Annual Report 2008

Simple anytime professional efficient flexible dependable affordable innovative secure fast smooth **communication.**

QSC AG

Key Data

All amounts in € million	2008	2007	2006	2005	2004
Revenues	413.3	335.2	262.5	194.4	145.9
EBITDA	+67.3	+34.9	+21.2	+5.8	+3.2
EBIT	+6.1	-11.5	-7.2	-18.7	-22.7
Net profit (loss)	+0.8	-11.7	-5.3	-18.2	-21.6
Earnings per share [1] (in €)	+0.01	-0.09	-0.04	-0.17	-0.21
Equity [2]	154.4	152.2	160.6	85.0	70.2
Balance sheet total [2]	353.2	363.5	299.9	151.3	116.0
Equity ratio (in percent)	43.7	41.9	53.6	56.2	60.5
Capital expenditures	91.4	122.9	40.1	20.1	15.9
Liquidity [2]	49.2	78.0	108.9	56.4	40.3
Share price [2] (in €)	1.24	2.90	5.00	3.86	3.66
Number of shares [2]	136,998,137	136,358,315	133,897,686	115,033,078	105,502,729
Market capitalization [2]	169.9	395.4	669.5	444.0	386.1
Employees [2]	678	820	675	450	367

Consolidated Financial Statements 2004 – 2008 in accordance with IFRS

[1] basic and diluted

[2] as of December 31

Highlights 2008

New Supervisory Board
Since May 21, the QSC Supervisory Board has comprised four shareholder representatives and two employee representatives. The new Chairman is this body's Vice Chairman of long years' standing, Herbert Brenke.

QSC again honored with award
For the fourth time in a row, the German Internet Federation (eco) has honored QSC in the "Best Business Customer ISP" category. The independent jury made special mention of QSC's particular innovative strength.

Attractive line of business
QSC rigorously broadened its wholesale voice business during the second half of the year. In this business, QSC utilizes its IP-throughout Next Generation Network to make voice telephony services available to providers who do not possess a nationwide infrastructure of their own.

VirtuOS-ACD the best application
In connection with the 2008 VO.IP Awards at the congress for voice and IP communication on October 29, QSC was able to convince the unbiased trade jury about its network-based VirtuOS-ACD call center solution, taking first prize in the "Applications" category.

QSC returns to the profitability zone
QSC earned a net profit of € 2.1 million in the third quarter, thus returning to the profitability zone. As planned, QSC also earned a net profit for the full 2008 fiscal year.

New member of the Management Board
On November 18, the Supervisory Board appointed Joachim Trickl to the Management Board. In this function, he has been driving the development of operative business and sales of the three business units, Managed Services, Products and Wholesale/Resellers, since February 1, 2009. Trickl had previously been the managing director of Reliance Globalcom/Vanco GmbH since 2002.

congstar a wholesale partner
On December 18, QSC won a further partner for marketing combined voice/data connections on the basis of ADSL2+ technology: Cologne-based congstar. In this connection, QSC is providing this DTAG subsidiary with network services, including VoIP service via highly scalable interfaces.

Key Data Highlights 2008

Simple communication.

Simple control.

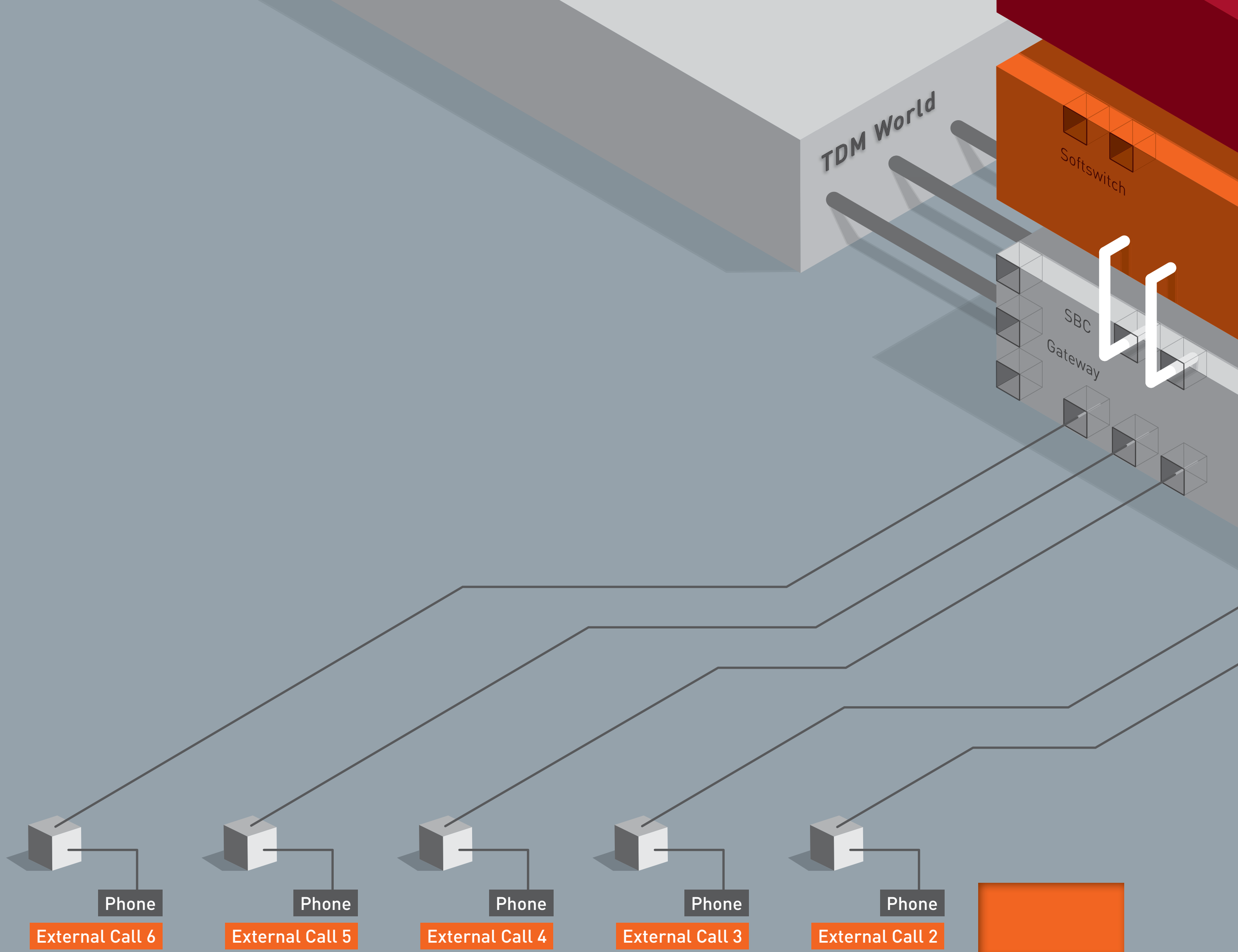
AUTOVISION GMBH

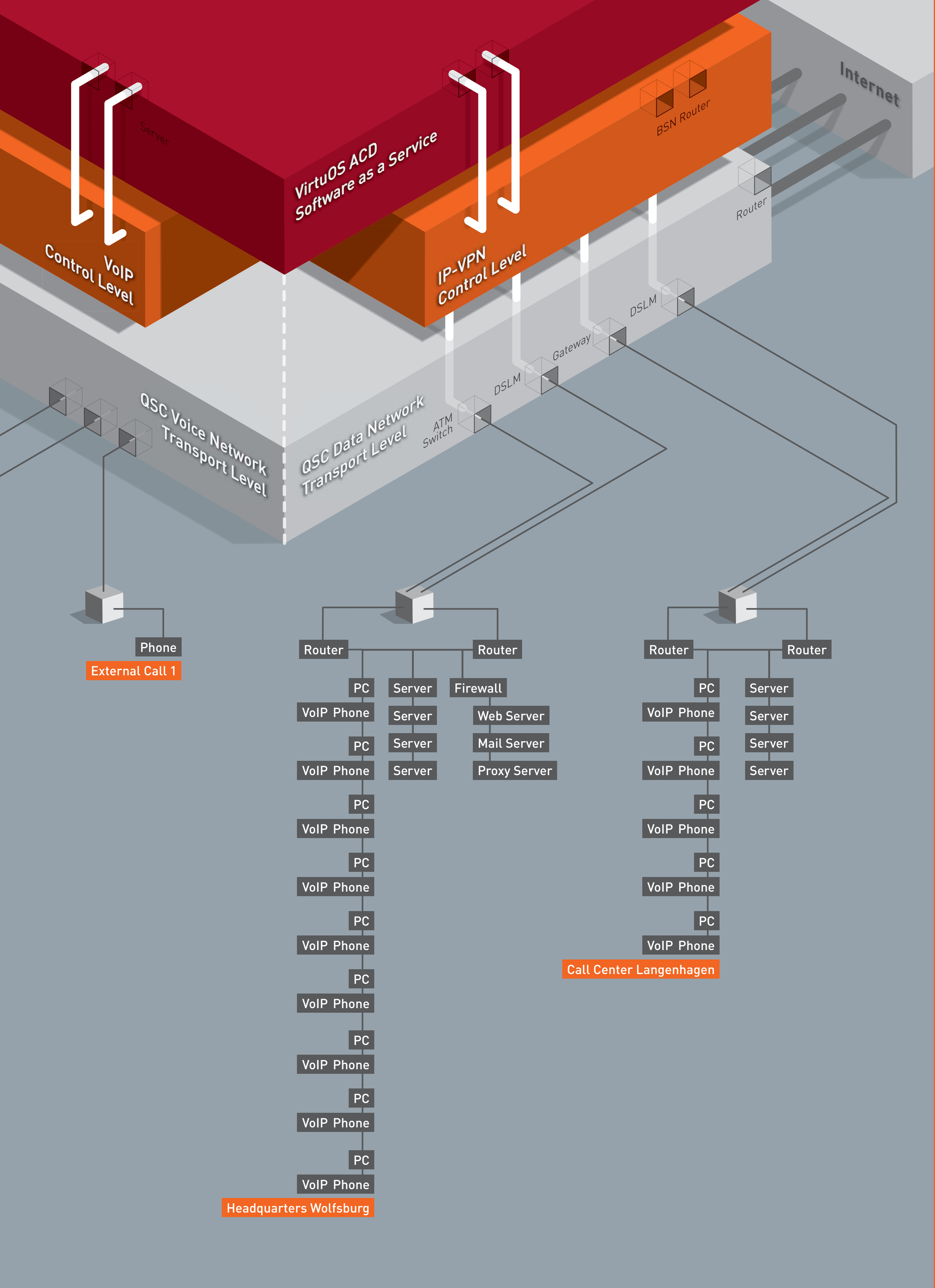
»Hello, Mr. Miller. You'd like to make an appointment for the workshop? I'm the right person for you!«

Phone
External Call 1

VoIP Phone
Call Center Langenhagen

Simply tear out and discover the kind of complex technology from QSC that makes for simple communication control.


TDM World
Softswitch
SBC
Gateway
Phone
External Call 6
Phone
External Call 5
Phone
External Call 4
Phone
External Call 3
Phone
External Call 2



VirtuOS ACD
Software as a Service
VoIP
Control Level
Server
IP-VPN
Control Level
BSN Router
Internet
Router
DSLM
Gateway
DSLM
ATM
Switch
QSC Voice Network
Transport Level
QSC Data Network
Transport Level
Phone
External Call 1
Router
Router
PC
VoIP Phone
Server
Server
Server
Server
Firewall
Web Server
Mail Server
Proxy Server
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Headquarters Wolfsburg
Router
Router
PC
VoIP Phone
Server
Server
Server
Server
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Call Center Langenhagen

VirtuOS-ACD

This call center solution from QSC affords simple control of even complex communication processes. A high level of service, flexible caller support with optimum utilization of all workplaces ("seats") and low costs are what characterize this QSC development.

People who contact a call center want to be connected with the right counterpart as quickly as possible. To assure this, the frequent points of contact for inquiries, orders and complaints utilize professional call management systems, which up until now have necessitated that high hardware and software investments be shouldered at the outset. The VirtuOS-ACD IP-based solution, on the other hand, utilizes the intelligence within the network and pay-per-seat rate models throughout. In this connection, QSC's nationwide Next Generation Network enables all key control processes to be performed within the network. This includes checking for available capacity among the individual agents, as well as targeted routing of calls that relate to specific questions. "Pay per seat" means that call centers pay only for actual usage; the system can grow along with the needs of the customers. They can increase or decrease the number of agent seats in connection with campaigns, for example, without the need for additional investments. Moreover, VirtuOS-ACD enables smooth integration of various locations and home workplaces. To the outside world, though, these virtualized groups of experts appear to be one large call center.

Right from the outset, this network-based solution possessed interfaces to any number of customer relationship management systems that companies use to capture and maintain their customer data. This means that the call center agents can see the caller's key data on their screen even before the conversation begins. And to further increase efficiency, VirtuOS-ACD also enables the call centers, themselves, to define all rules for call prioritization and routing: This means that a click of the mouse enables calls from the French network to be routed directly to French-speaking agents. And it is precisely these kinds of functionalities that account for the simple control of complex call centers with technology from QSC.

In a Nutshell	AutoVision GmbH
Headquarters	InnovationsCampus at the AutoVision Forum in Wolfsburg
Branches in Germany	Berlin, Braunschweig, Dortmund, Emden, Frankfurt, Göttingen, Hamburg, Hanover, Ingolstadt, Kassel, Leipzig, Magdeburg, Osnabrück, Rastatt, Stuttgart, Zwickau
Branches abroad	Bratislava (Slovakia), Brussels (Belgium), Györ (Hungary), Palmela (Portugal)
Established	2001
Sales revenues	€ 346 million (2008)
Workforce	7,490 (year-end 2008)

Advantages of VirtuOS-ACD

- QSC offers one-stop shopping for a wall-to-wall solution
- Flexible integration of all locations
- Pay-per-seat rate models
- One point of contact for advice, service and support
- Agent seats can be added or eliminated on an as-needed basis
- Compatibility with existing telephones
- Flexible contract periods
- Individually-specified numbers
- Forward-looking, network-based IP-telephony

»With QSC, we at AutoVision have found a partner who holistically and competently satisfies our complex individual needs for a high-quality call center.«

Stephan Rudloff,
Head of Business Services,
AutoVision GmbH

A very forward-looking solution

Stephan Rudloff and Bernd Telm from AutoVision GmbH about the employment of VirtuOS-ACD at this Wolfsburg-based VW subsidiary.

What's the business idea behind AutoVision GmbH?
We support our customers along the entire value chain with holistic offerings in order to create competitive advantages for them. In this connection, our portfolio includes both business and technical services as well as human resources services.

Where do you use call centers?
The field of customer care belongs to the Customer Care Services line of business. The organizational unit is the Process Services Department. The tasks consist of supporting our customers' core processes. We are currently primarily supporting Volkswagen AG, our parent corporation, in the fields of Marketing (campaigns and lead management), Purchasing (vendor support) and Health (service for VW employees outside Germany and on business trips).

What concrete inquiries do you handle?
The field of Marketing includes support for the central hotline for VW customers. They can use us to arrange for a workshop appointment for their car, for example. The employees are networked with the workshop planning tool for dealers and with the VW databases; in other words, they know the assignment plans for the mechanics, and they also know when any required parts will be delivered. In the field of Purchasing, our people assure that the 60,000 suppliers to the Volkswagen group are able to easily utilize the IT applications, and they offer first aid in the event of problems in the system.

What advantages does the solution offer?
The solution is very flexible. It offers us a great deal of development latitude and opportunities for integrating customers – dealers, for example – directly into our systems. And the performance of our people is steadily improving. We think that we've invested in a very forward-looking solution here.

Simple telephony.

»Welcome to our weekly store manager roundtable. So what’s new?«

VoIP Phone
Home Office

VoIP Phone
Subsidiary 1

VoIP Phone
Subsidiary 4

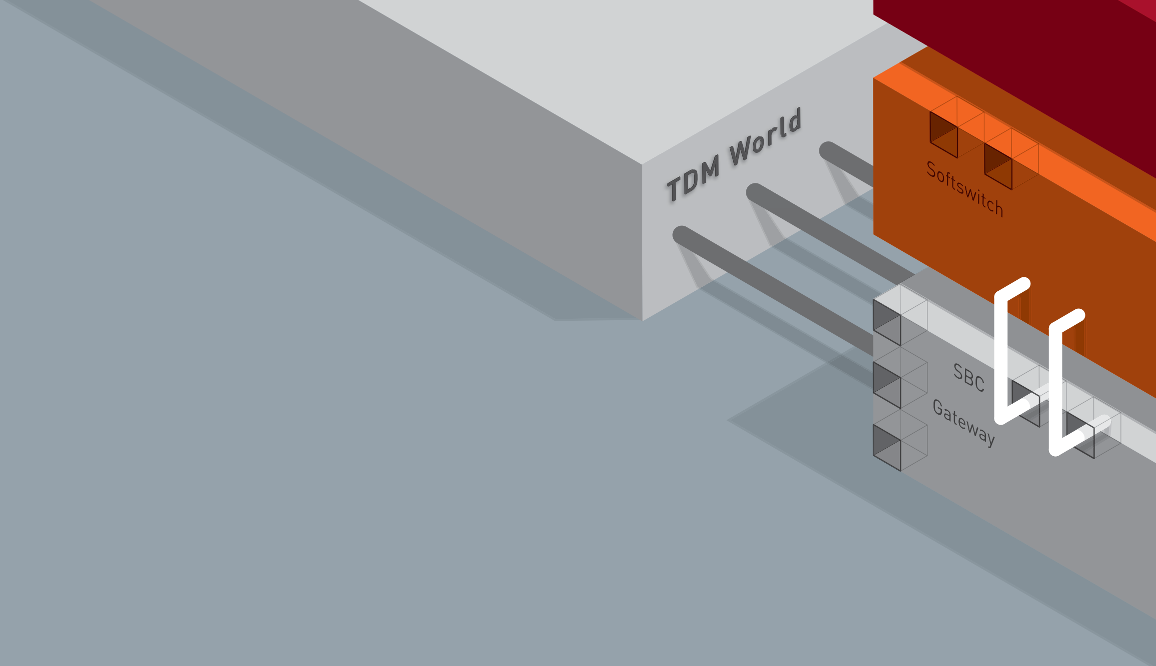
VoIP Phone
Subsidiary 2

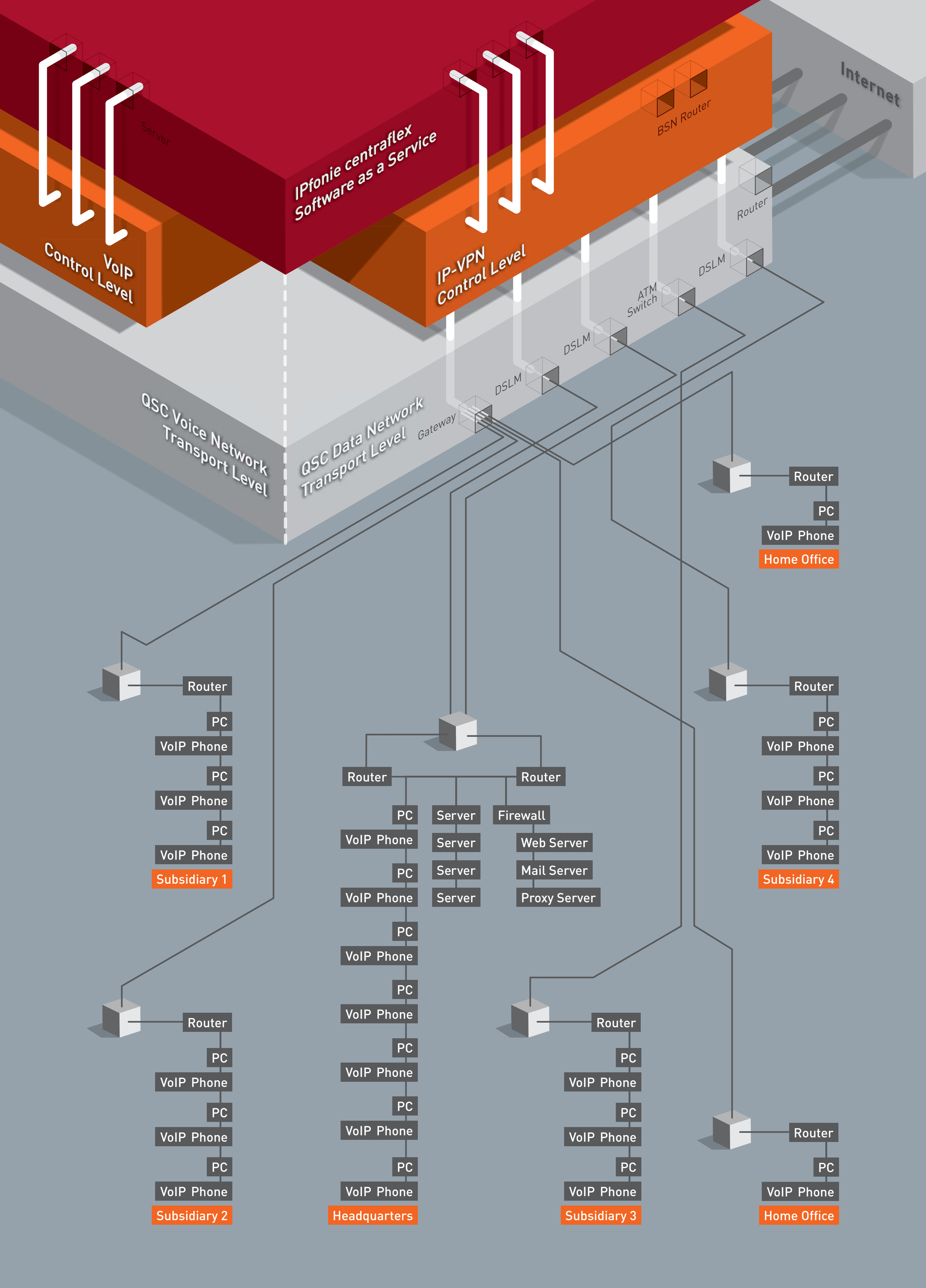
VoIP Phone
Headquarters

VoIP Phone
Subsidiary 3

VoIP Phone
Home Office

Simply tear out and discover the kind of extensive know-how QSC uses to afford simple telephony for its customers.


TDM World
Softswitch
SBC
Gateway



IPfonie centraflex
Software as a Service
VoIP
Control Level
IP-VPN
Control Level
BSN Router
Internet
Router
DSLM
ATM Switch
DSLM
DSLM
Gateway
QSC Voice Network
Transport Level
QSC Data Network
Transport Level
Router
PC
VoIP Phone
Home Office
Router
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Subsidiary 1
Router
Router
PC
Server
Firewall
VoIP Phone
Server
Web Server
PC
Server
Mail Server
VoIP Phone
Server
Proxy Server
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Headquarters
Router
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Subsidiary 4
Router
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Subsidiary 2
Router
PC
VoIP Phone
PC
VoIP Phone
PC
VoIP Phone
Subsidiary 3
Router
PC
VoIP Phone
Home Office

IPfonie centraflex

This innovative product from QSC handles all of the functionalities of a conventional telephone system, and replaces the cumbersome task of configuring individual connections with a few mouse-clicks on the PC. This is precisely what QSC means by simple telephony.

Admittedly, the term "Centrex," from which centraflex takes its name, is not new. Centrex stands for "Central Office Exchange"; it was developed around 50 years ago in the United States, and was offered for the first time in conventional fixed networks in the early 1960s. However in the wake of modern IP technology, the changeover from costly line-switched to cost-effective packet-switched communication, Centrex is now experiencing a renaissance as "IP-Centrex." Thanks to its Next Generation Network, QSC numbers among the pioneers in Germany here. The functionality of the IPfonie centraflex system, which won an IT innovation award at CeBIT 2009, is located at QSC in the form of a "Call Control Server" – an outsourced telephone system, so to say. Only the end-user devices are connected at the company, itself. The individual user configures system features, such as extension number, conference calls or callback, via a Web-based user interface; the days are past of multi-digit combinations of keys on the telephone or regular calls to the system technicians for help. QSC assumes line and telephone number management; this means that new employees are assigned new extension numbers centrally, and changeover of telephone instruments following an internal move can be handled in a matter of minutes.

