shareholders, QSC and TELE2, make their decisions by mutual agreement, on the basis of their respective planning.

GENERAL ECONOMIC CONDITIONS

Recovery sustained in 2007 • In fiscal year 2007, gross domestic product grew by 2.5 percent in Germany. Toward year-end, however, there were increasing signs that the economic slowdown in the United States as well as the problems in the financial sector would dampen growth. In addition to the country's traditionally strong exports, capital spending remained the key growth driver in Germany during 2007. Telecommunications providers, too, benefited from this dynamic, as businesses of every size were increasingly investing in modern broadband infrastructure.

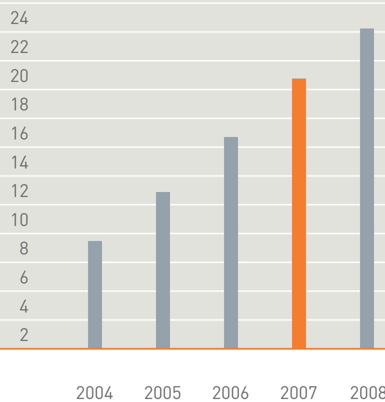
However revenues in the telecommunications industry in Germany nevertheless declined overall by nearly three percent to € 63.4 billion. This was predominantly a result of stiff price competition in conventional voice business due to flat rate and Voice over IP offerings that were increasingly reaching the enterprise customer market, as well. In this environment, though, alternative providers like QSC were able to continue to win market share and increase their revenues overall by one percent to € 33.0 billion.

GENERAL INDUSTRY CONDITIONS

With ADSL2+, QSC has created the prerequisites for Triple Play

DSL market grows in spite of line shortages • Broadband business was again the key growth driver for the telecommunications industry last year. Within the course of the year, the number of DSL connections rose by 4.3 million to a total of 18.7 million. Even stronger growth was prevented by bottlenecks in the provision of unbundled local loops by Deutsche Telekom (DTAG). During the second quarter of 2007, a strike at this company led to delays in provision. During the third and fourth quarters, DTAG was then far from sufficient in satisfying the sharply increased demand for local loops. QSC was affected by this bottleneck in all segments, in particular in its wholesale business. The demand for broadband continues to grow: At year-end 2007, around 8 percent of all DSL connections already offered a bandwidth of 6 Mbit/s or more, while some 70 percent were able to at least access a bandwidth of 2 Mbit/s. Higher bandwidths enable smooth use of the growing selection of videos, TV channels and games that are available on the Internet. QSC had upgraded its network with ADSL2+ technology early on, and can already offer bandwidths of 16 Mbit/s and more today. These kinds of bandwidths additionally enable one-stop shopping for Internet, telephony and television over one and the same broadband line: Triple Play. Market observers are convinced that this convergence of telecommunications and media will experience growing demand of residential customers in the coming years.

Broadband Connections in Germany (in millions)



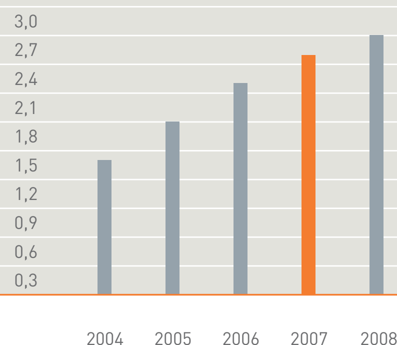
Sources: German Federal Network Agency, Broker Research

Wireless technologies complement DSL • The high availability of DSL leaves little room in Germany for alternative broadband technologies like cable television or wireless. In 2007, some 95 percent of all broadband accesses in Germany were DSL connections. And market researcher IDC predicts that this dominance will be sustained in the years to come.
However wireless technologies like WiMAX, WLAN or Wireless Local Loop (WLL) could represent a good supplement to DSL in regions that are not covered by this network. With the acquisition of Broadnet, QSC also acquired a WLL network in 42 German regions, and can thus now connect enterprise customers especially on the outskirts of metropolitan areas directly to its network.

95 percent of Broadband accesses in Germany are DSL connections

Voice over IP gaining acceptance • DSL technology is the dominant broadband technology at enterprises of every size in Germany: In 2007, the number of DSL connections rose by 16 percent to 2.5 million. This strong growth of DSL technology at enterprises is essentially attributable to two factors: Firstly, the number of Internet-based applications – from purchasing to logistics to sales and marketing – is on the rise, and thus the demand for bandwidth. In this connection, Software as a Service (SaaS) is taking on increasing significance, with telecommunications providers like QSC making more and more software available that customers can utilize over a broadband line on an as-needed basis. Studies conducted by IDC underscore this growth dynamic: While it was still being assumed in 2006 that the worldwide SaaS market would reach a volume of around US$ 3 billion in 2008, the predictions today are already calling for US$ 8 billion.

Broadband Connections at Enterprises in Germany (in millions)



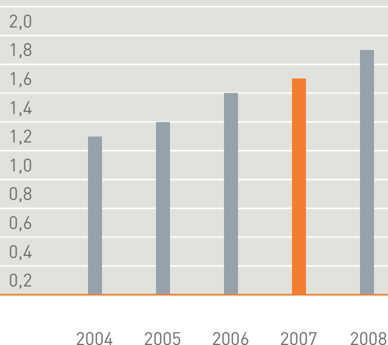
Source: IDC, "Telekommunikationsmarkt in Deutschland," January 2008

The second growth driver for broadband enterprise applications consists of the combination of a DSL line and Voice over IP (VoIP) technology in order to integrate voice and data communication over one and the same line. The penetration of VoIP is documented by numbers from the German Association of Providers of Telecommunications and Added-Value Services (VATM). According to this data, the number of daily Voice over IP call minutes nearly doubled in 2007, from 28 million to 55 million – this already represents around 30 percent of total daily voice traffic.

Managed Services market has a volume of € 1.5 billion

Enterprises utilizing Managed Services • The integration of VoIP is also proving to be one of the growth drivers in Managed Services business, i.e. business in connection with virtual private networks as well as the services that build upon them. According to IDC, the IP-VPN market, alone, reached a total volume of € 1.3 billion in 2007, in addition to revenues in connection with network-related services in the amount of nearly € 0.2 billion.
The high complexity of these kinds of custom-tailored solutions, as well as the need to transfer core business processes to telecommunications providers that this is bringing with it, is leading to a situation in which enterprise customers use multiple decision-making factors in opting for a provider: What also count, in addition to price, are quality, customer service, and solutions competence, as well as the size and security of the network. Competition on the basis of price, alone, as can be observed in connection with residential customers, and often enough in connection with standard enterprise products, therefore does not occur to the same extent in this forward-looking line of business.

Managed Services Market in Germany (in € billion)



Source: IDC, "Telekommunikationsmarkt in Deutschland," January 2008

Due to the high customer expectations, QSC additionally sees only a limited number of competitors in its business with enterprise customers. This is because high quality and a competitive cost structure can ultimately only be achieved on the basis of a provider's own nationwide infrastructure; in addition, only complete control of the network enables the offering of custom-tailored solutions. QSC possesses both one of the largest German DSL networks as well as a Next Generation Network, and additionally enjoys a convincing competitive position with its clear focus on complex enterprise customer business. This enables QSC to make a particular contribution toward enhancing the productivity of both large and medium-size businesses.

With its focus on enterprise customers, QSC enjoys a convincing competitive position

EVENTS OF MAJOR SIGNIFICANCE

Broadnet merged with QSC • With the exception of the merger of Broadnet, there were no other singular events within the Company or in the marketplace that had a major influence on QSC's business during the course of fiscal year 2007. As the year drew on, however, serious bottlenecks in the provision of unbundled local loops by Deutsche Telekom sometimes led to impairment of the Company's revenues and profitability.
On October 31, 2007, the merger of Broadnet with QSC went into effect retroactively as of January 1, 2007, following entries in the Registers of Companies in Hamburg and Cologne. This means that Broadnet AG is thus now defunct; its shareholders are now shareholders of QSC AG. It was first necessary for the lawsuits that had been filed against the merger resolution that had been adopted by the regular Broadband annual shareholders meeting in May 2007 to be settled out of court. The transaction was then concluded through the issuance of 1,090,210 new shares of QSC stock to the former Broadnet shareholders in exchange for their former Broadband shares.

COMPARISON BETWEEN ACTUAL AND FORECAST COURSE OF BUSINESS

Shortage of local loops impairs course of business • In particular, bottlenecks in the provision of local loops as well as internal delays in order handling and stiff price competition in conventional voice telephony forced QSC to adjust its forecast course of business for 2007. The Company had originally planned revenues of more than € 350 million, an EBITDA of between € 50 and € 60 million, as well as a net profit of between € 15 and € 25 million for the past fiscal year. As soon as the Management Board had obtained an overview of the course of business in the third quarter of 2007, it revised this guidance on October 25, 2007, to revenues of around € 325 million, an EBITDA of approximately € 35 million and a break-even after-tax net result. As the year drew to a close, the weaker-than-anticipated course of business necessitated that the Company forego the originally planned capitalization of loss carryforwards that would have produced a correspondingly positive tax effect, forcing it to record a net loss of € -10.4 million for the full 2007 fiscal year. QSC was able to surpass its adjusted revenue target with revenues of € 335.2 million and to land squarely on its adjusted EBITDA target with an EBITDA of € 34.9 million.

Totaling € 122.9 million, capital expenditures exceeded the guidance of between € 60 and € 70 million that had been issued at the beginning of the year. 44 percent of this total was attributable to customer-related capital expenditures, such as connections and end-user devices that QSC typically then invoices to its customers. 51 percent of capital expenditures went into the infrastructure. There are three reasons, in particular, why these capital expenditures exceeded the planning: Firstly, during the course of the year QSC decided for efficiency reasons to upgrade its DSL infrastructure with SHDSL technology in conjunction with expansion of the network. Secondly, the same considerations prompted the Company to expand its backbone. And thirdly, the desire on the part of QSC's wholesale partners for metering solutions in the new central offices in order to provide quality-monitored local loop connection necessitated unplanned capital expenditures.

GENERAL REMARKS REGARDING THE COURSE OF BUSINESS

With its new organizational structure, QSC is well aligned for the growth anticipated

Strong growth in spite of external and internal challenges • In fiscal year 2007, QSC grew its revenues by 28 percent to € 335.2 million and its EBITDA by 65 percent to € 34.9 million. Even stronger growth was prevented, in particular, by bottlenecks in the provision of local loops by Deutsche Telekom, as well as by internal delays in order handling. To accelerate its internal processes, QSC conducted a reorganization in the autumn of 2007; with its new organizational structure, the Company views itself as being well aligned for a return to its strong and profitable growth in fiscal year 2008. The increase in the number of local loops provided in December 2007, and even more so in the initial months of the current fiscal year, additionally suggests that the external bottlenecks will be able to be gradually overcome.

Better Revenue Quality

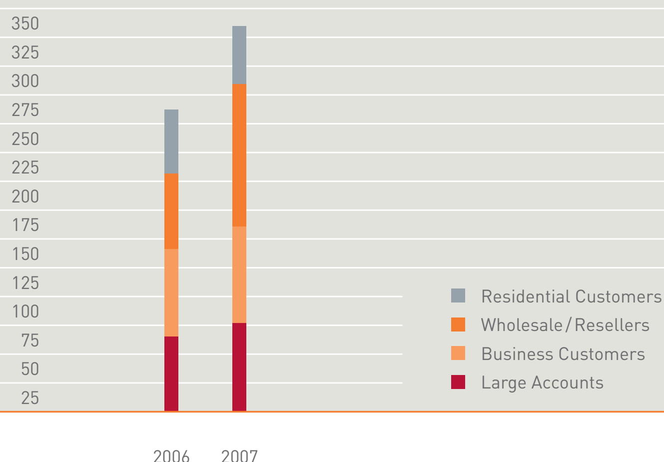
PROFITABILITY

Strategic segments account for higher share of total revenues • In fiscal year 2007, QSC generated revenues of € 335.2 million, as opposed to € 262.5 million the year before. The Company recorded its strongest growth in its business with wholesale/resellers – with revenues in this segment rising by 87 percent to € 122.3 million. QSC also posted double-digit revenue growth rates in its two other strategic segments of Large Accounts and Business Customers. This again resulted in a significant improvement in revenue quality in 2007: During the past fiscal year, QSC was already generating 85 percent of its revenues in its three strategic segments, as opposed to 79 percent the year before.

Network expansion raises network expenses • Network expenses, which are recorded under cost of revenues and include depreciation and non-cash share-based payments, rose by 27 percent to € 259.3 million in 2007, as opposed to € 203.6 million the year before.
This rise was essentially attributable to the need for operating a considerably larger network, as QSC connected around 700 additional central offices to its network during the course of fiscal year 2007, and also significantly expanded its backbone. Moreover, non-recurring costs for integration of the Broadnet network were incurred in the fourth quarter of 2007.

In 2007, QSC connected some 700 additional central offices to its network

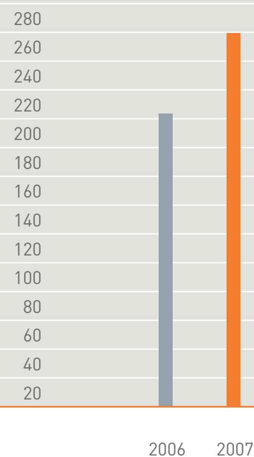
Revenue Mix (in € million)



First full-year consolidation of Broadnet in 2007

In connection with the network expansion in 2007, the costs of building, operating and maintaining the network, itself, rose by 15 percent to € 54.5 million. Personnel expenses increased by 55 percent to € 17.5 million, as network operating company Plusnet increased the size of its workforce by one quarter to 81 people in connection with the massive network expansion, and QSC also strengthened the staffing of its order management operation in response to the strong growth in wholesale business during the course of the year. As in the case of the other expense line items, the situation was additionally impacted by the first full-year consolidation of Broadnet; the year before, this company had only been consolidated from the day the majority interest was acquired on June 6, 2006. Taking depreciation into consideration, which in contrast to its quarterly reports QSC includes in the respective expense line items in its Annual Report, the fixed elements of network expenses increased by a total of 29 percent to € 105.3 million. Even as revenues rise, these fixed expenses remain largely constant, thus enabling increasing margins to be earned as network utilization increases; at year-end 2007, only an average of around 25 percent of line capacities were being utilized.
By contrast, around 60 percent of network expenses are attributable to the variable cost of materials; as a result of rising revenues, these costs increased by 26 percent in 2007 to € 154.1 million. Cost of materials includes all customer-related costs. In particular, these include the ongoing fees that competitors have to pay to Deutsche Telekom for utilization of the unbundled last mile, i.e. the local loop. Along with QSC's growing success in the marketplace, there was also a rise in expenses for customer-specific leased lines as well as interconnection fees.

Network Expenses * (in € million)



* including depreciation and non-cash share-based payments

Gross profit advances by 29 percent • In 2007, QSC succeeded in further improving its gross profit, which totaled € 75.9 million, as opposed to € 58.9 million the year before. At 23 percent, gross margin was up moderately from the previous year's level of 22 percent, in spite of higher network expenses.

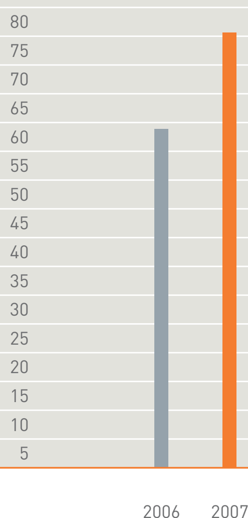
Focusing on direct sales and strong partners • Selling and marketing expenses rose by 18 percent to € 50.7 million for the past fiscal year, as opposed to € 43.1 million the year before; during the same period, their percentage of total revenues declined moderately to 15 percent, as opposed to 16 percent the year before.

Percentage of selling expenses as percentage of total revenues down to 15 percent

The high efficiency of the Company's sales operation is underscored by the fact that advertising expenses continue to remain at a low level. Overall, QSC spent € 3.2 million on promotional activities during the past fiscal year, as opposed to € 2.7 million the year before.

In the face of market opportunities, QSC further expanded its direct marketing activities during the course of the fiscal year; pure personnel expenses increased by a total of 42 percent to € 23.5 million in fiscal year 2007. The first full-year consolidation of Broadnet additionally impacted this line item, as well.

Gross Profit* (in € million)



* including depreciation and non-cash share-based payments

QSC consolidates central group functions at the Cologne location

Two administrations of publicly traded corporations • General and administrative expenses rose by 43 percent to € 36.4 million in 2007, as opposed to € 25.5 million the year before. Until the merger of Broadnet on October 31, 2007, two administrations with all of the functions required of publicly traded corporations had been maintained at the Cologne and Hamburg locations. Following the merger, QSC then recorded non-recurring costs for the integration of the two companies. This is because QSC concentrates corporate group functions such as Controlling, Legal, Investor Relations and Corporate Communications at its Cologne location.

Broadband is process innovation • As in the year before, research and development expenses amounted to € 0.2 million in 2007. These expenses include only the directly attributable costs for the development of new products, but not the development expenses incurred in connection with QSC's numerous process innovations. Research and development expenses therefore do not represent a suitable yardstick for adequately reflecting the Company's innovative strength in connection with ongoing processes and services.

Positive development of operating business • In its quarterly reports, QSC conforms to the customary international practice of presenting depreciation, amortization and non-cash share-based payments as a separate line item in its income statement. In these Consolidated Financial Statements, however, depreciation, amortization and non-cash share-based payments are included in the line items for network, selling and marketing, general and administrative as well as research and development expenses. The following abbreviated income statement presents depreciation and amortization separately, thus affording a fast overview of the development of the Company's operating business:

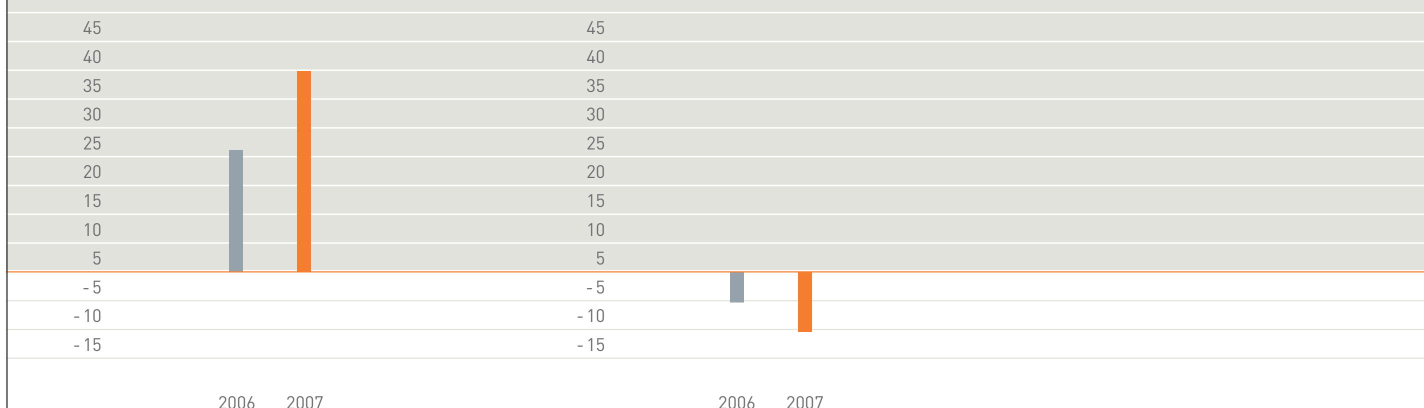
	2007 in T €	2006 in T €
Net revenues	**335,195**	**262,522**
Cost of revenues *	-226,028	-180,422
Gross profit	**109,167**	**82,100**
Selling and marketing expenses *	-46,392	-41,392
General and administrative expenses *	-28,569	-22,067
Research and development expenses *	-183	-207
Other operating income	1,674	2,891
Other operating expenses	-785	-158
EBITDA	**34,912**	**21,165**
Depreciation	-44,519	-27,650
Non-cash share-based payments	-955	-691
Operating loss (EBIT)	**-10,562**	**-7,176**

* excluding depreciation and non-cash share-based payments

EBITDA margin improves to 10 percent • During the 2007 fiscal year, QSC increased its EBITDA by 65 percent to € 34.9 million, as opposed to € 21.2 million the year before. The EBITDA margin rose from 8 percent in fiscal year 2006 to 10 percent.
Depreciation expense totaled € 44.5 million for the past fiscal year, as opposed to € 27.7 million the year before. In addition to expansion of the network, this was also due to the growth of the customer base, as QSC depreciates many of its customer-related capital expenditures over a relatively short period of only 24 months. Moreover, there were also non-recurring synergy-related impairments in the fourth quarter of 2007 due to the planned shutdown of those portions of the Broadnet network that overlap the QSC network and were therefore redundant. As a result of this higher depreciation, the Company's EBIT, its operating loss before interest and taxes, rose to € -10.6 million for the past fiscal year, as opposed to € -7.2 million the year before.

QSC shuts down redundant elements of the Broadnet network

Nearly break-even financial result • In fiscal year 2007, QSC recorded financial income in the amount of € 3.6 million from the investment of its liquid assets, as opposed to € 2.2 million the year before. On the other hand, there was also a rise in financial expenses to € -4.0 million, as opposed to € -2.2 million in 2006, as QSC utilized a higher level of finance lease to finance its capital expenditures.
Taking a positive tax effect in the amount of € 0.6 million into account, the Company's net loss thus amounted to € -10.4 million, as opposed to € -5.3 million in fiscal year 2006. Due to the weaker-than-planned development during the past fiscal year, the Company decided to forego the majority of the originally planned capitalization of loss carryforwards. Earnings per share thus stood at € -0.08, as opposed to € -0.04 the year before.