With IPfonie centraflex, customers rent only those functionalities that are needed at the moment. This means that the customer no longer runs the risk of having an outmoded telephone system or one in need of maintenance or repair. Employment of this kind of system in multiple locations is especially advantageous. Although a company might have needed system technicians on site everywhere in the past, the entire virtual telephone system can now be managed centrally by QSC. That saves money, while simultaneously affording a professional image, as a single telephone number can be used for all locations. In short: Some 50 years after its development, the true triumph of Centrex technology is now upon us. And effective immediately, small and medium-size enterprises can benefit from truly simple communication with IPfonie centraflex.

In a Nutshell	3 Combinable Versions of IPfonie centraflex
Version 1	A wall-to-wall solution for voice and data traffic that is available nearly nationwide: It includes the functionalities of a telephone system, various VoIP end-user devices, as well as optional accessories and broadband Internet access.
Version 2	The VoIP solution for voice traffic that is available on the QSC network, along with the required number of voice channels. It contains the functionalities of a telephone system and various VoIP end-user devices, as well as optional accessories.
Version 3	SIP account solution for linking field service employees or branches outside the QSC network. Users make their calls via SIP telephone instruments, a PC/laptop with headset or a telephone instrument with analog telephone adaptor.

Advantages of IPfonie centraflex

- Available nearly nationwide
- A pure IP-telephony solution
- Flexible scalability
- All performance features of conventional telephone and telco systems
- Additional services, such as call center or conference systems
- High voice and service quality
- Attractive rate model, including voice and data flat rate
- Considerable reduction in costs for infrastructure and administration
- Free calls within the QSC network
- Telephone number porting – enabling users to keep their existing numbers

»IPfonie centraflex offers organizations an affordable way to enter the world of professional communication that used to be possible only with immense investments.«

Frank Radeck,
Head of Technical
Solutions, QSC AG

A shift to the net

Frank Radeck, who has been with QSC right from the very beginning, about virtual telephone systems and the future of telephony.

What's the importance of the IPfonie centraflex innovation for QSC?

This virtual telephone system is a key element on our way to becoming a leading provider of innovative Managed and Hosted Services for enterprise customers. All of these services are based upon our Next Generation Network, which we were one of the first providers in Germany to create three years ago by converting our voice network. Building upon this foundation, we then developed VirtuOS technology – a platform that enables us to handle multiple intelligent services.

The first step was for us to make an intelligent system available on the Web so that we could utilize various profiles in order to increase personal telephone availability. This system allows the user to predefine when he or she will be available, which callers are to be routed to his or her extension, as well as much more. A "Find Me" function is implemented, for example, that always forwards important calls to the right telephone – whether the user is in the office, at home or mobile.

So this is already an intelligent telephone system?

Yes! But the crucial distinction is that the "telephone system" doesn't consist of any technical equipment at the user, but is located within the QSC network, i.e. far from the user. Essentially, both these functionalities as well as IPfonie centraflex can be utilized with every kind of telephone instrument and every carrier channel, regardless of whether the call is being routed via the classical telephone network, via mobile telephony or via Voice over IP.

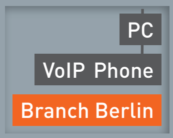
And what's next?

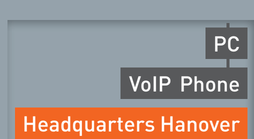
In the years to come, the focus will increasingly be on Cloud Computing. In other words, the hardware and software applications will no longer be located on site, but more and more of it will instead be in the "Cloud." However a powerful network will be needed to access the "Cloud." The customer doesn't care where it runs, but only which advantages it offers: High redundancy, high capacities, standard interfaces and no hardware investments. That will be the way: The increasing shift to the net.

Simple networking.

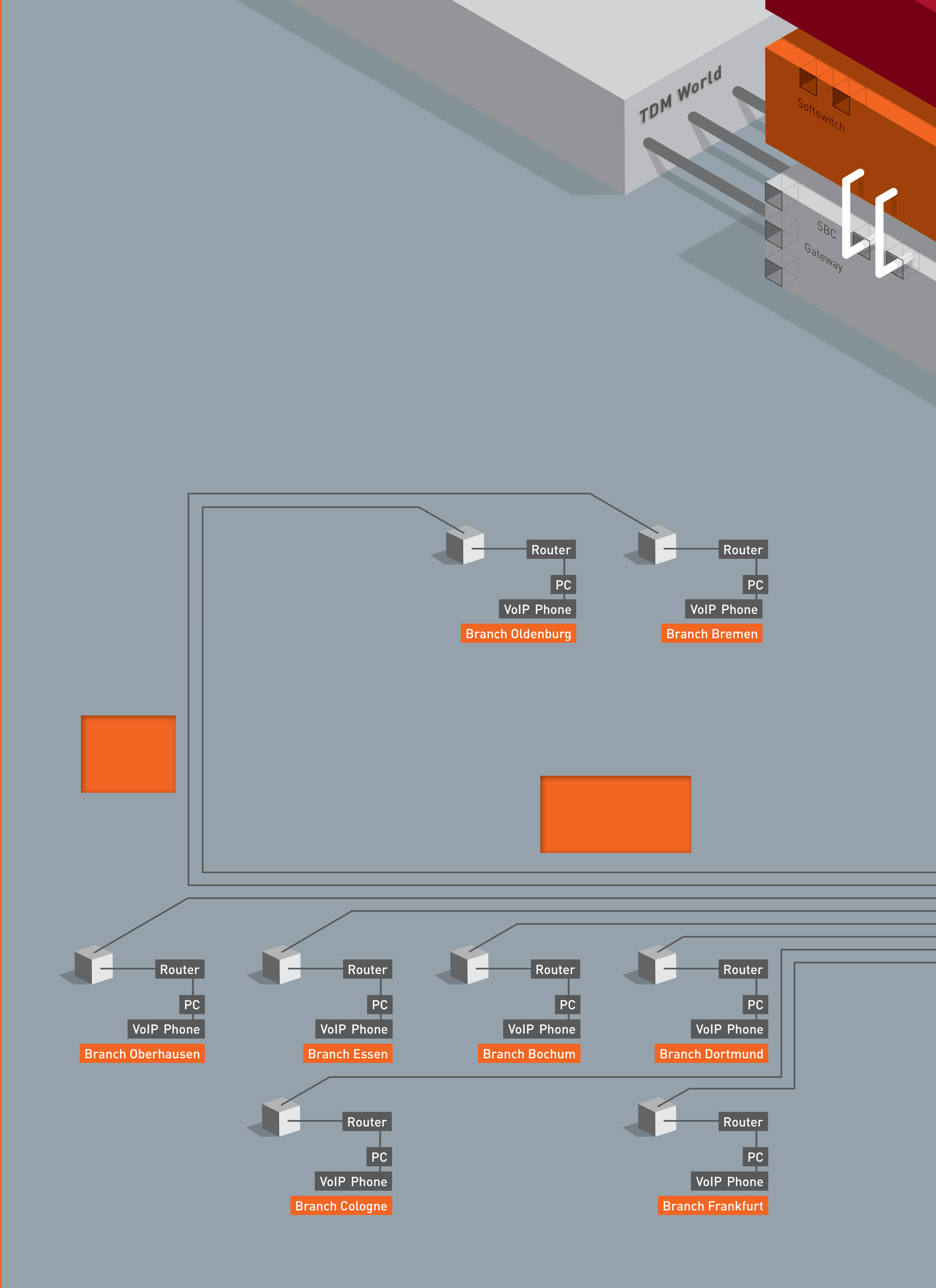
THEO WORMLAND GMBH & CO. KG

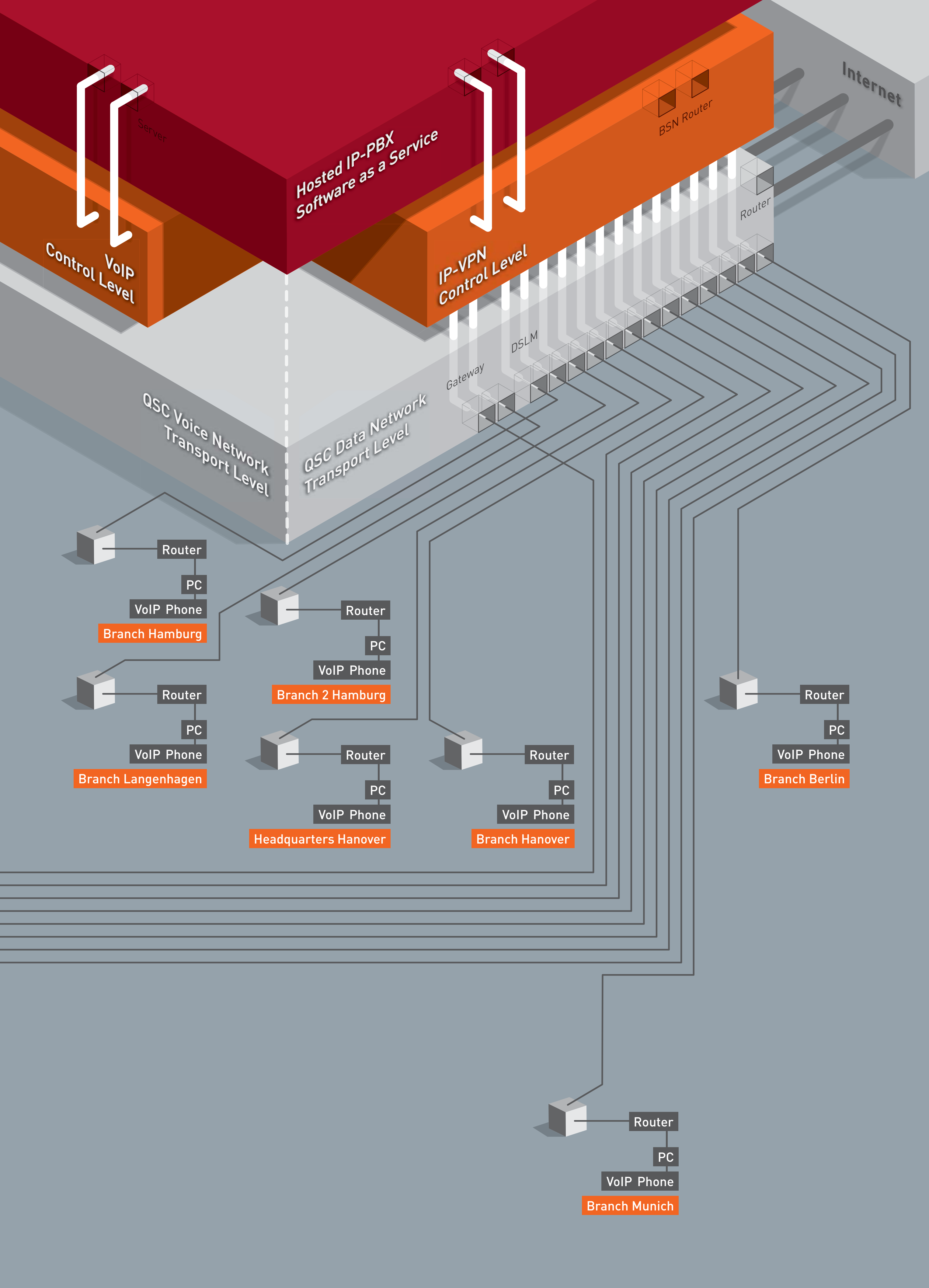
»I just saw that our sale ran great yesterday. Congratulations!«





Simply tear out and discover how organizations can benefit from simple networking with QSC technology.


TDM World
Softswitch
SBC
Gateway
Router
PC
VoIP Phone
Branch Oldenburg
Router
PC
VoIP Phone
Branch Bremen
Router
PC
VoIP Phone
Branch Oberhausen
Router
PC
VoIP Phone
Branch Essen
Router
PC
VoIP Phone
Branch Bochum
Router
PC
VoIP Phone
Branch Dortmund
Router
PC
VoIP Phone
Branch Cologne
Router
PC
VoIP Phone
Branch Frankfurt


Internet
BSN Router
Router
Server
VoIP
Control Level
Hosted IP-PBX
Software as a Service
IP-VPN
Control Level
DSLM
Gateway
QSC Voice Network
Transport Level
QSC Data Network
Transport Level
Router
PC
VoIP Phone
Branch Hamburg
Router
PC
VoIP Phone
Branch 2 Hamburg
Router
PC
VoIP Phone
Branch Langenhagen
Router
PC
VoIP Phone
Headquarters Hanover
Router
PC
VoIP Phone
Branch Hanover
Router
PC
VoIP Phone
Branch Berlin
Router
PC
VoIP Phone
Branch Munich

IP-VPN

Efficient, secure communication at affordable cost: IP-based Virtual Private Networks (IP-VPN) make it all possible. Thanks to simple networking, employees in multiple locations and in the field can work as though they were all connected within a Local Area Network.

Information technology is at the heart of every organization today, because it provides all relevant information about production, purchasing, accounting and sales. For a company, it is therefore vital to assure that all employees can access the information they need at any time, regardless of whether they're in the office, out and about or at home. Moreover, they always have to be able to communicate securely with one another by telephone or e-mail. The modern solution for organizations large and small is called IP-VPN, simple yet secure networking using DSL technology. This enables costly modem links and leased lines to be cost-effectively replaced. And where DSL is not available, QSC utilizes alternatives, such as its own wireless local loops (WLL) or mobile technologies like UMTS.

QSC builds and operates these networks in accordance with the customer's specifications. Constantly updated firewall systems, along with virus and spam filters as well as state-of-the-art data encryption, assure the highest security standards. The Network Operations Center in Cologne additionally monitors the network around the clock, responding directly in the event of potential weak points. Its high quality and security standards underscore QSC's claim to be the premium provider for enterprise customers. One focus in this connection is on providing custom-tailored solutions for small and medium-size enterprises, which often shy away from entering the world of "net-working" if they don't have a partner who can talk with them at eye level. Medium-size enterprise QSC is just that partner, and is thus making a crucial contribution toward affording an organization's workforce simple working and communication over the net.

Advantages of an IP-VPN

- Secure links between multiple locations of a company
- Intelligent networking of stores, customers and suppliers
- Simple to scale as the number of users grows
- Modular installation of additional services possible
- Simple integration of voice telephony
- Network-based firewalls afford optimum security
- Custom-tailored service packages for every customer

In a Nutshell	Theo Wormland GmbH & Co. KG
Established	1935, by Theo Wormland
Headquarters	Hanover
Brands	Wormland, Theo
Management	Oliver Beuthin (CEO)
Stores	14 in Germany
	in Berlin, Bochum, Bremen, Cologne, Dortmund, Essen, Frankfurt,
	Hamburg, Hanover, Munich, Oberhausen and Oldenburg

»QSC not only delivered the right concept for us, it also offered outstanding service during the implementation phase.«

Friedrich Jonas,
Head of IT
at Theo Wormland

Solutions even for trickier issues

Friedrich Jonas, who heads up Information Technology at Theo Wormland, explains how an IP-VPN is employed at this nationwide fashion chain.

Why did Wormland opt for QSC?
QSC not only delivered the right concept for us, it also offered outstanding service during the implementation phase. The VPN was implemented within the space of only four weeks. The VPN from QSC is faster and more dependable than our former solution, and we're paying as much for this wall-to-wall solution as we would have had to spend on a leased line.

How is daily collaboration working out?
It works out very well. Should a question ever arise, both business and technical points of contact are available. A 24-hour hotline assures that any performance problems can be swiftly resolved.

How is Voice over IP proving to be in the real world?
We have been having very good experience with Voice over IP. It runs smoothly. The voice quality is every bit as good as with ISDN, and VoIP offers the same functionalities – such as call forwarding or voicemail. We took great pains in deciding on VoIP. What convinced us were the fact that the costs are transparent, and they will not rise on a linear basis with further growth. And QSC also addressed the somewhat trickier issues and presented solutions.

And they were?
Before we put Voice over IP into real-life operation, for example, we installed a virtual LAN for test purposes. We didn't need to bring in an external service provider for this purpose, but were able to handle everything through QSC.

What will the future offer?
The wall-to-wall solution consisting of VPN and VoIP can be modularly extended. We can expand the VPN when new stores are added, and integrate further users into the VoIP structure. Were the bandwidth of the VPN to be increased, videoconferencing would also be possible.

Content

To Our Shareholders

QSC's operative business developed very well in the year 2008, in spite of the recession. Its shares, on the other hand, suffered from the general weakness of the capital markets. The Management Board anticipates that business will continue to develop on a positive note in 2009, along with higher financial strength and profitability, in particular.

Letter to Our Shareholders

Dear Shareholders,

2008 was a good year for QSC, but it wasn't a good year for QSC's shareholders. In spite of the financial crisis and recession, we were able to significantly grow both our revenues and our profitability. On stock exchanges, though, our shares suffered from the generally negative mood. And at the outset of the year 2009, our share price level continues to be totally unsatisfactory. On the other hand, we see ourselves as being relatively well equipped in our operative business for even an extended recession. In our opinion, though, this strength in our operative business will result in a reassessment of our shares once the current turbulences have been overcome, thus assuring that our shareholders will be able to participate in QSC's good development over the medium term.

QSC fully satisfied its twice-raised guidance for the full fiscal year

And QSC developed on a very good note last year: With net income of € 0.8 million, the Company recorded its first black ink on the bottom line, as planned. Earnings before interest, taxes, depreciation and amortization (EBITDA) nearly doubled by comparison with 2007 to € 67.3 million, while revenues advanced by 23 percent to € 413.3 million. This enabled us to fully satisfy our guidance, which we had already raised twice during the course of the year.

In 2008, Wholesale/Resellers business made the largest contribution to the Company's revenue growth, in particular ADSL2+ wholesale business, which saw strong growth in the first half of 2008. Our successes in provisioning ADSL2+ lines for residential customer providers in 2008 overshadowed the Company's advances in other lines of business. In 2008, QSC successfully expanded its wholesale voice business within the Wholesale/Resellers segment; this consists of reselling IP-based services to providers who do not possess a corresponding nationwide infrastructure of their own. These providers utilize QSC's Next Generation Network, which affords high-quality, cost-optimized voice telephony. Also developing on a positive note was SHDSL wholesale business with international carriers, who utilize QSC's nationwide network in connection with their international networking projects.

Following the restructuring in the autumn of 2007, the Managed Services segment has been recording rising revenues from quarter to quarter. In solutions business, which involves intensive advice and consulting, the Company's focus on small and medium-size customers is increasingly paying off; QSC can talk with these customers at eye level, and its own experience makes the Company very familiar with their needs. We succeeded in stabilizing revenues in the Products segment during the course of 2008. While the percentage of total revenues attributable to conventional voice telephony continued to decline as a result of pricing competition, QSC succeeded in further increasing the number of direct connections from quarter to quarter. Moreover, both Products and Managed Services business were able to benefit from the sharp rise in demand for Voice over IP products and services.

QSC drove the development of forward-looking products and services in 2008

In 2008, QSC drove the development and marketing of these kinds of forward-looking products and services in all three segments. One focus in this connection was on telecommunication-based Software-as-a-Service offerings, like the VirtuOS-ACD call center solution and the IPfonie centraflex virtual telephone system. In the case of both of these solutions, customers are able to utilize cutting-edge, network-based telecommunication solutions, without having to invest in a corresponding infrastructure of their own. These kinds of "pay-per-seat" models are meeting with keen interest, especially during the recession, as they can increase an organization's efficiency without the need for tying up capital long term.

The contribution that QSC is making toward the greater productivity of its customers is strengthening our confidence about 2009. In spite of the most serious post-war recession in Germany's history, we intend to remain on our growth course. The focus in this connection will clearly be on strengthening our financial position and profitability. QSC is planning on earning a positive cash flow – the difference between the change in liquid assets and the change in interest-bearing liabilities – of more than € 10 million for the current fiscal year. The Company's net indebtedness, which is very moderate by industry comparison, will be further reduced during the course of the year. In this difficult environment, QSC is also planning to further increase its EBITDA to between € 68 and € 78 million and to grow its revenues to between € 420 and € 440 million.

2009 to see even greater concentration on high-margin revenues

Even more than in previous years, we will be concentrating on high-margin revenues in this connection. This also means that we will be largely avoiding the pricing competition in DSL business, which means that we might have to forgo growth in increasingly competitive ADSL2+ wholesale business. Instead, we will be further expanding the Company's voice and SHDSL wholesale business, and rounding it out to include reseller business for enterprise customers, who resell our finished products under their own brand names. In the Products segment, we are concentrating on directly connecting small and medium-size enterprises, who will be able to utilize voice and data services from QSC over one and the same line, as well as on selling further high-margin products and services. In connection with Managed Services, our primary focus will be on IP-VPN solutions for small and medium-size enterprises, on the IP-based services that build upon them, as well as increasingly on our Software-as-a-Service solutions. This focus will enable QSC to increase its value added per customer and raise its profitability.

QSC's high profitability also stems from its sustained strict cost discipline. All of our people take their entrepreneurial co-responsibility very seriously. And we would like to express our sincere thanks to them for this, as well as for their strong willingness to achieve. Our thanks also go to our Management Board colleague of long years' standing, Bernd Puschendorf, who in February 2009 passed on his office to Joachim Trickl. Together, we will now be driving QSC's position among small and medium-size enterprises even more strongly.

This strategy and the Company's growing profitability make QSC shares a sustainable investment for you, our shareholders, irrespective of the current capital market situation. In conclusion, we would like to thank you for your sustained confidence in a difficult environment and assure you that we will continue to expand QSC's good position in its operative business in 2009.

Cologne, March 24, 2009

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Joachim Trickl

The Management Board

Dr. Bernd Schlobohm (Chief Executive Officer)
A postgraduate engineer, he continues to be at the helm of the company he founded together with Gerd Eickers in 1997. The focuses of his work today consist of the strategy of QSC, Quality Management, Information and Telecommunications Technology and Communication. In doing so, he assures that the Company's innovative, often highly complex technology always remains easy for the customer to understand and use. What are important to him in this connection are his contacts with small and medium-size customers, with whose needs medium-size QSC is familiar. Entrepreneur Dr. Schlobohm numbers among QSC's largest shareholders, and has never sold a single share since the Company went public.

Markus Metyas
A postgraduate economist, he assumed the position of Chief Financial Officer in advance of QSC's IPO in the year 2000, and in subsequent years has shaped QSC's transformation from a young growth company to a profitable medium-size enterprise with annual revenues of more than € 400 million in 2008. In addition to Finance, the responsibilities of Markus Metyas on the Management Board also include Law and Investor Relations. In this connection, he pays strict attention to straightforward, transparent and timely communication with both shareholders and potential investors.

Joachim Trickl (Effective February 1, 2009)
A postgraduate physicist, he has been augmenting QSC's Management Board since February 2009, where he has been driving the operative development and sales of the three business units, Managed Services, Products and Wholesale/Resellers, paying particular attention to small and medium-size enterprises. In his eyes, clear and transparent customer segmentation is a key to success, and it is precisely this that he has practiced in recent years as a managing director of Reliance Globalcom/Vanco GmbH. He began his career in telecommunications in 1997 at network operator Equant.

Bernd Puschendorf (Through January 31, 2009)
A businessman and seasoned sales manager, he had been in charge of Sales and Marketing on the Management Board for the past seven years before smoothly passing on his office to Joachim Trickl in early 2009.

The Supervisory Board

Since the Annual Shareholders Meeting on May 21, 2008, the QSC Supervisory Board has comprised four shareholder representatives and two employee representatives. At the suggestion of its former Chairman, John C. Baker, the newly formed Supervisory Board elected the Supervisory Board Vice Chairman and Chairman of the Annual Shareholders Meetings of long years' standing, Herbert Brenke, as its Chairman.

Herbert Brenke • Chairman
An independent telecommunications consultant, he has been a member of the Supervisory Board since the Company's initial public offering. 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 of Thyssen Handelsunion since 1983.

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 the VATM, the premier telecommunications industry association in Germany.

Klaus-Theo Ernst
In May 2008, the workforce elected the Head of Project Management at network operating company Plusnet as one of its two representatives on the newly formed QSC Supervisory Board. Klaus-Theo Ernst has worked at QSC since early 2001.

John C. Baker • Vice Chairman
Since 2000, the founder and general partner of the Baker Capital Group, a private equity firm 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 in 1999, prior to its initial public offering.

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

Jörg Mügge
In May 2008, the QSC workforce elected the Head of Systems and Processes at Plusnet as its second representative on the QSC Supervisory Board. Jörg Mügge has been employed at QSC since April 2002.

Members through May 21, 2008

Ashley Leeds
The term of office of the former general manager of the Baker Capital Group ended upon adjournment of the Annual Shareholders Meeting on May 21, 2008.

Norbert Quinkert
The term of office of the chief executive officer of Motorola GmbH of long years' standing also ended upon adjournment of the Annual Shareholders Meeting on May 21, 2008.

Report of the Supervisory Board

for the 2008 fiscal year regarding the Company and the Consolidated Group

QSC's business developed on an encouragingly positive note in 2008: The Company grew its revenues and profitability significantly, generating its first net income since the IPO. This success was the success of all of QSC's employees, to whom, in addition to the Management Board, we would like to express our thanks for their commitment and achievements during the past fiscal year.

Tasks of the Supervisory 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 the applicable laws and regulations, 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 net worth, financials and profitability. Following careful consideration, the Supervisory Board approved all measures for which its consent is required by law, the Articles of Association or the Rules of Procedure of the Management Board.

Supervisory and Management Boards discussed major business policy issues

Issues of the Supervisory Board • The Management Board regularly informed us in written and oral form on the development of business, including monthly and quarterly financial reports, and used actual vs. target comparisons to detail variances from plans and targets. Further inquiries and requests by the Supervisory Board for additional information were answered promptly and completely. The information from the Management Board covered the development of the underlying 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 conference calls, the Supervisory and Management Boards discussed key aspects of the Company's business policies and strategies, as well as its corporate development and planning. The written information from the Management Board, as well as verbal discussions of the subject matter with it, served as the basis for the deliberations and resolutions of the Supervisory Board. Moreover, the Chairmen of both boards conducted regular conversations to discuss current issues.

The main focuses of the Supervisory Board's activities in fiscal 2008 were:

1. An in-depth discussion on the operative progress in the Company's three segments. The Supervisory Board informed itself about QSC's operative development, as well as about sales activities with their increased focus on small and medium-size customers.
2. The Company's financial situation. The Supervisory Board carefully monitored the development of QSC's key financial indicators. It was comprehensively informed about the reduction in trade and leasing payables, as well as about the establishment of a line of credit agreement with three financial institutions for a total of € 50 million that will run through year-end 2011.

3. The appointment of Joachim Trickl as a new member of the Management Board. On November 18, 2008, the Supervisory Board appointed the former managing director of Globalcom/Vanco GmbH, Joachim Trickl, to the Management Board of QSC AG effective February 1, 2009, where he will succeed Bernd Puschendorf. The Supervisory Board would like to express its sincere thanks to Bernd Puschendorf for his years of service, in particular for successfully building and expanding the solutions and product business for business customers.

Composition of the Supervisory Board • Since QSC AG had typically been employing more than 500 but fewer than 2,000 people since the beginning of the 2008 fiscal year, 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. Since QSC's Articles of Association and Bylaws had called for a six-member Supervisory Board for efficiency reasons, alone, this means that in the future the Supervisory Board will consist of four shareholder representatives and two employee representatives.

Four shareholder and two employee representatives make up the Supervisory Board

Pursuant to § 97, Sub-Para. 2, Sent. 3, German Stock Corporation Act, the terms of office of the former members of the Supervisory Board ended upon the adjournment of the Annual Shareholders Meeting on May 21, 2008. On this day, the Annual Shareholders Meeting reelected John C. Baker, Herbert Brenke, Gerd Eickers and David Ruberg to the Supervisory Board. Former Supervisory Board members Ashley Leeds and Norbert Quinkert did not make themselves available for reelection; we would like to express our sincere thanks to both of these individuals for their remarkable commitment and their valuable contributions to QSC's development in years past. The workforce of the QSC Group elected the two employees Klaus-Theo Ernst and Jörg Mügge as their representatives.
At the suggestion of former Chairman John C. Baker, at its first meeting on May 21, 2008, the newly formed Supervisory Board elected the long serving Supervisory Board Vice Chairman and Chairman of the Annual Shareholders Meetings, Herbert Brenke, as its new Chairman, thus reflecting the fact that the majority of the Supervisory Board members now reside in Germany. John C. Baker was elected Supervisory Board Vice Chairman and also assumed the Chair of the Audit Committee.

Meetings of the Supervisory Board and its Committees • Aside from two regular meetings, the Supervisory Board that was in office through May 21, 2008, conducted one conference call. All members attended more than 50 percent of the Supervisory Board meetings in 2008 (cf. Point 5.4.7 of the German Corporate Governance Code). Aside from three regular meetings, the members of the Supervisory Board that has been in office since May 21, 2008, conducted two conference calls. All members of this Supervisory Board attended all meetings in 2008. Where necessary, resolutions on individual issues were additionally adopted in writing.
The work of the Supervisory Board is supported by the Committees established by it. The Committee chairmen regularly report to the full Supervisory Board on the work of the Committees.

The Compensation Committee, which was initially established in May 2001 and was re-established at the formation meeting of the Supervisory Board on May 21, 2008, met four times during the year under review. The members of this Committee are its Chairman Herbert Brenke, as well as John C. Baker and Jörg Mügge. The latter succeeded David Ruberg effective May 21, 2008. The Compensation 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 annual targets for the members of the Management Board.
Moreover, in August 2007 the Supervisory Board established an Audit Committee and broadened its competencies repeatedly throughout 2008. John C. Baker and Gerd Eickers have been members of the Audit Committee since its initial establishment, as well as Herbert Brenke since this Committee was re-established in the formation meeting of the Supervisory Board on May 21, 2008. The Audit Committee readies decisions on questions relating to accounting, risk management and compliance, and oversees the requisite independence of the independent auditor. This Committee also mandates the independent auditor, stipulates the audit focus areas and negotiates and agrees the audit fees with the independent auditor. This Committee met twice during the past fiscal year, and readied the review of the financial statements by the Supervisory Board.
The Audit Committee has also recommended to the Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and a branch office in Cologne, again be proposed to the Annual Shareholders Meeting as the independent auditor for QSC AG and the Corporate Group for the 2009 fiscal year, as well as the independent auditor of any Semiannual Financial Statements which may be subject to a review by an independent auditor. On the basis of this recommendation, at its meeting on March 25, 2009, the Supervisory Board resolved to make a corresponding proposal to the Annual Shareholders Meeting.
A Nomination Committee had been in place since November 2007 and again since the formation meeting of the Supervisory Board on May 21, 2008. Its responsibility 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 Nomination Committee through May 21, 2008, were John C. Baker, Herbert Brenke and David Ruberg. Since this date, the Nomination Committee has comprised the Chairman of the Nomination Committee, John C. Baker, as well as Gerd Eickers. This Committee met once in 2008 to make preparations for the nominations by the Supervisory Board for the election of shareholder-representative members of the first Supervisory Board of QSC AG under the German One-Third Participation Act. Since there were no elections for shareholder representatives scheduled thereafter, the Committee has not met since then.

Supervisory Board confirms conformity with Declaration of Compliance

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 December 11, 2008, 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 Compliance that had been adopted the year before. At the same time, the Management and Supervisory Boards jointly issued an updated Declaration of Compliance pursuant to § 161 of the German Stock Corporation Act (AktG), and made this statement permanently available to the shareholders on the Company’s website.

Audit • KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and a branch office in Cologne (formerly: KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft), audited both the Annual Financial Statements of QSC AG for the year ended December 31, 2008, 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, 2008, 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 mandate had been awarded by the Supervisory Board in accordance with the resolution adopted by the Annual Shareholders Meeting on May 21, 2008. The major focus areas of the audit included the goodwill accounting, deferred taxes, deferred revenues, valuation of receivables, risk management system, as well as finance leasing. The independent auditor issued an unqualified opinion both 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 2008 fiscal year.

Those documents, including the audit reports from the independent auditor, were available to all members of the Supervisory Board in a timely fashion. At its meeting on March 25, 2009, taking into consideration the results of the preliminary review conducted by the Audit Committee, the Supervisory Board discussed all of the above-mentioned 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.

Approval of the Consolidated Financial Statements for 2008

Having conducted its own examination, the Supervisory Board has no objections to the Annual Financial Statements of QSC AG for the 2008 fiscal year 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. In accordance with the recommendations of the Audit Committee, 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.

Cologne, March 25, 2009
On behalf of the Supervisory Board

Herbert Brenke
Chairman of the Supervisory Board

The QSC Share Performance

Financial crisis and recession lead to share price losses • 2008 was a poor year on stock markets, with trading prices falling by an average of 44 percent worldwide. According to calculations by financial information provider Bloomberg, the market capitalization of all publicly traded corporations throughout the world decreased by some € 20 trillion.

In addition to the financial crisis, which had already commenced in 2007 in the United States, rising prices for raw materials and the resulting higher inflation expectations clouded the mood on stock markets during the first half of 2008. The collapse of U.S.-based investment bank Lehman Brothers heightened the situation beginning in September 2008. A lack of confidence in the stability of the financial sector, coupled with the deepening recession, sparked further trading price losses. Given this market environment, stock exchanges in Germany were also forced to incur significant setbacks in 2008: During the course of the year, the DAX fell by 40 percent, while the TecDAX lost 48 percent.

The DAX fell by 40 percent in 2008, the TecDAX by 48 percent

Worldwide declines in trading prices impact QSC share performance • Nor were QSC shares able to avoid the negative general trend on stock exchanges, losing 57 percent of their value during the past fiscal year; trading prices closed at € 1.24 on December 30, 2008. Following the Company's withdrawal of its guidance in the autumn of 2007, its shares had already weakened as the new stock market year began, trading at € 2.90, and were forced to incur further serious losses in the first quarter of 2008.

With the announcement of an initial indication of the course of business during this quarter, trading prices were then able to go against the negative general trend for the first time in April 2008. During the further course of the year, as well, the positive development of the Company's operative business and two increases in its guidance for the full fiscal year repeatedly sparked these kinds of movements against the general trend.

Share Price Performance in 2008 (indexed)

In the end, though, the negative market environment proved to be too overwhelming for a relatively small issue like QSC to avoid. The situation again heightened during the second half of 2008, as many investors were moving their capital out of what they perceived as being risk-prone equities and into fixed-interest forms of investment, thus withdrawing liquidity directly from the equity markets. At the same time, many equity investment funds that specialize in small and mid-cap issues were also forced to incur significant outflows of funding. During the final weeks of the 2008 stock market year, in particular, the sell-offs of large portfolios that this necessitated placed QSC shares under additional pressure. Following a low for the year of € 1.01 in October 2008, trading prices recovered only moderately through to the end of the year.

QSC's management views the development of trading prices in 2008 as being totally unsatisfactory. In contrast to the 2007 stock market year, the reason for the renewed decline in trading prices during the past fiscal year was clearly the result of the negative environment. Given this background, corporate management is convinced that the Company's good operative development will lead to a reassessment of its shares after the current turbulences on the capital market have been overcome.

Management views 2008 trading prices as being totally unsatisfactory

High trading volume of QSC shares • In a turbulent capital market environment, nearly 500,000 QSC shares were changing hands daily in 2008, increasing to more than one million on peak trading days. While trading volume declined by nearly 20 percent by comparison with the record year 2007, it continued to be clearly higher than in previous years. As a result of share price declines, the trading volume of QSC shares on German stock markets totaled € 247 million in 2008, as opposed to € 656 million in 2007. However since the vast majority of technology issues were forced to incur similar trading price declines during the course of the year, QSC shares again numbered among the 30 most actively traded technology issues on German stock markets at year-end 2008, thus underscoring their position in the TecDAX.

18 analysts following QSC shares • In spite of the weaker trend of trading prices, 2008 continued to see strong interest in QSC shares on the part of analysts. Deutsche Bank and U.K.-based New Street Research both published their first research on QSC. At year-end, U.S.-based investment bank Goldman Sachs and UBS ended their coverage, which meant that QSC began the 2009 stock market year with 18 analysts covering its shares. This means that small-cap QSC shares continue to be the subject of keen interest on the part of professional capital market analysts at European and U.S. financial institutions.

Financial Institutions that Issue Studies on QSC

Berenberg Bank	HSBC Trinkaus & Burkhardt	Metzler Equities
Commerzbank	JPMorgan	New Street Research
Credit Suisse	Kepler Capital Markets	Sal. Oppenheim
Deutsche Bank	Landesbank Baden-Württemberg	SES Research
DZ Bank	Merck Finck & Co.	UniCredit
Exane BNP Paribas	Merrill Lynch	WestLB

Basic Information 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, DAX International Mid 100,
	DAXsector All Telecommunication,
	DAXsector Telecommunication,
	DAXsubsector All Fixed-Line Telecommunication,
	DAXsubsector Fixed-Line Telecommunication
Designated Sponsorship	HSBC Trinkaus & Burkhardt
Shares outstanding as of December 31, 2008	136,998,137
Share class	No-par-value registered shares of common stock
Xetra price, closing at December 28, 2007	€ 2.90
Xetra price, maximum in 2008	€ 3.02
Xetra price, minimum in 2008	€ 1.01
Xetra price, closing at December 30, 2008	€ 1.24

QSC's management gradually wins back confidence in 2008

Intensive dialogue with investors • The large number of studies assured a corresponding level of investor attention in 2008. QSC's corporate management presented the Company at numerous road shows in all major European financial hubs, and additionally at capital market conferences conducted by such leading financial institutions as Citigroup, Commerzbank, Deutsche Bank, Landesbank Baden-Württemberg, UniCredit and WestLB. Moreover, financial institutions initiated a total of 25 field trips by investors to corporate Headquarters in Cologne. During these meetings, the Company's management was able to gradually win back some of the confidence that had been lost. However both the negative market environment as well as the outflow of funding from mutual funds prevented this increased confidence from manifesting itself in the form of corresponding trading price movements.

The development of trading prices, in addition to the Company's operative development and the outlook in the face of the recession, numbered among the dominating issues in talks with private investors. They voiced their disappointment about the development of trading prices in numerous e-mails and telephone calls. Aside from its full understanding for this disappointment, in this dialogue the Investor Relations department repeatedly pointed to the prospects for QSC shares, stressing the Company's good operative development over the course of the year.

Website the key information platform • Both private and institutional investors, as well as analysts, financial journalists and other interested parties, can find all relevant information about QSC and its shares at the Company's website: http://www.qsc.de/en/investor-relations.html. This includes financial reports and documents relating to the Annual Shareholders Meeting, as well as analyst assessments, upcoming dates and comments on strategy. Publication of the latest version of the Investor Relations presentation assures all interested parties an equal level of information. The Company also promptly publishes on this website all news that is of relevance to capital markets. As a service, QSC offers an Investor Relations newsletter that informs subscribers about such news immediately after it is announced.
QSC also views its Annual Report as a key source of information. As in the year before, QSC took fifth place among all TecDAX issues in manager magazin's analysis, receiving an overall rating of "Good" for its 2007 Annual Report.

Stable shareholder structure • According to the Register of Shares, the number of QSC shareholders declined moderately to 29,421 during the course of the fiscal year, as apposed to 30,684 the year before. The three largest shareholders continued to be the Company's two founders, Dr. Bernd Schlobohm and Gerd Eickers, each holding 10.1 percent of the shares, as well as U.S.-based investment company Baker Capital, which holds 24.5 percent. Neither Baker Capital nor QSC's two founders have ever sold a single share of QSC stock since the Company first went public in the year 2000.

No shares ever sold by co-founders or Baker Capital since the IPO

At year-end 2008, the free float stood at 55.3 percent. According to the Register of Shares, 61 percent of these shares are held by institutional investors, 39 percent by private investors. In this connection, two institutional investors notified QSC that they possessed reportable shareholdings: In 2007, Luxembourg-based Sal. Oppenheim jr. & Cie. S.C.A. had already notified the Company that its shareholdings totaled more than five percent of the voting rights. In July 2008, Deutsche Bank subsidiary DWS Investment GmbH, of Frankfurt am Main, Germany, notified the Company that it holds more than three percent of QSC's voting rights.

Shareholder Structure as of December 31, 2008

- Dr. Bernd Schlobohm
- Gerd Eickers
- Baker Capital
- Free Float

Group Management Report

QSC grew its revenues by 23 percent in fiscal year 2008. This strong growth, strict cost discipline as well as the ability to swiftly achieve synergies following the Broadnet merger, simultaneously enabled the Company to nearly double its EBITDA and to achieve a net income.

The Company

BUSINESS OPERATIONS

Broadband communication for enterprises • QSC is a nationwide telecommunications provider with its own broadband network and offers enterprises the entire spectrum of high-quality broadband communications: QSC implements complete site networking (IP-VPN), including Managed Services, operates voice and data services on the basis of its Next Generation Network (NGN) and provides leased lines in a wide variety of bandwidths – ranging all the way to 400 megabits per second (Mbit/s) by means of microwave technology. In addition, this network operator supplies unbundled DSL preliminaries to both national and international carriers as well as to Internet service providers in the business and residential-customer markets.
QSC is consolidating its lines of business into three business units:

Managed Services • QSC develops and operates custom-tailored, sophisticated telecommunications solutions for large and medium-size enterprises, and markets them directly through its own key account management organization. The foundation for these Managed Services consists of IP-based virtual private networks that are typically operated by QSC. Building upon these IP-VPN, QSC offers numerous additional services, such as the operation of software-based telephone systems (IP-Centrex), as well as maintenance of local area networks and end-user devices.

120 companies marketing products and services from QSC

Products • With products from QSC, small and medium-size companies, as well as freelance professionals and independent contractors, can operate all of their voice and data communications over one and the same broadband line. The spectrum of offerings includes broadband Internet connections, direct connections to the QSC voice network, as well as Voice over IP products (VoIP). In its selling operations, QSC collaborates closely with regional distribution partners; as of December 31, 2008, a total of 120 companies were marketing products and services from QSC. In addition, the Products Business Unit is also responsible for residential-customer business.

Wholesale/Resellers • Internet service providers and international carriers, as well as national telecommunications providers who do not possess infrastructures of their own, market DSL lines from QSC and the value-added services that build upon them under their own name and for their own account. QSC supplies unbundled DSL preliminaries and assures smooth order management with the individual directly-supported customers via highly scalable interfaces. Moreover, this business unit also includes QSC's wholesale voice business, which makes voice telephony services available to resellers who do not possess a corresponding nationwide infrastructure of their own.

Nationwide infrastructure • All of the business units utilize QSC's nationwide infrastructure. The Company possesses a Next Generation Network, which affords utilization of Voice over IP technology throughout. Over the last mile, network operating subsidiary Plusnet operates a nationwide DSL network that has been upgraded with ADSL2+ technology and offers transfer speeds of up to 16 Mbit/s. At the same time, this network is based upon SHDSL.bis technology throughout, which means that it can assure symmetrical speeds of up to 20 Mbit/s in sending and receiving data. QSC additionally possesses Wireless Local Loops in 42 regions in Germany.

QSC's Business

KEY MARKETS AND COMPETITIVE POSITION

Focusing on enterprise customers in Germany • QSC is a telecommunications provider for enterprise customers of every size – from freelance professionals and independent contractors right through to corporate concerns. One focus is on serving small and medium-size customers, as medium-size QSC enjoys particular credibility here and can collaborate with customers at eye level. Regionally speaking, the Products and Wholesale/Resellers Business Units operate exclusively on the German market; in individual cases, the Managed Services Business Unit integrates European sites into national IP-VPN solutions.

QSC has established a good market position in all business units

QSC has established a good position in the marketplace in all three business units. In the Managed Services Business Unit, QSC numbers among the key providers of networking solutions on the German market, in addition to internationally operating telecommunications concerns Deutsche Telekom, BT and Arcor/Vodafone. Ex-monopolist Deutsche Telekom is the Company's main competitor in the Products segment, as well, along with Arcor/Vodafone, Versatel and city carriers like M-net and NetCologne. In this environment, QSC shines with the product and service quality of a medium-size provider, on the one hand, and with access to its own national infrastructure, on the other. In the Wholesale/Resellers segment, the Company competes against the other alternative network operators in Germany, first and foremost Telefónica and Arcor/Vodafone. Thanks to its clear strategic alignment toward business customers, QSC virtually never competes against its Wholesale customers in this business, but views itself instead as a reliable partner to these customers. The NGN, which is IP-capable throughout, additionally lends the Company an outstanding market position in voice business.

LEGAL AND ECONOMIC FACTORS

Regulation assures fair competition • The German telecommunications market is subject to regulation by the German Federal Network Agency. The purpose of this is to assure fair competition in a market that was not liberalized until the 1990s. Up until then, Deutsche Telekom (DTAG) had operated as a monopolist on the German market, and still possesses a nationwide infrastructure in all households that stems from these times, for example. In particular, alternative providers continue to be dependent upon utilizing this infrastructure, which was built during DTAG's time as a monopolist, in connection with subscriber lines (local loops) – the distance between the central office or cable branch and the respective customer connection. The following decisions by the German Federal Network Agency that are of relevance to QSC's business operations were made during the past fiscal year:

Standard local loop offer governs utilization of the last mile

Published in January 2008 was the approved standard local loop offer, which governs alternative provider access to the DTAG infrastructure over the last mile. While this standard offer did help to overcome the bottlenecks in local loops that had occurred in 2007, its scope was not convincing, especially with regard to various quality parameters. This prompted network operating company Plusnet, as an affected company of the Group, to file suit for improvement before the administrative courts. In July 2008, the German Federal Network Agency issued a decision on the provisioning fees that competitors have to pay for these local loops. The results were within the scope of what QSC had anticipated.

The regulators stipulated the fees for IP bitstream – a technological alternative for access to unbundled broadband services – for asymmetrical products in May 2008 and for symmetrical products in October 2008. Plusnet filed suit against the decision on asymmetrical products, as fees had been stipulated that were far below the level of the most favorable European countries.

In late November 2008, a decision was issued on the interconnection fees for both DTAG as well as alternative carriers in connection with routing calls over the networks of other providers. In this connection, most alternative carriers were only able to arrange reciprocal fees with DTAG, or such fees were ordered by the regulators; on the other hand, the German Federal Network Agency continued to approve asymmetric fees for QSC subsidiary Ventelo. Overall, the interconnection fees stipulated for DTAG rose for the first time since 1998, as this was the first time that the costs for civil servant pensions and reductions in force had been taken into consideration; at the same time, though, the cost reductions in recent years, prompted in particular by IP technology, continued to be left out of consideration.

ORGANIZATIONAL STRUCTURE

QSC AG the centerpiece • Cologne-based QSC AG is the parent corporation of the QSC Group. It conducts its operative business in three business units. 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.

QSC AG's Headquarters in Cologne are also QSC's largest location; two thirds of the workforce of 678 people are employed here. QSC's second most important location is Hamburg. In addition, the Company also maintains sales offices in Berlin, Frankfurt, Munich and Stuttgart, as well as business offices in Aachen and Bremen.

The particular status of the Hamburg location is attributable to the acquisition of broadband provider Broadnet, which is domiciled there; this company was merged with QSC in late October 2007. Broadnet Services GmbH and BroadNet Deutschland GmbH, each of which markets voice products, continue to remain in existence following the merger. Also active in voice business are 010090 GmbH, 01012 Telecom GmbH and 01098 Telecom GmbH. All three companies market call-by-call offerings for residential customers, in particular.

Ventelo GmbH, on the other hand, is aligned toward voice telephony services for business customers. Ventelo, which was acquired in late 2002, offers all telephony services to medium-size and larger customers, such as direct landline connections, preselect and call-by-call, as well as value-added services.

Network operating company Plusnet is a major QSC equity investment

A further major equity investment consists of Plusnet GmbH & Co. KG, which was founded in July 2006. QSC holds 67.5 percent of its shares, the German subsidiary of Swedish-based TELE2 telecommunications group the remaining 32.5 percent. Plusnet, which is located at QSC Headquarters in Cologne, operates a nationwide DSL network. It provides DSL preliminaries 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.

Two smaller companies round out QSC's structure. As a domain registrar, EPAG Domainservices GmbH specializes in registering and administering domain names and numbers among the leading domain name providers for resellers in Germany. Q-DSL home GmbH is where QSC has carved out its non-strategic DSL business with residential customers.