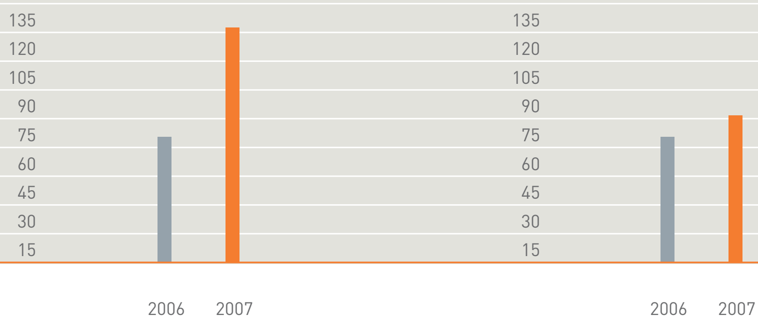
PROFITABILITY BY SEGMENT

Strong revenue growth in the Wholesale/Reseller segment • Amounting to 87 percent, QSC grew its revenues in the Wholesale/Reseller segment faster than in any other segment in 2007, with revenues rising to € 122.3 million, as opposed to € 65.4 million the year before. In spite of bottlenecks in the provision of local loops by Deutsche Telekom, the Company's wholesale business, which it had only established in 2006, proved to be the growth engine. In this connection, QSC supplies ADSL2+ lines and voice services to large residential customer providers with mass-market experience. In 2007, this wholesale business was already accounting for 30 percent of segment revenues, with this share rising from quarter to quarter.

Wholesale business contributes 30 percent of segment revenues

However QSC continued to generate the majority of its revenues in 2007 in its traditional business with resellers of voice and data services, as well as with Internet service providers. Telecommunications providers who do not possess their own infrastructures in Germany, such as BT Global Services, Colt and Equant, often use QSC lines in connection with global enterprise networking.
As a result of its extremely strong growth during the past fiscal year, segment EBITDA rose by € 28.6 million to € 61.4 million, with the corresponding margin remaining constant at 50 percent. Since the Company's traditional business with resellers offers higher margins than its wholesale business, QSC anticipates a moderately declining margin in 2008.

Successes with new and existing large accounts • Revenues in the Large Account segment increased by 17 percent in 2007 to € 76.6 million, as opposed to € 65.5 million the year before. As in the Business Customer segment, increasing price competition in conventional voice business impaired developments in this segment. QSC is hard at work migrating its existing classical tele-

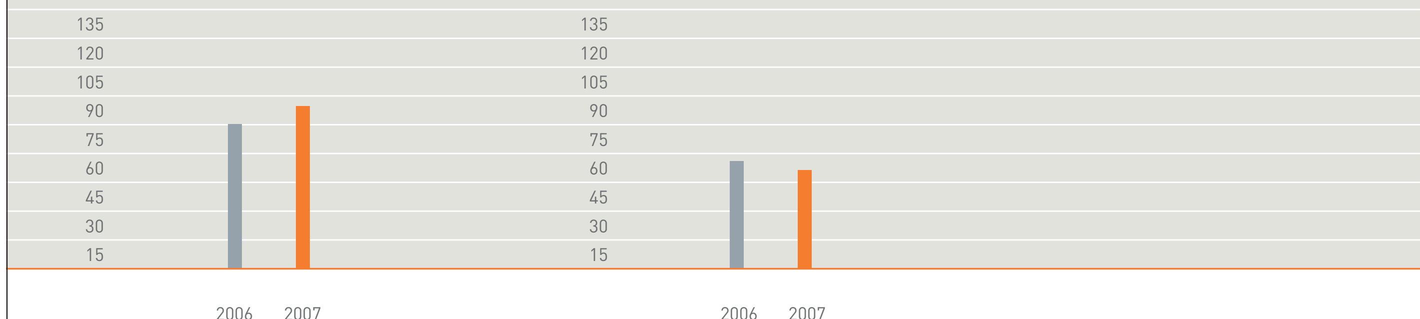


phony contracts to direct, IP-based connections. In 2007, the share of total revenues accounted for by conventional voice telephony in the Large Account segment amounted to only 17 percent.
In its core business with Managed Services, QSC succeeded in expanding its share of the telecommunications budgets of various large accounts, in extending existing contracts and in additionally winning new customers. The contract with Esanio, a subsidiary of Deutsche Angestellten-Krankenkasse (DAK), that was announced in late November 2007 is a good example of the Company's spectrum of capabilities in this line of business. QSC is redundantly linking the data centers of this IT services subsidiary of one of Germany's largest health insurance companies to its network with lines that offer speeds of up to 155 Mbit/s. This will serve as the foundation for Esanio to offer its customers Internet access, VPN locational networking as well as voice services in collaboration with QSC. Further new large accounts include the Strauss Innovation retail chain as well as AVAG, one of Germany's largest automotive dealerships.
An EBITDA margin of 58 percent in this segment underscores its unabated profitability. In absolute numbers, segment EBITDA rose to € 44.8 million, as opposed to € 38.9 million the year before.

Voice over IP rapidly gaining significance • Revenues in the Business Customer segment rose by 12 percent to € 84.7 million in 2007, as opposed to € 75.5 million the year before. The primary reason for this relatively weak growth was pricing and substitution pressure in conventional voice business. With the acquisition of pure voice telephony provider Ventelo, QSC had obtained a large customer base in this line of business in late 2002; consequently, conventional voice telephony still accounted for 30 percent of revenues in this segment in 2007. However the past fiscal year continued to see rising demand for integration of voice and data services over one and the same broadband line using Voice over IP technology; consequently, QSC is confident of being able to migrate additional customers, thus further lowering the percentage of conventional voice revenues during the current fiscal year. In addition to the IPfonie products, direct access to the QSC network with Q-DSLmax was the major revenue driver in this segment.

Growing demand for voice and data services over one and the same DSL line

Revenues Business Customers (in € million) **Revenues Residential Customers** (in € million)



More direct connections and rising Voice over IP share increase segment margin

In particular, the growing number of direct connections and the migration of conventional voice to IP enabled the margin in this segment to be increased to 57 percent in 2007, as opposed to 53 percent the year before. Segment EBITDA amounted to € 48.5 million, as opposed to € 39.7 million in fiscal year 2006.

Residential customers afford utilization of network capacities • Revenues in the non-strategic Residential Customer segment declined to € 51.6 million in 2007, as opposed to € 56.1 million the year before, with the major revenues in this connection stemming from direct marketing of the Q-DSL home premium data product as well as from call-by-call business. The Company traditionally utilizes these kinds of voice offerings, for which there is typically stronger demand in the fourth quarter, in particular, to better utilize its network during the evening and nighttime hours, when enterprise customers are making hardly any use of the nationwide infrastructure.
Nor was QSC able to avoid the sustained price competition in this segment. Segment EBITDA amounted to € 13.3 million, as opposed to € 16.7 million the year before, with the Company earning a margin of 26 percent in this segment in 2007, as opposed to 30 percent the year before.

FINANCES

Fast growing cash flow from operating activities • In 2007, QSC increased its cash flow from operating activities to € 56.3 million, as opposed to € 11.7 million the year before. On the other hand, the network expansion project with its intensive capital expenditures resulted in a cash flow from investing activities in the amount of € -37.1 million, as opposed to € -36.4 million in fiscal year 2006. In this connection receipts from the disposal of available-for-sale financial assets in the amount of € 84.1 million served, in particular, to finance the purchases of property, plant and equipment totaling € 77.9 million, as well as the purchases of intangible assets in the amount of € 17.3 million. Cash flow from financing activities stood at € 8.9 million, as opposed to € 40.3 million the year before, resulting first and foremost from the cash burn used to repay finance lease obligations, on the one hand, and from cash provided from loans, on the other hand. In fiscal year 2006, TELE2's contribution in cash to Plusnet, in particular, had resulted in a significantly positive cash flow from financing activities.

High liquidity in spite of high capital expenditures • As of December 31, 2007, QSC possessed liquid assets in the amount of € 79.4 million, as opposed to € 108.9 at year-end 2006. This decline mainly resulted from the high level of capital expenditures during the past fiscal year.
QSC invests its liquid assets in fixed-interest securities only. The Company records its respective level of cash and short-term deposits as well as available-for-sale financial assets as liquid assets.

Balanced financing • In 2007, QSC again utilized the vehicle of finance lease, which is favorable by comparison with other forms of financing, to finance its investments in property, plant and equipment. As a result of significantly higher capital expenditures, the long-term portion of finance lease obligations rose to € 23.1 million during the past fiscal year, as opposed to € 16.0 million as of December 31, 2006; the short-term portion of finance lease obligations totaled € 20.4 million, as opposed to € 13.4 million the year before.
Other long-term liabilities also include a further € 4.0 million in debt from the financing of customer-related capital expenditures; their short-term share (remaining term up to one year) in the amount of € 5.4 million is included in other short-term liabilities. Moreover, QSC for the first time utilized its framework agreements with financial institutions for financing purposes; liabilities due to banks totaled € 5.0 million as of December 31, 2007. There continue to be no long-term liabilities to financial institutions.

QSC continues to owe no long-term debt to financial institutions

NET WORTH

Significantly higher capital expenditures • During the past fiscal year, capital expenditures increased to € 122.9 million, as opposed to € 40.1 million in fiscal year 2006. Around 51 percent of this capital spending was attributable to the massive network expansion, 44 percent to customer-related and 5 percent to other capital expenditures, such as software and office equipment.
Subsidiary Plusnet, the joint venture that is operated together with TELE2, expanded its DSL network to approximately 1,700 central offices in 2007. It had been planned to expand the network to nearly 2,000 central offices by the beginning of the year, however the strike at Deutsche Telekom in the second quarter of 2007 initially delayed the required provision of capacities by this ex-monopolist. During the second half of the year, bottlenecks in the provision of local loops by Deutsche Telekom led to the decision to reduce the pace of capital expenditures within the framework of the network expansion project. Although the physical expansion of the network will only be concluded during the current fiscal year, QSC had already largely concluded the capital expenditure phase in 2007 as a result of the required lead times.
In addition to connecting new central offices, QSC also made capital expenditures in two places, in particular, to expand its infrastructure: At the same time as the network expansion, for efficiency reasons the Company also expanded its backbone capacities and simultaneously upgraded its DSL network with SHDSL technology, an evolution of SDSL technology.
The local loop bottlenecks also impacted customer-related investments: In view of the high level of new orders, QSC had significantly increased its orders for ports during the course of the year, and was then no longer able to completely stop their delivery, in view of the shortage of local loops that did not become apparent until the second half of the year. Consequently, QSC possessed several hundred thousand unused ports at year-end 2007. However they will be fully utilized during the course of the 2008 fiscal year, as the local loop bottlenecks are being gradually overcome, requiring the corresponding capacities in the QSC network.
In addition, the capital expenditures also included costs incurred to initial switch on customer lines,

which need to be capitalized, as well as end-products like routers for large accounts and business customers. In 2007, the Company's increasing customer base led to a corresponding rise in these customer-related capital expenditures. However QSC typically invoices the respective customer promptly for a large portion of the preliminaries and defers the revenues this generates over a period of 24 months.

Network expansion increases property, plant and equipment • The higher capital expenditures led to an increase in property, plant and equipment recorded in the balance sheet to € 131.2 million, as opposed to € 61.5 million the year before. The rise in other intangible assets to € 25.6 million, as opposed to € 18.1 million in fiscal year 2006, was essentially attributable to the capitalization of costs incurred to initial switch on customer lines. Overall, this increased long-term assets to € 215.3 million in fiscal year 2007, as opposed to € 133.6 million the year before; during the same period, their share of the balance sheet total rose to 58 percent, as opposed to 45 percent the year before.

At year-end 2007, QSC had liquid assets totaling € 79.4 million

Short-term assets, on the other hand, declined to € 156.6 million in 2007, as opposed to € 166.4 million the year before. This was due to the planned usage of liquid assets for capital expenditures during the past fiscal year and the resulting reduction in liquid assets to € 79.4 million, as opposed to € 108.9 million in 2006. Given the rising volume of business, trade receivables rose to € 64.9 million during the same period, as opposed to € 52.8 million the year before. In this connection, QSC continues to place particular emphasis on strict management of trade receivables, so that allowances for bad debts and goodwill on trade receivables amounted to only € 2.8 million, as opposed to € 3.5 million the year before.

Sound capital base • During the past fiscal year, the Company's capital stock rose moderately to € 136.4 million, as opposed to € 133.9 million the year before. There were two reasons for this: Firstly, the acquisition of the Broadnet shares that were still outstanding at the time of the merger on October 31, 2007, again necessitated increases of capital from authorized capital against contributions in kind totaling € 1,347,280. Secondly, the conversion of 1,113,349 convertible bonds by QSC employees to an equal number of shares led to an increase of € 1,113,349 in capital stock . In conjunction with the increases of capital, the capital surplus also continued to rise moderately to € 562.5 million, as opposed to € 558.0 million in fiscal year 2006.

Given the higher balance sheet total, QSC's equity ratio declined to 42 percent in fiscal year 2007, as opposed to 54 percent the year before. The long-term debt ratio stood at 25 percent; more than one half of this debt in the amount of € 56.9 million stemmed from the consolidation of Plusnet and does not have to be repaid. The short-term debt ratio amounts to only 34 percent, consisting essentially of trade payables as well as debt from the utilization of finance lease.

Statements pursuant to § 315, Sub-Para. 4, German GAAP (HGB)

USUAL RULES FOR A PUBLICLY TRADED CORPORATION

Composition of capital stock • The Company's capital stock as of December 31, 2007, amounted to € 136,358,315, and was classified into 136,358,315 no-par bearer shares of common stock. According to the Share Register as of December 31, 2007, the capital stock was divided among 30,684 shareholders. The QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, held 10.1 percent and 10.2 percent, respectively, of the total of 136,358,315 shares, and the U.S.-based Baker Capital equity investment company held 24.7 percent. Since QSC went public, neither its founders nor Baker Capital have ever sold a single QSC share. There are no pool contracts between the founders and Baker Capital, and none of the three legacy shareholders possesses privileges. Except for the aforementioned shareholders, no other QSC shareholder possesses more than 10 percent of all shares.

At year-end 2007, there were 30,684 QSC shareholders

Composition of the Management Board • Appointment and dismissal of members of the Management Board is governed by §§ 84, 85, German Stock Corporation Act (AktG), as well as by § 7 of the Articles of Association and Bylaws, as amended January 22, 2008. Pursuant to § 7 of the Articles of Association and Bylaws, the Management Board can comprise one or more individuals. The Supervisory Board determines the number of members of the Management Board. Even though the capital stock of the Company amounts to more than three million euros, the Supervisory Board can stipulate that the Management Board can consist of only one individual. The appointment of deputy members of the Management Board is permissible.

Amendments to the Articles of Association • Pursuant to § 179, German Stock Corporation Act in conjunction with § 20, Sub-Para. 1, of the Articles of Association and Bylaws, as amended January 22, 2008, amendments to the Articles of Association and Bylaws require a resolution of the Annual Shareholders Meeting adopted by a majority of at least 75 percent of the share capital represented upon adoption of the resolution. Pursuant to § 15 of the Articles of Association and Bylaws, as amended January 22, 2008, the Supervisory Board is authorized to resolve amendments to the Articles of Association and Bylaws that relate only to matters of form and do not involve any changes to the actual content thereof.

Acquisition of QSC shares • Under a resolution of the Annual Shareholders Meeting on June 5, 2007, the Management Board was authorized pursuant to § 71, Sub-Para. 1, No. 8, German Stock Corporation Act, to acquire QSC shares totaling up to 10 percent of the capital stock of the Company by November 30, 2008. These treasury shares can be acquired on the stock exchange or by means of a public acquisition offer, at the discretion of the Management Board. The treasury shares may be called or resold on the stock exchange or under an offer of sale submitted to all shareholders. Moreover, there are two special cases in which the Management Board can resell treasury shares

under preemption of the shareholders' right of subscription: Firstly, treasury shares may be utilized as consideration to be paid to third parties within the framework of corporate acquisitions. Secondly, pursuant to § 186, Sub-Para. 3, Sent. 4, German Stock Corporation Act, treasury shares can be sold against consideration in cash if their selling price is not materially lower than their trading price. The purpose of the authorization to acquire and dispose of treasury shares is to enable the Company to swiftly and flexibly offer treasury shares to national and international investors, to broaden the circle of shareholders and to stabilize the value of the shares. A further purpose is for the Company to have treasury shares available in order to be able to offer them as consideration in connection with the acquisition of companies or investments in them. The Management Board has thus far not utilized these authorizations.

Authorized Capital • Under a resolution adopted by the Annual Shareholders Meeting on May 23, 2006, the Management Board was authorized, with the approval of the Supervisory Board, to increase the capital stock on one or several occasions until May 22, 2011, up to a total of € 57,500,000 (authorized capital) through the issuance of new no-par bearer shares against contributions in cash or in kind. In utilizing the authorized capital, the Management Board can preempt the shareholders' right of subscription in four cases with the consent of the Supervisory Board: Firstly, for rounding purposes resulting from the subscription ratios; secondly, to place new shares on a foreign stock exchange; thirdly, if the new shares are issued against contributions in kind, especially in conjunction with corporate acquisitions; and fourthly, if pursuant to § 186, Sub-Para. 3, Sent. 4, German Stock Corporation Act, the new shares are issued against contributions in cash and their issue price is not materially lower than their trading price.
The authorized capital is intended to enable QSC to respond swiftly and flexibly to opportunities that present themselves on the capital market and to obtain equity capital at favorable terms if needed.

QSC utilizes its authorized capital to acquire Broadnet shares in 2007

Under resolutions adopted by the Management Board on November 13, 2006, on April 16, 2007, and on May 29, 2007, to each of which the Supervisory Board consented on the same day, the capital stock was increased upon partial exercise of these authorizations by a total of € 6,267,280 against the issuance of new no-par bearer shares against contributions in kind in the form of Broadnet AG shares. The authorized capital amounted to € 51,232,720 as of the balance sheet date.

Conditional Capital • The conditional capital as of the balance sheet date amounted to a total of € 29,764,935, and was classified into Conditional Capital III, amounting to € 497,321, Conditional Capital IV, amounting to € 25,000,000, Conditional Capital V, amounting to € 1.276,854, Conditional Capital VI, amounting to € 1,490,760, as well as Conditional Capital VII, amounting to € 1,500,000. With the exception of Conditional Capital IV, the conditional capital is employed to secure the conversion rights of holders of convertible bonds that QSC has issued or can issue within the framework of existing stock option plans to members of the Management Board, to the managing directors of affiliated companies, to employees and to other individuals involved in the Company's success.

The Management Board can utilize Conditional Capital IV to create tradable option and/or convertible loans in order to create an additional, low-interest financing option for the Company given favorable capital market conditions. Only in three cases is the Management Board authorized, with the consent of the Supervisory Board, to preempt the shareholders' right of subscription to these option and/or convertible loans: Firstly, for rounding purposes resulting from the subscription ratios; secondly, to assure the right of subscription for the holders/creditors of previously issued conversion and option rights; and thirdly, if pursuant to § 186, Sub-Para. 3, Sent. 4, German Stock Corporation Act, their issue price is not materially lower than their trading price. The Management Board has thus far not utilized the authorization to issue tradable option and/or convertible loans. The preemption of the shareholders' right of subscription and acquisition, which pursuant to § 186, Sub-Para. 3, Sent. 4, German Stock Corporation Act, is justified only in the case of a price that is similar to the stock market trading price, may relate only to an aggregate total of not more than 10 percent of the capital stock for treasury shares, authorized capital, option and convertible loans during the term of the respective authorization.

Overall remark • All of the above-indicated authorizations of the Management Board are rules that are usual and customary at publicly traded corporations and whose purpose is not to impede any potential takeover attempts.

QSC Team Overcomes Challenges

HUMAN RESOURCES

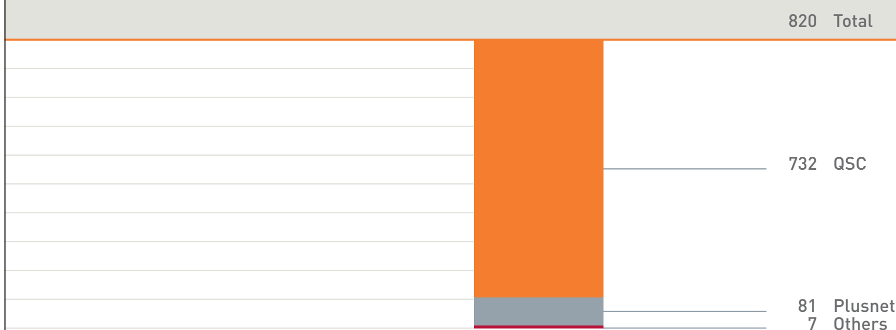
Integration of the Broadnet team • As of December 31, 2007, the QSC Group employed 820 people, thus increasing its workforce by 155 employees within the space of a year. Personnel expenses rose to € 55.8 million, as opposed to € 41.0 million the year before.
The majority of these employees work at QSC AG, with this entity, alone, employing 732 people as of December 31, 2007, 435 of them at corporate headquarters in Cologne. Since the merger on October 31, 2007, the nearly 180 Broadnet employees have also been part of this company. Their integration began in the fourth quarter of 2007; however the collaboration in a spirit of partnership that had been cultivated since the summer of 2006 is now greatly simplifying their integration into the QSC AG organization. The decision to retain the Hamburg location is also contributing to a smooth integration. QSC employed 142 people here, alone, as of December 31, 2007.

Plusnet workforce responsible for network expansion • In addition to QSC AG, network operating company Plusnet is also headquartered at the Cologne location. As of December 31, 2007, this company, which was formed in 2006, employed a workforce of 81 people. In conjunction with the expansion of the network, Plusnet added 22 employees to its workforce during the course of the year.

One in three QSC employees possesses a graduate degree

High level of qualifications • The high quality expectations of QSC's customers, as well as the dynamics of the markets, necessitate a corresponding level of training and education for the Company's workforce. The vast majority of its people consists of skilled workers, of which 35 percent possess graduate degrees. Both in-house and external continuing education opportunities enable every employee to constantly update and broaden his or her knowledge.