Major equity investments of QSC	Share in %
Plusnet GmbH & Co. KG	67.5
Ventelo GmbH	100.0
Broadnet Services GmbH	100.0
BroadNet Deutschland GmbH	100.0
010090 GmbH	100.0
01012 Telecom GmbH	100.0
01098 Telecom GmbH	100.0
EPAG Domainservices GmbH	100.0
Q-DSL home GmbH	100.0

MANAGEMENT AND OVERSIGHT

Executive Board in charge of daily operative business

Entrepreneurial spirit • Responsible for QSC's business is a three-member Management Board team that is headed up by co-founder Dr. Bernd Schlobohm, who personally stands for the highly entrepreneurial spirit that prevails throughout the entire organization. The Management Board is also a member of the twelve-person Executive Board, which is in charge of daily operative business. It is made up of the heads of the three business units as well as the heads of the corporate staff departments, such as Finance and Strategy. A six-member Supervisory Board, which is elected under German co-determination rules, oversees the activities of the Management Board and advises it.
The Management Board is responsible for the business of the entire QSC Group, and the heads of the business units and corporate staff departments report to it in professional and disciplinary questions. Rules of Procedure allocate individual areas of activity among the members of the Management Board. The heads of the business units manage their respective activities in professional and disciplinary questions and are responsible for their business units' revenues and profitability. In doing so, they utilize the services of the corporate staff departments.

Fundamentals of the compensation system • The Company's compensation system reflects QSC's entrepreneurialism; it is success-based and enables employees to share in the Company's success in the form of variable compensation elements and stock option plans. Comments on the compensation paid to members of the Management Board and of the Supervisory Board are contained in the Corporate Governance Report on pp. 129 – 134; the Compensation Report contained therein is an integral element of the Group Management Report.

EXPLANATORY REPORT ON THE STATEMENTS PURSUANT TO § 315, SUB-PARA. 4, GERMAN COMMERCIAL CODE (HGB)

Customary rules for a publicly traded corporation • The following overview presents the situation at QSC with respect to the mandatory statements pursuant to § 315, Sub-Para. 4, of the German Commercial Code (HGB): Overall, these are rules that are typical and customary at publicly traded corporations and which do not serve to hinder potential takeover attempts.

Composition of capital stock • The capital stock of QSC as of December 31, 2008, amounted to € 136,998,137, and was classified into 136,998,137 no-par bearer shares of common stock. According to the Share Register, the capital stock was divided among 29,421 shareholders as of December 31, 2008.

Limitations of voting rights or transfer of share • Each share possesses one vote. There are neither limitations to voting rights nor restrictions to the transfer of shares.

Direct or indirect holdings of more than 10 percent of capital • QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, each held 10.1 percent of the total of 136,998,137 shares, with the U.S.-based Baker Capital equity investment company holding 24.5 percent. Since QSC first went public, neither its founders nor Baker Capital have ever sold a single QSC share.

Holders of shares with special rights granting controlling authority • There are no special rights that grant controlling authority.

Voting right controlling authority enabling employees to share in capital • There are no controlling authorities with respect to voting rights

Appointment and dismissal of members of the Management Board • The 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 28, 2009. 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 and Bylaws • Pursuant to § 179, German Stock Corporation Act, in conjunction with § 20, Sub-Para. 1, of the Articles of Association and Bylaws, as amended January 28, 2009, 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 28, 2009, 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 and buyback of QSC shares • The resolution of the Annual Shareholders Meeting on May 21, 2008, authorizes the Management Board 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 October 31, 2009. Such acquisition can be effected on the stock exchange or by means of a public acquisition offer, at the discretion of the Management Board. QSC can call treasury shares or it can resell them on the stock exchange or under an offer of sale submitted to all shareholders. 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 this authorization to acquire and dispose of treasury shares is to enable QSC 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 at its disposal in order to be able to offer them as consideration in connection with the acquisition of companies or investments in them. The Management Board did not make use of these authorizations in fiscal year 2008.

In 2008, no treasury shares acquired or repurchased

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 through 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 purpose of authorized capital is 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. As of December 31, 2008, the authorized capital of QSC totaled € 51,232,720 after the Company had used portions of this capital in fiscal years 2006 and 2007 for the acquisition of Broadnet AG. It was not used during the past fiscal year.

In 2008, QSC do not utilize the authorized capital

Conditional capital • The Company's conditional capital as of the balance sheet date amounted to a total of € 29,125,113, and was classified into: Conditional Capital III, amounting to € 482,237; Conditional Capital IV, amounting to € 25,000,000; Conditional Capital V, amounting to € 652,116; 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.

Major agreements in conjunction with the condition of a change in control resulting from an acquisition offer • In fiscal year 2008, QSC entered into a contract with three financial institutions for a line of credit in the amount of € 50 million; it contains a condition pursuant to § 315, Sub-Para. 4, of the German Commercial Code (HGB). No further agreements exist under the condition of a change in control as a result of an acquisition offer.

Indemnification agreements in the event of an acquisition offer • No indemnification agreements covering the event of an acquisition offer are in force with either the members of the Management Board or employees.

HOW QSC IS STEERED

New consistent steering system • Following the restructuring in the autumn of 2007, during the past fiscal year QSC adapted its steering concept to reflect its new structure. The three business units, Managed Services, Products and Wholesale/Resellers, operate as independent profit centers, and are steered and evaluated on the basis of the target parameter of EBIT margin. This is the ratio between the costs of the respective business unit and its revenues, as presented in the external segment reported in Note 40.

The three business units operate as independent profit centers

The costs of the individual business units consist of direct and attributable costs. The direct costs include the costs of the three business units, themselves, as well as attributable preliminaries, such as the procurement of subscriber lines or network services. Keys are used to allocate the costs of the corporate staff departments among the individual business units.
The business units can utilize the parameters of customer, product and distribution channel as steering dimensions. This also serves as the foundation for reviewing new projects and products, enabling decisions to be made at any time with a view toward anticipated target margins.
At the group level, the steering parameter of EBIT margin is supplemented by the two parameters of revenue growth and cash flow per share. QSC uses these three steering parameters to assure that well-balanced decisions relating to the interaction between growth, profitability and liquidity are being made throughout the Company.

QSC's Steering Concept

The key steering parameters developed as follows for the past two fiscal years:

	2008	2007
Revenue growth	+23%	+28%
Cash flow per share	(0.24)	(0.43)
EBIT margin, Managed Services	+0.4%	(2.6%)
EBIT margin, Products	+1.7%	+3.6%
EBIT margin, Wholesale/Resellers	+1.7%	(9.7%)

Over and above these financial parameters, QSC also uses the following non-financial performance indicators for steering the Company: Time to live for new customers, hotline availability, customer satisfaction, network availability and personnel attrition.
From an organizational standpoint, the following instruments are essentially utilized to steer QSC:

- Weekly meetings of the Executive Board
- Monthly meetings of the Management Board
- Monthly reports from the business units as well as the entire group
- Monthly reports to the Supervisory Board
- Rolling planning for all operations throughout the Company

The management of opportunities and risks that is discussed in the Report on Opportunities and Risks additionally assures that any changes in exogenous factors will be able to be directly incorporated into the steering system.

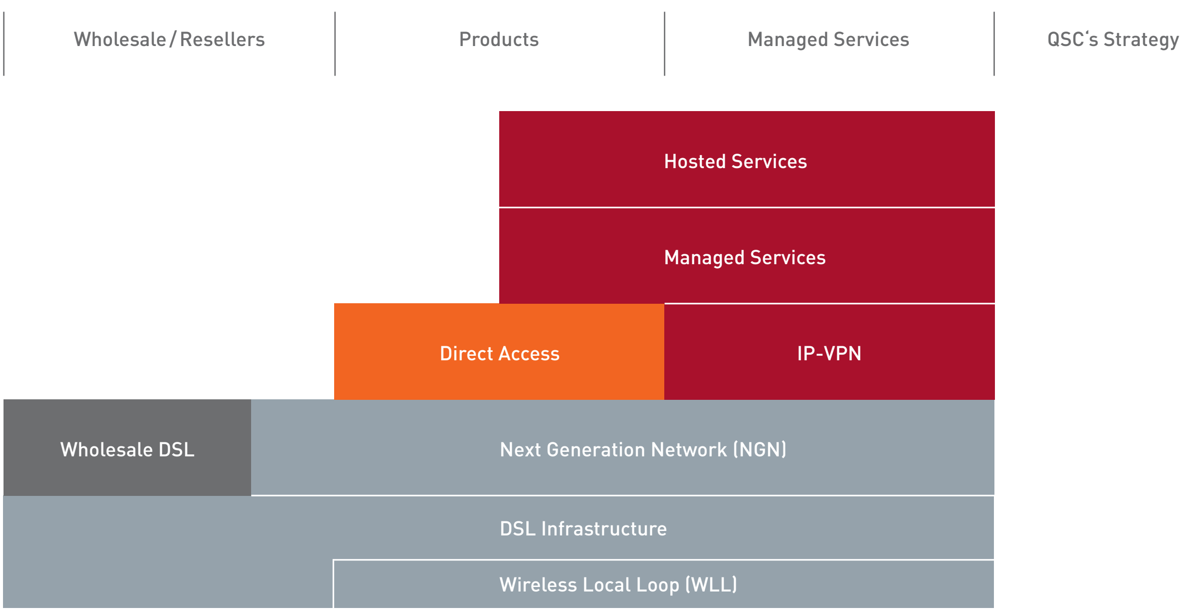
STRATEGY

Strategy aligned toward sustainably increasing the value of the Company

Moving up the value chain • QSC's strategy is aligned toward profitable growth, and thus toward sustainably increasing the value of the Company. All three business units regularly review the contribution margins of all products and services, customers and marketing partners, and rigorously shed low-margin revenues.
Focusing on profitable growth goes hand in hand with largely industrializing all processes, along with strict cost management. In this connection, the Company gives preference to a positive free cash flow and the corresponding profitably over revenue growth, especially in a recessionary environment.

QSC predominantly expects to see profitable growth by gradually increasing the value added per customer through increased sales of Managed and Hosted Services. The IP-Centrex virtual telephone system is a good example of the potential that is offered by this strategy. Enterprises can use this software-based solution to steer their entire order management operations over an existing broadband infrastructure, thus eliminating the need for a classical telephone system (PBX). While enterprises use this solution to increase the efficiency of their workforce and reduce costs, it allows QSC to generate additional revenues, increase its value added with these customers and intensify the partnership.

QSC solution increases efficiency and reduces costs at customers



Managed and Hosted Services are typically based upon IP-VPN or direct connections. In doing so, QSC utilizes its existing nationwide infrastructure, just as it does in the case of its Wholesale DSL business. In addition to the NGN and the DSL network, this also includes Wireless Local Loops in 42 regions. This enables QSC to also directly connect enterprise customers that are located outside its own network coverage, often allowing it to reach regions that have thus far not been covered by DSL.

RESEARCH AND DEVELOPMENT

Ongoing evolution of products and services • As in the year before, research and development expenses during the past fiscal year amounted to merely € 0.2 million; QSC records this line item under cost of revenues. However in no way do these expenses reflect QSC's innovative strength and development achievements.

Internally, the innovation idea pervades the entire Company. QSC does not have a separate research and development department with the corresponding staffing, but instead views innovation as a central element of the daily work of all of its people. They develop any number of quality and process innovations through their interaction with customers. These innovations assure the smooth migration of the customer's complex information technology and telecommunication systems to QSC's portfolio of services and form a key prerequisite for long-term collaboration.

Time and time again, these kinds of processes have spawned the evolution of products and services. In fiscal year 2008, for example, QSC optimized its software-based call center management solution, VirtuOS-ACD, as well as its network-based IP-Centrex telephone systems. Both of these solutions are good examples of QSC's competence in the promising market for Software as a Service (SaaS). In the future, the Company will be driving further SaaS applications, thus more strongly positioning itself as a solutions provider.

The departments in question provide the necessary resources for this kind of development work, as these innovations serve as the foundation for further expanding collaboration with existing customers and for winning new customers.

HUMAN RESOURCES

Workforce declines by 142 people in 2008 to 678 at year end

Strong synergies following Broadnet merger • As of December 31, 2008, QSC employed a total workforce of 678 people, as opposed to 820 at the close of the year before. This decrease essentially stemmed from the successful achievement of synergies following the merger of Broadnet with QSC in late October 2007. This is because the merger enabled the administrations of the two companies to be consolidated at the Cologne location, along with the consolidation of sales offices throughout Germany and the elimination of redundantly staffed positions. At the same time, the staffing levels in all departments were reviewed in connection with the restructuring in the autumn of 2007. All measures were executed in close coordination with the employees and the Employee Council, and were concluded during the course of the past fiscal year.

With this new workforce level, QSC views itself as being well aligned for fiscal year 2009 and beyond. The Company's efficiency is underscored by the development of its per-capita revenue, which had amounted to around € 0.4 million in past years and rose to € 0.6 million in 2008.

Per-Capita Revenue
(in € million)

Focusing on core competencies • For years, QSC has been focusing on its core competencies in selling and technology, and has rigorously been outsourcing both upstream and downstream services. This focus is reflected in the Company's personnel structure: 60 percent of the workforce work in sales and marketing operations, 27 percent in technical operations, while only 13 percent of all employees work in administration.

Workforce Structure

- Sales and Marketing
- Technical Operations
- Administration

The majority of the workforce is employed at QSC AG, with this entity alone employing 593 people as of December 31 of the past fiscal year. Network operating company Plusnet GmbH & Co. KG employed 77 people, and EPAG Domainservices GmbH 8 people. The Cologne site, where QSC Headquarters and Plusnet are located, accounted for 449 jobs. A further 99 employees work at Broadnet's former headquarters in Hamburg. The remaining employees are distributed among the Company's sales and business offices throughout Germany.

Ongoing continuing training and education • 70 percent of QSC's workforce have a qualified vocational or professional education, while 30 percent possess graduate degrees. They all have the opportunity of constantly updating their knowledge through continuing training and education. In this connection, QSC primarily embraces internal measures and fosters a sharing of experiences across departmental borders within the Company. The key subjects at continuing training and education events were project management, presentation and moderation techniques, time and stress management, as well as broadening the leadership competence of employees who bear personnel responsibility. During the past fiscal year, QSC spent € 0.3 million on additional external measures.

Performance-based compensation • A performance-based pay system helps to assure the Company's high level of employee motivation. In this connection, at least 50 percent of the variable compensation element for most executives and professional specialists is based upon so-called performance targets, which relate to either individual or departmental targets. On the second management tier, on the other hand, corporate targets account for 70 percent in order to more strongly foster the performance of these executives to the benefit of the entire company. Logically, 100 percent of the variable compensation element for the members of the Executive Board is based upon corporate targets.

Personnel expense ratio decreases to 13 percent in 2008

Overall, personnel expenses during the past fiscal year totaled € 52.5 million as a result of the smaller workforce, as opposed to € 55.8 million in fiscal year 2007. The personnel expense ratio decreased to 13 percent, as opposed to 17 the year before.

Personnel Expenses
(in € million)

Value-based corporate culture • All employees embrace a common value system. The following four principles provide navigational guidance in this connection:

- **We serve the customer** • The sole measure of QSC's performance is how it is valued by its customers.
- **We are a strong team** • QSC embraces collaboration in a spirit of partnership through fair, open and trustful dealings with both internal and external counterparts.
- **We live communication** • QSC practices clear, purposeful and targeted communication that is characterized by mutual respect.
- **We create values** • QSC assigns a high level of responsibility to each and every employee, and commits them to always make their decisions with a view toward increasing the value of QSC.

Building upon these principles, QSC has developed an interactive corporate culture that is successfully helping to assure the loyalty of its people to the Company; as of December 31, 2008, the average seniority of the workforce stood at 5.1 years. Flexible worktime rules – in 2008, five percent of the workforce was employed on a part-time basis – as well as support for part-time models for young fathers, ranging all the way to the management level, also contribute to employee satisfaction.

Strong commitment to training • As of December 31, 2008, QSC employed 28 trainees, increasing their number by eight within the space of a single year. The Company plans to hire a further 16 trainees in 2009, thus underscoring the key importance of vocational training for fostering and assuring new blood. Last year, the Chamber of Industry and Commerce in Cologne honored QSC for its "outstanding achievements in vocational training."

QSC primarily trains information technology specialists, focusing on systems integration and applications development, as well as administrative clerks. Moreover, administrative clerks have the opportunity of participating in a two-track course of study at the FOM University of Applied Sciences in Cologne. This institution is also a QSC cooperating partner, in addition to the Technical University of Aachen. Generally speaking, the Company offers university graduates the option of entering their professional careers through a trainee program – in 2008, three university graduates took advantage of this opportunity.

Recruiting new people also leads to a reduction in the average age of the workforce. At year-end 2008, 55 percent of the Company's employees were younger than 40, with their average age standing at 37.6 years. In the future, QSC will continue to pay attention to winning new talent for the Company early on by fostering trainees and students, and assuring their loyalty to the Company through a targeted human resources policy.

SUSTAINABILITY

Profitable growth necessitates sustainability • QSC's strategy is aimed at profitable growth. The Company realizes that this kind of growth can best be achieved in harmony with all stakeholders, and therefore places particular emphasis on the sustainability of its strategy. In this connection, the focus is on three issues: The environment, our people and our social responsibility.

Telecommunications contribute to environmental protection • While telecommunications services also involve energy consumption and CO_2 emissions, they simultaneously play a considerable role in reducing these two factors. Good examples of this are the option of transmitting large volumes of data over the Internet thanks to DSL technology, instead of sending them by courier, as well as the ability to substitute videoconferencing for business travel. Moreover, DSL is a key prerequisite for the greater utilization of home workplaces, thus reducing CO_2 emissions – instead of commuting to work from home, the work comes to the home. Working in close coordination with customers, QSC is developing efficient telecommunications solutions here, and thus helping to protect the environment.

Internally, all employees are urged to review prior to every business trip whether the meeting could not be conducted by telephone or videoconference. All QSC locations are equipped with a videoconferencing system for this purpose. QSC additionally optimizes its energy inputs through numerous further measures: Unused ports in the individual central offices are deactivated, for example, and outmoded, energy-intensive servers are replaced with new ones.

QSC optimizes energy input through numerous measures

QSC records its highest energy consumption at network operating company Plusnet. In 2008, two employees here concluded a continuing education course in energy management (Chamber of Industry and Commerce), and in the future will be coordinating measures aimed at further reducing energy consumption.

Compatibility between family and work • QSC's success is based upon the achievements of all of its people. This is why the Company focuses on providing the most optimum possible working conditions throughout the organization. These include both ergonomically optimized workplaces as well as appropriate displays and keyboards. The use of the attendance honor system throughout the organization considerably facilitates the compatibility between family and work; around 15 percent of the workforce additionally has a home workplace. The Company actively supports applications from mothers and fathers for parental leave, and within the possibilities available to a medium-size company endeavors to offer interested employees part-time jobs, especially in this kind of environment.

QSC has trained first aid and security personnel, over and above the statutory requirements. Moreover, employees can avail themselves free of charge of screening medical checkups and vaccinations. Within the context of its health management system, QSC additionally offers specific events on such topics as work/life balance and stress management.

Social commitment to youth • QSC is a technology company that generated its first net profit since going public during the past fiscal year. This is why the Company's social commitment has intentionally focused on initiatives within the Company or its direct environment. Nevertheless, QSC has been committed to fostering new blood since 2003; thus far, 35 young people have successfully completed their vocational training at QSC.

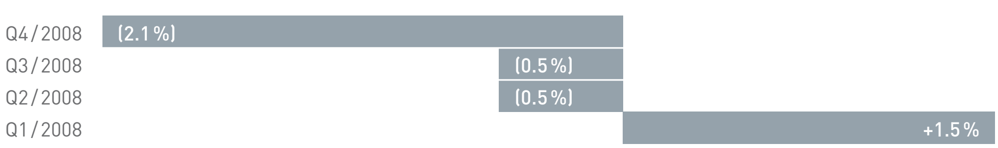
Thus far, 35 young people successfully conclude their vocational training

In addition, QSC has been a primary sponsor of the GOFUS initiative since the year 2002. GOFUS (www.gofus.de) is an association of active and former professional soccer players who use golf tournament proceeds to promote initiatives that provide assistance to economically disadvantaged children and young people. The spectrum of activities ranges from support to daycare facilities right through to easing young people's entry into their working lives.

Economic Conditions

GENERAL ECONOMIC CONDITIONS

Second quarter of 2008 marks the onset of the recession in Germany • The economic environment increasingly deteriorated during the course of 2008. During the past fiscal year, the financial crisis that had already set in during 2007 went on to take hold of more and more additional areas of the real economy. Moreover, the high volatility of the U.S. dollar, as well as raw materials prices and inflation rates that continued to rise through to the summer, impacted corporate growth prospects. As a result, 2008 world gross domestic product grew by merely 3.4 percent, as opposed to 5.2 percent the year before.
Growth in the industrialized nations developed on a significantly weaker note. While the United States had already been in recession since late 2007, the decline did not reach Europe until somewhat later. In the first quarter of 2008, Germany had still been posting growth of 1.5 percent over the previous quarter before sliding into recession. Thanks to that very good first quarter, German gross domestic product for the full 2008 year nevertheless grew by 1.3 percent, as opposed to 2.5 percent in 2007.



GDP Development in Germany

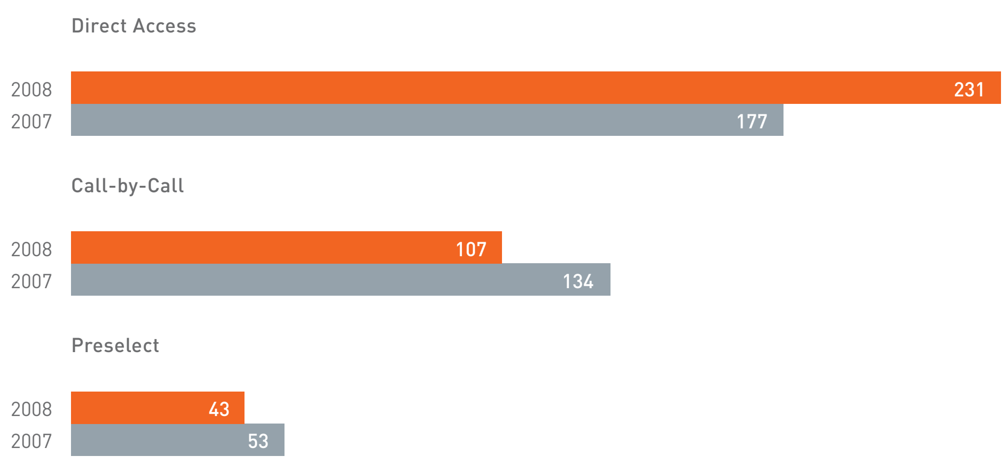
German enterprises' willingness to invest falls sharply in 2008

In contrast to previous years, growth in Germany in 2008 came solely from domestic sources. During the first half of 2008, for example, domestic capital expenses for equipment, in which the telecommunications industry participates, were still posting significant advances. Especially following the bankruptcy of U.S.-based investment bank Lehman Brothers in September 2008, however, the expectations of German enterprises clouded noticeably, along with their willingness to invest; in December 2008, the ifo business climate index reached lows that had last been seen during the Second Oil Crisis in late 1982.

GENERAL INDUSTRY CONDITIONS

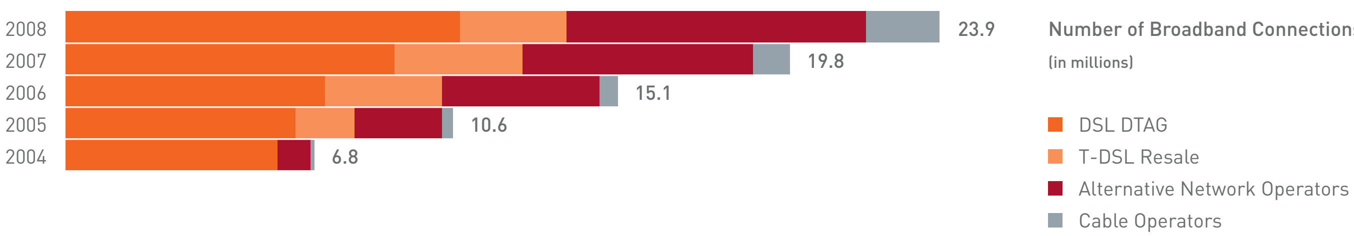
Price war burdens telecommunications market • According to a study conducted by the German Association of Providers of Telecommunications and Value Added Services (VATM), revenues of the German telecommunications industry declined by 4.1 percent in 2008 to € 60.6 billion. In this connection, the industry suffered hardly at all from the consequences of the financial crisis and the beginning recession. Instead, these declines were essentially attributable to the sustained price war in conventional voice telephony that was fueled by flat rate and Voice over IP offerings, as well as by the substitution of mobile communication contracts for landline connections. The price index for telecommunications services published by the German Federal Office of Statistics declined by 3.3 percent within the year, standing at 92.2 in December 2008, its lowest level since the consumer price index was revised in 2005.
Both residential and business customers are increasingly opting for complete connections from a single provider, and are foregoing selective usage of call-by-call and preselect offerings. According to a VATM study, the number of voice call minutes per day within the framework of complete connections rose by some 30 percent in 2008 to a total of 231 million. In contrast, the number of minutes per day for call-by-call and preselect offerings declined by around 20 percent each to 107 million and 43 million, respectively.

Voice Call Minutes in Germany
(in million minutes per day)



Strong growth in fully unbundled DSL lines • Broadband business again remained a major growth driver for the German telecommunications industry in 2008, with the number of broadband connections rising by 4.1 million to 23.9 million. In this connection, the strongest growth was recorded by alternative network operators like QSC; the number of fully unbundled DSL connections rose by 2.0 million in 2008 to 8.2 million – with some 15 percent of these additional connections being provided by QSC.

In addition to new business, this increase also stemmed from the migration of T-DSL resale customers to fully unbundled connections, which allow the respective final-customer providers to achieve higher margins. Moreover, all providers are benefiting from the fact that the bottlenecks in the provision of local loops have been overcome.



Number of Broadband Connections
(in millions)

At year-end 2008, more than 80 percent of the DSL connections in Germany had a downstream speed of at least 2 Mbit/s. In fact, 21 percent were already achieving downstream speeds of more than 6 Mbit/s; the year before this share had still stood at 11 percent. These kinds of higher bandwidths enable smooth utilization of video, television and games over the Internet; their growing popularity played a major role in boosting the volume of broadband traffic in Germany by one third in fiscal year 2008 to a total of 2,397 million gigabytes. At the beginning of the decade, this parameter had stood at merely 22 million gigabytes. In this connection, the importance of Triple Play offerings, one-stop shopping offerings for Internet, telephony and television over one and the same broadband line, is on the rise. Because it upgraded its DSL network with ADSL2+ technology early on, QSC is able to offer bandwidths of up to 16 Mbit/s, thus covering the growing demand on the part of residential customers for a convergent telecommunications and media solution.

DSL remains the dominant broadband technology • The high availability of DSL serves as the foundation for its sustained high market share in Germany; in 2008, 92 percent of all broadband connections were based upon DSL technology. However cable TV has won market share, especially in the metropolitan areas – with the number of connections doubling to nearly two million within the space of the year. However market research institute IDC anticipates that the growth curve will flatten in the years to come, and is forecasting a continued dominant market share of 87 percent for DSL technology in 2012.
Since, in contrast to cable TV, DSL technology enables high symmetrical bandwidths to be provided, its dominance is even clearer to see in connection with enterprise customers: According to IDC, 97 percent of all broadband connections at enterprises were based upon DSL technology in 2008; this represents 2.9 million connections. By comparison with 2007, according to IDC, the number of connections rose by 300,000. The corresponding expenditures increased by 13 percent during the same period to € 1.4 billion.

DSL Connections at Enterprises (in millions)

Two growth drivers for DSL at enterprise customers • This sustained growth is essentially attributable to two factors: Firstly, the shift of business processes to the Internet is continuing unabated; this necessitates that the bandwidths constantly be expanded in order to assure secure and stable communication. And the growing importance of the Software as a Service (SaaS) business model is also fueling additional growth in this connection. Under this business model, enterprises no longer purchase software and install it on their servers; instead, they use this software over a broadband line on an as-needed basis; in addition to the bandwidth, telecommunications providers like QSC also offer the corresponding software solutions. The Gartner Group market research institute assumes that one quarter of all software could be developed on the basis of the SaaS model by as early as 2011.
The combination of Voice over IP technology and a DSL line is the second growth driver at business customers. More and more businesses are replacing their formerly separate infrastructures for data and voice communication with a single DSL-based solution. According to studies by the VATM, more than one third of all complete connections are now VoIP connections from alternative network operators. According to IDC, nearly 400,000 businesses were already using VoIP technology in 2008, generating revenues in excess of € 300 million for their providers.

Nearly 400,000 enterprises using VoIP technology already

Managed Services a growth market • VoIP technology is also increasingly proving to be an integral element of virtual private networks (IP-VPN). According to IDC, 305,000 of these networks were in service in Germany at year-end 2008, with expenditures for them totaling € 1.3 billion; plus revenues with IP-VPN-based network-related services totaling € 0.4 billion. This means that the total Managed Services market grew by 13 percent in 2008 to € 1.7 billion. Business with small and medium-size enterprises increased disproportionately in this connection, with IDC estimating that they already account for one third of the total market.

Managed Services Market (in € billion)

IP-VPN
Managed Services

IMPACT OF THE GENERAL ENVIRONMENT ON QSC

Increase in revenues and profitability despite recession • QSC succeeded in significantly growing both its revenues and its profitability in fiscal year 2008, in spite of the beginning recession. The Company did not feel the impact of the financial crisis and the economic cool-down, but instead was even able to raise its guidance for the full fiscal year twice during the course of the year. Instead, in all three segments the Company benefited from the increasingly rising demand for DSL lines and the services that build upon them. In addition to new business, the migration of T-DSL resale customers to fully unbundled connections took on growing significance in the Wholesale/Resellers segment. In the Products segment, QSC suffered from the sustained price war in conventional voice telephony. However the successful migration of customers to direct access and VoIP products is reducing the importance of this line of business from quarter to quarter. In the Managed Services segment, QSC is benefiting from rising demand for both IP-VPN as well as for the network-related services that build upon them.

Rising demand for DSL lines and the services that build upon them

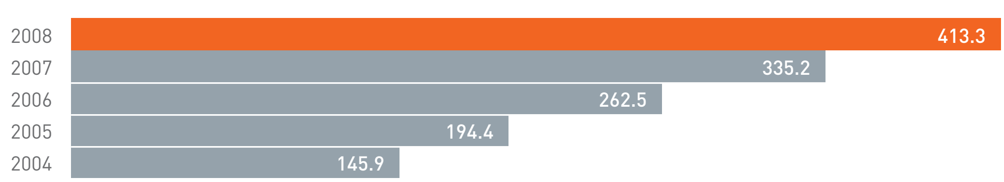
Profitability, Financial Position and Net Worth

PROFITABILITY

QSC activated more than 300,000 additional lines in fiscal year 2008

Strong revenue growth in spite of recession • QSC grew its revenues by 23 percent to € 413.3 million in fiscal year 2008, as opposed to € 335.2 million the year before, thus sustaining the high pace of growth seen in previous years, in spite of the onset of the recession in Germany. This growth was fueled, in particular, by the positive development of business in the Wholesale/Resellers segment, which benefited from more than doubling its portfolio of local loops (subscriber lines) at year-end 2008 by comparison with year-end 2007: Overall, QSC activated 306,900 additional lines during the past fiscal year, increasing the total to 555,700. However the dynamics of this business declined over the course of the year in the face of initial saturation trends in the residential customer DSL market, as well as intensive competition on the part of Deutsche Telekom and cable network operators; net growth in the fourth quarter of 2008 amounted to only 17,500 lines. Non-recurring revenues with wholesale partners, the positive development of wholesale voice business and Managed Services, as well as the annual refund of excess advance payments for interconnection fees (ICA refund), nevertheless enabled the Company to record a sharp rise in final-quarter revenues to € 112.0 million, as opposed to € 95.6 million for the corresponding quarter the year before.

Revenues
(in € million)



Larger network necessitates higher expenditures • Network expenses, which are recorded under cost of revenues and include depreciation and non-cash share-based payments, increased to € 323.3 million in 2008, as opposed to € 260.4 million the year before. This rise was essentially attributable to the higher operating costs of the larger network, to the higher depreciation expense incurred in this connection, as well as to the higher costs of materials stemming from the strong growth in the number of local loops. In contrast to its quarterly reports, QSC includes depreciation expense in the respective expense line items in its Annual Financial Statements.

During the past fiscal year, the costs of building, operating and maintaining the network, itself, increased to € 63.5 million, as opposed to € 54.7 million the year before. Personnel expenses remained virtually unchanged at € 17.2 million, as opposed to € 17.5 million in fiscal year 2007. Taking depreciation and amortization into account, the fixed elements of network expenses thus rose to a total of € 127.7 million, as opposed to € 106.3 million the year before; in fiscal year 2008, they accounted for 39 percent of total network costs, as opposed to 41 percent in 2007. Following the conclusion of the network expansion project in the summer of 2008, network and personnel expenses have remained largely constant, thus enabling higher margins to be achieved as the network utilization factor rises.

By contrast, 61 percent of network expenses were attributable to the variable cost of materials; this line item rose to € 195.6 million in 2008, as opposed to € 154.1 million the year before. Cost of materials includes all customer-related costs. In particular, these include ongoing local loop and interconnection fees, as well as expenses for customer-specific leased lines.
As a result of the Company's significantly higher revenues, gross profit continued to rise during the past fiscal year. It totaled € 90.0 million, as opposed to € 74.8 million the year before; gross margin stood at 22 percent.

Gross Profit (in € million)

Highly efficient selling operations • Although revenues rose by € 78.1 million, selling and marketing expenses increased by only € 3.4 million to € 54.1 million for the past fiscal year. The percentage of total revenues accounted for by this line item declined to 13 percent, as opposed to 15 percent in 2007.
In its selling operations, QSC directly addresses and supports customers in the Managed Services and Wholesale/Resellers segments. In the Products segment, on the other hand, the Company chiefly collaborates with regional sales and marketing partners who provide local advice and support to small and medium-size enterprises in connection with telecommunication and information technology questions. In fiscal year 2008, selling and marketing expenses included commission payments to these partners in the amount of € 13.7 million, as opposed to € 13.1 million the year before.
Direct selling operations primarily involve personnel expenses. In fiscal year 2008, expenses for the employees at both QSC Headquarters in Cologne as well as at the Company's branch offices and business offices throughout Germany totaled € 23.7 million, as opposed to € 23.5 million the year before. During the past fiscal year, QSC integrated Broadnet's nationwide sales and marketing organization into its own structure, enabling considerable synergies to be achieved.
QSC utilizes targeted marketing measures to support its selling operations; advertising expenses for this purpose amounted to € 2.1 million in 2008, as opposed to € 3.2 million the year before. The focus in this connection is on measures that foster a dialogue between QSC and its customers; this includes regular events in metropolitan areas for decision-makers, as well as the Company's new customer magazine, BQB.

Successful integration of Broadnet's nationwide sales and marketing organization

Selling and Marketing Expenses (in € million)

Administrative synergies swiftly achieved • In fiscal year 2008, QSC was able to achieve the highest synergy effects in administration operations following the Broadnet merger. The consolidation of the two administrations at the Cologne location, in particular, led to a 15-percent decline in general and administrative expenses to € 30.8 million, as opposed to € 36.4 million the year before. During the same period, the percentage of total revenues accounted for by general and administrative expenses declined to 7 percent, as opposed to 11 percent the year before, when it was necessary for QSC to maintain two headquarters operations in two locations for most of the year, each with the full functionalities required of publicly traded corporations.

Administrative expenses claim only 7 percent of total revenues in 2008

General and Administrative Expenses (in € million)

Strict cost discipline throughout • In 2008, strict cost discipline prevailed in both the administrative operations as well as in the selling and network operations. The restructuring in the autumn of 2007 had improved cost transparency in the new business units, first and foremost, while creating clear-cut responsibilities in the individual departments. These measures have already paid off in full for the 2008 fiscal year. As a result, the share of total revenues accounted for by operating costs, leaving depreciation, amortization and non-cash share-based payments out of consideration, amounted to 84 percent for the past fiscal year; in 2007, this parameter had stood at 90 percent.

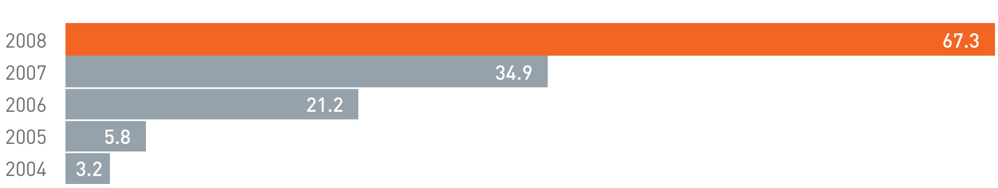
Share of Total Revenues Accounted for by Operating Costs

High-margin revenues and synergy effects improve profitability • In its quarterly reports, QSC conforms to the customary international practice of presenting depreciation, amortization and non-cash share-based payments as separate line items 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 as well as general and administrative expenses. The following abbreviated income statement presents depreciation/amortization and non-cash share-based payments separately, thus affording a fast overview of the development of the Company's operative business:

in T €	2008	2007
Net revenues	413,304	335,195
Cost of revenues *	(276,308)	(226,213)
Gross profit	**136,996**	**108,982**
Selling and marketing expenses *	(45,316)	(46,391)
General and administrative expenses *	(25,283)	(28,567)
Other operating income	2,749	1,674
Other operating expenses	(1,862)	(785)
EBITDA	**67,284**	**34,912**
Depreciation	(60,552)	(45,418)
Non-cash share-based payments	(674)	(955)
Operating profit or loss (EBIT)	**6,058**	**(11,461)**

* Excluding depreciation and non-cash share-based payments

EBITDA margin stands at 16 percent • Strong revenue growth, the ability to swiftly achieve synergies following the Broadnet merger, as well as sustained cost discipline throughout, enabled the Company to nearly double its EBITDA to € 67.3 million in fiscal year 2008, as opposed to € 34.9 million the year before. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation and amortization on fixed assets, intangible assets and goodwill.

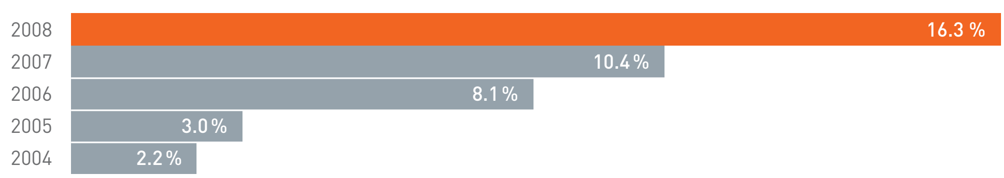


EBITDA

(in € million)

During the past fiscal year, QSC's EBITDA margin improved to 16 percent, as opposed to 10 percent in 2007. This steadily rising EBITDA margin from quarter to quarter underscores the good development of the Company's operative business during the course of the year: This performance indicator improved from 12 percent in the first quarter of 2008 to 14 percent in the second quarter and 18 percent in the third quarter, reaching 21 percent in the final quarter, although this was attributable to non-recurring events.

EBITDA Margin

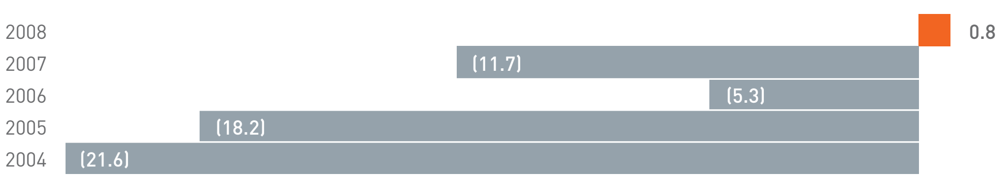


Depreciation expense rose to € 60.6 million for the past fiscal year, as opposed to € 45.4 million the year before. It should be noted in this connection that it was necessary for QSC to make a € 0.9 million change to 2007 depreciation expense for self-created intangible assets; further comments in this connection can be found in Note 3 to the financial statements. In addition to the network expansion project that was concluded in the summer of 2008, the increase was also the result of sustained customer growth, especially in ADSL2+ wholesale business, as QSC depreciates the major share of its customer-related capital expenses over a period of only two years. Since QSC continues to use local office premises eight years after the installation of its first local offices, the Company elected during the past fiscal year to extend the depreciation periods for this class of assets, analogously to the industry standard. Consequently, the permanent improvements to these premises are being depreciated over a period of ten years instead of eight beginning in 2008. It was against this same backdrop that the Company extended the depreciation period for technical equipment in the central offices from five to eight years, thus reflecting the actual service life of these systems. In fiscal year 2008, this changeover in service lives led to a total reduction of € 11.2 million in depreciation expense for technical systems and improvements; further comments on this can be found in Note 5 to the financial statements.

QSC earns an EBIT of € 6.1 million in fiscal year 2008

Sustained operating profit • Totaling € 6.1 million, QSC earned a sustained operating profit before interest and taxes (EBIT) during the past fiscal year; the year before, the Company had incurred an operating loss of € -11.5 million. The Company's financial loss amounted to € -1.5 million, as opposed to € -0.4 million the year before. As QSC utilized liquid assets for the planned decrease in trade accounts payable that were incurred in conjunction with the network expansion project, financial income decreased to € 2.7 million as compared to € 3.6 million in 2007. Earnings before income taxes thus totaled € 4.5 million, as opposed to a loss of € -11.9 million in 2007.

QSC earns net profit • As of December 31, 2008, QSC recorded income taxes in the amount of € -3.8 million, as opposed to € 0.2 million the year before. € 0.4 million of this total was attributable to local business taxes for limited partnership Plusnet GmbH & Co. KG. Moreover, this line item also includes non-cash deferred tax expenses of Plusnet stemming from the change in depreciation periods, as well as expenses from the return of capitalized deferred taxes. As of December 31, 2008, no deferred taxes were thus capitalized on loss carry forwards.
In spite of the tax burden, QSC was able to earn a net income of € 0.8 million, as opposed to a net loss of € -11.7 million the year before.



Net Profit (Loss)
(in € million)

PROFITABILITY BY SEGMENT

New segmentation reflects new organizational structure • Effective the first quarter of 2008, QSC realigned its segment reporting to the three segments of Managed Services, Products and Wholesale/Resellers. With this move, the Company's accounting swiftly reflected its new organizational structure that had been in place since the autumn of 2007. As of year-end 2008, the Company for the first time is additionally reporting both the individual expense line items as well as the respective segment EBIT, thus further enhancing the transparency of its accounting. In conformity with international practice, the Company presents depreciation expense and non-cash share-based payments separately in this connection. Like the apportionment of all other costs, these cost items are essentially apportioned to the individual segments on the basis of actual charges.

Growing interest in network-related services • Revenues in the Managed Services segment advanced by 13 percent in 2008 to € 73.3 million, as opposed to € 65.1 million the year before. During the past fiscal year, the Company succeeded in winning numerous new customers, especially among medium-size enterprises, as medium-size enterprise QSC tends to enjoy strong acceptance on the part of small and medium-size enterprises. One good example of this is the contract that was signed in June 2008 with Kfz-Wirtschaftsgesellschaft des Verbandes Deutscher BMW Vertragshändler e.V. In its selection process, this association of German BMW and MINI franchised dealerships went with QSC as the appropriate company to supply the 285 German BMW franchised dealerships in some 700 locations with powerful voice and data connections.

QSC wins new customers, especially among medium-size enterprises

Nearly 70 percent of new business in 2008 stemmed from broadening the Company's business relationships with its customer base. On the one hand, there was a rise in QSC's percentage of these customers' telecommunication budgets, for example by opting for further locations within the framework of nationwide network solutions. On the other hand, these customers increasingly ordered additional products and services, such as IP telephony or network-based telephone systems; it was IP telephony, in particular, that intensified QSC's business relationships with its customer base in 2008.

Noticeable rise in interest in network-related services

At the same time, the past fiscal year saw a noticeable increase in interest in network-related services. Innovations like QSC's own VirtuOS-ACD Software-as-a-Service solution for call centers made their first contributions to revenues and profitability. This network-based VirtuOS-ACD solution is now in service at numerous enterprises, including the Volkswagen Group. Moreover, in October 2008 this solution took first place in the Applications category in the VO.IP Awards at the congress tradeshow for voice and IP communication. This distinction underscores the leading role that QSC is playing in developing and implementing Managed Services and Software-as-a-Service telecommunications applications.

Together with its high quality, its product variety and its strong service, QSC's innovative strength additionally garnered a further award during the past fiscal year. The German Internet Federation (eco) again honored the Company as being the "Best Business Customer ISP." This marked the fourth time in a row that this award was bestowed on QSC by an independent jury made up of top people from the industry, trade associations and the media, as well as government institutions and universities.

Managed Services Revenues
(in € million)

Managed Services segment posts the highest gross margin • On revenues of € 73.3 million, cost of revenues during the past fiscal year amounted to only € 39.0 million, which means that the Managed Services segment was able to earn a gross profit of € 34.3 million in fiscal year 2008; the year before, this segment had recorded a gross profit of € 30.9 million. As in the year before, this segment's gross margin of 47 percent was higher than that of the other two segments, underscoring the high margins that are being achieved in solutions business.

Yet Managed Services business, which necessitates individual, intensive advice and consulting, necessitates a certain level of staffing in both the direct sales operation as well as in the supporting administrative departments, irrespective of the volume of revenues. Consequently, selling and marketing expenses amounted to € 16.6 million in fiscal year 2008, general and administrative expenses to € 9.9 million. However the total of these two line items thus remained constant relative to the year before.

This constant level of costs and rising revenues enabled this segment's EBITDA to advance to € 8.1 million in fiscal year 2008, as opposed to € 4.8 million the year before. The corresponding EBITDA margin for the past fiscal year was 11 percent. Deduction of depreciation expense and non-cash share-based payments in the amount of € 7.8 million produced an EBIT of € 0.3 million, as opposed to € -1.7 million in 2007.

Managed Services EBIT
(in € million)

Sustained migration to IP telephony • At € 103.8 million, revenues for the past fiscal year in the Products segment remained below the previous year's level of € 123.4 million. On a quarterly basis, there was a sharp decline in the first half of the year 2008, with revenues then going on to stabilize from the second half onward. Revenues of € 25.5 million for the fourth quarter of 2008 marked the first time in four quarters that revenues had again increased from quarter to quarter.

Products Revenues
(in € million)

New product offers true alternative to a leased line

This stabilization was primarily attributable to the successful development of business with small companies, freelance professionals and independent contractors – the number of customers with direct connections to the QSC network rose steadily in 2008. At the same time, there was also a rise in revenues with data products like Q-DSLmax and its combination with Voice over IP products, the QSC-Complete packages. The Company also specifically broadened its product portfolio in 2008. Since October, QSC has been offering Q-DSLmax with bandwidths of up to 10 or 20 Mbit/s, making this symmetrical data product a true alternative to a leased line. By the summer, the Company had extended its QSC-Complete packages to include an international flat rate for voice, thus catering to the growing demand for international communications on the part of smaller companies, as well.

Revenues with conventional voice products in the Products segment, on the other hand, continued to decline in 2008 due to sustained stiff pricing competition. The percentage of total revenues accounted for by preselect and call-by-call offerings decreased from quarter to quarter, amounting to only 44 percent in the fourth quarter of 2008, as opposed to 52 percent for the first quarter. This decline was also a result of the successful migration of conventional voice customers to Voice over IP products. By comparison, while QSC generated lower revenues with its IPfonie product family, the contribution margins were significantly higher.

Focus on high-margin products paying off • QSC's steadily improving profitability can be seen from the development of its gross margin, which rose to 42 percent in fiscal year 2008, in spite of declining revenues, as opposed to 40 percent the year before; gross profit amounted to € 43.2 million, as opposed to € 49.9 million in 2007.

EBITDA margin in Products segment improves to 15 percent

As a result, in particular, of commission payments and advertising cost allowances for marketing partners, the Products segment accounted for the largest share of selling and marketing expenses, which totaled € 20.2 million in this segment in 2008, as opposed to € 23.7 million the year before. There was also a decrease in general and administrative expenses to € 8.0 million, as opposed to € 10.9 million in 2007. As a result, EBITDA remained virtually unchanged at € 15.2 million, as opposed to € 15.6 million the year before – in spite of revenues that were nearly € 20 million lower. The EBITDA margin improved to 15 percent, as opposed to 13 percent the year before.

The higher number of direct connections, along with increased utilization of the larger network and the NGN, combined to increase depreciation expense and non-cash share-based payments in this segment to € 13.4 million in 2008, as opposed to € 11.1 million the year before. EBIT amounted to € 1.8 million, as opposed to € 4.5 million in 2007.