Workforce as of December 31, 2007



In this connection, QSC is specifically embracing the issue of people and the organization with the Competence Model 2.0. The purpose of this model is to enable a sharing of desired behaviors within the Company, thus even more strongly anchoring the QSC value system among all of the Company's people. QSC is intensifying this issue through a dialog with external partners, such as the forum humanum federation for action (www.forum-humanum.eu) as well as the Institute for Academic Executive Education at the "Fachhochschule des Mittelstands," a university of applied sciences with a special focus on SMEs.

Focusing on new blood • During the past fiscal year, QSC received some 3,500 job applications, and was thus able to cover its additional need for qualified employees. In addition, the Company also provides in-house training in the vocations of information technology specialists (focusing on systems integration and applications development) and administrative clerks. As of December 31, 2007, QSC employed 20 trainees for these vocations. The Company is planning to broaden its engagement in vocational training during the current fiscal year.

At year-end 2007, QSC employed a total of 20 trainees

With a specific system of talent management, QSC is fostering the ties between its trainees and student labor to the Company. In this connection, QSC offers such measures as a learning workshop for competence as well as an orientation dialog for planning the next steps in an individual's vocational or professional life.

Employees highly satisfied • In spite of the strong increase in the workforce in recent years, the average length of employment at QSC now stands at four years. QSC views the long-term loyalty of qualified people as being a major key to its future success. Professionals and executives generally benefit from a performance-based compensation system that includes a corresponding variable income element and rewards the attainment of both personal and corporate goals. QSC traditionally utilizes stock option plans as an accompanying instrument, making key employees co-owners of the Company and strengthening their long-term loyalty.

However an attractive corporate culture serves as the essential factor in long-term satisfaction. QSC embraces a work environment that offers a high level of self-direction for every employee. The reorganization in the autumn of 2007 placed even greater responsibility in the hands of the individual business units, thus broadening the decision-making latitude of the people who work there.

Risk Report

RISK MANAGEMENT SYSTEM

Risk management the basis for decision-making • QSC views efficient and forward-looking risk management as an important, value-creating activity that serves as a foundation for decision-making throughout all areas of the Company.
Systematically dealing with these potential risks and fostering a culture of thinking and acting with a view toward risks is therefore a key element in securing and shaping the Company's future in a highly dynamic environment.
QSC's objectives include avoiding or minimizing existing and potential risks, while simultaneously taking advantage of opportunities that present themselves. There has to be a balance between opportunities and risks, because even the failure to identify opportunities can represent a risk for QSC. The Company's risk strategy is therefore aimed at using ongoing risk management to achieve an optimum balance between defending against risks and taking advantage of opportunities.

RISK MANAGEMENT METHODOLOGY

Securing long-term success the objective • QSC has for years institutionalized a risk management system that includes intercoordinated rules, measures and procedures for dealing with risks. Its purpose is to identify, analyze, assess, control and monitor future risk-prone developments as early as possible in order to assure the Company's success over the long term. In this connection, the risk management system focuses on risk avoidance through prevention by utilizing suitable measures to reduce existing risks, by compensating for and securing existing risks through the formation of accruals/provisions and by taking out insurance coverage, as well as through the acceptance of residual risks in close coordination with corporate management.

Risk management at QSC covers all operations and departments

Since risks can occur in all of the Company's operations, the risk management system (RMS) covers all operations and departments at QSC. The Company includes risk assessments in connection with all decisions at both the operational and corporate levels, and right from the very beginning is mindful of utilizing appropriate measures wherever possible to reduce those risks that do arise. Regular reporting supports the managers of the operations in identifying risks early on and taking them into consideration in connection with their decisions.
QSC's risk management system is divided into two major areas of responsibility. Corporate Risk Management is responsible for the annual risk inventory and the quarterly risk reports. The Finance Department is responsible for ongoing monitoring of corporate risks on the basis of key operational and financial performance indicators. Finance tracks the development of these risks in weekly reports as a kind of early warning system and reports to the Management Board.

Ongoing monitoring and assessment of risks that arise is handled decentrally by risk coordinators in the individual operations. They regularly review their areas of responsibility with regard to whether previously unidentified risks have arisen and whether there has been a change in existing risks. Central Risk Management regularly monitors the introduction of appropriate measures and compliance with them. It also handles consolidation and documentation of the decentrally assessed risks, and produces a detailed quarterly risk report for the Management Board. At least once a year, the Management Board reports to the Supervisory Board with a detailed risk report, while using the RMS as the basis for also informing the Supervisory Board about all major risks and opportunities during the course of the year. The RMS is additionally audited within the framework of the audit of the Company's Annual Financial Statements.
To assure that all relevant risks are identified and taken into consideration within the RMS, Corporate Risk Management conducts an annual risk inventory during the first quarter of the year, in parallel with the risk report. With the involvement of the risk coordinators, all previously known risks are tabulated in this connection and classified according to the topicality they continue to pose. In addition, Corporate Risk Management performs a Company-wide review in order to determine whether any further, as-yet unnamed, risks exist that would in the future have to be monitored and taken into consideration within the regular reporting system.

INDIVIDUAL RISKS

Detailed on the following pages are those entrepreneurial, financial and information technology risks that QSC today views as being of major significance for its business operations.

The economy • Among the overall economic risks, QSC is monitoring the currently deteriorating economic environment, in particular, because a weak economy impacts the willingness of enterprise customers to invest in modern telecommunications infrastructures.
However during the recession in the years 2002 and 2003, QSC has already been able to demonstrate that it can grow strongly and profitably in a weak overall economic environment. One major reason: Modern telecommunications solutions increase enterprise productivity, while simultaneously lowering their costs. Moreover, market researchers anticipate continued strong growth in the coming years in QSC's core market, broadband communication for enterprise customers, and here, in particular, in business with Managed Services and Software as a Service, i.e. the provision of enterprise software over the Internet in return for payment of a usage-based fee.

Market researchers anticipate strong growth in QSC's core market

DSL technology will continue to dominate the broadband market

Alternative technologies • Cable (TV) network operators are now offering Internet access and voice telephony, in addition to television. QSC is attentively monitoring these Triple Play offerings on the part of cable network operators, which address the residential customer market exclusively, as they could pose potential competition to the Company's business with wholesale partners.
However given the nationwide availability of DSL and the capital expenditures that would be required in the cable networks, QSC continues to view Internet access via cable TV as being a niche product. According to calculations by market research institute IDC, DSL technology will continue to dominate the German broadband market in the coming years with a market share of some 90 percent. Given this backdrop, it is likely that wireless technologies like WLAN and WiMAX will only be able to penetrate niche markets in the years to come. Although under certain conditions WiMAX affords double-digit megabit transfer speeds that are comparable to those of ADSL2+, it necessitates building an infrastructure of its own. In view of the nationwide availability of DSL, it would be very difficult to amortize this kind of capital expenditure.
QSC views Wireless Local Loop (WLL) technology as a valuable supplement to its own portfolio of products and services; with the acquisition of Broadnet, the Company also acquired a WLL network in 42 regions. This will also afford access to locations that are not connected to the QSC network.

Competition • The German DSL market is seeing a concentration on only a few strong providers. QSC is analyzing the changing competitive situation very closely, yet views itself as being well aligned as an infrastructure provider. In its wholesale business, the Company is benefiting from its focus on business with enterprise customers because, in contrast to its competitors, this prevents conflicts of interest from arising with respect to addressing residential consumers.

A substitute for conventional voice telephony • Voice over IP and flat rate offerings heightened price competition in conventional voice telephony during the past fiscal year. Thanks to expansion of its IP-capable Next Generation network early on, QSC is ready for this change, although it will have to accept short-term losses in conventional voice business. Medium-term, QSC anticipates new growth potential stemming from VoIP telephony and other IP-based services.

Regulatory environment: The standard local loop offer • The decisions of the German Federal Network Agency (Bundesnetzagentur) can have both an indirect and direct influence on QSC's competitive position and market. This applies, in particular, with respect to decisions that intervene directly in those markets in which QSC procures preliminaries or in which QSC actively competes against market-dominating Deutsche Telekom. In 2007, for example, the failure of DTAG to provide sufficient unbundled local loops, to meet demand impaired the business activities of QSC and other market players. Although the review proceedings relating to the standard local loop offer had been ongoing since 2005, they were not concluded until December 21, 2007, through a decision by the German Federal Network Agency.

The new standard offer improves QSC's situation, especially with regard to planning flexibility and the opportunity that is now available of imposing major sanctions for inadequate performance, yet any number of more far-reaching improvements were not ordered. In addition, the risk exists that DTAG might win its lawsuit against the decision at the Administrative Court of Cologne, either temporarily putting these improvements on ice or eliminating them entirely. However since under public pressure the number of local loops provided had already increased significantly in the fourth quarter of 2007 and in January 2008, QSC assumes that the bottlenecks will gradually be overcome during the course of fiscal year 2008.

QSC expects local loop bottlenecks to be gradually overcome in 2008

Bitstream access • The decision relating to the fees for bitstream access is also scheduled to be made in 2008. Following the decision on the final nature of the standard offer in the first quarter of 2008, a decision on the amount of the fee is expected in the second quarter. QSC is a competitor to DTAG on symmetric and asymmetric bitstream markets. Should the German Federal Network Agency stipulate an inordinately low regulated fee for bitstream access as a result of a very narrow interpretation of the principle of efficient service provision costs, the margins that QSC will be able to achieve on these markets could in some cases be significantly reduced. However the Company anticipates that a price that is based upon DTAG's costs will continue to enable sufficient margins to be achieved. Moreover, the regulatory authority is expected to continue to remain true to its previous line and take the concerns of the competitors, and in particular the alternative infrastructure providers, sufficiently into consideration.

Reduction in the number of regulated markets • During the course of 2008, the work of the German Federal Network Agency will be characterized by the effects of the elimination of eleven markets from the list of those markets where observation by the national regulatory authorities is mandated. While the German Federal Network Agency will continue to be able to also analyze these previously regulated markets and initiate measures, there could be a sharp rise in the time and effort required for justification, as well as in potential political resistance to these measures. However the public discussion relating to the failure to provide sufficient local loops ultimately showed that DTAG is now acting in greater conformity with the needs of the market as a result of public pressure. Like all alternative providers, QSC will therefore precisely observe DTAG's competitive behavior during the current fiscal year, and acting either alone or with the aid of the pertinent associations will call attention to abuses and push for their swift elimination.

Competitive behavior of Deutsche Telekom • As an infrastructure provider, QSC is significantly less dependent on former monopolist DTAG's reselling prices than the majority of the Company's competitors. Nevertheless, an aggressive pricing policy on the part of DTAG in connection with both the required preliminaries and the consumer market, in particular, could have a negative impact on the margin situation in the German telecommunications market outside the limits governed by cartel law and regulation. QSC continues to count on viable supervision by the German Federal Network Agency and the European Commission. The Company, itself, is playing an active role in this connection within the framework of intensive talks and through commentaries on various proceedings.

The planned VDSL network • Another risk consists of DTAG's improved DSL network, the VDSL network. To offset its investments in increasing the speed of this network, DTAG is asking that regulatory requirements and the commitment to provide other market players with VDSL access be waived. In doing so, it is basing its argumentation upon the new § 9 a of the German Telecommunications Modification Act that went into force in February 2007. This legislation calls for new markets to be excluded from regulation unless, for example, a fact-based long-term risk to competition would necessitate regulation. Should this endeavor succeed, DTAG would be given a virtual monopoly on broadband communication lines with speeds in excess of 25 MBit/s. In an initial step, the German Federal Network Agency would appear to have yielded to political pressure and excluded VDSL-based bitstream products from the current bitstream access standard offer proceedings. However, the question of whether improvement of DTAG's existing network, which was financed in the days of its monopoly position, through VDSL is covered by § 9 a is controversial, as this network only involves equipping additional locations with a different development version of ADSL2+ technology (VDSL2 in this case). The European Commission has clarified that it will continue to refuse to tolerate monopolies within the single European market and will therefore insist on competitor access to DTAG's entire DSL network at all levels; it has already filed corresponding lawsuits at the European Court of Justice (ECJ).
Aside from the outcome of this decision, DTAG's VDSL offerings are primarily aimed at residential customers, and thus essentially only indirectly impact QSC's wholesale business operations. It is expected that the Company's wholesale partners will continue to be able to meet the market's demand for services with their ADSL2+ offerings in 2008 and beyond.

Expansion of wholesale business • Wholesale business poses the risk of being dependent upon the success of the Company's marketing partners, as they are responsible for sales and marketing to consumers. The success of these partners in the consumer market could also result in an extremely high volume of new orders at QSC, necessitating both high-quality yet efficient handling of a large volume of customer data and tying up corresponding resources.
Moreover, a high volume of orders necessitates the availability of a corresponding volume of unbundled local loops as well as the scalability of QSC's interfaces to DTAG, which has to provide these local loops. Last year, QSC implemented any number of measures to enable it to organizationally manage strong growth in wholesale business, and at the outset of fiscal year 2008 the Company views itself as being well aligned for the anticipated further dynamics in this strategic line of business. In addition to the gradual increase in the local loop capacity made available by DTAG, the decision by the German Federal Network Agency on the new standard local loop offer will provide a good basis for the growth the Company is striving for.

QSC well aligned for further growth in wholesale business

The DSL mass market in which QSC's wholesale partners operate is additionally characterized by consolidation pressure. The risk exists that medium-term one or more wholesale partners might no longer be active in this line of business or might be acquired. This would strengthen the market power of the remaining wholesale partners and reduce the number of potential partners. However QSC views this risk as being manageable, as it has contracts in place today with all major competitors who do not possess their own nationwide infrastructures, such as HanseNet, freenet and 1&1. The Company does not generate more than 10 percent of its total revenues with any of these providers. In addition, QSC is the sole infrastructure provider that is not competing against its wholesale partners by actively marketing a consumer brand of its own.

QSC the only network provider that does not compete against wholesale partners

Penalties in project business • Within the framework of projects for large accounts and its wholesale/reseller partners, QSC enters into contracts that assure certain service levels, some of which involve potential penalties. This results in the risk of high recourse entitlements and expenses stemming from interruptions. This risk is minimized through intensive service level management, contractual agreements and consistent monitoring of the entire network on a three-shift basis. QSC has thus far been able to assure the satisfaction of nearly all service level agreements.

The way QSC is financed • As of December 31, 2007, QSC possessed liquid assets totaling € 79.4 million. However, aggressive price competition, a sustained recession or a potentially active role in the consolidation of the German DSL market could result in the need for additional funding. The successful placement of QSC shares in connection with the acquisition of a majority interest in Broadnet documented the willingness on the part of the capital market to embrace QSC's financing activities. The Company's strong and profitable growth, as well as its rising cash flow surpluses from operating activities, further reduce this risk.

QSC's own infrastructure • Through the establishment of Plusnet GmbH & Co. KG by QSC and TELE2 as a joint-venture network operating company, the vast majority of the risks in connection with the Company's network infrastructure are now being shouldered by Plusnet. Nevertheless, outages in the DSL network pose a risk to the entire QSC Group and its business operations. Within the framework of the group-wide risk management system, the risks faced by QSC's subsidiaries are therefore also taken into consideration. A potential network outage is a risk that is constantly monitored. In addition to a potential loss of image, the risk of indemnification claims or high penalties, in particular, following extended, widespread outages could result in corresponding expenses. Consequently, maintaining and constantly improving security and reliability throughout the network enjoys the utmost priority within the framework of QSC's business operations. The Company relies on redundancies within its network in this connection. Air conditioning equipment prevents potential heat-related hardware failures, while firmly defined access authorizations to all colocation rooms prevent misuse or sabotage. Through these and any number of further measures, the Company sees itself as being very well equipped for smooth DSL operations.

The Plusnet shareholder structure • Plusnet is a joint network operating company of QSC and TELE2, from which these two companies procure preliminaries for DSL products at full cost. The risk exists that one of the shareholders might withdraw from this joint venture and/or from DSL business. However the contract signed in July 2006 will run until at least year-end 2013.
Moreover, decisions at this subsidiary, relating to network expansion, for example, must be made through mutual agreement by the shareholders, and could therefore influence the magnitude of capital expenditures within the QSC Group, which fully consolidates Plusnet. However Plusnet will conclude the agreed network expansion to nearly 2,000 central offices in fiscal year 2008, which is why QSC is convinced that no further material risks will be attributable to this joint venture in the coming years.

Criminal intrusions into QSC systems • Unauthorized intrusions into QSC's IT network in the form of viruses, Trojan horses or hackers could result in considerable damage, for example through data manipulation or file deletion. The same also applies with respect to insufficient data protection and uncontrolled access to QSC data centers. In the event of an outage of the operative IT systems, it would not be possible to handle new orders or resolve system interruptions; the resulting monetary damages and loss of reputation could be significant. To mitigate these kinds of risks, QSC has put in place special security coordinators in its IT operations. These coordinators bear the primary responsibility for a sophisticated security concept, which includes up-to-date firewalls and a multi-tier virus protection concept and results in virtually complete avoidance of the above-described risks. In addition, the Company-wide IT security policy provides all QSC employees with concrete guidance for avoiding IT security risks. As a result of all of these measures, IT security risks can be viewed as being under control according to reasonable standards.

IT security risks can be viewed as being under control

Loss of data • Operating errors, hardware defects or the destruction of the data center through an attack or natural disaster can result in a loss of business-critical data. The lack of data backups could increase this kind of risk. Growing volumes of data stemming from the Company's high pace of growth could additionally push the capacities of the Company's data storage and backup systems to their limits. In any event, a loss of operative data would make it impossible for the Company to operate.
QSC combats these risks through extensive data backup measures. Complete backups are archived for years, and monthly backups are stored in separate physical locations. Central data inventories are automatically backed up daily to tape. A backup robot expands capacities. Thanks to these extensive measures as well as the Company's disaster recovery concept, the risk of data loss can be viewed as being under control.

OVERALL REMARKS ON RISK MANAGEMENT

No major identifiable risks • Given the potential scope of damage and the likelihood that these and further potential risks could occur, it is currently reasonable to say that no risks are identifiable that could lead to a sustained material impairment of the financial or earnings positions of QSC. Organizationally, all equitable prerequisites have been put in place to enable the Company to be informed early on in the event of potential risk situations and take appropriate action.
Nevertheless, as a result of these or other risks and incorrect assumptions, QSC's actual future results could vary materially from the expectations of the Company and its management. All statements contained in these Consolidated Financial Statements that are not historical facts are forward-looking statements. They are based upon current expectations and projections of future events, and are therefore subject to regular review within the context of the risk management system.

Strong Pace of Growth in 2008

GENERAL REMARKS

QSC expects to see revenues rise to between € 385 and € 405 million

QSC planning for EBITDA of between € 50 and € 60 million • After gradually overcoming the bottlenecks in the provision of preliminaries and accelerating its order handling, QSC is planning to resume its strong and profitable growth in the coming fiscal year and beyond: For 2008, the Company anticipates revenues of between € 385 and € 405 million and an EBITDA of from € 50 to € 60 million. Despite growing depreciation expense, the Company aims for a break-even net result. For 2009, the Company anticipates a further growth in revenues and EBITDA.

In 2008, QSC expects to see its strongest revenue growth in wholesale business. During the further course of the fiscal year, the Company will also be tapping into new revenue potential at large accounts and business customers by specifically expanding its Managed Services business.

In addition, QSC is planning capital expenditures of between € 60 and € 80 million, of which customer-related capital spending will account for around 70 percent.

FUTURE GENERAL ECONOMIC SITUATION

Slowdown in growth • There will be a slowdown in the economic upswing in Germany in 2008, with most economic researchers calling for growth of less than two percent. Given these weaker expectations, it is likely that there will also be a weakening of willingness to invest on the part of enterprises in Germany.

The telecommunications industry is likely to continue to see two-track development: Sustained growth in broadband business, on the one hand, and an anticipated decline in revenues in conventional voice business, on the other. However market observers expect to see a weakening of price competition in voice telephony during the current fiscal year, with the prices of standard products for residential customers bottoming out.

FUTURE INDUSTRY SITUATION

3.5 million new DSL connections • The strong demand for DSL connections will be sustained in 2008 and beyond. Various investment banks are predicting that the number of DSL connections in Germany will rise by around 3.5 million to more than 22 million in the current fiscal year, with this number further increasing to nearly 28 million by 2011. Residential households will account for the majority of these new connections, as not even fifty percent of them today have broadband Internet access. QSC will benefit from this anticipated dynamic growth through its wholesale partners with their mass-market experience.

Market research institute IDC is calling for the number of DSL connections at enterprises in Germany to rise by a further 200,000 during the current fiscal year to 2.7 million. Enterprises are increasingly opting to integrate voice and data services over one and the same DSL line through the utilization of Voice over IP technology. By 2011, the number of VoIP connections at German enterprises is expected to nearly quadruple to more than 10 million.

Number of enterprise VoIP connections to quadruple by 2011

The growing demand for VoIP will also strengthen Managed Services business; by 2011, the market volume in Germany is expected to increase to more than € 2.1 billion. In this connection, IDC is forecasting a market volume of € 1.5 billion for IP-VPN solutions by the year 2011. Given the IDC data, QSC expects to see revenues for network-related services triple to € 0.6 billion by the year 2011.

ANTICIPATED PROFITABILITY

New revenue potential through Managed Services • QSC expects to see significant revenue growth in all three of its strategic segments during the current fiscal year. In this connection, the Company is planning the highest growth rates in its Wholesale/Reseller business, especially in connection with its wholesale partners. By specifically expanding its Managed Services business and through the introduction of the new Software as a Service concept, the Company will also be tapping into new, high-margin revenue potential in the segments of Large Accounts and Business Customers in 2008 and beyond. Growth in all three segments during the current fiscal year will further increase the percentage of total revenues attributable to these segments to nearly 90 percent, and lead to a further improvement in the quality of the Company's revenues.