Products EBIT
(in € million)

Wholesale business successfully expanded • In fiscal year 2008, QSC generated its strongest revenue growth in the Wholesale/Resellers segment: Revenues here advanced by 61 percent to € 236.2 million, as opposed to € 146.7 million the year before. In this connection, non-recurring revenues in the fourth quarter of 2008 with ADSL2+ wholesale partners, as well as the ICA refund, produced an especially strong rise to € 67.7 million, as opposed to € 60.2 million for the preceding quarter.

Wholesale / Resellers Revenues
(in € million)

Moreover, ADSL2+ wholesale business, in particular, also fueled the strong rise in revenues in this segment throughout the entire year: The share of total segment revenues accounted for by ADSL2+ preliminaries rose to 45 percent, as opposed to 26 percent in 2007. During the past fiscal year, wholesale business benefited from the fact that the bottlenecks in the provision of subscriber lines (local loops) had been overcome since the beginning of the year; consequently, QSC was able to connect a large number of new customers to the QSC network during the first half of the year 2008, in particular. However the growth dynamic in this line of business eased during the further course of the year. There were three reasons for this: First, there was rising willingness on the part of residential consumers to change carriers, which resulted in an increasing number of contract terminations at individual wholesale partners. Second, the supply of DSL connections is slowly reaching saturation levels, especially in metropolitan areas. And third, a growing number of potential DSL customers there are using cable TV for broadband Internet connections, as well. On the other hand, the growing importance of cable TV is opening up new opportunities for QSC, as cable network operators are utilizing QSC's nationwide NGN to provide voice services; in fiscal year 2008, collaboration with these providers developed into a promising line of business within the wholesale voice sector. This line of business will be further sparked by the Company's supply contract with congstar GmbH, a subsidiary of Deutsche Telekom, which was announced in December 2008. QSC will be exclusively providing this new wholesale partner with complete network services – ADSL2+ preliminaries, including VoIP voice service – via highly scalable automated order interfaces.

During the course of fiscal year 2008, the growing demand on the part of existing wholesale partners for a migration path for T-DSL resale customers to fully unbundled connections like the ones QSC provides proved to be a growth driver. This kind of migration enables the Company's partners to achieve higher margins, while simultaneously strengthening QSC's position as a supplier of preliminaries.

The high visibility of ADSL2+ wholesale business in 2008 overshadowed QSC's successes in classical business with international carriers and Internet service providers. Following the conclusion of the network expansion project, there was rising demand on the part of telecommunications providers like AT&T, BT, Colt, Orange and Verizon for symmetrical DSL-based preliminaries that are utilized within the framework of international networking projects.

Positive development of wholesale voice business during the year

The IP capability of the entire Next Generation Network and its extremely competitive cost structure also made QSC an attractive partner in wholesale voice business; during the second half of 2008, in particular, there was a noticeable rise in the percentage of total revenues accounted for by this kind of business. However QSC continues to possess the capacities required for being able to cover the rapidly growing demand for IP-based voice services on the part of cable network operators and other national wholesale voice partners.

EBITDA margin stands at 19 percent • ADSL2+ wholesale business, in particular, as well as wholesale voice business, made a significant contribution to the utilization factor of QSC's nationwide network infrastructure; at € 176.7 million, as opposed to € 118.5 million the year before, the Wholesale/Resellers segment thus again accounted for the lion's share of network expenses. As a result of its strong revenue growth, this segment was nevertheless able to more than double its gross profit to € 59.6 million, as opposed to € 28.1 million in 2007; gross margin rose to 25 percent, as opposed to 19 percent the year before.

Automated processes increase profitability of wholesale business

The highly automated processes in this segment produced a relatively lower share of both selling and marketing as well as general and administrative expenses relative to revenues. At € 44.0 million, this segment therefore recorded the highest EBITDA of all three; the year before, segment EBITDA had stood at € 14.5 million. The segment EBITDA margin doubled to nearly 19 percent in 2008, as opposed to 10 percent the year before.
Although the Wholesale/Resellers segment bore nearly two thirds of total depreciation expense and non-cash share-based payments as a result of its high network usage, it nevertheless achieved the highest segment EBIT of € 4.0 million in 2008; the year before, there had been an operating loss of € -14.2 million before interest and taxes.

Wholesale / Resellers EBIT
(in € million)

FINANCIAL MANAGEMENT

Central financial management • QSC steers its entire financing and its capital position centrally from its Headquarters in Cologne, where the cash proceeds at the subsidiaries are pooled. As of December 31, 2008, QSC's surplus liquidity was invested exclusively in money market accounts. No derivative financial instruments are employed. The Company's off-balance sheet liabilities consist only of guarantees, which are detailed in Note 44 to the financial statements.

Net liquidity the steering parameter • QSC utilizes the parameter of net liquidity to steer the Company. Under this method, the Company subtracts interest-bearing liabilities from its holdings of liquid assets. As of December 31, 2008, this parameter totaled € -12.2 million, as opposed to € 20.2 million at year-end 2007. The negative value was essentially a result of the planned decrease in trade accounts payable that were incurred in conjunction with the network expansion project and did not have to be settled until 2008 thanks to lengthy payment terms. QSC is planning on a significant positive free cash flow of more than € 10 million for the 2009 fiscal year.

FINANCIAL POSITION

High cash flow provided by operating activities • The positive development of business in fiscal year 2008 went hand in hand with a further rise in net cash provided by operating activities to € 60.1 million, as opposed to € 56.3 million the year before. In this connection, QSC reduced its trade accounts payable by € -24.2 million during the course of the year; in 2007, this line item had increased by € 32.0 million as a result of the network expansion project.

Net cash used in investing activities rose to € -68.1 million in fiscal year 2008, as opposed to € -37.1 million in 2007. In this connection, net cash used for the acquisition of intangible assets rose to € -45.3 million, as opposed to € -17.3 million the year before, as the number of local loop connections more than doubled during the past fiscal year. The conclusion of the network expansion project in mid 2008, on the other hand, has already resulted in a decline in the cash burn for property, plant and equipment to € -26.2 million, as opposed to € -77.9 million the year before. The net cash used in financing activities in the amount of € -17.3 million, as opposed to € 8.9 million in 2007, reflects QSC's reduction of indebtedness during the past fiscal year. The Company redeemed € -24.2 million in debt under finance leasing, and reduced its further short- and long-term debt by € -0.6 million.

Cash Flow from Operating Activities (in € million)

Sharp decline in capital expenditures • The conclusion of the network expansion project in mid 2008 produced a sharp decline in capital expenditures during the past fiscal year: Overall, capital expenditures totaled € 91.4 million, as opposed to € 122.9 million in 2007.

33 percent of these capital expenditures were attributable to ongoing modernization and replacement investments in QSC's nationwide network, on the one hand, as well as to the network expansion project, on the other. Following the conclusion of this network expansion project, network operating company Plusnet now operates a nationwide DSL network with some 1,900 central offices. On the other hand, this parameter also includes capital investments in the infrastructure required for providing Software-as-a-Service telecommunications solutions, e.g. servers, as well as for the expansion of interfaces between the expanded DSL network and the nationwide NGN.

At 62 percent, the vast majority of capital expenditures were already attributable to customer-related investments in 2008; the year before, this parameter had stood at 44 percent. These customer-related investments predominantly consist of capitalized provisioning costs for activating customers, as well as for technical end-user devices such as routers for enterprise customers. QSC swiftly invoices some 90 percent of these capital expenditures to the respective customer and defers the resulting installation revenues over a period of 24 months.

62 percent of capital expenditures attributable to customer-related investments in 2008

In addition, the line cards with the corresponding ports in the central offices, each being required to connect new customers, are also part of the Company's customer-related investments, and are depreciated over a period of eight years.

Capital Expenditures
(in € million)

QSC possesses liquid assets totaling € 49.2 million

Balanced financing • In addition to net cash provided by operating activities, QSC essentially draws upon three sources to finance these capital investments and its corporate growth: Liquid assets, financial leases as well as a line of credit totaling € 50 million. As of December 31, 2008, liquid assets – cash and cash equivalents as well as available-for-sale financial assets – stood at € 49.2 million, as opposed to € 78.0 at year-end 2007. As planned, Plusnet, the network operating subsidiary in which QSC holds a majority interest, is utilizing the contribution in cash made by co-shareholder TELE2 in 2006 in the amount of € 50 million in this connection to pay for the capital expenditures in connection with the network expansion project.

In fiscal year 2008, QSC continued to utilize financial leasing and redeemed debt under financial leases as planned. This reduced long-term liabilities under finance lease agreements to € 17.4 million as of December 31, 2008, as opposed to € 23.1 million the year before; at € 20.2 million, short-term liabilities remained virtually unchanged from their level of € 20.4 million on December 31, 2007.

Other long-term liabilities also include a further € 2.8 million in debt from the financing of customer-related expenditures; their short-term share (remaining term up to one year) in the amount of € 6.0 million is included in other short-term liabilities.

As the third source of financing, QSC utilized an agreement on a line of credit that was entered into with three financial institutions in fiscal year 2008 and will run until year-end 2011; under liabilities due to banks, QSC recorded that € 15.0 million of this line of credit had been utilized as of December 31, 2008. Moreover, € 12.4 million of this agreement were utilized for guarantees in 2008.

NET WORTH

Balance sheet structure in equilibrium • The balance sheet total declined moderately to € 353.2 million as of December 31, 2008, as opposed to € 363.5 million at year-end 2007. Long-term assets accounted for 67 percent of this total, short-term assets for 33 percent; the year before, the ratio had stood at 57 percent to 43 percent. On the liabilities side, 44 percent of these assets are financed through equity capital and 56 percent through outside capital. The share of this total accounted for by outside capital decreased by two percentage points by comparison with 2007. As of December 31, 2008, short-term liabilities accounted for 35 percent of the balance sheet total, corresponding to nearly the percentage of short-term assets.

QSC's assets adequately balanced

Capital expenditures increase long-term assets • On the assets side, the network expansion project increased the value of property, plant and equipment to € 141.0 million in 2008, as opposed to € 131.2 million the year before. The value of other intangible assets rose to € 45.0 million, as opposed to € 24.7 million at year-end 2007, as QSC uses this line item to record capitalized investments in customer connections.

Strict management of accounts receivable • Strict management of short-term accounts receivable decreased the level of trade accounts receivable to € 57.9 million as of December 31, 2008, in spite of significantly higher revenues, as opposed to € 64.9 million at year-end 2007. Net expenditures for allowances for bad debts and goodwill on accounts receivable remained very manageable in 2008, representing less than one percent of total revenues.
Inventory is where QSC records its technical equipment for end-customers, routers and CPEs. Inventories totaled € 3.7 million in 2008, as opposed to € 6.2 million the year before.

Accounts Receivable
(in € million)

Equity ratio rises to 44 percent • During the past fiscal year, the Company's capital stock rose moderately to € 154.4 million, as opposed to € 152.2 million the year before. There were two reasons for this: First, the Company's net profit moderately reduced its loss carry forward; and second, beneficiaries under the Company's stock option programs converted 639,822 convertible bonds to a corresponding number of QSC shares in fiscal year 2008, thus increasing capital stock by € 0.6 million. The equity ratio improved to 44 percent as of December 31, 2008, as opposed to 42 percent at year-end 2007.

Equity Ratio

Liabilities down sharply • As planned, QSC reduced its trade accounts payable to € 50.0 million as of December 31, 2008, as opposed to € 74.1 million one year earlier. This strong decline, especially at year-end 2008, was very much a result of the often very long payment terms that QSC has been able to obtain from suppliers within the framework of the network expansion project. At year-end 2008, QSC had largely drawn down the liabilities stemming from the 2007 and earlier fiscal years.

Trade Accounts Payable
(in € million)

EVENTS OF MAJOR SIGNIFICANCE FOR THE COURSE OF BUSINESS

Stronger growth fueled by larger number of local loops • It had not been possible to anticipate at the beginning of the 2008 fiscal year how swiftly it would be possible to overcome the bottlenecks in the provision of local loops that had occurred the year before. The gradual elimination of these bottlenecks during the initial months of the year drove the growth of ADSL2+ wholesale business, in particular, thus establishing the basis for two increases in the Company's annual guidance. The restructuring that was initiated in the autumn of 2007, as well as the ability to swiftly achieve synergies following the Broadnet merger at the end of 2007, additionally had a positive impact. Both of these factors produced a more efficient corporate structure, thus affording a disproportionate improvement in profitability during the past fiscal year. There were otherwise no singular events either within the Company or in the marketplace during the course of the 2008 fiscal year that had a significant influence on the development of QSC's business.

Higher profitability thanks to restructuring and swift achievement of synergies

COMPARISON BETWEEN ACTUAL AND FORECAST COURSE OF BUSINESS

Guidance raised twice during the course of the year • QSC's operative business developed better in fiscal year 2008 than had originally been planned; in particular, this was a result of the strong growth dynamic in ADSL2+ wholesale business during the first half of the year. In mid February, QSC had issued its initial guidance for the full 2008 fiscal year, calling for revenues of between € 385 and € 405 million and an EBITDA of between € 50 and € 60 million. Moreover, at this point in time the Company was already striving for a breakeven after-tax net result. Given the overcoming of the local loop bottlenecks and the good development of business in the first quarter of 2008, the Company reached a more optimistic assessment in connection with the presentation of its Quarterly Report, anticipating that revenues and EBITDA would be at the upper end of the corridors that had been forecast in February. With the presentation of its Semiannual Report, QSC then again raised its guidance, planning on revenues of more than € 405 million and an EBITDA of more than € 60 million. With revenues of € 413.3 million and an EBITDA of € 67.3 million at year-end, the Company had achieved these predictions, which had been raised twice, earning moderately positive net profit of € 0.8 million.

* Guidance

* Guidance

GENERAL REMARKS REGARDING THE COURSE OF BUSINESS IN 2008

During the past fiscal year, the development of QSC's operative business surpassed the Company's planning, and was not yet being affected by the recession in Germany. Thanks to the Broadnet merger, QSC was additionally able to quickly achieve synergies throughout the organization – from the network to administration – thus sustainably improving its cost position.

Report on Opportunities and Risks

RISK POLICY

Risk management serves as decision-making basis

Management of opportunities and risks a value-creating task • QSC's strategy is geared toward profitable growth. Since QSC's markets are subject to ongoing change, what is required is an efficient and predictive system for managing opportunities and risks. Systematically dealing with potential opportunities and risks and fostering a culture of thinking and acting with a view toward risks are therefore a key element in securing and shaping QSC's future. Management of opportunities and risks serves as a foundation for decision-making throughout the organization. In this connection, QSC pursues the objective of avoiding or minimizing existing and potential risks, while swiftly taking advantage of opportunities that present themselves. The Company's risk strategy is therefore geared toward using ongoing risk management to achieve an optimum balance between defending against risks and taking advantage of opportunities.

MANAGEMENT OF OPPORTUNITIES

Management of opportunities involves all areas of the organization • Management of opportunities and management of risks are closely related at QSC. Opportunities result, in particular, from changes in the markets in which the Company is active. The responsibility for identifying and taking advantage of these kinds of opportunities early on rests with the coordinators in the individual business units or corporate staff departments. In doing so, they primarily utilize market and competition analyses, as well as market research results. The findings thus obtained simultaneously flow into the ongoing development of product and process innovations. The forecast report contains an overview of the opportunities that will be of particular relevance for QSC in the coming two fiscal years.

MANAGEMENT OF RISKS

Risk management implemented throughout the organization • QSC's risk management system 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 on as possible in order to assure the Company's success over the long term. In this connection, the risk management system focuses on

- Avoiding risks through prevention
- Utilizing suitable measures to reduce existing risks
- Compensating for and securing existing risks through the formation of accruals/provisions and by taking out insurance coverage, as well as
- Accepting residual risks in close coordination with corporate management

Since risks can occur in all of the Company's operations, the risk management system (RMS) covers all business units, corporate staff departments and subsidiaries at QSC. The Company includes risk assessments in its thinking in connection with all decision-making, 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 coordinators in identifying risks early on and in assuring that such risks are appropriately taken into consideration in connection with decision-making.

There are two offices that share these responsibilities within the RMS: Corporate Risk Management is responsible for the annual risk inventory and the quarterly risk reports, and is in constant contact with all areas throughout the organization in this connection. Finance is responsible for monitoring corporate risks on the basis of operational and financial performance indicators.

Ongoing monitoring and assessment of risks that arise is handled decentrally by risk coordinators. 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. Corporate Risk Management oversees 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, which deals with aspects of risk management at every meeting. At least once a year, the Management Board informs the Supervisory Board in the form of 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. In addition, the entire early-detection system for risks is audited within the framework of the audit of the Company's Annual Financial Statements.

INDIVIDUAL RISKS

Detailed on the following pages are those general, industry, regulatory, strategic, performance, financial, information technology and other risks that QSC today views as being of major significance with respect to its business operations.

GENERAL AND INDUSTRY RISKS

The economy • In 2008, recession has started in Germany. This could also have a negative impact on the willingness of businesses to invest in a modern telecommunications infrastructure.

However there are two reasons why QSC views itself as being relatively well aligned for this kind of recession: Firstly, the Company had been able to sustain its growth in the 2002/2003 recession; secondly, an economic slump could even fuel demand for productivity-enhancing, network-related services, as well as cost-effective IP telephony. QSC therefore views this risk as being manageable, and is planning on rising revenues and profitability for the full 2009 fiscal year, in spite of the recession.

The company sees itself relatively well equipped for recession

In Germany, DSL remains the dominant broadband technology

Alternative technologies – Cable TV • Cable TV operators are marketing broadband connections with growing success – in 2008, the number of households with cable TV broadband connections doubled to two million. These Triple Play offerings represent potential competition for mass-market business with the Company's Wholesale partners. Yet the nationwide availability of DSL, as well as its marketing lead of years in broadband business, assure that DSL will continue to remain the dominant broadband technology in Germany in the years to come – market research institute IDC is forecasting a market share of 87 percent for the year 2012. QSC therefore views cable TV competition as a moderate risk.

Alternative technologies – FTTX • All current Internet applications, including Triple Play, can be easily achieved with ADSL2+ technology. Nevertheless, discussions are already ongoing about potential successor technologies under the buzzwords Fiber to the Home (FTTH), Fiber to the Basement (FTTB) and Fiber to the Curb (FTTC). This represents the concept of running fiber optic cables right to the individual household or to the basement of the building in question; the DSL technology that dominates today uses a twisted copper pair to cover the distance between the central office and the respective household. Long-term, a nationwide fiber optic rollout could make infrastructure investments by network operators like QSC obsolete.
From today's vantage point, QSC views this risk as being manageable. Firstly, expanding the fiber optic network would involve capital investments ranging at least into double-digit billions, and from today's vantage point there is no way to see how a capital investment of this magnitude would be able to be financed without massive government subsidies. Secondly, in the event of this kind of expansion, which would take years to accomplish, the operators of this infrastructure would be forced to also allow alternative providers to access the new infrastructure in order to amortize their investments. In this case, nationwide network operators like QSC could intelligently link their existing infrastructures to the new network, and continue to fully utilize an NGN, for example.

The competition • Market observers expect to see concentration among a few strong providers in the German DSL market. As an infrastructure provider, QSC continues to see itself well aligned in this environment. Carving out the DSL network to network operating company Plusnet additionally increases the Company's freedom of action should market conditions change.
In its Wholesale business with ADSL2+, QSC is benefiting from its focus on business with enterprise customers; in contrast to competing resellers, this does not produce any conflicts of interest with respect to addressing residential consumers. Nevertheless Wholesale business does pose the risk that one or more of the Company's Wholesale partners might no longer be active in this line of business over the medium term, or might be acquired. This would strengthen the market power of the remaining Wholesale partners. However QSC views this risk as being manageable, as the Company today has all major providers who do not possess their own nationwide infrastructures under contract. Overall, QSC therefore views the potential impact stemming from a market consolidation as being moderate.

Substitution of classical voice telephony • The past fiscal year again saw heightened price competition in classical voice telephony as a result of Voice over IP and flat rate offerings. Because it expanded its IP-capable Next Generation Network early on, QSC is ready for this change, even though it is currently being forced to incur shortfalls in classical voice telephony. At the same time, however, the Company is already achieving new growth potential from VoIP telephony and other IP-based services, and therefore does not anticipate that this risk will have any major impact.

REGULATORY RISKS

An end to regulation • During the past fiscal year, the German Federal Network Agency ended mandatory regulation of eleven markets, restricting itself from now on to analyzing these markets in order to be able to intervene if necessary. There is a risk that the coming years will see a further decline in the number of markets under observation by national regulatory authorities, which would mean that Deutsche Telekom's pricing latitude could rise.
The experiences gained during the initial months following the end of mandatory regulation show that public monitoring of DTAG's competitive behavior will not be sufficient to keep it from exploiting its newly won freedom. However QSC anticipates that a sustained public discussion and the way corresponding cases are handled in the future will again more strongly foster behavior that is in conformity with the rules of competition, and that the German Federal Network Agency would otherwise make use of the opportunities that are available to it. This agency can swiftly conduct new analyses of every market at any time, using this as the basis for intervention in markets whose regulation is no longer mandatory. In addition, it could examine its fundamental attitude that the trend is toward self-sustaining competition by comparing it with the situation that exists in reality. QSC is keenly observing this risk, as its ramifications for the Company could be considerable should regulation fail.

Regionally differentiated regulation • Regulation of telecommunications markets is currently consistent throughout Germany. However the German federal government is considering the option of moving toward regionally differentiated regulation, initially for the issue of IP bitstream, in order to increase DTAG's latitude with respect to its pricing and offerings in individual regions. At this point in time, QSC cannot yet comment on this risk, as many risk parameters will not materialize until after regionalization has been implemented. As long as regionalization is not restricted to the issue of IP bitstream but encompasses the entire value chain, QSC views these risks as being manageable.

Competitive behavior of Deutsche Telekom • As an infrastructure provider, QSC is significantly less dependent upon former monopolist DTAG's resale 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 regulations or in markets that are no longer being regulated. The same would also apply in the event that politicians yield to DTAG's urgings that it be allowed to broaden its pricing latitude at the expense of its competitors in order to finance new capital investments for covering white spots on the DSL map, for example.
In this connection, QSC continues to count on viable oversight by the German Federal Network Agency and the European Commission. The Company is limiting the potential risks by intensively monitoring the regulatory landscape, through its ongoing participation in the discussion, as well as by commenting on various proceedings. Against this backdrop and trusting in viable regulation in conformity with the rules of competition, QSC still views these risks as being moderate.

QSC counting on well-functioning oversight at federal and EU levels

Expansion of the VDSL network • Another risk consists of DTAG's improved DSL network, the VDSL network that is already in place in 50 cities. Moreover, DTAG is planning on collaborating with competitor Vodafone in at least two cities, Würzburg and Heilbronn. To offset its investments in increasing the speed of this network, DTAG is asking that regulatory requirements and the commitment to providing other market players with VDSL access be waived. Should this endeavor succeed, DTAG would be given a virtual monopoly on broadband communication lines with speeds in excess of 25 megabits per second.

VDSL only a different development branch of ADSL2+ technology

However the question of whether improving DTAG's existing network, which was financed in the days of its monopoly position, with VDSL justifies waiving regulatory requirements is controversial; that is because this network only involves equipping additional locations with a different development branch of ADSL2+ technology (VDSL2 in this case). The involvement of a competitor in two locations makes no difference. The European Commission, at least, has already fundamentally clarified that it will continue to refuse to tolerate monopolies within the single European market, and will therefore insist on competitor access to all levels of DTAG's entire DSL network; it has already filed corresponding lawsuits before the European Court of Justice (ECJ). QSC therefore views the potential impact of this risk as being moderate.

Local loop fees • A decision by the German Federal Network Agency regarding the amount of the price that competitors have to pay to DTAG for a subscriber line (local loop) is expected on April 1, 2009. An increase in the monthly fee would only have a negative impact on QSC's margin position in connection with its direct end-customer business.

It is QSC's conviction, however, that there is no reason for an increase of this nature; on the contrary, the Company is convinced that a price reduction would be appropriate. In this connection, one of the Company's reasons for this opinion is based upon the initial court decisions on local loop fees by the European Court of Justice and the Administrative Court of Cologne; both termed the calculation method thus far employed by the German Federal Network Agency as being objectively incorrect, and criticized the fact that it would lead to excessive results.