This improved revenue quality will again make for a disproportionately high rise in EBITDA for the current fiscal year. The fact that there will be virtually no change in the absolute level of administrative and selling expenses and that their share of total revenues will decline will additionally contribute to this sharp rise in operating profit. While the high level of customer-related capital expenditures and those employed to increase capacities will lead to a further increase in depreciation and amortization expense in the current fiscal year, the Company is nevertheless aiming for a break-even net result.

ANTICIPATED FINANCIAL SITUATION

Network expansion largely concluded • In fiscal year 2007, QSC had already made the lion's share of the capital expenditures for network expansion to nearly 2,000 central offices, and possessed liquid assets in the amount of € 79.4 million as of December 31, 2007. With this liquidity, the Company sees itself well funded for the growth it anticipates during the current fiscal year. In this connection, rising cash flow surpluses from operating activities will continue to be offset by the cash burn for investing activities. However in the case of customer-related capital expenditures, which will account for around 70 percent of planned capital expenditures for 2008, in a large number of instances it will only be necessary for QSC to advance the necessary cash, after which it will swiftly bill its customers for this capital spending.

OPPORTUNITIES FOR QSC

Network expansion will strengthen strategic segments • The expansion of the DSL network to nearly 2,000 central offices, which will be concluded during the course of fiscal year 2008, will strengthen QSC's competitive position in the Large Accounts, Business Customers and Wholesale/Reseller segments in the years to come. Because following this network expansion, QSC will then be able to directly connect more enterprise customers and their locations to its network and to do it significantly more cost-effectively. At the same time, direct customer access is the key prerequisite for being able to offer high-quality Managed Services and provide Software as a Service options over its own network.

Next Generation Network will strengthen VoIP business • The swift inroads that are being made by Voice over IP technology at German enterprises will be sustained in 2008 – voice and data communication over a single DSL line is increasingly developing into the standard. QSC is benefiting from this development, as it had upgraded its entire infrastructure to an IP-based Next Generation Network very early on. Given this foundation, QSC will sustain the gentle migration of its existing traditional voice telephony customers in 2008, thus increasing the share accounted for by VoIP telephony. With this migration to its NGN, QSC will additionally be able to achieve considerable cost savings, as an NGN is significantly easier and more cost-effective to maintain and operate than conventional networks.

NGN more cost-effective to maintain and operate than conventional networks

Wireless Local Loop the ideal supplement to the network • With the acquisition of Broadnet, QSC acquired a wireless broadband network offering speeds of up to 400 Mbit/s in 42 German regions. During the current fiscal year, QSC will be offering direct access via this network, as well, thus further increasing its network coverage in Germany. Moreover, the Company is now able to map two independent, redundant networks over its own infrastructure for mission-critical applications of its enterprise customers, thus further enhancing the level of security.

Integration of Broadnet • Official registration of the merger of Broadnet and QSC on October 31, 2007, concluded the formal integration of this former subsidiary. During the current fiscal year, QSC will be bundling its competencies in Voice over IP and WLL, in particular, at Broadnet's former Hamburg location in order to then be able to make even better use of the growth potential in these two forward-looking markets. On the cost side, QSC is already anticipating positive synergy effects totaling between € 4 and € 5 million for the current fiscal year.

Positive synergy effects of between € 4 and € 5 million by as early as 2008

Increasing value creation at large accounts and business customers • During the current fiscal year, QSC will be building upon its expanded network as well as its Next Generation Network to broaden its Managed Services offerings for enterprises of every size. The primary focus will be on high-quality services like the provision of virtual telephone systems in the network. These solutions will make for even greater customer loyalty, will increase QSC's own value creation and will simultaneously enable attractive margins to be achieved.

Strong demand for unbundled local loops • It was found during the course of fiscal year 2007 that the only way to achieve attractive margins for wholesale partners of DSL lines is through offerings that are based upon unbundled local loops. QSC will benefit greatly from this trend in its wholesale business during the current fiscal year – a major share of the lines offered by wholesellers who do not possess their own infrastructure in Germany is likely to be run via alternative infrastructure providers like QSC. An additional advantage will prove to be that, in contrast to other infrastructure providers, QSC made a conscious decision not to push its own residential customer products in the marketplace, thus enabling the Company to serve as an unbiased wholesale partner.

SUBSEQUENT EVENTS

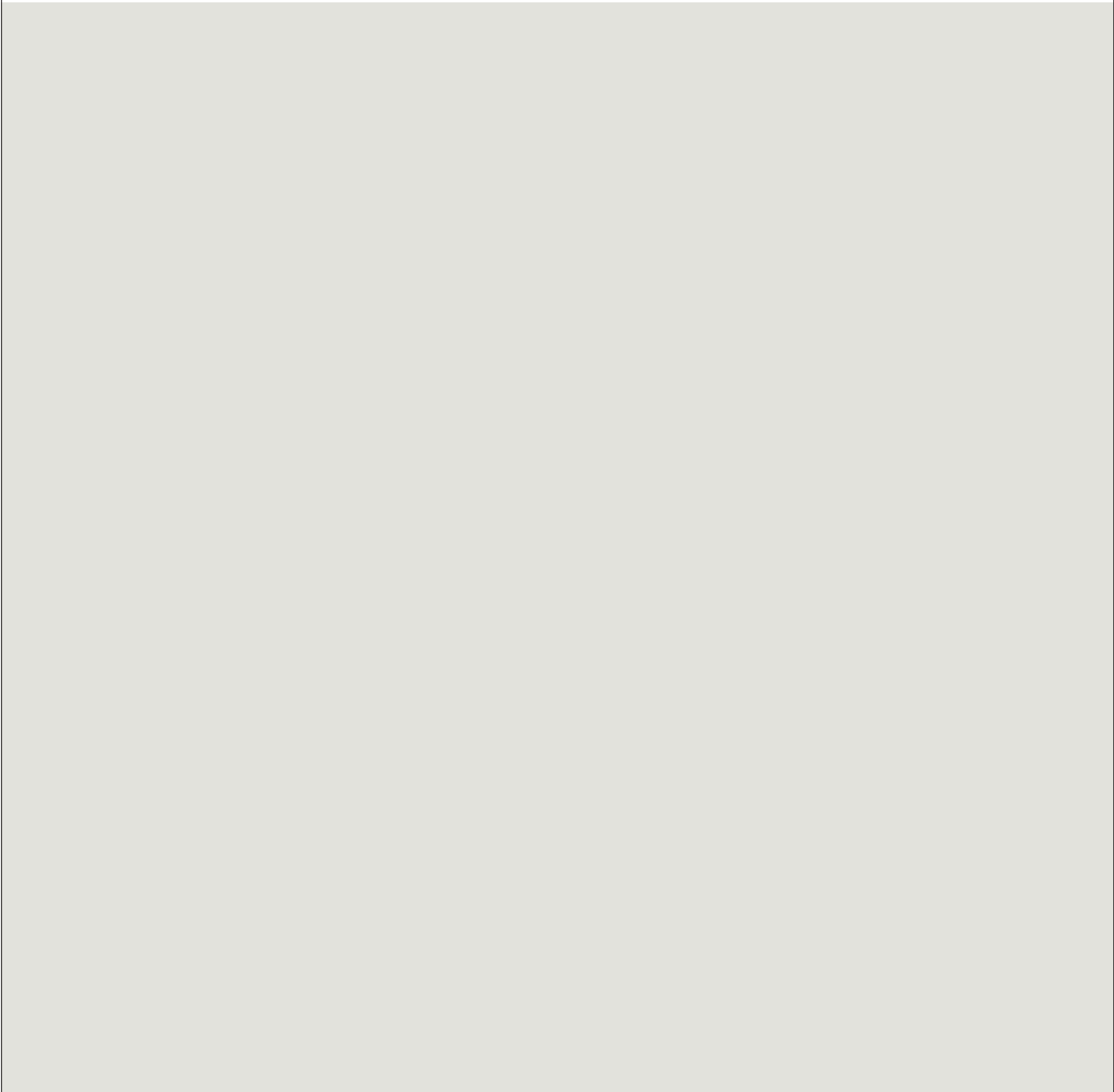
No events or transactions have occurred since December 31, 2007, or are pending that would have a material effect on the consolidated financial statements for the period then ended.

Cologne, March 19, 2008

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf



Financial Report

Sustained growth, the network expansion project and the first full-year consolidation of Broadnet are what characterize QSC's 2007 annual financial statements. They also document the Company's operating profitability as well as its sound financing.

Consolidated Financial Statements

CONSOLIDATED INCOME STATEMENT

Euro amounts in thousands (T €)

Notes	No.	2007	2006
Net revenues	7	335,195	262,522
Cost of revenues	8	(259,339)	(203,600)
Gross Profit		75,856	58,922
Selling and marketing expenses	9	(50,725)	(43,099)
General and administrative expenses	10	(36,397)	(25,518)
Research and development expenses	11	(185)	(214)
Other operating income	12	1,674	2,891
Other operating expenses	12	(785)	(158)
Operating loss		(10,562)	(7,176)
Financial income	13	3,554	2,205
Financial expenses	13	(3,976)	(2,234)
Net loss before income taxes		(10,984)	(7,205)
Income taxes	43	627	1,859
Net loss		(10,357)	(5,346)
Attributable to:			
Equity holders of the parent		(10,357)	(5,416)
Minority interest	39	-	70
Earnings per share (basic and diluted) in €	14	(0.08)	(0.04)

CONSOLIDATED BALANCE SHEETS

Euro amounts in thousands (T €)

	Notes No.	Dec. 31, 2007	Dec. 31, 2006
ASSETS			
Long-term assets			
Property, plant and equipment	16	131,224	61,489
Goodwill	17	50,014	47,450
Other intangible assets	19	25,599	18,051
Other long-term financial assets		356	160
Deferred tax assets	43	8,099	6,403
Long-term assets		215,292	133,553
Short-term assets			
Trade receivables	20	64,944	52,778
Prepayments	21	3,420	1,099
Other short-term financial assets	22	8,877	3,566
Available-for-sale financial assets	23	5,276	62,927
Cash and short-term deposits	24	74,132	45,986
Short-term assets		156,649	166,356
TOTAL ASSETS		371,941	299,909

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes No.	Dec. 31, 2007	Dec. 31, 2006
Shareholders' Equity			
Equity attributable to equity holders of the parent			
Capital stock	25	136,358	133,898
Capital surplus	26	562,501	557,961
Other reserves	28	(289)	(1,286)
Accumulated deficit		(544,095)	(533,697)
Equity attributable to equity holders of the parent		**154,475**	**156,876**
Minority interest	39	-	3,674
Total Shareholders' equity		**154,475**	**160,550**
Liabilities			
Long-term liabilities			
Long-term liabilities of other shareholders	31	56,898	49,860
Long-term portion of finance lease obligations	29	23,059	16,044
Convertible bonds	41	27	36
Accrued pensions	30	760	721
Other long-term liabilities	29	3,964	-
Deferred tax liability	43	6,461	5,084
Long-term liabilities		**91,169**	**71,745**
Short-term liabilities			
Trade payables	32	74,129	42,082
Short-term portion of finance lease obligations	29	20,360	13,443
Liabilities due to banks	29	5,000	-
Provisions	33	1,064	1,512
Deferred revenues	34	12,493	4,510
Other short-term liabilities	35	13,251	6,067
Short-term liabilities		**126,297**	**67,614**
Total liabilities		**217,466**	**139,359**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**371,941**	**299,909**

CONSOLIDATED CASH FLOW STATEMENT

Euro amounts in thousands (T €)

Notes	No.	2007	2006
Cash flow from operating activities	36		
Net loss before income taxes		(10,984)	(7,205)
Depreciation and amortization		44,519	27,650
Non-cash share-based payments		1,568	1,014
Loss/(Gains) from disposal of long-term assets		(11)	69
Changes in provisions		(559)	(877)
Changes in trade receivables		(12,166)	(15,181)
Changes in trade payables		32,049	6,356
Changes in other financial assets and liabilities		1,894	(92)
Cash flow from operating activities		**56,310**	**11,734**
Cash flow from investing activities	37		
Purchase of available-for-sale financial assets		(24,907)	(59,192)
Disposal of available-for-sale financial assets		84,104	21,766
Payments related to acquisitions	39	(1,062)	20,197
Purchases of intangible assets		(17,279)	(6,076)
Purchases of property, plant and equipment		(77,932)	(13,148)
Proceeds from disposal of assets		-	47
Cash flow from investing activities		**(37,076)**	**(36,406)**
Cash flow from financing activities	38		
Changes in convertible bonds		(9)	(24)
Assumption of minority interest liabilities		6,436	49,860
Proceeds from issuance of common stock		1,347	3,732
Assumption of other short and long-term liabilities		9,404	-
Payments related to financing acitivities		-	(2,751)
Disposal of loans granted		5,000	-
Repayments of finance lease		(13,267)	(10,472)
Cash flow from financing activities		**8,911**	**40,345**
Change in cash and short-term deposits		**28,146**	**15,673**
Cash and short-term deposits at January 1		45,986	30,313
Cash and short-term deposits at December 31		**74,132**	**45,986**
Interest paid		3,865	1,474
Interest received		3,975	1,095

CONSOLIDATED STATEMENT OF RECOGNIZED INCOME AND EXPENSES

Euro amounts in thousands (T €)

	2007	2006
Directly recognized in equity		
Changes in accrued pensions	40	165
Available-for-sale financial assets		
change in fair value	1,417	(185)
realized losses	-	(40)
Apportionable to tax effect	(460)	131
Directly recognized in equity	**997**	**71**
Net loss	(10,357)	(5,346)
Net loss and recognized income and expenses	**(9,360)**	**(5,275)**
Attributable to:		
Equity holders of the parent	(9,360)	(5,344)
Minority interest	-	69

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Euro amounts in thousands (T €)

		Equity attributable to equity holders of the parent				
Notes	No.	Capital stock T €	Capital surplus T €	Other capital reserves T €	Accumulated deficit T €	Total T €
Balance at December 31, 2005		**115,033**	**499,643**	**(1,357)**	**(528,281)**	**85,038**
Net loss					(5,416)	(5,416)
Income and expenses directly recognized in equity	28			71		71
Net loss and recognized income and expenses						**(5,345)**
Issuance of common stock by assets in kind	25	16,382	56,375			72,757
Conversion of convertible bonds	41	2,483	1,252			3,735
Non-cash share-based payments	41		691			691
Change in minority interest	39					-
Balance at December 31, 2006		**133,898**	**557,961**	**(1,286)**	**(533,697)**	**156,876**
Net loss	28				(10,357)	(10,357)
Income and expenses directly recognized in equity				997		997
Net loss and recognized income and expenses						**(9,360)**
Issuance of common stock by assets in kind	25	1,347	3,351			4,698
Conversion of convertible bonds	41	1,113	234			1,347
Non-cash share-based payments	41		955			955
Change in minority interest	39				(41)	(41)
Balance at December 31, 2007		**136,358**	**562,501**	**(289)**	**(544,095)**	**154,475**

Minority interest T €	Total Share-holders' Equity T €	
-	**85,038**	**Balance at December 31, 2005**
70	(5,346)	Net loss
	71	Income and expenses directly recognized in equity
	(5,275)	**Net loss and recognized income and expenses**
	72,757	Issuance of common stock by assets in kind
	3,735	Conversion of convertible bonds
	691	Non-cash share-based payments
3,604	3,604	Change in minority interest
3,674	**160,550**	**Balance at December 31, 2006**
	(10,357)	Net loss
	997	Income and expenses directly recognized in equity
	(9,360)	**Net loss and recognized income and expenses**
	4,698	Issuance of common stock by assets in kind
	1,347	Conversion of convertible bonds
	955	Non-cash share-based payments
(3,674)	(3,715)	Change in minority interest
-	**154,475**	**Balance at December 31, 2007**

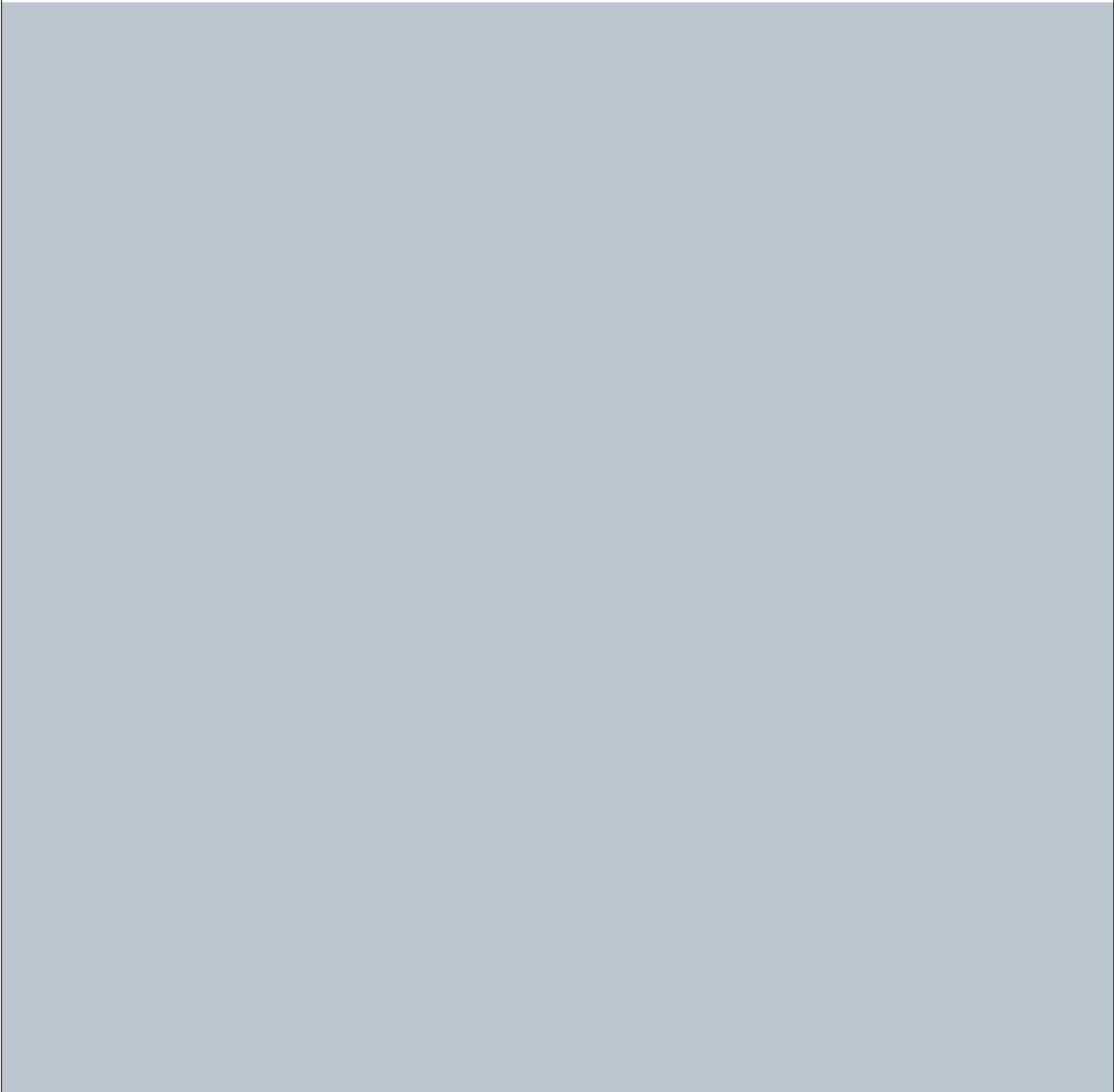
Audit Opinion

We have audited the consolidated financial statements prepared by QSC AG, Cologne, Germany, comprising the balance sheet, the income statement, the statement of changes in equity, the statement of recognized income and expense, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2007. The preparation of the consolidated financial statements and group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.
We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.
In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks relating to future development.

Eschborn/Frankfurt am Main, Germany, March 19, 2008
Ernst & Young AG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Bösser	Janssen
Wirtschaftsprüfer	Wirtschaftsprüfer



Notes to the Consolidated Financial Statements for Fiscal Year 2007

CORPORATE INFORMATION

QSC AG (QSC, the Company or the Group) is a nationwide telecommunications provider with its own DSL network that offers comprehensive broadband communication to business customers and residential customers: From leased lines in a variety of bandwidths to voice and data services to networking of enterprise locations.
QSC is a stock corporation registered in the Federal Republic of Germany whose legal domicile is Mathias-Brüggen-Strasse 55, 50829 Cologne, Germany. The Company is carried on the Register of Companies of the Local Court of Cologne under Number HRB 28281. QSC has been listed on the Deutsche Börse Stock Exchange since April 19, 2000, and on the Prime Standard since the beginning of 2003 following the reorganization of the equity market. On March 22, 2004, QSC was added to the TecDAX index, which includes the 30 largest and most liquid technology issues in the Prime Standard.

GENERAL PRINCIPLES

1 Basis of preparation

According to the rules of § 315a (1) of the German GAAP (HGB) in combination with article 4 of the regulation (EG) number 1606/2002 of the European Parliament and the council dated July 19, 2002, the Company is required to prepare the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), and is thus exempt from preparing consolidated financial statements in accordance with the German GAAP. The consolidated financial statements are prepared on a historical cost basis, except for available-for-sale financial assets, which have been measured at fair value. The consolidated financial statements of QSC have been prepared in accordance with the International Financial Reporting Standards (IFRS) that are required to be applied in the EU, and the supplementary rules of § 315a (1) HGB. The consolidated financial statements have been prepared in accordance with the IFRS and International Accounting Standards (IAS) issued by the International Accounting Standards Board (IASB) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC – originated from the former Standing Interpretations Committee, SIC) and which are mandatory at the balance sheet date. The financial year of QSC and its subsidiaries (the Group) corresponds to the calendar year. The consolidated financial statements are presented in euros and all amounts, except when otherwise indicated, are rounded to the nearest thousand (T €). The consolidated financial statements of QSC for the year ended December 31, 2007, were prepared on March 19, 2008, and presented to the Supervisory Board for review and approval.

2 Basis of consolidation

The consolidated financial statements comprise the financial statements of QSC and its subsidiaries as of December 31 each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated in full. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Minority interests represent the portion of profit or loss and net assets not held by the Group and are presented separately in the income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the book value of the share of the net assets acquired is recognized as goodwill. The subsidiaries and associated companies that are included in the consolidated financial statements are listed in Note 39.

3 Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year except as follows:
QSC has for the first time adopted the following new and amended IFRS and IFRIC interpretations during the financial year. Adoption of these revised IFRS and IFRIC interpretations did not have any material effect on the financial statements of the Group. They did however give rise to additional note disclosures.

- IFRS 7 – Financial Instruments: Disclosures
- Changes in IAS 1 – Presentation of Financial Statements
- IFRIC 8 – Scope of IFRS 2
- IFRIC 9 – Reassessment of Embedded Derivatives
- IFRIC 10 – Interim Financial Reporting and Impairment

- IFRS 7 – Financial Instruments: Disclosures
  This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The resulting new disclosures are relevant to the entire financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

- Changes in IAS 1 – Presentation of Financial Statements
  This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 45.

- IFRIC 8 – Scope of IFRS 2
  This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods and services received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to employees in accordance with the employee stock option programs, the interpretation had no impact on the financial position or results of the Group.

- IFRIC 9 – Reassessment of Embedded Derivatives
  IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation had no impact on the financial position or results of the Group.

- IFRIC 10 – Interim Financial Reporting and Impairment
  The Group has for the first time adopted IFRIC Interpretation 10 as of January 1, 2007, which requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Group had no impairment losses previously reversed, the interpretation had no impact on the financial position or results of the Group.

4 Significant judgments and estimates

The application of accounting policies requires the use of judgments as well as of forward-looking assumptions and estimates. Actual results may differ from those assumptions and estimates, with the result that there is a substantial risk that a significant adjustment to the carrying amounts of assets and liabilities could become necessary within the coming fiscal year. The use of judgments, assumptions and estimates was necessary in particular for the accounting treatment of the following items:

Impairment of non-financial assets • The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Impairment is determined for goodwill by assessing the recoverable amount of the cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating units is less than their carrying amount an impairment loss is recognized. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumptions, are given in Note 18.

Deferred tax assets • Deferred tax assets are recognized for all temporary differences, as well as for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As of December 31, 2007, the carrying value of recognized tax losses was € 477 million (2006: € 420 million). Further details are contained in Note 43.

Pension and other post employment benefits • The cost of defined benefit pension plans and other post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.
Management has made the judgment that actuarial gains and losses are recognized directly in equity in other reserves. The net employee liability as of December 31, 2007, is T € 760 (2006: T € 721). Further details are given in Note 30.

Share-based payments • The expense recognized for share-based remuneration, in cases where equity instruments are used to remunerate work performed, is measured using an appropriate option price model. The computation uses assumptions relating to the risk-free interest rate relevant for the duration of the option, the expected dividend to be paid and expected market price volatility. Due to the long-term nature of these remuneration arrangements, the estimates used are subject to significant uncertainties. As of December 31, 2006, the amounts, recognized in the future in profit or loss, totaled T € 840 (2006: T € 1,124).

Trade receivables • Trade receivables are presented in the balance sheet net of allowances. Allowances for doubtful debts are measured on the basis of regular reviews and assessments which are performed in conjunction with credit monitoring. The assumptions applied to reflect future payment behavior and customer creditworthiness are subject to significant uncertainties. As of December 31, 2007, allowances totaling T € 4,367 (2006: T € 4,775) were recognized on trade receivables.

Provisions • A provision is recognized when the Group has a legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to the settle the obligation and a reliable estimate can be made of the amount of the obligation. Such estimates are subject to significant uncertainties. As of December 31, 2007, provisions totaling T € 1,064 (2006: T € 1,512) were recognized in the balance sheet.

5 Summary of significant accounting policies

Revenue recognition • Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

- Revenue from services is recognized when the service has been provided. Services that have not been provided completely or throughout the entire reporting period, respectively, are recognized at the balance sheet date on a time-apportioned basis with regard to the stage of completion.
- Revenue from the installation of customer lines is deferred and recognized on a time-apportioned basis over an average contractual term of 24 months.

- Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods.
- Revenue is recognized as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Foreign currency translation • The consolidated financial statements are presented in Euro, which is the Company's functional and presentation 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 the income statement.

Property, plant and equipment • Plant and equipment is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The cost of day-to-day servicing includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated using the straight-line method over the useful lives of the assets.
Plant and equipment that consists of different components which can be separated clearly and that have different useful lives, are split up for the purpose of depreciation. For the calculation of depreciation the different useful lives are used. The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognized.
The asset's residual values, useful lives and methods are reviewed, and adjusted if appropriate, at each financial year end. When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

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

	Useful life in years
Asset	
Network equipment and plant	5 to 8
Leasehold improvements	8 to 10
Electronic communication equipment	1 to 5
Operational and office equipment	3 to 13

Borrowing costs • Borrowing costs are recognized as an expense when incurred.

Business combinations and goodwill • Business combinations are accounted for using the acquisition accounting method. This involves recognizing identifiable assets and liabilities of the acquired business at fair value.
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.
Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill and other indefinite life intangibles are tested for impairment annually and at other times when such indicators exist.
For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units. The cash generating units to which the goodwill is allocated by QSC correspond to the segments, which are determined by the group's primary reporting format.

Other intangible assets • Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred.
The useful lives of intangible assets are assessed to be either finite or indefinite.
Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.
Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.
QSC's intangible assets relate primarily to software, licenses and similar rights as well as one-time costs to switch on customer lines. The Company amortizes licenses over a period of ten years and software over a period of four years. Non-recurring costs incurred to initial switch on customer lines are amortized over an average contractual period of 24 months.

Investments and other financial assets • Financial assets within the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. QSC determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.
All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

- Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit and loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognized in the income statement.

- Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the receivables are derecognized or impaired, as well as through the amortization process.

- Held-to-maturity investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which QSC has the positive intention and ability to hold to maturity. After initial measurement held-to-maturity investments are measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

- Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity in the net unrealized gains reserve. When the investment is disposed of, the cumulative gain or loss previously recorded in equity is recognized in the income statement.

Cash and short-term deposits • Cash and short-term deposits in the balance sheet comprise cash at banks and at hand and short-term deposits with an original maturity of three months or less.

Provisions • Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Pensions • QSC operates two defined benefit pension plans. The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized directly in equity in other reserves. The assumptions that were made by the Company to evaluate the actuarial obligations are specified in Note 30.

Stock option programs • QSC's employees may also receive share-based remuneration in the form of equity instruments in return for work performed. The expense of issuing these equity instruments (based on the stock option programs resolved or modified after November 7, 2002) are measured on the basis of the fair value of the equity instrument at the grant date using an appropriate option price -model. Further details are provided in Note 41. The expense recognized for granting equity instruments (as well as the corresponding increase in equity) is spread over the vesting period of the options. The amount recognized in the income statement reflects the change in the cumulative amount of deferred expense at the beginning and the end of the reporting period. No expense is recognized for remuneration entitlements which cannot be exercised. If the terms and conditions of a share-based remuneration agreement are modified, QSC recognizes as a minimum the level of expense that would have arisen if the terms and conditions had not been modified. If a share-based remuneration agreement is cancelled, QSC accounts for the remuneration agreement as if it had been exercised on the cancellation date. Any previously deferred expense is recognized immediately as an expense in the income statement.

Leases • The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. QSC operates exclusively as lessee.
Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.
Lease arrangements which do not transfer substantially all the risks and rewards incidental to ownership from the Group to the lessee are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

Financial liabilities • All interest-bearing loans and borrowings are initially recognized at fair value less directly attributable transaction costs, and have not been designated 'as at fair value through profit or loss.' After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Taxes • Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.
Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognized for all taxable temporary differences, except:
- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:
- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.
Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.
Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the income statement.
Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.
Revenues, expenses and assets are recognized net of the amount of sales tax except:

- where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

6 Future changes in accounting policies

The IASB and IFRIC have made and published a number of amendments on five existing standards IAS 1, IAS 23, IAS 27, IFRS 2, IFRS 3, and have also issued three new interpretations (IFRIC 12, IFRIC 13, IFRIC 14) which have not been endorsed by the EU yet. Voluntary early adoption by QSC is thus impossible. The new and revised standards become effective for financial years beginning on or after January 1, 2009, at the earliest, whereas the new interpretations become effective for financial years beginning on or after January 1, 2008. Following EU endorsement, it is not expected that applying the new rules or amendments contained in the above-mentioned standards or interpretations will have a material effect on QSC's consolidated financial statements.
IFRS 8 has not been early adopted by the Group, but will be applied from January 1, 2008, onwards.

INCOME STATEMENT DISCLOSURES

7 Net revenues

Revenues are generated with wholesale partners and resellers, as well as with direct customers. The resellers offer QSC's products and services to consumers under their own name and for their own account; in doing so, they serve as the interface to the consumer, thus also assuming the risk of bad debts. The structure of the Company's revenues by segment is shown in Note 40. Revenue from the installation of customer lines is deferred and recognized on a time-apportioned basis over an average contractual term of 24 months.

8 Cost of revenues

	2007 in T €	2006 in T €
Cost of revenues		
Cost of materials	154,081	121,919
Building, operation and maintenance of the network	54,489	47,205
Depreciation and amortization	33,182	23,081
Personnel expenses	17,458	11,300
Non-cash share-based payments	129	95
Cost of revenues	259,339	203,600

Cost of revenues include the cost of materials, the cost of building, operating and maintaining the network, personnel expenses for employees whose jobs relate to technology, non-cash share-based payments under stock option programs, as well as depreciation and amortization on the hardware and software employed in connection with technology operations. Non-recurring costs of provisioning customer connections (i.e. initial switch on customer lines) are capitalized and depreciated over the average contract term of 24 months.

9 Selling and marketing expenses

	2007 in T €	2006 in T €
Selling and marketing expenses		
Personnel expenses	23,541	16,642
Commissions	13,057	12,516
Other selling and marketing expenses	4,493	5,667
Allowance of bad debts and fair dealing payments	2,058	3,870
Advertising expenses and allowances	3,243	2,697
Depreciation and amortization	4,117	1,519
Non-cash share-based payments	216	188
Selling and marketing expenses	**50,725**	**43,099**

Selling and marketing expenses include, in particular, advertising expenses and advertising expense allowances, regular commission payments to dealers and distributors, allowances for bad debts, personnel expenses for sales and marketing employees, as well as depreciation and amortization on the hardware and software employed in connection with selling and marketing operations. Analogously to the provisioning costs, the non-recurring commission payments to dealers and distributors for each new customer line are capitalized and amortized over the average contract term of 24 months.

10 General and administrative expenses

	2007 in T €	2006 in T €
General and administrative expenses		
Other general and administrative expenses	14,897	9,905
Personnel expenses	13,672	12,162
Depreciation and amortization	7,218	3,043
Non-cash share-based payments	610	408
General and administrative expenses	**36,397**	**25,518**

In addition to the personnel expenses for the members of the Management Board and for staff positions, as well as for employees from Finance, Central Purchasing, Human Resources and Legal Operations who work in administration, the general and administrative expenses item also includes costs for the administration buildings, legal and consulting costs, corporate communications costs, including investor relations, as well as depreciation and amortization on the hardware and software employed in connection with administrative operations.

11 Research and development expenses

	2007 in T €	2006 in T €
Research and development expenses		
Personnel expenses	183	207
Depreciation and amortization	2	7
Research and development expenses	**185**	**214**

Research and development expenses essentially consist of the personnel expenses for the employees who work in these operations and expenses stemming from the depreciation and amortization of the hardware and software employed in connection with development operations.

12 Other operating income and expenses

	2007 in T €	2006 in T €
Other operating income		
Miscellaneous operating income	1,466	256
Reversals of unutilized provisions and write-off of liabilities	197	2,621
Gains from disposal of long-term assets	18	14
Other operating income	**1,674**	**2,891**

	2007 in T €	2006 in T €
Other operating expenses		
Miscellaneous operating expenses	785	75
Losses from disposal of long-term assets	-	83
Other operating expenses	**785**	**158**

13 Financial result

	2007 in T €	2006 in T €
Financial income		
Interest income	3,554	2,205
Financial income	**3,554**	**2,205**

	2007 in T €	2006 in T €
Financial expenses		
Interest expenses	3,976	2,223
Losses from exchange rate differences	-	11
Financial expenses	**3,976**	**2,234**

Interest expenses include expenses from finance lease contracts in the amount of T € 3,139.

14 Earnings per share

	2007	2006
Earnings per share (basic and diluted) in €		
Net loss attributable to equity holders of the parent in T €	(10,357)	(5,416)
Weighted average number of common shares	135,119,208	123,992,746
Earnings per share (basic and diluted) in €	**(0.08)**	**(0.04)**

For the purposes of calculating undiluted earnings per share, the profit attributable to the holders of the Company's common stock are divided by the weighted average number of shares of common stock in circulation during the year.
For the purposes of calculating diluted earnings per share, the profit attributable to the holders of the Company's common stock is divided by the sum of the weighted average number of shares of common stock plus the weighted average number of shares of common stock that would arise if all potential shares of common stock with dilutive effect were converted into shares.

This dilutive effect was not taken into consideration for the 2007 and 2006 fiscal years, as QSC had incurred losses during these reporting periods and the adjustment would have resulted in a decrease in losses per share.
During the period between the balance date and the date on which the consolidated financial statements were authorized for issue, no transactions involving existing or potential shares of common stock have occurred which would have significantly changed the weighted average number of issued shares as of December 31, 2007.

15 Personnel expenses and employees

	2007 in T €	2006 in T €
Personnel expenses		
Wages and salaries	49,555	35,560
Social security contribution	4,984	4,316
Net pension costs	315	435
Non-cash share-based payments	955	691
Personnel expenses	55,809	41,002

During fiscal year 2007, the Group had on average 762 employees (2006: 585 employees). The following table provides the number of employees by function.

	2007	2006
Number of employees by function (on average)		
Selling and marketing	179	157
Engineering	355	242
General and administration	199	159
Board and staff positions	29	27
Number of employees by function (on average)	762	585

BALANCE SHEET DISCLOSURES

16 Property, plant and equipment

	Network equipment and plant in T €	Operational and office equipment in T €	Total in T €
Cost			
Cost at January 1, 2006	114,911	25.083	139,994
Additions	25,743	6.304	32,047
Additions by consolidation	17,316	383	17,699
Disposals	(4,017)	(699)	(4,716)
Cost at December 31, 2006	**153,953**	**31,071**	**185,024**
Additions	102,326	2,405	104,731
Disposals	(4,295)	(93)	(4,388)
Cost at December 31, 2007	**251,984**	**33,383**	**285,367**
Accumulated depreciation			
Accumulated depreciation at January 1, 2006	90,633	15,990	106,623
Additions	14,390	6,562	20,952
Disposals	(4,004)	(36)	(4,040)
Accumulated depreciation at December 31, 2006	**101,019**	**22,516**	**123,535**
Additions	28,554	5,333	33,887
Disposals	(3,196)	(83)	(3,279)
Accumulated depreciation at December 31, 2007	**126,377**	**27,766**	**154,143**
Carrying amount at December 31, 2006	**52,934**	**8,555**	**61,489**
Carrying amount at December 31, 2007	**125,607**	**5,617**	**131,224**

The carrying amount of plant and equipment, as well as operational and office equipment held under finance lease and hire purchase contracts totaled T € 29,782 (2006: T € 27,636) at December 31, 2007. Additions during the year amounted to T € 104,731 (2006: T € 32,047). As of December 31, 2007, the line item 'Network and equipment' included assets under construction amounting to T € 6,541 (2006: T € 1,588).
Under the line item 'Accumulated depreciation,' additions in 2007 include non-recurrent depreciation for former central offices of Broadnet in the amount of T € 853.

17 Goodwill

	Goodwill in T €
Cost	
Cost at January 1, 2006	9,265
Additions	38,185
Disposals	-
Cost at December 31, 2006	**47,450**
Additions	2,564
Disposals	-
Cost at December 31, 2007	**50,014**
Accumulated amortization	
Accumulated amortization at January 1, 2006	-
Additions	-
Disposals	-
Accumulated amortization at December 31, 2006	**-**
Additions	-
Disposals	-
Accumulated amortization at December 31, 2007	**-**
Carrying amount at December 31, 2006	**47,450**
Carrying amount at December 31, 2007	**50,014**

Additions in 2007 relate in particular to goodwill arising on the business combination with the remaining shares of Broadnet. Further information is provided in Note 39.

18 Impairment of goodwill

Goodwill acquired in conjunction with business combinations was allocated to the following cash-generating units, which correspond to QSC´s business segments, for the purpose of impairment testing:

	2007 in T €	2006 in T €
Carrying amount of goodwill		
Large Accounts	5,720	5,386
Business Customers	14,675	13,958
Wholesale/Resellers	28,751	27,264
Residential Customers	868	842
Carrying amount of goodwill	**50,014**	**47,450**

The recoverable amount of the Group's cash-generating units is determined on the basis of their value in use, which, in turn, is measured using three-year cash flow forecasts. The latter constitutes a corporate plan that is devised by the Management Board and approved by the Supervisory Board. In the past, the planning period was five years. Due to the competitive environment and changing general conditions in ever shorter periods, management decided to shorten the planning period from five to three years. The growth rate according to the detailed planning period was derived on the basis of expected industry growth rates and the overall development of the economy. Neither the historic growth rates of the cash-generating units (CGU) nor the expected growth rates from the detail planning period can be used to determine growth discount as they are non-representative and lack stability. As a result, a growth discount of 2.0 percent was consistently recognized except for the residential customer business. For the residential customers CGU a growth rate of 1.0 percent was used. Future cash flows were discounted to their present value using a pre-tax discount factor of between 11.2 and 11.4 percent. The following assumptions, which are used to measure the value in use of cash-generating units, are subject to estimation uncertainties:
- gross profit margins
- discount factor
- price changes
- market share developments

Gross profit margins are determined on the basis of average values for past financial years. In this context, it should be noted that higher network capacity utilization as well as the growing size of the Group increase efficiency and have a positive impact on the development of gross profit margins. The discount factor reflects management's assessment of entity-specific risks and comprises a basis interest rate (risk-free and appropriate for an alternative investment according to the interest rate structure curve at December 31, 2007) and a risk-uplift factor (reflecting the risk structure of the Group and of the telecommunications sector in general). The rate of price and market share changes applied in the forecasts are derived from actual price changes in the past (and which are used as an indicator for future price changes) and on the basis of forecasts conducted by independent market research institutions.
QSC believes that, based on reasonable management judgment, no change to the underlying assumptions used to determine the value in use of the various cash-generating units would result in the carrying amounts of those cash-generating units significantly exceeding their recoverable amount. However only in the non-strategic residential customer segment could a change in the underlying assumptions result in the carrying amount of this cash-generating unit significantly exceeding its recoverable amount. Those assumptions relate to an increase in the discount factor and a decrease in the expected gross profit margin, in particular.

19 Other intangible assets

	Licences in T €	Software in T €	Other in T €	Total in T €
Cost				
Cost at January 1, 2006	1,565	8,061	11,375	21,001
Additions	36	2,765	5,211	8,012
Additions by consolidation	902	98	7,243	8,243
Disposals	(1,542)	(1,769)	(3)	(3,314)
Cost at December 31, 2006	961	9,155	23,826	33,942
Additions	244	3,009	14,927	18,180
Disposal	-	(2)	-	(2)
Cost at December 31, 2007	1,205	12,162	38,753	52,120
Accumulated amortization				
Accumulated amortization at December 31, 2006	1,021	5,289	5,887	12,197
Additions	233	1,568	4,897	6,698
Disposals	(1,246)	(1,398)	(360)	(3,004)
Accumulated amortization at December 31, 2006	8	5,459	10,424	15,891
Additions	150	2,235	8,247	10,632
Disposals	-	(2)	-	(2)
Accumulated amortization at December, 2007	158	7,692	18,671	26,521
Carrying amount at December 31, 2006	953	3,696	13,402	18,051
Carrying amount at December 31, 2007	1,047	4,470	20,082	25,599

The line item 'Licenses' includes the disposal during the financial year of Class 3 licenses for telecommunications services for the general public and Class 4 licenses for voice telephone services based on telecommunications networks operated by the Group. These licenses were issued by the German Federal Network Agency (Bundesnetzagentur). As a result of amendments to the (German) Telecommunications Act, the requirement to hold a license has been removed and replaced by an annual telecommunications levy, the exact amount of which is still to be fixed. QSC has accordingly recognized an impairment loss of T € 360 on the remaining carrying amount. It has also recognized a provision for the estimated amount of the outstanding levy. The column 'Other' in 2006 also includes intangible assets identified in conjunction with the purchase price allocation process, namely Broadnet's customer relationships (T € 6,050) and the Broadnet brand name (T € 950). The column 'Other' in 2007 includes impairment in the celox brand name in the amount of T € 622.
As of December 31, 2007, the line item 'Other' contains capitalized costs incurred to initial switch on customer lines with a carrying amount of T € 12.593 (2006: T € 6,217). These costs are being amortized over an average contractual period of 24 months.

20 Trade receivables

	2007 in T €	2006 in T €
Trade receivables	64,944	52,778

Trade receivables do not bear interest and generally have an original maturity of between 30 and 90 days. As of December 31, 2007, trade receivables amounting to T € 4,367 (2006: T € 4,775) were impaired. Allowances developed as follows:

	2007 in T €	2006 in T €
Trade receivables		
Trade receivables at January 1	4,775	1,822
Charge for the year	2,784	3,460
Amounts written off	(1,713)	(590)
Unused amounts reversed	(1,479)	(1,379)
Additions by consolidation	-	1,462
Trade receivables at December 31	4,367	4,775

The analysis of overdue trade receivables as of December 31 on which no allowances were recorded was as follows:

	2007 in T €	2006 in T €
Non-impaired trade receivables		
neither past due nor impaired	49,599	31,208
past due but not impaired		
< 90 days	7,123	20,001
91 - 120 days	38	1,021
> 120 days	132	548
Non-impaired trade receivables	56,892	52,778

In fiscal year 2007, trade receivables as of December 31, 2006, that had neither been past due nor impaired and amounted to T € 52,778 were impaired by a total of T € 1,164.