CORPORATE STRATEGY RISKS

Integration of acquisitions • QSC does not preclude the possibility of broadening its own spectrum of products and services through targeted acquisitions in the future. The risk in this connection is that an acquired company might not live up to the expectations that have been placed in it. In the past, however, QSC has demonstrated its ability to successfully manage these kinds of integration processes with the swift and successful mergers of Broadnet and celox with QSC and with the full integration of Ventelo. QSC therefore views this risk as being moderate in the event of a potential acquisition.

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 on a full-cost basis and apportion the various costs and capital expenses on the basis of a contractually agreed key. The risk exists that one of the shareholders might withdraw from this joint venture or change its geographic focus. However the contract signed in July 2006 will run until at least year-end 2013, and does not provide for a regular termination opportunity prior to this date, which is why QSC is convinced that no material risks will arise in the coming years from this joint venture.

PERFORMANCE RISKS

Potential penalties • Within the framework of its Managed Services projects and business with Wholesale/Reseller partners, QSC enters into contracts that assure certain service levels, some of them involving 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. In the past, QSC has been able to assure the satisfaction of nearly all service level agreements, and therefore views the potential impact of this risk as being moderate.

Dependence upon individual customers • In 2008, QSC generated strongly rising revenues with relatively few partners in its Wholesale/Reseller business. This results in the risk of being dependent upon one or only very few major accounts. The Company constantly monitors this risk. However since QSC, as the network operator, and the respective Wholesale/Reseller partners are mutually dependent upon one another, the Company does not view this risk as having any major impact on its future course of business.

Failure of the QSC infrastructure • A potential network outage is a risk that is constantly monitored. In addition to a potential loss of image, it is possible for the risk of indemnification claims or high penalties, in particular, following extended, widespread outages to 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 upon redundancies within its network in this connection. Air conditioning equipment prevents potential head-induced 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.

Numerous measures assure smooth DSL operations

Strategic partnerships with suppliers • In expanding and operating the network, QSC collaborates closely with selected system manufacturers, first and foremost Chinese-based telecommunications equipment supplier Huawei. The failure of one of these system manufacturers could impair the viability of the QSC network. However numerous years of experience demonstrate that this risk can be very well managed through collaboration in a spirit of trust with the respective suppliers and close coordination with them.

FINANCIAL RISKS

The way QSC is financed • As of December 31, 2008, QSC possessed liquid assets totaling € 49.2 million. Nevertheless, a sustained recession, aggressive price competition or a potentially active role in the consolidation of the German DSL market could result in the need for obtaining additional funding. Most recently, the successful placement of QSC shares in connection with the acquisition of a majority interest in Broadnet AG documented the willingness on the part of the capital market to embrace QSC's financing activities. Moreover, as of December 31, 2008, the Company possessed an unused line of credit in the amount of € 22.6 million. In addition, QSC anticipates a positive free cash flow for 2009, and thus a further reduction of this risk.

Positive free cash flow enhances QSC's financial latitude

INFORMATION TECHNOLOGY RISKS

Criminal intrusions into QSC systems • Unauthorized intrusions into QSC's IT network could result in considerable damage. 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, who report directly to the Chief Executive Officer. These coordinators bear the primary responsibility for a sophisticated security concept, which includes the latest firewalls and a multitier 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.

Loss of data • Operating errors, hardware defects or the destruction of the data center through attacks or environmental disasters can result in a loss of business-critical data. 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. The Company archives its complete backups for multiple years, and stores the monthly backups in separate physical locations. Central data inventories are automatically backed up daily to tape, with a backup robot expanding 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.

OTHER RISKS

Availability of personnel • QSC's success is based upon the achievements of its qualified people. There is a risk, on the one hand, that achievers could leave the Company at short notice, and that it might not be possible to recruit new talent from the market at the planned terms and conditions, on the other. QSC combats this risk through extensive personnel loyalty measures, such as attractive, success-based compensation, fringe benefits and the inclusion of achievers in decision-making processes early on. In-house training and education, university partnerships and any number of networking activities additionally assure that QSC possesses a sufficient number of qualified applicants. The Company therefore views this risk as being under control, especially in view of the current economic situation.

QSC utilizes extensive personnel loyalty measures

GENERAL REMARKS

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 QSC's financial or earnings positions. 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 to 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.

SUBSEQUENT EVENTS

We are not aware of any events or transactions that have either occurred since the close of the fiscal year on December 31, 2008, or that are still pending which would have a material effect on the Consolidated Financial Statements for the period then ended.

Outlook

GENERAL REMARKS ON FURTHER DEVELOPMENT

QSC anticipates positive development of business in spite of recession • At the outset of 2009, Germany finds itself in the most serious recession in its post-war history. Nevertheless, QSC anticipates that its positive course of business will again be sustained in the current fiscal year, with a clear focus on increasing the Company's financial strength and profitability. The Company is planning on a positive free cash flow of more than € 10 million in fiscal year 2009, as well as on an EBITDA of between € 68 and € 78 million. This will go hand in hand with planned annual revenues of between € 420 and € 440 million, as well as sustained net profit. In a difficult market environment, QSC will be focusing even more strongly than in previous years on further improving the quality of its revenues, giving priority to higher profitability over higher revenues.

FORTHCOMING GENERAL ECONOMIC CONDITIONS

Germany in recession • Economists are expecting to see a sharp decline in German gross domestic product for the full 2009 year. At the outset of this year, it is not yet possible to predict whether recovery will set in by 2010, as well as the extent of any such recovery. There are two reasons why the Company sees itself as being relatively well equipped for this phase of economic weakness: First, telecommunications services, similar to electricity, can be considered to be basic utilities, which residential and business customers would not be readily willing to forgo, even in difficult economic times. Second, an economic slump might even fuel demand for productivity-enhancing network-related services, as well as for cost-effective IP telephony – successes with IP products in recent months strengthen this conviction.

QSC relatively well equipped for phase of economic weakness

FORTHCOMING INDUSTRY CONDITIONS

Focus on enterprise customers paying off • QSC expects to see a two-track development in the telecommunications market during the coming two years. While standard products will see shake-out competition, with aggressive pricing policies continuing in many cases, broadband and solutions business with enterprise customers will continue to grow.

Overall, market research institute IDC expects that the number of DSL connections in Germany will rise by nearly two million during the current fiscal year and by a further 1.4 million in 2010 – in spite of the sustained marketing success of cable network operators, who have since been able to win nearly one quarter of all new broadband customers in the territories they cover.

However QSC's ADSL2+ wholesale business is likely to see only relatively little benefit from these additional DSL lines: First, Deutsche Telekom, itself, is winning a high percentage of these new customers – in the fourth quarter of 2008, its market share here stood at nearly 50 percent. And second, a good portion of these new connections are in rural areas in which QSC is not present with its own infrastructure. Through its some 1,900 equipped central offices, on the other hand, QSC will be participating in the ongoing migration of its wholesale partners' T-DSL resale customers to fully unbundled DSL connections; as of December 31, 2008, there were still 2.5 million of these connections nationwide. New opportunities will also result from the growing willingness on the part of residential customers to switch carriers following the expiration of their usually two-year contracts. However QSC will continue to keep a sharp eye on the profitability of each and every ADSL2+ connection, and after reaching the network break-even point of 550,000 lines in 2008 will be forgoing pure volume growth at the expense of increased profitability.
The success of cable network operators in winning Triple Play customers, who utilize Internet, telephony and television over one and the same line, is strengthening QSC's wholesale voice business. Given its nationwide NGN, the Company possesses an extremely competitive cost structure, as well as the capacities required for being able to transport or terminate the cable network operators' growing voice traffic.

Stronger enterprise demand for broadband and services • According to IDC, there will be a further rise in the number of DSL connections at enterprises of around 200,000 in each of the coming years to 3.3 million in the year 2010 – growth in which the Managed Services and Products segments will be participating. In this connection, the sustained shift of business processes to the Internet is leading to a further rise in demand for broadband. QSC can fully satisfy this demand with its DSL lines, both in end-customer and reseller business.
In spite of the recession, Managed Services revenues in Germany are also expected to rise, reaching a level of € 1.9 billion by 2010. This growth can essentially be attributed to rising demand on the part of small and medium-size enterprises for IP-VPN solutions, as well as to the growing demand for network-related services. According to IDC, the number of users of network-based telephone systems (IP-Centrex), alone, is expected to double by 2010.

Demand for IP-Centrex expected to double by 2010

Market researchers also anticipate significant growth in demand for other Software-as-a-Service telecommunications applications; the same also applies with respect to the use of IP telephony. With its nationwide NGN, QSC is very well aligned for this shift toward IP-based services.

ANTICIPATED PROFITABILITY

QSC relatively well equipped for recession • QSC is planning on revenues of between € 420 and € 440 million for the 2009 fiscal year – and thus for further growth, in spite of the recession in Germany. The Company's conservative revenue planning takes into consideration three aspects: First, in a highly competitive environment QSC will be paying even greater attention to the profitability of its individual revenues and wherever possible will be avoiding price wars in individual submarkets, especially in the ADSL2+ market. Second, from today's vantage point it is not yet possible to say just how successfully individual wholesale partners will be able to market ADSL2+ lines during the current fiscal year. And third, the presumed decline in ADSL2+ new customer business, entailing a decrease in high-margin non-recurring revenues that QSC invoices to its wholesale partners for connecting their customers to the QSC network.

At the segment level, QSC therefore anticipates a two-track development in the Wholesale/ Resellers segment: A restrained development of ADSL2+ business, on the one hand, and stronger growth in both wholesale voice business as well as classical business with SDSL lines offering bandwidths of up to 20 Mbit/s. Following the growth spurt in 2008, this will result in a moderate rise in revenues. In the Products segment, the growing demand for direct connections and IP products will lead to a stabilization of revenues following the significant decrease in revenues in 2008; on the other hand, there will continue to be a decline in the percentage of segment revenues accounted for by conventional voice business. QSC is planning on further revenue growth in the Managed Services segment. As a result, 2009 will see further revenue growth at the corporate level in a difficult market environment.

Strict cost discipline makes for higher profitability • In the face of growing revenues, operating costs will rise only disproportionately during the current fiscal year. The Company's sustained cost discipline will create room for further improvement in profitability in 2009, in spite of the decline in high-margin non-recurring revenues for connecting new customers in its ADSL2+ wholesale business: QSC expects its EBITDA to rise to between € 68 and € 78 million.
During the current fiscal year, the strong growth in the number of local loops in fiscal year 2008, along with the network expansion project in 2007 and 2008, will lead to a moderate increase in depreciation expense year on year; beginning in 2010, QSC expects to see depreciation expense decline. At the same time, QSC is planning on growing net profit for both 2009 and 2010.

ANTICIPATED FINANCIAL SITUATION

High levels of cash provided by operating activities • QSC again expects to see high levels of cash provided by operating activities in 2009 and 2010. The cash burn for investing activities, on the other hand, will decline sharply by comparison with the past fiscal year. The major driver of this parameter in 2009 will continue to be customer-related capital expenditures, with QSC swiftly invoicing the major share of these expenditures to the respective customers. Moreover, there will also be maintenance and modernization investments in the Company's nationwide NGN, its wireless local loops (WLL) as well as its DSL network.

QSC anticipates positive free cash flow of more than € 10 million

QSC expects to see a positive free cash flow of more than € 10 million in fiscal year 2009, as it plans to reduce its moderate net indebtedness from € -12.2 million as of December 31, 2008. The Company's improved cash flow and improved balance sheet structure will be playing a major role in assuring that QSC is well and, especially, conservatively financed for the current fiscal year and beyond.

ANTICIPATED NET WORTH

Higher equity ratio • A reduction in interest-bearing liabilities, on the one hand, as well as only moderately rising depreciation expense, on the other, will lead to a change in the balance sheet ratios in 2009. In this connection, QSC is anticipating a higher percentage of short-term assets on the assets side, as well as a further rise in equity ratio from 44 percent as of December 31, 2008.

OPPORTUNITIES FOR QSC

Opportunities in all segments • In spite of the weak economy, QSC views opportunities in all three segments for the current fiscal year:

- **Increasing the value added with enterprise customers** • QSC can utilize Managed and Hosted Services to increase revenues and profitability per customer in the Managed Services segment during the current fiscal year, and thus make an above-average contribution toward increasing the margin at the corporate level.
- **New revenue potential offered by Software-as-a-Service solutions** • With VirtuOS-ACD and IP-Centrex, QSC is today already offering efficiency-heightening SaaS telecommunications solutions for enterprises of every size. The Company plans to specifically broaden this product portfolio in 2009, thus enabling it to tap into additional high-margin potential among both new and existing customers.
- **VoIP a growth market** • With its NGN, QSC can offer IP-based voice services in high quality and at competitive cost to all customer categories nationwide. This will strengthen both its direct business with enterprises of every size in the Managed Services and Products segments, as well as wholesale voice business in the Wholesale/Resellers segment.
- **Cable network operators a new customer category** • A growing number of residential customers in Germany are using their cable TV connection as a broadband link. In order to also be able to offer voice services in this connection, cable network operators are collaborating with QSC and utilizing its NGN.
- **Closer collaboration with marketing partners** • In 2009, QSC will be intensifying its collaboration with major marketing partners in products business and creating a Club100 for the largest partners. This close collaboration will strengthen the Products segment during the current fiscal year.
- **A medium-size provider for small and medium-size enterprises** • As a medium-size enterprise, itself, QSC will be putting an even greater focus on customers in the small and medium-enterprise market in its solutions and products business in 2009. QSC is able to respond flexibly and swiftly to the needs of this customer category in terms of both product and service development as well as ongoing support. This flexibility, which typifies medium-size enterprises, along with its strong solutions expertise and the high quality of its support continue to be QSC's most far-reaching unique selling propositions: They are being rewarded by customers and are creating the latitude for revenue and profitability increases.

Cologne, March 13, 2009

QSC AG
The Management Board

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Joachim Trickl

Financial Report

The Consolidated Financial Statements are characterized by the positive development of the operative business of QSC. Following the conclusion of the network expansion project, QSC also began drawing down its indebtedness, which is already moderate by industry comparison, thus enhancing its financial strength.

CONSOLIDATED STATEMENTS OF INCOME

Euro amounts in thousands (T €)

	Notes No.	2008	2007[1]
Net revenues	7	413,304	335,195
Cost of revenues	8	(323,318)	(260,423)
Gross profit		89,986	74,772
Selling and marketing expenses	9	(54,050)	(50,725)
General and administrative expenses	10	(30,765)	(36,397)
Other operating income	11	2,749	1,674
Other operating expenses	11	(1,862)	(785)
Operating profit (loss)		6,058	(11,461)
Financial income	12	2,676	3,554
Financial expenses	12	(4,199)	(3,976)
Net profit (loss) before income taxes		4,535	(11,883)
Income taxes	43	(3,768)	228
Net profit (loss) [2]		767	(11,655)
Earnings per share (basic) in €	13	0.01	(0.09)
Earnings per share (diluted) in €	13	0.01	(0.09)

[1] for previous year's results, see Note 3

[2] attributable to equity holders of the parent

CONSOLIDATED BALANCE SHEETS

Euro amounts in thousands (T €)

	Notes No.	Dec. 31, 2008	Dec. 31, 2007[1]
ASSETS			
Long-term assets			
Property, plant and equipment	15	141,028	131,224
Goodwill	16	50,014	50,014
Other intangible assets	18	45,008	24,701
Other long-term financial assets		828	356
Deferred tax assets	43	-	1,930
Long-term assets		**236,878**	**208,225**
Short-term assets			
Trade receivables	19	57,880	64,944
Prepayments	20	3,051	3,420
Inventories	21	3,690	6,204
Other short-term financial assets	22	2,547	2,673
Available-for-sale financial assets	23	327	3,858
Cash and short-term deposits	24	48,823	74,132
Short-term assets		**116,318**	**155,231**
TOTAL ASSETS		353,196	363,456

	Notes No.	Dec. 31, 2008	Dec. 31, 2007 [1]
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Capital stock	25	136,998	136,358
Capital surplus	26	563,197	562,501
Other reserves	28	(1,141)	(1,259)
Consolidated balance sheet loss		(544,626)	(545,393)
Shareholders' equity		**154,428**	**152,207**
Liabilities			
Long-term liabilities			
Long-term liabilities of other minority shareholders	31	53,790	56,898
Long-term portion of finance lease obligations	29	17,381	23,059
Convertible bonds	41	22	27
Accrued pensions	30	678	760
Other long-term liabilities	29	2,774	3,964
Deferred tax liabilities	43	1,735	244
Long-term liabilities		**76,380**	**84,952**
Short-term liabilities			
Trade payables	32	49,954	74,129
Short-term portion of finance lease obligations	29	20,152	20,360
Liabilities due to banks	29	15,000	5,000
Provisions	33	1,924	1,064
Deferred revenues	34	22,200	12,493
Other short-term liabilities	35	13,158	13,251
Short-term liabilities		**122,388**	**126,297**
Liabilities		**198,768**	**211,249**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**353,196**	**363,456**

[1] for previous year's results, see Note 3

CONSOLIDATED STATEMENTS OF CASH FLOWS

Euro amounts in thousands (T €)

	Notes No.	2008	2007 [1]
Cash flow from operating activities	36		
Net profit (loss) before income taxes		4,535	(11,883)
Depreciation and amortization	15, 18	59,260	45,418
Non-cash share-based payments		705	1,568
Loss (Profit) from disposal of long-term assets		726	(11)
Changes in provisions	30, 33	376	(559)
Changes in trade receivables	19	7,064	(12,166)
Changes in trade payables	32	(24,175)	32,049
Changes in other financial assets and liabilities		11,590	1,894
Cash flow from operating activities	36	**60,081**	**56,310**
Cash flow from investing activities	37		
Purchase of available-for-sale financial assets		(17,995)	(24,907)
Disposal of available-for-sale financial assets		21,476	84,104
Payments related to acquisitions	39	(2)	(1,062)
Purchase of intangible assets		(45,339)	(17,279)
Purchase of property, plant and equipment		(26,215)	(77,932)
Cash flow from investing activities	37	**(68,075)**	**(37,076)**
Cash flow from financing activities	38		
Changes in convertible bonds		(5)	(9)
Assumption (Repayment) of liabilities due to			
minority interest shareholders	31	(3,108)	6,436
Proceeds from issuance of common stock	25	662	1,347
Assumption (Repayment) of other short- and long-term liabilities	29	(626)	9,404
Disposal of loans granted		10,000	5,000
Repayment of finance lease	29	(24,238)	(13,267)
Cash flow from financing activities	38	**(17,315)**	**8,911**
Change in cash and short-term deposits		**(25,309)**	**28,146**
Change in cash and short-term deposits at January 1		74,132	45,986
Cash and short-term deposits at December 31	24	**48,823**	**74,132**
Interest paid		3,631	3,865
Interest received		2,906	3,975

[1] for previous year's results, see Note 3

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES

Euro amounts in thousands (T €)

	2008	2007 [1]
Directly recognized in equity		
Changes in accrued pensions	172	40
Apportionable to tax effect	(54)	(13)
Directly recognized in equity	**118**	**27**
Net profit (loss)	767	(11,655)
Net profit (loss) and recognized income and expenses	**885**	**(11,628)**

[1] for previous year's results, see Note 3

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Euro amounts in thousands (T €)

	Notes No.	Equity attributable to equity holders of the parent				
		Capital stock	Capital surplus	Other capital reserves	Consolidated balance sheet loss	Total
Balance at January 1, 2008		136,358	562,501	(1,259)	(545,393)	152,207
Net profit					767	767
Income and expenses directly recognized in equity	28			118		118
Net profit and recognized income and expenses				118	767	885
Conversion of convertible bonds	41	640	22			662
Non-cash share-based payments	41		674			674
Balance at December 31, 2008		136,998	563,197	(1,141)	(544,626)	154,428
Balance at January 1, 2007		133,898	557,961	(1,286)	(533,697)	156,876
Net loss					(11,655)	(11,655)
Income and expenses directly recognized in equity	28			27		27
Net loss and recognized income and expenses				27	(11,655)	(11,628)
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 [1]		136,358	562,501	(1,259)	(545,393)	152,207

[1] for previous year's results, see Note 3

Minority interest	Total Shareholders' equity	
-	152,207	**Balance at January 1, 2008**
	767	Net profit
	118	Income and expenses directly recognized in equity
-	885	**Net profit and recognized income and expenses**
	662	Conversion of convertible bonds
	674	Non-cash share-based payments
-	154,428	**Balance at December 31, 2008**
3,674	160,550	**Balance at January 1, 2007**
	(11,655)	Net loss
	27	Income and expenses directly recognized in equity
-	(11,628)	**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
-	152,207	**Balance at December 31, 2007** [1]

Auditor's Report

We have audited the consolidated financial statements prepared by QSC AG, Cologne, comprising the balance sheet, the income statement, the notes to the consolidated financial statements, cash flow statement and statement of equity, together with the group management report for the financial year from 1 January to 31 December 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRS as applicable in the EU and in compliance with the supplementary requirements as set out in § 315a, para. 1 HGB 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 § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the 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 principles of proper accounting 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 the IFRS as applicable in the EU and the supplementary requirements as set out in § 315a, para. 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 of future development.

Cologne, March 13, 2009

KPMG AG
Wirtschaftsprüfungsgesellschaft

(formerly KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft)

Kraus	Gall
Wirtschaftsprüfer	Wirtschaftsprüfer

Notes to the Consolidated Financial Statements for Fiscal Year 2008

CORPORATE INFORMATION

Cologne-based QSC AG (QSC, the Company or the Group) is a nationwide telecommunications provider with its own broadband network, offering businesses of all sizes and premium residential customers a comprehensive portfolio of high-quality broadband communication options. QSC implements complete enterprise networks (IP-VPN), including managed services, operates voice and data services on the basis of its Next Generation Network (NGN) and provides leased lines in a wide variety of bandwidths – ranging all the way to 400 Mbit/s via microwave technology. In the Wholesale line of business, this network operator additionally supplies national and international carriers, ISPs as well as strong marketing partners in the residential customer market with unbundled DSL upstream products. QSC operates on a nearly nationwide scale and connects over 200 German cities with populations of more than 40,000.
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 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 according to the rules of § 315a (1) of the German GAAP (HGB) is thus exempt from preparing consolidated financial statements in accordance with 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 €).
No events or transactions which would have a material effect on the consolidated financial statements for the period then ended occurred prior to March 13, 2009 (date of approval of the consolidated financial statements and of the Group's cash flows by the Management Board for handover to the Supervisory Board).

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 intragroup balances, transactions, income and expenses and profits and losses resulting from intragroup 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. The subsidiaries 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 for the following: IFRS 8 (Operating Segments), which has been early adopted by QSC; presentation of research and development expenses and inventories as well as offsetting of deferred taxes in the balance sheet. Research and development expenses are not presented separately in the income statement but are now recorded under cost of revenue. Inventories are now presented separately in the balance sheet and were formerly part of other short-term assets. Deferred tax assets and liabilities are offset and presented within the balance sheet as opposed to the presentation made in 2007. Overall, this results in a clearer presentation of the Company's profitability, financial position and net worth.
Changes in IAS 39/IFRS 7 (Financial Instruments: Recognition and Measurement) as well as in IFRIC 11 (Group and Treasury Share Transactions) and IFRIC 14 (Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) that became mandatory for annual periods beginning on or after January 1, 2008, did not have any material effect on the accounting policies and disclosures of the Group. See Note 40 for the early adoption of IFRS 8 in connection with segment reporting.

Changes in the consolidated financial statements for fiscal 2007 according to IAS 8 • In fiscal year 2007, a write-down in the amount of (T € 899) on self-created intangible assets was mistakenly not recorded. In accordance with IAS 8, the numbers under the item 'Cost of revenues' have been adjusted correspondingly. Also in fiscal year 2007, financial assets held for trading were mistakenly presented with too high an amount of T € 1,418. In this connection, deferred taxes in the amount of T € 399 have been recognized in profit or loss.
The following abbreviated table presents the impact on gross profit (in relation to revenues) and the net result for fiscal year 2007.

in T €	2008	2007 adjusted	2007 previous
Net revenues	**413,304**	**335,195**	**335,195**
Cost of revenues	(323,318)	(260,423)	(259,524)
Gross profit	**89,986**	**74,772**	**75,671**
Net profit (loss) before income tax	**4,535**	**(11,883)**	**(10,984)**
Income taxes	(3,768)	228	627
Net profit (loss)	**767**	**(11,655)**	**(10,357)**

The following table shows the impact on the presentation of short-term financial assets for fiscal year 2007.

in T €	2008	2007 adjusted	2007 previous
Available-for-sale financial assets	327	-	1,418
Financial assets held for trading	-	3,858	3,858
Available-for-sale financial assets	**327**	**3,858**	**5,276**

The following table shows the impact on the consolidated statements of shareholders' equity.

in T €	2008	2007 adjusted	2007 previous
Capital stock	136,998	136,358	136,358
Capital surplus	563,197	562,501	562,501
Other reserves	(1,141)	(1,259)	(289)
Accumulated deficit	(544,626)	(545,393)	(544,095)
Shareholder's equity	**154,428**	**152,207**	**154,475**

Due to the corrections made, both the pre-tax result and the amount of depreciation and amortization have changed in the statements of cash flow. No changes resulted from this to the presentation of cash flow provided by operating activities.