21 Prepayments

Prepayments total T € 3,420 (2006: T € 1,099) and essentially consist of prepaid expenses for leased lines and technology premises, as well as insurance.

22 Other short-term financial assets

Other short-term financial assets totaled T € 8,877 (2006: T € 3,566) and related primarily to tax receivables and stock of direct customer devices in the amount of T € 6,204 (2006: T € 539).

23 Available-for-sale financial assets

	2007 in T €	2006 in T €
Available-for-sale financial assets		
Available-for-sale financial assets	1,418	12,036
Financial assets held for trading	3,858	50,891
Available-for-sale financial assets	**5,276**	**62,927**

Available-for-sale financial assets comprise marketable commercial papers which are issued as bearer instruments by first-rate industrial or financial companies.

24 Cash and short-term deposits

	2007 in T €	2006 in T €
Cash and short-term deposits		
Cash	30,272	23,938
Short-term deposits	43,860	22,048
Cash and short-term deposits	**74,132**	**45,986**

25 Capital stock

	2007	2006
Capital stock		
Capital stock in T €	136,358	133,898
No-par common stock	136,358,315	133,897,686

Each share of stock entitles the registered owner to cast one vote at the Annual Shareholders Meeting and enjoys full dividend entitlement. The voting right is not subject to any restrictions. In 2007, the capital stock rose by T € 1,113 as a result of the issuance of shares of common stock in conjunction with stock option programs, and by T € 1,347 as a result of a capital increase by assets in kind in conjunction with the acquisition of Broadnet.

26 Capital surplus

Capital surplus amounts to T € 562,501 as of December 31, 2007 (2006: T € 557,961). This amount includes deferred share-based remuneration of T € 840 (2006: T € 1,124) which relates to the Company's stock option program, and which will be recognized in the future in profit or loss. Further details are explained in Note 41.

27 Authorized and conditional capital

The Company's authorized capital was reduced by T € 1,347 in 2007 following the non-cash increase in capital stock and amounts to T € 51,233 as of December 31, 2007. The Company's conditional capital amounts to T € 29,765 as of December 31, 2007.

28 Other reserves

Other reserves include gains and losses on available-for-sale financial assets, as well as actuarial gains and losses on defined benefit pension plans. The values for the 2007 and 2006 fiscal years are shown in the Consolidated Statements of Changes in Shareholders' Equity and in the Consolidated Statements of Recognized Income and Expenses.

29 Interest-bearing liabilities

	Effective interest rate in %	Maturity	2007 in T €	2006 in T €
Short-term liabilities				
Short-term portion of finance lease obligations	7.17	2008	20,360	13,443
Liabilities due to banks	EONIA + 1.90	monthly	5,000	-
Other short-term liabilities	7.99	2008	5,440	-
Short-term liabilities			**30,800**	**13,443**
Long-term liabilities				
from convertible bonds	3.50	2008 - 2011	27	36
Long-term portion of finance lease obligations	7.17	2008 - 2010	23,059	16,044
Other long-term liabilities	7.99	2009	3,964	-
Long-term liabilities			**27,050**	**16,080**

Short-term liabilities due to banks relate to the pre-financing of a subsidiary's receivables, which is secured through a transfer of the latter. The carrying value of the transferred receivables amounted to T € 6,000 as of December 31, 2007. On the customer's payment, the loan is repaid on a monthly basis and claimed through invoicing in the following month. The loan is limited to T € 5,000 and at the Group's disposal until further notice.
Other short and long-term liabilities comprise liabilities in the amount of T € 9,404. The latter are included in short and long-term liabilities as they are lease contracts intended to finance initial switch of customer lines, whose utilizing rights cannot be transferred to the lessee. Thus, they are only assets to the Group and do not constitute a lease business according to IAS 17.
As of December 31, 2007, there were 2,719,037 convertible bonds (issued in conjunction with stock option programs) outstanding. The convertible bonds have a nominal value of € 0.01 each.

30 Accrued pensions

QSC operates two defined benefit pension plans, whereby one defined benefit pension plan is secured through reinsurance that is classified as plan asset in accordance with IAS 19.
Accrued pensions were restated at December 31, 2003 and 2004 in conjunction with the first-time adoption of IFRS. The amendments issued by the IASB to IAS 19 in December 2004 were applied for the first time with effect from January 1, 2005. Amongst other changes, these amendments allow an optional accounting treatment of actuarial gains and losses. This option is required to be applied for all of an entity's defined benefit plans and for all of its actuarial gains and losses. QSC has opted to recognize all actuarial gains and losses directly in equity.

	2007 in T €	2006 in T €
Pensions		
Present value of defined benefit obligation at January 1	791	857
Service costs	69	80
Interest costs	37	34
Actuarial gains and losses	(45)	(171)
Benefits paid	(9)	(9)
Present value of defined benefit obligation at December 31	**843**	**791**
Fair value of plan assets at January 1	(70)	(61)
Expected return on plan assets	(3)	(2)
Actuarial gains and losses	5	6
Employer contributions for plan assets	(15)	(13)
Fair value of plan assets at December 31	**(83)**	**(70)**
Accrued pensions at December 31	**760**	**721**
Discount rate	5.30%	4.70%
Expected return on plan assets	3.50%	3.50%
Rate of compensation increase	4.00%	3.00%
Rate of pension indexation	3.00%	3.00%

The composition of the pension expense under defined benefit plans is as follows:

	2007 in T €	2006 in T €
Net pension costs		
Service costs	69	80
Interest costs	37	34
Expected return on plan assets	(3)	(2)
Net pension costs	**103**	**112**

Amounts of the current and the four previous reporting periods are as follows:

	2007 in T €	2006 in T €	2005 in T €	2004 in T €
Funding gap				
Present value of defined				
benefit obligation	(843)	(791)	(857)	(636)
Fair value of plan asset	83	70	61	51
Funding gap	**(760)**	**(721)**	**(796)**	**(585)**

QSC has not made any adjustments based on past experience with regard to the present value of defined benefit obligations and plan assets.

31 Long-term liabilities of other shareholders

The long-term liabilities of other shareholders correspond to the consolidated capital account of Communication Services TELE2 GmbH (TELE2) accounted for in the balance sheet of Plusnet GmbH & Co. KG (Plusnet). At the date of foundation of Plusnet, this item corresponded to TELE2's cash capital contribution to Plusnet (see Note 39).

32 Trade payables

	2007 in T €	2006 in T €
Trade payables		
to third parties	74,082	42,074
to related parties	47	8
Trade payables	**74,129**	**42,082**

All trade payables have a term of less than one year.

33 Provisions

	2007 in T €
Provisions	
Other Provisions	
Other provisions at January 1	1,426
Arising during the year	928
Utilized	(1,414)
Unused amounts reversed	-
Other provisions at December 31	**940**
Litigation risks	
Litigation risks at January 1	86
Arising during the year	102
Utilized	(64)
Unused amounts reversed	-
Litigation risks at December 31	**124**
Provisions as of December 31, 2007	**1,064**

Other provisions comprise mainly obligations to the German Federal Network Agency arising in conjunction with the telecommunications levy payable under the German Telecommunications Act (T € 337), pending losses on onerous contracts relating to unused locations (T € 29), liabilities of uncertain amount against third parties due to receivables (T € 524) and credit notes to be issued (T € 50). These items are measured on the basis of past experience.

34 Deferred revenues

Revenues from non-recurring installation charges are capitalized and amortized over the estimated average customer subscription life of 24 months. Advance payments from customers are also deferred until such time as the corresponding performance has been provided.

35 Other short-term liabilities

All other short-term liabilities have a term of less than one year. This line item also includes liabilities in the amount of T € 5,440 (see Note 29) relating to initial switch on customer lines, as well as tax office obligations totaling T € 5,480 (2006: T € 2,870).

CASH FLOW STATEMENT DISCLOSURES

36 Cash flow from operating activities

Cash flow from operating activities amounted to T € 56,310 (2006: T € 11,734) in the financial year. The reduction of the loss before tax, as adjusted for the higher level of depreciation and amortization, contributed T € 13,090 to the improvement in cash flow from operating activities. Network expansion in 2007 in particular contributed to an increase in trade payables by T € 32,049 (2006: T € 6,356), which had a corresponding positive impact on cash flow from operating activities. The increase in trade receivables by T € 12,166 (2006: T € 15,181), which was attributable to the higher level of sales revenue, had a negative impact on cash flow from operating activities.

37 Cash flow from investing activities

Cash flow from investing activities totaled T € -37,076 in 2007 (2006: T € -36,406). The net amount invested in available-for-sale financial assets in 2007 was T € 59,197 (2006: T € -37,426). Cash outflow for property, plant and equipment and intangible assets amounted to T € -95,211 (2006: T € -19,224). The cash outflow for the acquisition of a subsidiary (net of acquired cash funds) in the amount of T € 1,062 resulted in 2007 from the acquisition of the remaining shares of Broadnet. Further details are contained in Note 39.

38 Cash flow from financing activities

Cash flow from financing activities amounted to T € 8,911 in fiscal year 2007 (2006: T € 40,345). The increase resulted essentially from payments in connection with cash funds raised from other shareholders totaling T € 6,436 (2006: T € 49,680). This item reflects the injection of cash funds arising in conjunction with the contribution paid in by TELE2 to Plusnet.

OTHER DISCLOSURES

39 Subsidiaries

QSC's consolidated financial statements include the following equity investments:

	Share in % as of Dec. 31, 2007	Shareholders' equity Dec. 31, 2007 in T €	Net profit/ (loss) 2007 in T €
Subsidiaries			
(Disclosures according to IFRS)			
Plusnet GmbH & Co. KG (Plusnet), Cologne	67.5	103,314	1,514
Q-DSL home GmbH (DSL home), Cologne	100	1,225	(9)
010090 GmbH (010090), Cologne	100	156	-
Ventelo GmbH (Ventelo), Cologne	100	5,986	410
EPAG Domainservices GmbH (EPAG), Cologne	100	(210)	-
Broadnet Service GmbH (Broadnet Service), Hamburg	100	267	(8)
Broadnet Deutschland GmbH			
(Broadnet Deutschland), Hamburg	100	2,691	(363)

Plusnet • On July 10, 2006, QSC and TELE2 founded Plusnet. Following receipt of the approval of the Federal Germany Cartel Office on August 21, 2006, Plusnet commenced operations on September 1, 2006, in line with schedule. QSC and TELE2 hold 67.5 percent and 32.5 percent respectively of Plusnet's capital stock. The underlying agreement stipulates that major decisions are taken unanimously; however, decisions which only impact on QSC may be made without TELE2's approval. Plusnet's objective is to build and operate a Germany-wide DSL network, which is to be expanded to nearly 2,000 central offices in 2008. QSC transferred its nationwide DSL network to Plusnet, and TELE2 made a cash contribution of € 50 million to finance further network expansion. Both shareholders are entitled to use the assets and services of Plusnet. The latter meets the criteria of a special purpose entity as defined by SIC-12 issued by the Standing Interpretations Committee Interpretation. Plusnet takes over responsibility for the provision of services relating to QSC's core activities which, if Plusnet did not exist, would have to be carried out by QSC itself. QSC has consolidated the special purpose entity with effect from September 1, 2006.

DSL home • On March 31, 2006, QSC acquired 100 percent of the shares of DSL home. The purchase price paid for the formerly non-operative Kristall 40. GmbH totaled T € 27. In accordance with § 123 (3) no. 1 of the German Company Transformation Law (UmwG), all retail customer contracts relating to DSL residential customer business were transferred to DSL home by way of spin-off. At the Annual General Meeting held on May 23, 2006, the shareholders gave their approval to the spin-off with retrospective effect from January 1, 2006. The Spin-Off and Transfer Agreement was signed on August 9, 2006.

010090 • On April 12, 2006, QSC acquired 100 percent of the shares of 010090. The purchase price paid for the formerly non-operative Kristall 39. GmbH totaled T € 27. The company 010090 markets voice telephony products for residential customers, in particular call-by-call products.

Ventelo • On December 13, 2002, QSC acquired 100 percent of Ventelo, a nationwide voice telephony carrier providing enterprise customers with voice telephony services. Ventelo's market position in voice communications for enterprise customers ideally complemented QSC's broadband data communications service to the same customer segment. The acquisition of Ventelo enabled QSC to also offer integrated telecommunications solutions for all enterprise customer segments. Total acquisition costs for Ventelo were T € 11,454, including direct acquisition costs of T € 90.

EPAG • EPAG is a former 100-percent-subsidiary of celox Telekommunikationsdienste GmbH. The latter was merged into QSC with effect from January 1, 2006. In conjunction with this merger, QSC acquired a direct investment in EPAG. In its function as domain registrar, EPAG specializes in the registration and administration of international domains. In the meantime, EPAG numbers among the leading domain providers for resellers in Germany.

Broadnet AG (Broadnet), Hamburg • On June 6, 2006, QSC reached an agreement with the main shareholders and management of Broadnet for the acquisition of 67.2 percent of Broadnet's capital stock. On July 22, 2006, QSC issued a public take-over offer for Broadnet, offering Broadnet shareholders accepting the offer 1.0542 QSC shares for each Broadnet share. The offer was duly accepted on behalf of 217,847 Broadnet shares. On November 13, 2006, QSC acquired an additional 25 percent of Broadnet's capital stock on the basis of a contract with institutional investors. On April 16 and October 31, 2007, QSC acquired the remaining Broadnet shares, and thus owned 100 percent of Broadnet's share capital.
Broadnet was a nationwide provider of broadband communication solutions based on WLL and DSL. With the acquisition of the majority shareholding in Broadnet, QSC is strengthening its higher margin business with enterprise customers. Following the full acquisition on October 31, 2007, the merger of Broadnet into QSC came into effect. This move also constituted a prerequisite for the full economic integration of Broadnet into the QSC Group.
One important aspect of the acquisition method used to consolidate Broadnet for the first-time in accordance with IFRS 3 is the allocation of the purchase price to identifiable assets and liabilities and the recognition of the remaining amount (net of deferred tax) as goodwill. For the purposes of the purchase price allocation, all identifiable assets and liabilities were measured at their fair value. The purchase price for 92.5 percent of the shares amounted to T € 78,270 (including transaction costs of T € 2,423). In order to carry out the transactions involved, the Management Board and Supervisory Board resolved to increase the Company's capital stock by € 16,381,831 by issuing 16,381,831 new shares out of authorized capital in return for assets in kind. QSC disbursed T € 160 in cash to acquire 13,565 Broadnet shares and to improve the public take-over offer.

Intangible assets were recognized for the Broadnet brand name (T € 950) and for existing customer relationships (T € 6,050). Net of deferred tax liabilities of T € 2,793 relating to those items, the remaining balance of T € 36,320 was recognized as goodwill. The fair values of Broadnet's identifiable assets and liabilities at the acquisition date were as follows:

	Recognized on acquisition in T €	Carrying amount in T €
Assets		
Long-term assets	18,072	18,072
Goodwill	1,857	1,857
Brand name	950	-
Customer relationships	6,050	-
Trade receivables	3,420	3,420
Other financial assets and prepayments	3,520	3,520
Cash and short-term deposits	22,781	22,781
Assets	**56,650**	**49,650**
Liabilities		
Deferred taxes	(2,793)	-
Trade payables	(4,128)	(4,128)
Provisions	(1,384)	(1,384)
Other short-term liabilities	(2,791)	(2,791)
Minority interests	(3,604)	-
Liabilities	**(14,700)**	**(8,303)**
Fair value of net assets	41,950	**41,347**
Goodwill arising on acquisition	36,320	
Total	**78,270**	
Total consideration		
Total acquisition costs incl. direct acquisitions costs	(78,270)	
Issuance of common stock	75,686	
Cash and short-term deposits acquired	22,781	
Total consideration	**20,197**	

The purchase price for the acquisition of the remaining shares on April 16 and October 31, 2007, amounted to T € 5,760 (including transaction costs of T € 1,062). In order to carry out the transactions involved, the Management Board and Supervisory Board resolved to increase the Company's capital stock by € 1,347,280 by issuing 1,347,280 new shares out of authorized capital in return for assets in kind. QSC disbursed the acquisition costs in the amount of T € 1,062 in cash. Following the acquisition of the minority shares, a goodwill in the amount of T € 38,476 was recognized.

Broadnet Service • Broadnet Service is a former 100-percent-subsidiary of Broadnet, and has been a direct investment of QSC since the date of the Broadnet merger. Broadnet Service markets voice telephony products for residential and business customers.

Broadnet Deutschland • Broadnet Deutschland is a former 100-percent-subsidiary of Broadnet, and has been a direct investment of QSC since the date of the Broadnet merger. Broadnet Deutschland markets voice telephony products for residential customers, in particular call-by-call products.

40 Segment Reporting

In accordance with IAS 14, the source of QSC's reportable segments is the internal organization used by management for making operating decisions and assessing performance. QSC is primarily operating in the customer segments Large Accounts, Business Customers, Wholesale/Resellers and Residential Customers.
The customer segment Large Accounts embraces customized solutions of voice and data communication for large and medium enterprises. This includes the configuration and operation of IP-VPN networks in particular, however QSC also provides a broad range of network-related services.
In the Business Customer segment QSC summarizes its product business. QSC covers the needs of small and medium enterprises concerning modern voice and data communication by predominantly standardized products and processes.
The Wholesale/Reseller segment includes the business with Internet service providers and telecommunications providers without proprietary infrastructure. They are marketing QSC's DSL lines as well as voice telephony and value-added services under their own name and for their own account.
In the Residential Customer segment the Company embraces both voice and data services for residential customers predominantly from the premium segment.
Directly attributable costs consist of those segment expenses that can be directly allocated to the respective segment on the basis of revenues. Non-attributable costs are not apportioned among the segments, because they are structural costs for which it is not possible to make a causal allocation. In particular, the vast majority of these costs consists of the costs of building, operating and maintaining the network; these costs do not rise steadily on the basis of the number of customers and the volumes of traffic transported. In addition, these unallocated costs also include personnel expenses, administrative expenses, as well as segment-independent general advertising expenses. No further sub-classification of the primary segments into secondary segments (geographical segments) was made, as QSC's telecommunications services are predominantly offered on a nationwide scale.

2007 in T €	Segment Large Accounts	Segment Business Customers	Segment Wholesale/ Resellers	Segment Residential Customers	Recon-ciliation	Consoli-dated
Net revenues	**76,585**	**84,747**	**122,260**	**51,603**	**-**	**335,195**
Directly allocated costs	(31,769)	(36,214)	(60,844)	(38,311)	-	(167,138)
Contribution margin	**44,816**	**48,533**	**61,416**	**13,292**	**-**	**168,057**
Not allocated costs	-	-	-	-	(133,145)	(133,145)
EBITDA	**44,816**	**48,533**	**61,416**	**13,292**	**(133,145)**	**34,912**
Depreciation and amortization	(3,695)	(4,156)	(8,542)	(1,326)	(26,800)	(44,519)
Non-cash share-based payments	-	-	-	-	(955)	(955)
Financial result	-	-	-	-	(422)	(422)
Income tax profit	-	-	-	-	627	627
Net profit/(loss)	**41,121**	**44,377**	**52,874**	**11,966**	**(160,695)**	**(10,357)**
Long-term assets	35,024	16,934	19,727	10,476	289,779	371,941
Liabilities	2,872	3,122	4,621	1,873	204,977	21,466
Capital expenditures	14,082	15,647	22,427	2,745	68,011	122,911

2006 in T €	Segment Large Accounts	Segment Business Customers	Segment Wholesale/ Resellers	Segment Residential Customers	Recon-ciliation	Consoli-dated
Net revenues	**65,526**	**75,545**	**65,369**	**56,082**	**-**	**262,522**
Directly allocated costs	(26,636)	(35,892)	(32,536)	(39,371)	-	(134,435)
Contribution margin	**38,890**	**39,653**	**32,833**	**16,711**	**-**	**128,087**
Not allocated costs	-	-	-	-	(106,922)	(106,922)
EBITDA	**38,890**	**39,653**	**32,833**	**16,711**	**(106,922)**	**21,165**
Depreciation and amortization	(1,997)	(2,418)	(2,943)	(3,154)	(17,138)	(27,650)
Non-cash share-based payments	-	-	-	-	(691)	(691)
Financial result	-	-	-	-	(29)	(29)
Income tax profit	-	-	-	-	1,859	1,859
Net profit/(loss)	**36,893**	**37,235**	**29,890**	**13,557**	**(122,921)**	**(5,346)**
Long-term assets	7,155	17,179	10,769	15,054	249,752	299,909
Liabilities	3,475	4,059	2,662	2,928	126,235	139,359
Capital expenditures	3,423	3,982	2,716	2,958	26,980	40,059

41 Stock option programs

QSC has established a total of six stock option programs since 1999, which call for the issuance of convertible bonds having a nominal value of € 0.01 each to employees and, with the consent of the Supervisory Board, to members of the Management Board as well as to consultants and suppliers. The participants in these programs are granted the right to convert each convertible bond into one share of registered, no-par stock against payment of the exercise price. The exercise price of the convertible bonds represents the market price of the share on the valuation date. The convertible bonds have a term of five or eight years and are subject to a vesting period of up to three years.
On the basis of IFRS 2, no personnel expenses were recorded for the convertible bonds issued under the 2000, 2000A, 2001 and 2002 SOPs, as they were resolved by Annual Shareholders Meetings prior to November 7, 2002. The option values for the convertible bonds under the 2004 and 2006 SOPs were computed at the grant date with the aid of the Black-Scholes option-pricing model, with the following assumptions being employed:

SOP 2004	
Average expected life of options	5 years
Dividend yield	0.00%
Average risk-free interest rate	4.12%
Expected volatility (3 years)	44.68%
Average fair value of convertible bonds in €	2.31
Fair value of options granted for the year ended Dec. 31, 2007 in €	438,979

SOP 2006	
Average expected life of options	8 years
Dividend yield	0.00%
Average risk-free interest rate	4.27%
Expected volatility (3 years)	44.68%
Average fair value of convertible bonds in €	2.06
Fair value of options granted for the year ended Dec. 31, 2007 in €	295,185

The convertible bonds outstanding as of December 31, 2007 and 2006, under all programs are shown below:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding at December 31, 2005	**5,984,568**	**1.92**
Granted during the year	955,130	4.10
Forfeited during the year	(879,397)	3.74
Exercised during the year	(2,483,767)	1.96
Outstanding at December 31, 2006	**3,576,534**	**2.06**
Granted during the year	332,700	4.01
Forfeited during the year	(76,848)	4.30
Exercised during the year	(1,113,349)	1.21
Outstanding at December 31, 2007	**2,719,037**	**3.11**

42 Related party transactions

During 2007, QSC participated in transactions with companies affiliated with members of the management. According to IAS 24 related parties are individuals or companies with the possibility to influence or even control the other party. All contracts with these companies require the approval of the Supervisory Board and are closed on the basis of normal market conditions.
IN-telegence GmbH & Co. KG provides value-added telecommunications services. Teleport Köln GmbH operates and maintains QSC's private broadcast exchange and in-house telephone systems. QS Communication Verwaltungs Service GmbH provides consultancy on the integration of Broadnet.

	Net revenues in T €	Expenses in T €	Cash received in T €	Cash paid in T €
For the year ended Dec. 31, 2007				
IN-telegence GmbH & Co. KG	50	(97)	60	(124)
Teleport Köln GmbH	5	100	5	121
QS Communication Verwaltungs Service GmbH	-	158	-	169
For the year ended Dec. 31, 2006				
IN-telegence GmbH & Co. KG	29	(145)	29	(203)
Teleport Köln GmbH	-	57	-	103
QS Communication Verwaltungs Service GmbH	-	303	-	333

	Trade receivables in T €	Trade payables in T €
At December 31, 2007		
IN-telegence GmbH & Co. KG	5	(6)
Teleport Köln GmbH	-	7
QS Communication Verwaltungs Service GmbH	-	46
At December 31, 2006		
IN-telegence GmbH & Co. KG	2	-
Teleport Köln GmbH	-	8
QS Communication Verwaltungs Service GmbH	-	-

43 Deferred taxes

For the calculation of deferred taxes a new income tax rate of 31.58 percent was used (2006: 39.9 percent) due to the 2008 corporate tax reform. Deferred taxes for the fiscal years 2007 and 2006 are:

	At Dec. 31, 2007 in T €		At Dec. 31, 2006 in T €		2007 in T €	2006 in T €
	Assets	Liabilities	Assets	Liabilities	Income Statement	
Deferred taxes						
Intangible assets	-	6,276	-	4,864	(1,413)	878
Property, plant and equipment	-	143	-	171	28	342
Financial assets	-	472	90	32	(83)	(871)
Trade receivables	-	-	-	-	-	285
Trade receivables related parties	-	39	-	49	10	(49)
Prepayments	-	628	-	243	(385)	364
Deferred revenues	3,817	-	1,637	-	2,180	335
Accrued pensions and provisions	80	-	41	-	51	(128)
Other short-term liabilities	2	3	-	-	(1)	564
Total deferred taxes referred to temporary differences	**3,899**	**7,561**	**1,768**	**5,359**	**387**	**1,720**
Netting out	(1,100)	(1,100)	(275)	(275)		
Total deferred taxes referred to temporary differences after netting out	**2,799**	**6,461**	**1,493**	**5,084**		
Total deferred taxes referred to losses carryforward	5,300	-	4,910	-		
Tax income					777	1,859
Total deferred taxes	**8,099**	**6,461**	**6,403**	**5,084**		

The following table reconciles the expected income tax to the actual income tax expense. The expected tax income was calculated by multiplying net loss before taxes with the assumed income tax rate:

	2007 in T €	2006 in T €
Reconciliation		
Net loss before income taxes	**(10,984)**	**(7,205)**
Expected tax income	4,383	2,875
Tax effect of		
changed tax income	(433)	-
different tax rate	(262)	39
neglected capitalization of deferred taxes		
referred to losses carryforward	(2,853)	(1,020)
additions municipal trade tax losses	(185)	-
Miscellaneous	(23)	(35)
Income taxes	**627**	**1,859**

Reconciled income tax is composed of municipal trade expense in the amount of T € 150 as well as deferred income tax income totaling T € 777. As of December 31, 2007, QSC has corporation tax and municipal trade tax losses available for carryforward amounting in total to T € 477,000. These tax losses can be carried forward without restriction for future offset against the taxable profits of entities in which the tax losses arose.

44 Commitments and contingencies

Operating lease commitments • The Group has entered into commercial leases on certain motor vehicles. These leases have an average life of between three and five years. Future minimum rentals payable under non-cancelable operating leases as of December 31 are as follows:

	2007 in T €	2006 in T €
Operating lease contracts		
up to 1 year	222	203
1 to 5 years	286	217
Operating lease contracts	**508**	**420**

Finance lease and hire purchase commitments • QSC has entered into finance leases and hire purchase contracts for various items of plant and equipment, as well as for operational and office equipment. Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	2007 in T €		2006 in T €	
	Minimum lease payments	Value in use of minimum lease payments	Minimum lease payments	Value in use of minimum lease payments
Finance lease and hire purchase contracts				
up to 1 year	22,221	20,360	14,384	13,443
1 to 5 years	23,924	23,059	16,847	16,044
Total minimum lease payments	**46,145**	**43,419**	**31,231**	**29,487**
less interest share	(2,726)	-	(1,744)	-
Value in use of minimum lease payments	**43,419**	**43,419**	**29,487**	**29,487**

Other commitments • Other commitments in the coming fiscal years for long-term contracts, in particular for fiber optic lines, technical premises, office premises and corporate vehicles, amount to T € 78,411.

Guarantees • As of December 31, 2007, QSC had guarantees in the amount of T € 10,284 (2006: T € 8,466) outstanding, primarily to suppliers for rental and other contractual obligations.

Litigations • QSC does not presently have any major litigations which could result in an expense for the Company.

45 Financial risk management objectives and policies

The Group's principal financial liabilities comprise finance lease and hire purchase contracts, trade payables and liabilities due to banks. The main purpose of these financial liabilities is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits as well as available-for-sale financial assets in particular, all of which arise directly from its operations. In 2007 and 2006 no trading in derivatives has been undertaken.
The Group's major risks arising from the use of financial instruments include interest rate risk, credit risk and liquidity risk. The following is a summary of strategies and processes for managing each of these risks:

Interest rate risk • The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short-term liabilities due to banks with floating interest rates. Short and long-term finance lease obligations, which are classified as other short and long-term liabilities, are fixed rate debts. The share of variable rate debts in total rate debts amounts to 9 percent as of December 31, 2007. The following table demonstrates the sensitivity to a reasonably possible change in interest rates of the Group's earnings before tax rate in relation to variable rate debts.

	Increase / decrease in basis points	Effect on profit before tax in T €
Sensitivity to change in interest rates		
2007	+15	8
2007	(10)	(5)
2006	-	-

Credit risk • QSC trades only with creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 20. There are no significant concentrations of credit risk within the Group. With respect to the Group's other financial assets, which comprise cash and short-term deposits, as well as available-for-sale financial assets, the maximum credit risk arising from default of the counterparty equals the carrying amount of these instruments.

Liquidity risk • The Group monitors its risk to a shortage of funds using a monthly recurring liquidity planning tool. This tool considers the maturity of both its financial assets and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of short and long-term liabilities and finance leases. The table below summarizes the Group's maturity profile of short and long-term liabilities as of December 31, 2007, based on contractual undiscounted payments.

	Carrying amount in T €	Due daily in T €	Due by end of 2008 in T €	Due by end of 2009 in T €	Due by end of 2010 in T €	Total in T €
At December 31, 2007						
Finance lease obligations	43,419	-	22,221	15,343	8,581	46,145
Trade payables	74,129	-	74,129	-	-	74,129
Liabilities due to banks	5,000	-	5,032	-	-	5,032
Other lease obligations	9,404	-	5,929	4,080	-	10,009
Other short and long-term liabilities	7,811	-	7,811	-	-	7,811
At December 31, 2007	139,763	-	115,122	19,423	8,581	143,126

	Carrying amount in T €	Due daily in T €	Due by end of 2008 in T €	Due by end of 2009 in T €	Due by end of 2010 in T €	Total in T €
At December 31, 2007						
Finance lease obligations	29,487	-	14,384	10,951	5,896	31,231
Trade payables	42,082	-	42,082	-	-	42,082
Other short and long-term liabilities	6,067	-	6,067	-	-	6,067
At December 31, 2007	77,636	-	62,533	10,951	5,896	79,380

Capital management • The primary objective of QSC's capital management is to ensure sufficient equity, a strong credit rating and the ability to maintain its business operations in an independent and flexible manner. The Group monitors capital using the following measures: equity ratio and net liquidity. Equity ratio is computed by dividing equity by the balance sheet total. Net liquidity is fixed rate debts less cash and short-term deposits as well as available-for-sale financial assets.

	2007 in T €	2006 in T €
Capital management		
Finance lease obligations	(43,420)	(29,487)
Short and long-term liabilities	(9,404)	-
Liabilities due to banks	(5,000)	-
Fixed rate debts	**(57,823)**	**(29,487)**
plus cash and short-term deposits	74,132	45,986
plus available-for-sale financial assets	5,276	62,927
Net liquidity	**21,585**	**79,426**
Equity	154,475	160,550
Balance sheet total	371,941	299,909
Equity ratio	**42%**	**54%**

46 Financial instruments

The following table displays carrying values and fair values of all financial instruments included in the consolidated financial statements except for convertible bonds issued in conjunction with the stock option programs (see Note 41).

	Classification according to IAS 39	Carrying value		Fair value	
		2007 in T €	2006 in T €	2007 in T €	2006 in T €
Financial instruments					
Cash and short-term deposits	LaR	74,132	45,986	74,132	45,986
Available-for-Sale Financial Assets					
Available-for-Sale Financial Assets	AfS	1,418	12,036	1,418	12,036
Financial Assets Held for Trading	FAHfT	3,858	50,891	3,858	50,891
Trade receivables	LaR	64,944	52,778	64,944	52,778
Trade payables	FLAC	74,129	42,082	74,129	42,082
Liabilities due to banks	FLAC	5,000	-	5,000	-
Finance lease obligations	n.a.	43,419	29,487	46,541	31,629
Other short and long-term liabilities	FLAC	17,215	6,067	17,622	6,067
Aggregated according to classification in line with IAS 39:					
Loans and Receivables (LaR)		139,076	98,764	139,076	98,764
Financial Assets Held for Trading (FAHfT)		3,858	50,891	3,858	50,891
Available-for-Sale Financial Assets (AfS)		1,418	12,036	1,418	12,036
Financial Liabilities measured at Amortised Cost (FLAC)		96,344	48,149	96,751	48,149

Cash and short-term deposits, available-for-sale financial assets as well as trade receivables predominantly have short remaining terms. Their carrying value thus approximately corresponds to their fair value at the balance sheer date. The same applies to trade payables and bank liabilities. The fair value of finance lease obligations and other short and long-term liabilities was calculated on the basis of regular interest rates.

		subsequent to initial recognition		Net profit/(loss)	
	from interests Dividends in T €	at fair value in T €	Allowance in T €	2007 in T €	2006 in T €
Finance lease and hire purchase contracts					
Loans and Receivables (LaR)	1,321	-	(2,058)	(737)	(3,363)
Financial Assets Held for Trading (FAHfT)	1,271	65	-	1,336	200
Available-for-Sale Financial Assets (AfS)	402	-	-	402	730
Financial Liabilities measured at Amortised Cost (FLAC)	(3,688)	-	-	(3,688)	(1,826)
Finance lease and hire purchase contracts	**(694)**	**65**	**(2,058)**	**(2,687)**	**(4,259)**

47 Declaration pursuant to § 161 AktG regarding compliance with the German Corporate Governance Code

The declaration pursuant to § 161 of the Stock Corporation Act (AktG) regarding compliance with the German Corporate Governance Code in the version dated June 12, 2006, and, after becoming valid, in the version dated June 14, 2007, has been issued by the Management Board and the Supervisory Board. Future amendments to the rules relevant for compliance with the Corporate Governance Code will be posted on the QSC website without delay. Further information is provided in the separate Corporate Governance and Compensation Report.

48 Auditors' fees

In 2007, the auditing firm appointed to audit QSC's annual financial statements received T € 275 for the consolidated financial statements audit, T € 54 for tax advisory services and T € 54 for other services.

49 Compensation of the Management Board

The total compensation of the members of the Management Board is, to a very high degree, performance driven and comprises fixed and variable components. Total compensation for fiscal year 2007 amounted to € 1.37 million (2006: € 2.18 million). This decline is mainly attributable to the weaker-than-expected course of business, and thus underscores the principle of success-based compensation. Of the total amount in fiscal year 2007, fixed and variable components accounted for 62 percent and 24 percent respectively, 14 percent were accounted for by other benefits. Variable remuneration is measured on the basis of the extent to which entity-specific and individual targets are achieved. The Supervisory Board's Compensation Committee determines these targets by at the beginning of each fiscal year and reviews them again at the end of the period. In addition to these key components, other benefits were granted in the form of company pensions, company cars or car allowance as well as the reimbursement of travel and other expenses. QSC continues to consider that this description of the Management Board's compensation provides an important basis for assessing its appropriateness. QSC is exempted from the legal requirement to disclose compensation by individual as a result of the resolution taken at the Annual General Meeting on May 23, 2006. The exemption applies to the annual and consolidated financial statements for fiscal years 2006 to 2010. Further information is provided in the separate Corporate Governance / Compensation Report.

50 Risks

A detailed risk analysis is provided in the Risk Report contained in the Management Report.

51 Subsequent events

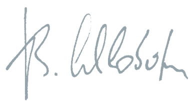
No events or transactions have occurred since December 31, 2007, that would have a material effect on the consolidated financial statements.

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Group management report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Cologne, March 19, 2008
QSC AG

The Board of Management



Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Bernd Puschendorf

Corporate Governance

QSC's ten-year history also stands for ten years of responsible, transparent and value-oriented corporate management. Good corporate governance remains a key prerequisite for sustaining a strong growth dynamic.

Value-based Governance of QSC

Corporate Governance follows growing size of QSC • Over the course of QSC's ten-year history, good corporate governance – the responsible management and supervision of the Company – has always played an important role. Since the German Corporate Governance Code (Code) went into force in 2002, QSC has therefore largely been in compliance with its recommendations. However the Company intentionally deviates from the Code in a few points. These are recommendations that are geared all too strongly toward managing and monitoring large corporations and do not sufficiently take into consideration the situation of lean companies with a strong entrepreneurial culture. The Management and Supervisory Boards regularly subject these exceptions to critical review; given the size of the Company, the Supervisory Board resolved in 2007 to form Audit and Nominating Committees in the future, thus bringing the Company into compliance with Items 5.3.2 and 5.3.3 of the Code.

Supervisory Board has formed an Audit and Nominating Committee

Speaking on both its own behalf and on behalf of the Supervisory Board, the Management Board of QSC reports below on corporate governance pursuant to Item 3.10 of the Code as most recently amended in June 2007, and also comments on these variances in this connection. The following report also integrates the Compensation Report called for by Item 4.2.5 of the Code.

Comprehensive information for shareholders • QSC utilizes its own website in order to promptly and comprehensively report throughout the entire year on all relevant developments within the Company. At www.qsc.de/en/investor-relations.html, shareholders can find ad-hoc announcements and press releases, Quarterly and Annual Reports, a financial calendar and detailed documents relating to all major events. The Annual Shareholders Meeting is the Company's central informational event for shareholders. Shareholders can comprehensively inform themselves about impending decisions sufficiently in advance of it on the basis of the Annual Report and the agenda of the Annual Shareholders Meeting. All relevant documents and information are available on the Company's website. However there are two reasons why QSC will continue to send the notification documents by postal mail, and thus in variance to newly introduced Item 2.3.2 of the Code, which recommends electronic transmittal: Firstly, experience has shown that a postal notice results in a higher presence at the Annual Shareholders Meeting. And secondly, thanks to its bearer shares QSC is already in possession of a complete overview of the postal addresses, enabling it to forego, for reasons of efficiency, as well, the costly and time-consuming process of capturing e-mail addresses. QSC simplifies the ability of shareholders to exercise their rights at the Annual Shareholders Meeting: Shareholders who do not attend in person can have their voting rights exercised either by a proxyholder of their choice or by a Company-appointed proxyholder bound by the shareholder's instructions.

Collaboration between corporate bodies in a spirit of trust • The Management and Supervisory Boards of QSC collaborate closely with one another to the benefit of the Company. Both of these corporate bodies view themselves as being committed to sustainably increasing the shareholder value. The Management Board promptly and comprehensively reports to the Supervisory Board on all relevant questions relating to planning, business development, risks and risk management, as well as compliance. At regular meetings and in telephone conference calls, the Supervisory Board advises and monitors the activities of the Management Board, and discusses key issues frankly and in a spirit of trust. The Report of the Supervisory Board provides detailed information about the activities of this six-member corporate body. QSC has taken out D&O insurance coverage with an appropriate deductible for both the Supervisory and Management Boards.

Composition of the Supervisory Board • In accordance with legal requirements and the Company's Articles of Incorporation and Bylaws, in fiscal year 2007 the QSC Supervisory Board comprised a total of six persons, who were all elected by the Annual Shareholders Meeting. The Supervisory Board was made up of both shareholder representatives as well as a sufficient number of independent members. Only one member of the Supervisory Board, QSC co-founder Gerd Eickers, had previously been a member of the Management Board.
Following the complete acquisition of Broadnet, QSC typically employs a workforce of more than 500 but less than 2,000 people. In the future, the composition of the Supervisory Board will therefore be subject to the German One-Third Employee Representation on the Supervisory Board Act, as well as to the corresponding paragraphs of the German Stock Corporation Act; in early January 2008, the Management Board published an announcement to this effect in the electronic German Federal Gazette. In the future, one-third of the QSC Supervisory Board will therefore consist of employee-representative members and two-thirds of shareholder-representative members.
Given the growing size of the Company, the Supervisory Board additionally resolved in 2007 to form an Audit Committee and a Nominating Committee. These committees will not be chaired by the Chairman of the Supervisory Board.

One-third representation of employees in the Supervisory Board from 2008 onwards

Supervisory Board compensation nearly unchanged • In fiscal year 2007, the members of the Supervisory Board received aggregate compensation in the amount of € 147,500. Supervisory Board Chairman John C. Baker and his Vice Chairman Herbert Brenke each received € 30,000 pursuant to § 10, Sub-Paragraph 5, of the Articles of Association, the other members except David Ruberg € 25,000 each. As David Ruberg was not able to attend at 75 percent of the board meetings at least, his compensation was reduced to € 12,500, pursuant to the Articles of the Association. The Supervisory Board intentionally foregoes the option contained in Item 5.4.7 of the Code relating to success-based compensation and to special compensation for the chairman and members of committees, as the Supervisory Board does not view this as being appropriate.
The table below presents individualized information relating to the compensation, number of shares and stock options held by members of the Supervisory Board. During the past fiscal year, QSC co-founder and Supervisory Board member Gerd Eickers acquired a further 24,000 QSC shares on the capital market. Longstanding Supervisory Board member David Ruberg exercised 10,000 conversion rights under the 2002 Stock Option Program (SOP) during the past fiscal year, with the new shares being transferred to his custody account.

	Compensation 2007 in €	Dec. 31, 2007		Dec. 31, 2006	
		Shares	Convertible Bonds	Shares	Convertible Bonds
John C. Baker	30,000	10,000	-	10,000	-
Herbert Brenke	30,000	187,820	10,000	187,820	10,000
Gerd Eickers	25,000	13,877,484	-	13,853,484	-
Ashley Leeds	25,000	9,130	10,000	9,130	10,000
Norbert Quinkert	25,000	3,846	-	3,846	-
David Ruberg	12,500	14,563	-	4,563	10,000

Continuity on the Management Board team • The three-member Management Board has been working together in a spirit of trust for six years in its present composition and manages the Company under its own responsibility. It develops the Company's strategic alignment, coordinates it with the Supervisory Board and assures that it is implemented. It additionally ensures compliance with statutory requirements at all members of the corporate group and assures that an appropriate system of risk management and controlling is in place within the Company.

Success-based Management Board compensation • To a high degree, the aggregate compensation paid to members of the QSC Management Board takes their performance and their contributions to the success of the Company into consideration. Total compensation for the past fiscal year amounted to € 1.37 million, as opposed to € 2.18 million the year before. This decline was primarily attributable to the weaker-than-planned development of business, thus documenting the success-based nature of the compensation.

62 percent of the aggregate compensation in fiscal year 2007 consisted of fixed salary elements, 24 percent of variable salary elements and 14 percent of other benefits. The variable salary elements are based upon the level of attainment of corporate and individual goals that are determined by the Supervisory Board's Compensation Committee at the beginning of each fiscal year and reviewed subsequent to the close of that fiscal year. Other benefits are granted, in particular, in the form of company old-age pensions, company cars or car allowances, as well as reimbursement of travel and other expenses.

QSC continues to view these remarks relating to the compensation paid to members of the Management Board as being crucial information for judging its appropriateness. The legal obligation mandating the individualized disclosure of the compensation paid to members of management boards has been waived under a resolution adopted by the Annual Shareholders Meeting on May 23, 2006; this waiver applies to the Annual and Consolidated Financial Statements for fiscal years 2006 through 2010.

As called for under the Code, in addition to monetary compensation the members of the Management Board also receive a variable compensation element having a long-term incentive effect and risk character in the form of stock options. The members of the Management Board participate in the Company's stock option programs, under which QSC issues convertible bonds that entitle their holders to acquire one share of stock at the exercise price upon the expiration of a fixed term, sometimes consisting of multiple years; the value of the exercise price is based upon the trading price of the shares at the time of exercise. Note 41 to the Consolidated Financial Statements contains a detailed description of all programs.

The following table presents individualized information relating to the shares and stock options held by members of the Management Board. Due to the threat of the impending expiration of the 2001 SOP, Bernd Puschendorf, the Management Board member responsible for sales and marketing, converted his stock options under this stock option program in January 2007, and simultaneously sold a corresponding number of shares, in order to cover the purchase price and tax burden. Although the Annual Shareholders Meeting in May 2006 had already resolved an extension of the 2001 SOP through fiscal year 2011, lawsuits brought by individual shareholders had prevented this resolution from going into force. It was not until the decision by the Regional Court of Cologne on January 16, 2008, that the court proceedings for invalidation and nullification were terminated and the lawsuits were thus finally dismissed.

Lawsuits against the extension of the 2001 SOP were finally dismissed

	Dec. 31, 2007		Dec. 31, 2006	
	Shares	Convertible Bonds	Shares	Convertible Bonds
Dr. Bernd Schlobohm	13,818,372	350,000	13,818,372	350,000
Markus Metyas	112,307	675,000	179,807	675,000
Bernd Puschendorf	348,397	125,000	3,000	1,025,000

It is QSC's conviction that the programs' multi-year vesting periods and exercise prices that are marked to market fundamentally eliminate the need for cumbersome valuation of the stock options (Item 4.2.5), the definition of potential restrictions with respect to unanticipated developments (Item 4.2.3, Sub-Paragraph 3, Sentence 4), as well as the definition of demanding, relevant comparison parameters (Item 4.2.3, Sub-Paragraph 3, Sentence 2). The current 2006 SOP contains, for the first time, restrictions on exercise rights, thus heightening the linkage between the stock option program and the performance of QSC shares as well as the relative development of QSC shares by comparison with the TecDAX, respectively.

Transparent communication • Creating maximum transparency and equal opportunities for all investors is a key element of good corporate governance. QSC therefore provides the same information to everyone at the same time. The Company utilizes its own website as its central information platform. The website also contains details and individualized information relating to the shareholdings of the individual members of the Management and Supervisory Boards.
The website additionally contains information relating to the acquisition or sale of QSC shares or derivatives based upon them by members of the Management and Supervisory Boards of QSC. Pursuant to § 15a of the German Securities Trading Act (WpHG), each member of either of these corporate bodies, as well as persons close to them, is obligated to disclose such transactions, along with the value of any transactions equaling or exceeding € 5,000 within a calendar year.

Trading Day / Stock Market	Names / Status	Financial Instrument	Type of Transaction	Par-Value in € / Quantity	Volume in €	Remarks
January 11, 2007	Bernd Puschendorf	QSC shares	Sale	5.300	228,445.90	Within the 2001
Xetra	Management Board			43,103		SOP framework
January 15, 2007	Bernd Puschendorf	QSC shares	Sale	5.200	312,000.00	Within the 2001
Xetra	Management Board			60,000		SOP framework
January 16, 2007	Bernd Puschendorf	QSC shares	Sale	5.200	312,000.00	Within the 2001
Xetra	Management Board			60,000		SOP framework
January 17, 2007	Bernd Puschendorf	QSC shares	Sale	5.270	527,000.00	Within the 2001
Xetra	Management Board			100,000		SOP framework
January 17, 2007	Bernd Puschendorf	QSC shares	Sale	5.263	421,040.00	Within the 2001
Xetra	Management Board			80,000		SOP framework
January 18, 2007	Bernd Puschendorf	QSC shares	Sale	5.287	528,700.00	Within the 2001
Xetra	Management Board			100,000		SOP framework
January 19, 2007	Bernd Puschendorf	QSC shares	Sale	5.200	416,000.00	Within the 2001
Xetra	Management Board			80,000		SOP framework
January 19, 2007	Bernd Puschendorf	QSC shares	Exercise of	1.160	232,000.00	Within the 2001
Over the counter	Management Board		convertible bonds	200,000		SOP framework
January 22, 2007	Bernd Puschendorf	QSC shares	Sale	5.180	163,170.00	Within the 2001
Xetra	Management Board			31,500		SOP framework
January 23, 2007	Bernd Puschendorf	QSC shares	Exercise of	1.160	168,660.52	Within the 2001
Over the counter	Management Board		convertible bonds	145,397		SOP framework
April 16, 2007	Markus Metyas	QSC shares	Sale	5.855	234,200.00	
Xetra	Management Board			40,000		
April 17, 2007	David Ruberg	QSC shares	Exercise of	1.000	10,000.00	Within the 2002
Xetra	Supervisory Board		convertible bonds	10,000		SOP framework
April 19, 2007	Markus Metyas	QSC shares	Sale	5.510	206,625.00	
Xetra	Management Board			37,500		
June 6, 2007	Markus Metyas	QSC shares	Purchase	5.190	20,760.00	
Xetra	Management Board			4,000		
June 22, 2007	Markus Metyas	QSC shares	Purchase	4.740	9,480.00	
Xetra	Management Board			2,000		
July 27, 2007	Gerd Eickers	QSC shares	Purchase	4.180	100,320.00	
Xetra	Supervisory Board			24,000		
August 20, 2007	Markus Metyas	QSC shares	Purchase	3.680	7,360.00	
Xetra	Management Board			2,000		
September 14, 2007	Markus Metyas	QSC shares	Purchase	3.630	7,260.00	
Xetra	Management Board			2,000		

Timely information relating to the development of business • QSC informs its shareholders and third parties first and foremost through its Consolidated Financial Statements as well as through Quarterly Reports during the course of the fiscal year. QSC prepares its Consolidated Financial Statements under IFRS within 90 days following the close of the fiscal year; the Company additionally prepares Annual Financial Statements under HGB accounting rules for the purpose of satisfying the requirements under German corporate law. In variance to Item 7.1.2 of the Code, QSC submits its Quarterly Reports within 60 days following the close of each reporting period. However the Company typically publishes in advance a detailed notice containing preliminary numbers, thus enabling shareholders to promptly inform themselves about the course of business.

Declaration of Conformity

Declaration Pursuant to § 161 of the German Stock Corporation Act on Compliance with the German Corporate Governance Code in its version dated June 12, 2006, respectively as of its validity in its version dated June 14, 2007, at QSC AG

Since its formation, QSC AG has been committed to good corporate governance and has viewed transparency and value-driven management as essential. Consequently, the company implements nearly all recommendations set forth in the German Corporate Governance Code and adheres them in its daily work. Since submittal of its last Declaration of Compliance, the company has complied and continues to comply with the recommendations of the Government Commission "German Corporate Governance Code" in its version dated June 12, 2006, respectively as of its validity in its version dated June 14, 2007, with the following exceptions:

1. The recommendation to send notification of the convening of the General Meeting together with the convention documents to all domestic and foreign financial services providers, shareholders and shareholders' associations by electronic means if the approval requirements are fulfilled (Item 2.3.2 of the Code in its version dated June 14, 2007)

2. The recommendation that demanding, relevant comparison parameters be stipulated for stock options and comparable instruments for members of the Management Board
(Item 4.2.3, Paragraph 3, Sentence 2, of the Code)

3. The recommendation that a possibility of limitation (cap) for extraordinary, unforeseen developments be agreed for stock options and comparable instruments for members of the Management Board
(Item 4.2.3, Paragraph 3, Sentence 4, of the Code)

4. The recommendation that the company publish information relating to the value of stock options for members of the Management Board in a compensation report
(Item 4.2.5 of the Code)

5. As of November 29, 2007, QSC AG complies with the recommendation of the formation of an audit committee with the scope of functions defined in Item 5.3.2 of the Code in its version dated June 14, 2007

6. As of November 29, 2007, QSC AG complies with the recommendation of the formation of a nomination committee
   (Item 5.3.3 of the Code in its version dated June 14, 2007)

7. Taking into account the performance of the company, as well as chair and membership positions on committees, in connection with compensation of the members of the Supervisory Board
   (Item 5.4.7 of the Code)

8. Publication of interim reports within 45 days
   (Item 7.1.2 of the Code)

QSC's corporate governance principles are regularly reviewed by the Management und Supervisory Boards. The company will promptly publish any future changes thereto with respect to conformity with the German Corporate Governance Code on its website.

Cologne, November 29, 2007

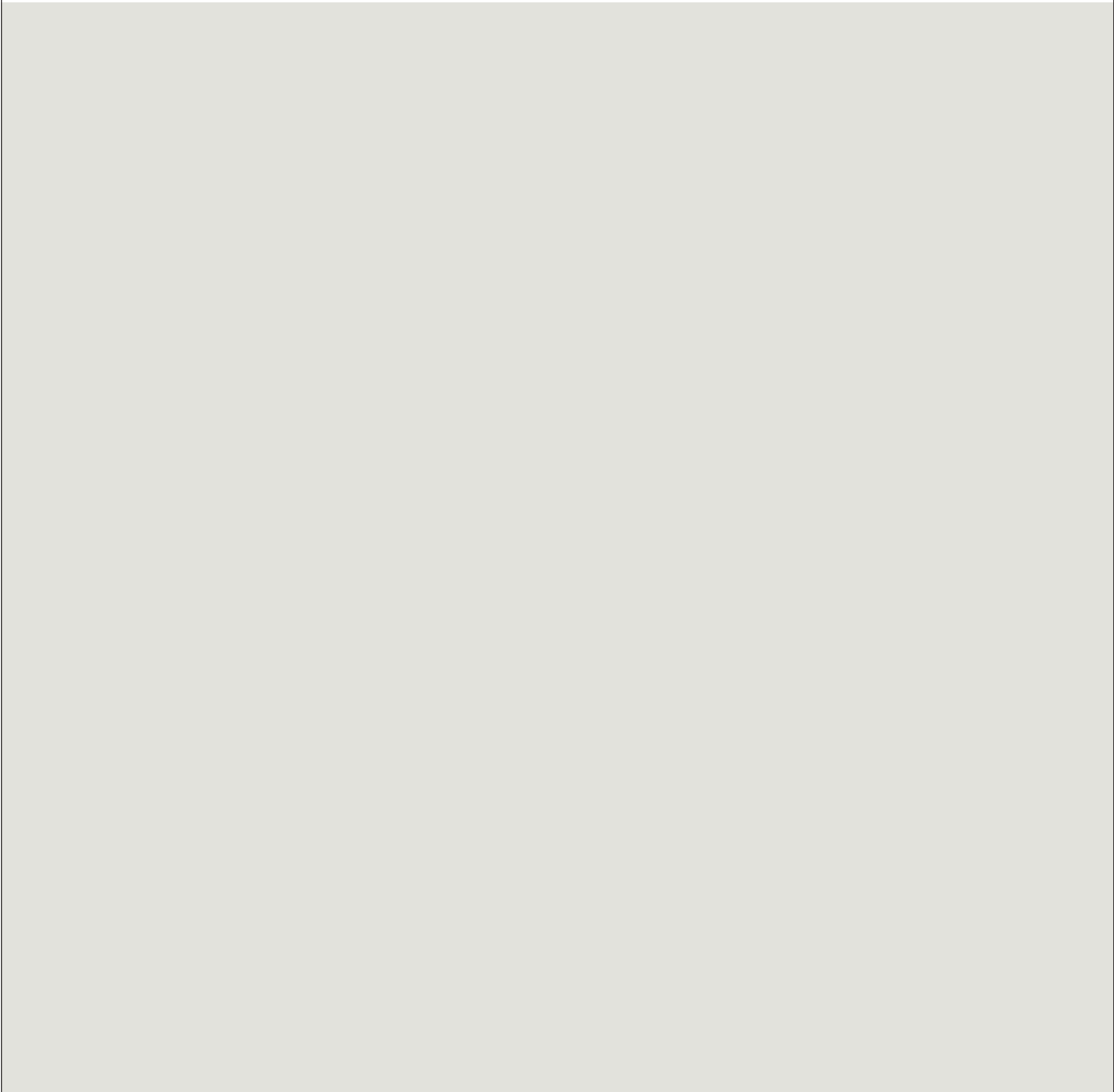
For the Management Board
Dr. Bernd Schlobohm

For the Supervisory Board
John C. Baker

Functions of the Supervisory Board

The members of the Supervisory Board represent functions in the following companies:

Member of Supervisory Board	Function	Company
John C, Baker	Member of Board of Directors	Digi TV Plus Oy, Helsinki, Finland
	Member of Board of Directors	InterXion Inc., Schiphol-Rijk, Netherlands, since October 2007
	Member of Board of Directors	Verified Identity Pass Inc., New York, USA
Herbert Brenke	Chairman of Supervisory Board	ASKK Holding AG, Hamburg, Germany
	Chairman of Supervisory Board	Telegate AG, Martinsried, Germany, until September 2007
	Member of Supervisory Board	Broadnet AG, Hamburg, Germany, until October 2007
	Member of Supervisory Board	SHS VIVEON AG, Munich, Germany
	Member of Advisory Board	Küttner GmbH & Co. KG, Essen, Germany
Gerd Eickers	Chairman of Supervisory Board	Contentteam AG, Cologne, Germany
	Member of Supervisory Board	Amisco N.V., Brussels, Belgium, since January 2007
	Member of Supervisory Board	Broadnet AG, Hamburg, Germany, until October 2007
Ashley Leeds	Member of Board of Directors	Message Secure Corp., Lowell, USA, until February 2007
	Member of Board of Directors	Voltaire Ltd., Herzlia, Israel, until February 2007
Norbert Quinkert	Chairman of Supervisory Board	WISTA-Management GmbH, Berlin, Germany
	Member of Supervisory Board	ALD Vacuum Technologies AG, Hanau, Germany, until May 2007
	Member of Supervisory Board	AMG Advanced Metallurgy Group, Wayne, USA, since May 2007
	Member of Supervisory Board	PFW Aerospace AG, Speyer, Germany
	Member of Supervisory Board	Motorola GmbH, Taunusstein, Germany
	Member of Supervisory Board	VTION Wireless Technologies AG, Frankfurt am Main, Germany since October 2007
	Chairman of Advisory Board	MAXIM Markenprodukte GmbH, Brauweiler, Germany, since June 2007
	Member of Advisory Board	Dresdner Bank AG, Frankfurt, Germany
	Executive Vice President	American Chamber of Commerce, Frankfurt, Germany
David Ruberg	Chairman of Supervisory Board	InterXion Inc., Schiphol-Rijk, Netherlands, until October 2007
	Member of Board of Directors	Adaptix Inc., Seattle, USA
	Member of Board of Directors	Broadview Networks Inc., New York, USA



Glossary

ADSL • The Asymmetric Digital Subscriber Line. Transmission of digital data over a copper telephone line with "asymmetric" transfer rates of between 1.5 Mbit/s and 8 Mbit/s downstream and between 16 kbit/s and 800 kbit/s upstream.

ADSL2+ • An evolution of ADSL technology that primarily improves the transfer rates and ranges of an ADSL connection. Optimally, ADSL2+ affords transfer speeds of up to 25 Mbit/s downstream and up to 3.5 Mbit/s upstream.

Backbone • Supraregional network of several hubs, connected by fast transmission routes.

Bitstream Access • A ramp-up product for broadband services that provides a network operator with broadband transfer capacity (e.g. on a DSL platform) between the end customer and a defined point of interconnection (POI) in the network of a further provider, thereby enabling him to acquire the bitstream and offer it on the basis of his own end-customer rate plans.

Broadband • A data transmission capacity of more than 128 kilobits per second.

Bundesnetzagentur (German Federal Network Agency) • The German regulatory authority for electricity, gas, telecommunications, postal and railway markets. Its mission is to monitor the market power of dominant providers and to assist competitors in achieving the required equality of opportunities.

Call-by-Call • Phone calls or Internet access via call-by-call enable a customer to dial the network prefix of his or her telephone provider of choice prior to each telephone call or Internet access.

CO • Central Office. The Central Office is where the subscriber lines, or local loops, from the individual households are connected. The equipment that enables the provider to offer the various data transmission technologies (e.g. ADSL, ADSL2+, SDSL, SHDSL) is installed at the central office.

DSL • Digital Subscriber Line. A data transmission method that enables digital data to be transferred at high transmission rates over a normal copper-wire telephone line.

IFRS • International Financial Reporting Standards, formerly called International Accounting Standards (IAS); international accounting rules to which corporations in Europe with a capital market focus have been subject since their 2005 fiscal year.

Intranet • An intranet is a network within an organization that is not publicly accessible, but that does fundamentally offer the same services as the Internet. It might be termed.

IP • Internet Protocol. The Internet is based upon the IP data transfer standard. The IP enables a data packet to be routed via multiple different computer platforms until it reaches its destination.

ISP • Internet Service Provider. An ISP enables customer data communication by providing Internet access and related services, e.g. the management of e-mail.

LAN • Local Area Network. A network confined to a particular geographical area or building (e.g. within a company).

Last Mile • The "Last Mile" is the name given to the path of the line from the central office to the end-customer's telephone connection. The Last Mile is owned by Deutsche Telekom and is leased by alternative providers like QSC at a price that is stipulated by the German Federal Network Agency.

Leased Line • A permanent connection line that is always on.

Managed Services • QSC defines Managed Services as a wall-to-wall service (LAN, WAN, telecommunications management) that includes all customer-specific interfaces: From connection of individual enterprise locations within a Virtual Private Network (VPN) for voice and data transmission to internal cabling and equipping of the local area network right through to the installation of telephone systems, including the end-user devices.

Mbit/s / Kbit/s • Megabits per second / kilobits per second. A measure unit for data transmission speed.

NGN • Next Generation Network. An NGN consolidates the wide range of transmission methods and network structures into a convergent network architecture. This integrates telecommunications networks, data networks and TV networks within an IP-based network, for example.

Port • A port is the connection between the last mile from the end-customer to the provider's DSLAM at the central office. A DSLAM comprises multiple linecards, i.e. plug-in cards containing 32 to 64 physical ports. A connector is attached to each of these ports, which consists of two metallic pins, thus linking the final mile from the end-customer with the provider's network.

Protocol • A protocol contains standards for controlled data transfer. Protocols, for example, stipulate the data structure, the structure of the data packets as well as their encoding. There are various protocols, such as http or IP, depending upon the application in question.

Router • A system that interconnects two networks and organizes messaging channels between the networks. Routers are primarily employed to link local area networks (LANs) with wide area networks (WANs).

SaaS • Software as a Service. This is a software distribution or business model under which software is supplied, supported and operated as a service on the basis of Internet technologies.

SDSL • Symmetric Digital Subscriber Line. Symmetric transmission technology that allows data to be transferred in both directions at speeds of up to 2.3 megabits per second. SDSL requires merely a copper twisted-pair line, which is why it is also termed a Single Digital Subscriber Line. The SDSL line is always on, thus allowing it to serve as a substitute for conventional leased lines.

SHDSL • Symmetric High Bit Rate Digital Subscriber Line. Actually "G.SHDSL." A symmetrical, DSL-based data transmission technology over copper twisted pairs. QSC utilizes SHDSL technology in connection with most of its business customer products, and additionally offers both high downlink and uplink bandwidths. Even higher bandwidths can be achieved by coupling multiple copper twisted pairs. Three twisted pairs offering a total of up to 6.0 Mbit/s in both directions are currently possible at QSC.

SLA • Service Level Agreement. Legal agreement that specifies the contractual agreements between a service provider and a user with respect to the quality of service (speed, bandwidth, availability.)

TAL • The German acronym for a subscriber line or local loop. The line between a central office and the subscriber's physical connection to the respective network.

TKG • The German acronym for the German Telecommunications Act. The TKG serves as the basis for liberalization of the telecommunications sector in Germany.

Triple Play • Triple Play is the term used for multimedia services that are provided by network operators, telecoms, cable TV network operators and Internet service providers. It offers telephony, Internet and entertainment offerings such as television or video on demand over one and the same line, usually broadband.

Unbundled access • The customer's connection is physically connected directly to the alternative carrier's network. In order to assure competition in the local service area, as well, the German regulatory authority wants alternative telco providers to have a right to unbundled access to Deutsche Telekom's subscriber line.

VDSL • Very High Data Rate Digital Subscriber Line. VDSL stands for an asymmetric data transmission technology that utilizes copper cables. Theoretical VDSL capacities range up to 100 MBit/s. With consideration to other frequency bands, though, slower speeds of up to 50 Mbit/s are utilized in actual practice.

Voice over IP • Voice over Internet Protocol. The technique of using the Internet Protocol (IP) to transfer voice communication over packet-switched data networks.

VPN • Virtual Private Network. In a VPN, several enterprise sites are connected through a public network to form a secure network that cannot be accessed by outsiders. Only authorized persons or sites are able to communicate with one another, access data or exchange data over this network infrastructure.

WAN • Wide Area Network. A network for voice and data transmission that comprises a very large geographical area. To some extent it may even cover countries or continents.

Wimax • Worldwide Interoperability for Microwave Access. Wimax is a new standard for wireless local area networks. Theoretically it is capable of offering ranges of up to 50 kilometers and data transfer rates of up to 70 Mbit/s.

WLAN • Wireless Local Area Network. A wireless network confined to a particular geographical area.

WLL • Wireless Local Loop. A technology that allows for wirelessly linking subscriber connections to the network.

Calendar

Annual Shareholders Meeting
May 5, 2008

Quarterly Reports
May 15, 2008
August 20, 2008
November 19, 2008

Conferences / Events
April 24, 2008
German Small and Mid Cap Conference
Landesbank Baden-Württemberg, London

June 5, 2008
11th German Corporate Conference
Deutsche Bank, Frankfurt

August 28, 2008
German Telco & Media Day
WestLB, Frankfurt

September 11-12, 2008
Best of Germany Conference
UBS, New York

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