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 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 unit (CGU), which is measured as the present value of the expected future cash flows from the cash-generating unit. QSC regards as CGUs its business segments. Where the recoverable amount of the CGU is less than their carrying amount an impairment loss is recognized. Further details, including a sensitivity analysis of key assumptions, are given in Note 17.

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, 2008, the carrying value of recognized corporation tax losses was € 465 million (2007: € 446 million), and the carrying value of recognized municipal trade tax losses was € 460 million (2007: € 443 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. As of December 31, 2008, provisions for pensions and similar commitments amounted to T € 678 (2007: T € 760). 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, 2008, this amount, which in the future will be recognized in profit or loss, totaled T € 583 (2007: T € 840).

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, 2008, allowances totaling T € 7,135 (2007: T € 4,367) 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, 2008, provisions totaling T € 1,924 (2007: T € 1,064) 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 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 euros, 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 • Property, plant and equipment are stated at cost of acquisition or construction 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 costs result in an addition or significant improvement to the relevant asset; otherwise it is immediately recognized in profit or loss. Depreciation is calculated using the straight-line method over the useful lives of the assets.

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

	Useful life in years
Assets	
Network equipment and plant	3 to 8
Building improvements	5 to 10
Electronic communication equipment	2 to 8
Operational and office equipment	3 to 13

After eight years of operating the core net, management has performed an inspection of the initially assumed useful lives. It was determined that the actual useful live is significantly longer than the initially assumed eight years for building improvements and the five years assumed for installed technology. For this reason, the useful lives of building improvements and of installed technology were extended from eight to ten and from five to eight years, respectively. According to IAS 8, the result of those revised assumptions is taken into consideration in the reporting period and subsequent periods. The following table provides the necessary details to be stated in the case of changes in estimates according to IAS 8, and shows the impact on the net results for the corresponding periods.

in T €	2008	2009	2010	2011	2012
Network equipment and plant	10,119	12,131	9,595	8,169	1,843
Building improvements	1,054	551	433	458	494
Impact of changes in estimates	11,173	12,682	10,028	8,627	2,337

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.

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. Self-created intangible assets are capitalized when the criteria for recognition as an intangible asset under IAS 38 are met. Related costs, excluding capitalized development costs, are capitalized and expenditure is reflected in profit or loss 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.
Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at least annually.

QSC's intangible assets relate primarily to software, licenses and similar rights as well as non-recurring provisioning costs for activating customers. The Company amortizes licenses over a period of ten years and software over a period of four years. Non-recurring provisioning costs for activating customers 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 changes in the fair values of investments held for trading are recognized in the income statement.

- 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 using the effective interest method. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

- Loans and 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.

- 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.

Inventories • Inventories are valued at average amortized cost. As at balance sheet date, goods are stated at the lower of cost and net realizable value.

Cash and short-term deposits • Cash and short-term deposits in the balance sheet and statements of cash flow 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. Provisions for commitments for which an outflow of economic resources can be reasonably expected within a period of more than twelve months are discounted using a risk-free and appropriate rate, insofar as the resulting interest effect from the discounting is significantly higher. Where discounting is used, the increase in the provision due to the passage of time is recognized under financial expenses respectively.

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 or provision date, respectively, 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.
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.

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.

QSC's finance lease contracts consist essentially of hire purchase contracts with terms of between two to three years.

Long-term liabilities of other minority shareholders • The long-term liabilities of other minority shareholders correspond to TELE2's minority interest in Plusnet GmbH & Co. KG (Plusnet), a subsidiary which was co-founded with QSC in July 2006. Following the inclusion in QSC's consolidated financial statements, this item has correlated with the consolidated capital account of TELE2, which represents a part of Plusnet's equity in Plusnet's Annual Financial Statement. In accordance with existing agreements, the long-term liabilities of other minority shareholders are measured at amortized cost. Consequently, the long-term liabilities of other shareholders increase, as agreed upon, with each and every Plusnet investment that is backed by TELE2, and are reduced by the portion of depreciation and amortization which can be attributed to TELE2 within Plusnet. The long-term liabilities of other minority shareholders do not bear interest. The earning portion of Plusnet, which is attributable to minorities, is presented analogously to the recognition as borrowing debt under financial expenses.

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 corresponding assessment period. 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, carry forward 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 carry forward 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 tax assets and deferred income tax liabilities 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 financial regulations

The following new financial reporting pronouncements had been published by December 31, 2008, but were not mandatory at that date. The potential impact of the new financial reporting regulations on the consolidated financial statements is evaluated below. The company intends to adopt the new financial reporting standards on their respective dates of becoming effective.

IAS 1 – Presentation of Financial Statements (revised) • The revised version of IAS 1 (published in September 2007) is aimed at improving users' ability to analyze and compare the information given in financial statements. IAS 1 sets out rules for the presentation and structure of financial statements. It also stipulates the minimum requirements for the content of financial statements. The revised Standard is mandatory for annual periods beginning on or after January 1, 2009; early adoption is permitted.

IFRS 2 – Share-based Payment • An amendment to IFRS 2 was published in January 2008. The amendment clarifies the nature of vesting conditions for share-based payments and sets out the accounting treatment of conditions not classified as vesting conditions and of cancellations of share-based arrangements either by the reporting entity or by other parties. The revised Standard is mandatory for annual periods beginning on or after January 1, 2009; early adoption is permitted.

IFRS 3 – Business Combinations (revised 2008) • The revised version of IFRS 3, which was published in January 2008, sets out the new requirements for the application of the purchase method for business combinations. The principal changes relate to the measurement of minority interests, the recognition of business acquisitions made in stages and the treatment of conditional consideration and acquisition-related costs. Under the new rules, minority interests can be measured either at the fair value ("full goodwill method") or at the fair value of the acquiring entity's proportionate share of identifiable assets and liabilities. In the case of business acquisitions made in stages, the fair value of the investment held at the date on which control passes must be remeasured through profit or loss. Any subsequent changes to conditional consideration that was recognized as a liability at acquisition date must be recognized in future in profit or loss. Acquisition-related costs must be recognized as expense when incurred. The revised Standard is mandatory for annual periods beginning on or after July 1, 2009; early adoption is permitted.

IAS 23 – Borrowing Costs (revised) • A revised version of IAS was published on March 23, 2007. Under the revised version, entities no longer have the option of recognizing borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as an expense. All such borrowing costs must now be capitalized and represent a component of the acquisition/construction cost of the asset. The revised Standard is mandatory for annual periods beginning on or after January 1, 2009; early adoption is permitted

IAS 27 – Consolidated and Separate Financial Statements • Amendments to IAS 27 were published in May 2008. The amendments deal with the accounting treatment of transactions which result in an entity either retaining or losing control over another entity. Transactions which do not result in the loss of control must be accounted for as equity transactions and do not have an impact on profit or loss. Any investment remaining at the date of loss of control must be measured at fair value. It is also permitted to report negative balances for minority interests. In other words, in future, losses will be allocated without restriction on the basis of the proportionate share of the investment held. The revised Standard is mandatory for annual periods beginning on or after July 1, 2009; early adoption is permitted.

IAS 32/IAS 1 – Puttable Financial Instruments and Obligations Arising on Liquidation • This amendment was published in February 2008 and relates to specific instruments issued by an entity which, despite their similarities to ordinary shares, are classified as liabilities. In future, it will be necessary to classify these instruments as equity. Additional disclosures are also required for such instruments. The revised Standard is mandatory for annual periods beginning on or after January 1, 2009; early adoption is permitted.

The aforementioned amendments to IFRS 3 and IAS 27 have not yet been endorsed by the EU.
It is unlikely that the Interpretation IFRIC 13 (Customer Loyalty Programs) which is mandatory from the financial year 2009 onwards will have any impact on QSC AG's future consolidated financial statements; based on current knowledge, this is also the case for Interpretations that have so far not been endorsed by the EU, namely IFRIC 12 (Service Concession Arrangements), IFRIC 15 (Agreements for the Construction of Real Estate), IFRIC 16 (Hedges of a Net Investment in a Foreign Operation) and IFRIC 17 (Distributions of Non-cash Assets to Owners).

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. Overall, revenues from the installation of customer lines amounted to T € 14,863 in fiscal year 2008 (2007: T € 6,611). The structure of the Company's revenues by segment is shown in Note 40.
Non-recurring 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

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 provisioning costs for activating customers are capitalized and depreciated over the average contract term of 24 months.

in T €	2008	2007
Cost of materials	195,632	154,081
Building, operation and maintenance of the network	63,527	54,674
Depreciation and amortization	46,962	34,081
Personnel expenses	17,150	17,458
Non-cash share-based payments	48	129
Cost of revenues	**323,318**	**260,423**

9 Selling and marketing expenses

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 installation 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.

in T €	2008	2007
Personnel expenses	23,669	23,541
Commissions	13,692	13,057
Other selling and marketing expenses	4,104	4,493
Allowance of bad debts and fair dealing payments	1,720	2,058
Advertising expenses and allowances	2,131	3,243
Depreciation and amortization	8,567	4,117
Non-cash share-based payments	167	216
Selling and marketing expenses	**54,050**	**50,725**

10 General and administrative expenses

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.

in T €	2008	2007
Other general and administrative expenses	13,599	14,897
Personnel expenses	11,683	13,672
Depreciation and amortization	5,023	7,218
Non-cash share-based payments	459	610
General and administrative expenses	**30,765**	**36,397**

11 Other operating income and expenses

in T €	2008	2007
Miscellaneous operating income	1,489	1,466
Reversals of unutilized provisions and write-off of liabilities	1,240	197
Gains from disposal of non-current assets	20	11
Other operating income	**2,749**	**1,674**

in T €	2008	2007
Miscellaneous operating expenses	1,423	785
Losses from disposal of non-current assets	439	-
Other operating expenses	**1,862**	**785**

12 Financial result

in T €	2008	2007
Interest income	2,676	3,554
Financial income	**2,676**	**3,554**

in T €	2008	2007
Interest expenses	3,904	3,484
TELE2's minority interest in Plusnet GmbH & Co. KG	295	492
Financial expenses	**4,199**	**3,976**

Interest expenses include expenses from finance lease contracts in the amount of T € 3,355.

13 Earnings per share

	2008	2007 adjusted	2007 previous
Net profit (loss) attributable to ordinary equity holders of the parent in T €	767	(11,655)	(10,357)
Weighted average number of common shares	136,746,652	135,119,208	135,119,208
Earnings per share (basic) in €	**0.01**	**(0.09)**	**(0.08)**

	2008	2007 adjusted	2007 previous
Net profit (loss) attributable to ordinary equity holders of the parent in T €	767	(11,655)	(10,357)
Weighted average number of common shares	138,986,692	135,119,208	135,119,208
Earnings per share (diluted) in €	**0.01**	**(0.09)**	**(0.08)**

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. As of December 31, 2008, the number of potential shares of common stock with a dilutive effect was 2,240,040. Of these, 922,082 convertible bonds from the existing conditional capital are still allocable.
This dilutive effect was not taken into consideration for the 2007 fiscal year, 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, 2008.

14 Personnel expenses and employees

in T €	2008	2007
Wages and salaries	45,295	49,555
Social security contribution (pension fund)	3,346	3,474
Social security contribution (other)	2,845	1,510
Net pension costs	342	315
Non-cash share-based payments	674	955
Personnel expenses	**52,502**	**55,809**

During fiscal year 2008, the Group had on average 755 employees (2007: 762 employees). The following table provides the number of employees by function.

	2008	2007
Selling and marketing	140	179
Engineering	368	355
General and administration	219	199
Board and staff positions	28	29
Number of employees by function (on average)	**755**	**762**

BALANCE SHEET DISCLOSURES

15 Property, plant and equipment

in T €	Network equipment and plant	Operational and office equipment	Total
Gross carrying amount at January 1, 2007	153,953	31,071	185,024
Additions	102,326	2,405	104,731
Disposals	(4,295)	(93)	(4,388)
Gross carrying amount at December 31, 2007	251,984	33,383	285,367
Additions	42,899	2,288	45,187
Disposals	(5,645)	(784)	(6,429)
Gross carrying amount at December 31, 2008	289,238	34,887	324,125
Accumulated depreciation at January 1, 2007	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
Additions	29,516	3,980	33,496
Disposals	(3,761)	(781)	(4,542)
Accumulated depreciation at December 31, 2008	152,132	30,965	183,097
Carrying amount at December 31, 2007	125,607	5,617	131,224
Carrying amount at December 31, 2008	137,106	3,922	141,028

The carrying amount of plant and equipment, as well as operational and office equipment held under finance lease and hire purchase contracts totaled T € 33,611 (2007: T € 29,782) at December 31, 2008.
Additions during the year amounted to T € 45,187 (2007: T € 104,731). As of December 31, 2008, the line item 'Network and equipment' included assets under construction amounting to T € 12 (2007: T € 6,541).
Depreciation and amortization are presented in the income statement under 'Cost of revenues', 'Selling and marketing expenses' and 'General and administrative expenses', respectively.

16 Goodwill

in T €	Goodwill
Gross carrying amount at January 1, 2007	47,450
Additions	2,564
Disposals	-
Gross carrying amount at December 31, 2007	50,014
Additions	-
Disposals	-
Gross carrying amount at December 31, 2008	50,014
Carrying amount at December 31, 2007	50,014
Carrying amount at December 31, 2008	50,014

17 Impairment of goodwill

In fiscal year 2007, goodwill acquired in conjunction with business combinations was allocated to the following CGUs, which were also reportable segments, for the purpose of impairment testing:

in T €	2007
Large Accounts	5,720
Business Customers	14,675
Wholesale / Resellers	28,751
Residential Customers	868
Carrying amount of goodwill	50,014

QSC conducted an extensive reorganization in the fourth quarter of 2007, consolidating its major lines of business into three business units. This also resulted in a change to the segment reporting effective January 1, 2008. The principal change relates to the consolidation of former reporting segments Residential Customers and Business Customers into the Products Business Unit. Apart from relatively minor changes regarding the classification of individual customers, the former segments of Large Accounts and Wholesale/Resellers remained basically unchanged. The Large Accounts segment is now comprised under the Managed Services Business Unit, and the Wholesale/Resellers segment under the Wholesale/Resellers Business Unit. For the purpose of impairment testing, goodwill acquired is allocated to the new segments as follows:

in T €	2008
Managed Services	5,720
Products	15,543
Wholesale / Resellers	28,751
Carrying amount of goodwill	**50,014**

The recoverable amount of the Group's CGUs is initially determined on the basis of their value in use, which, in turn, is measured using three-year cash flow forecasts. The latter constitutes the corporate plan which is devised by the Management Board. 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. For the Managed Services and Wholesale/Resellers CGUs a long-term growth rate of 2.0 percent was assumed. For the Products CGU a growth rate of 1.5 percent was utilized due to its share of residential customers.

The capitalization interest rate utilized for discounting the expected future cash flows is 9.1 percent; in the past fiscal year, capitalization interest rates of between 11.2 and 11.4 percent had been utilized. This discount rate reflects management's assessment of company-specific risks and includes a base rate (risk-free and appropriate for an alternative investment according to the interest rate structure curve at December 31, 2008) and a risk-uplift factor (reflecting the risk structure of the Group and of the telecommunications sector in general).

The calculation of the CGUs' value in use requires management to make estimates about gross profit, discount rate, price development and market share, which are particularly subject to uncertainties. QSC believes that no reasonably possible change in any of the above key assumptions would cause the CGUs' carrying value to materially exceed its recoverable amount.

18 Other intangible assets

in T €	Licenses	Software	Customer acquisition	Other	Total
Gross carrying amount at January 1, 2007	961	9,155	11,009	12,817	33,942
Additions	244	3,009	14,283	644	18,180
Disposals	-	(2)	-	-	(2)
Gross carrying amount at December 31, 2007	1,205	12,162	25,292	13,461	52,120
Additions	-	2,394	43,386	442	46,222
Disposals	(41)	(337)	-	(152)	(530)
Gross carrying amount at December 31, 2008	1,164	14,219	68,678	13,751	97,812
Accumulated amortization at January 1, 2007	8	5,459	4,792	5,632	15,891
Additions	150	2,235	7,907	1,238	11,530
Disposals	-	(2)	-	-	(2)
Accumulated amortization at December 31, 2007	158	7,692	12,699	6,870	27,419
Additions	295	2,727	20,922	1,820	25,764
Disposals	(41)	(316)	-	(22)	(379)
Accumulated amortization at December 31, 2008	412	10,103	33,621	8,668	52,804
Carrying amount at December 31, 2007	1,047	4,470	12,593	6,591	24,701
	752	4,116	35,057	5,083	45,008

Depreciation and amortization are presented in the income statement under 'Cost of revenues', 'Selling and marketing expenses' and 'General and administrative expenses', respectively.

19 Trade receivables

in T €	2008	2007
Trade receivables	57,880	64,944

Trade receivables do not bear interest and generally have an original maturity of between 30 and 90 days. As of December 31, 2008, trade receivables amounting to T € 7,135 (2007: T € 4,367) were impaired. Allowances developed as follows:

in T €	2008	2007
Allowance at January 1	**4,367**	**4,775**
Charge for the year	4,931	2,784
Amounts written off	(98)	(1,713)
Unused amounts reversed	(2,065)	(1,479)
		-
Allowance at December 31	**7,135**	**4,367**

The analysis of trade receivables as of December 31 was as follows:

in T €	2008	2007
Impaired	14,619	12,419
Neither past due nor impaired	50,396	49,599
Past due but not impaired		
< 90 days	3,038	7,123
91 - 120 days	-	38
> 120 days	-	132
Trade receivables not impaired	**65,015**	**69,311**

Trade receivables of the Group and Ventelo GmbH (Ventelo) have been utilized as security for the T € 50,000 syndicate loan contract dated June 13, 2008.

20 Prepayments

Prepayments total T € 3,051 (2007: T € 3,420) and essentially consist of prepaid expenses for leased lines and technology premises, as well as insurance.

21 Inventories

Inventories amount to T € 3,690 (2007: T € 6,204) and essentially contain technical equipment (devices) for direct customers. At the end of the reporting period, an exceptional write-down of T € 1,294 (2007: T € 0) was made. Direct customer devices are presented under working capital at the date of acquisition and transferred to property, plant and equipment at the date of dispatch to direct customers. In fiscal year 2007, this line item was still included in the balance sheet under 'Other short-term financial assets.

22 Other short-term financial assets

Other short-term financial assets total T € 2,547 (2007: T € 2,673) and relate primarily to tax receivables.

23 Available-for-sale financial assets

in T €	2008	2007
Available-for-sale financial assets	327	-
Financial assets held for trading	-	3,858
Available-for-sale financial assets	**327**	**3,858**

Financial assets held for trading consist of a money market fund.

24 Cash and short-term deposits

in T €	2008	2007
Cash on hand	13,767	30,272
Short-term deposits (< a week)	15,380	8,860
Short-term deposits (month)	10,000	25,000
Short-term deposits (3 months)	9,676	10,000
Cash and cash equivalents	**48,823**	**74,132**

Cash as of December 31 included restricted cash in the amount of T € 1,208, which essentially consisted of cash that was provided to banks as security for guarantees.

25 Capital stock

	2008	2007
Issued capital		
Capital stock in T €	136,998	136,358
No-par common stock	136,998,137	136,358,315

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 fiscal year 2008, the capital stock rose by T € 640 entirely as a result of the issuance of shares of common stock in conjunction with stock option programs. The nominal value of the shares is € 0.01 each. All issued shares have been fully paid-in.

26 Capital surplus

Capital surplus amounts to T € 563,197 as of December 31, 2008 (2007: T € 562,501). This amount includes deferred share-based remuneration of T € 583 (2007: T € 840) which relates to the Company's stock option program, and which will be recognized in the future in profit or loss. Capital surplus may only be utilized according to the rules of the Stock Corporation Act (AktG). Further details are explained in Note 41.

27 Authorized and conditional capital

For the fiscal year ended 2008, the Company's authorized capital amounts to T € 51,233. The Company's conditional capital amounts to T € 29,125 as of December 31, 2008.

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 2008 and 2007 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

in T €	Effective interest rate in % in 2008	Due date	2008	2007
Current liabilities				
from finance lease contracts	7.11	2009	20,152	20,360
Share of bank loans	EURIBOR + 1.50	1 - 6 months	15,000	5,000
Other current liabilities	7.71	2009	6,004	5,440
Current liabilities			**41,156**	**30,800**
Non-current liabilities				
from convertible bonds	3.50	2009 - 2013	22	27
from finance lease contracts	7.11	2010 - 2011	17,381	23,059
Other non-current liabilities	7.71	2010 - 2011	2,774	3,964
Non-current liabilities			**20,177**	**27,050**
Interest-bearing liabilities			**61,333**	**57,850**

In 2008, short-term liabilities due to banks consisted of liabilities arising from the syndicate loan contract dated June 2008. This agreement provides a revolving line of credit in the amount of T € 50,000 and will run until year-end 2011. Security is provided by a transfer of trade receivables of the Group and Ventelo. The loan values utilized serve the common financing of working capital and utilization is subject to specific conditions, especially meeting certain financial performance indicators. In 2009, the respective interest rate will be reduced due to the consolidated financial statements 2008 to the respective EURIBOR plus an additional 1.00 percent.
Other short- and long-term liabilities comprise interest-bearing liabilities in the amount of T € 8,778. The latter are presented under 'Short- and long-term liabilities' as they are lease contracts intended to finance initial activation 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, 2008, there were 2,240,040 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.
QSC has opted to recognize all actuarial gains and losses directly in equity. The accumulated amount of all actuarial gains and losses as presented in the consolidated statements of directly recognized income and expenses is T € -290.

in T €	2008	2007
Present value of defined benefit obligation at January	**843**	**791**
Service costs	67	69
Interest costs	50	37
Actuarial gains and losses	(178)	(45)
Benefits paid	(9)	(9)
Present value of defined benefit obligation at December 31	**773**	**843**
Fair value of plan assets at January 1	**(83)**	**(70)**
Expected return on plan assets	(3)	(3)
Actuarial gains and losses	6	5
Employer contributions for plan assets	(15)	(15)
Fair value of plan assets at December 31	**(95)**	**(83)**
Accrued pensions at December 31	**678**	**760**
Discount rate	6.00%	5.30%
Expected return on plan assets	3.50%	3.50%
Rate of compensation increase	4.00%	4.00%
Rate of pension indexation	3.00%	3.00%

The composition of the pension expenses under defined benefit plans is as follows, whereas the actual losses on the fund assets amounted to T € 6.

in T €	2008	2007
Service costs	67	69
Interest costs	50	37
Expected return on plan assets	(3)	(3)
Net pension costs	**114**	**103**

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

in T €	2008	2007	2006	2005	2004
Present value of defined benefit obligation	(773)	(843)	(791)	(857)	(636)
Fair value of plan assets	95	83	70	61	51
Deficit	**(678)**	**(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 minority shareholders

The long-term liabilities of other minority 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 as well as the illustration contained under 'Summary of significant accounting policies').

32 Trade payables

in T €	2008	2007
to third parties	49,939	74,082
to related parties	15	47
Trade payables	**49,954**	**74,129**

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

33 Provisions

Other provisions comprise mainly obligations to the German Federal Network Agency arising in conjunction with the telecommunications levy payable under the German Telecommunications Act, liabilities of uncertain amount against third parties due to receivables and provision for credit balances granted. These items are measured on the basis of past experience.

in T €	2008
Other provisions at January 1	**337**
Arising during the year	1,061
Utilized	-
Unused amounts reversed	-
Other provisions at December 31	**1,398**
Provisions due to receivables at January 1	**603**
Arising during the year	243
Utilized	(111)
Unused amounts reversed	(462)
Provisions due to receivables at December 31	**273**
Litigation risks at January 1	**124**
Arising during the year	129
Utilized	-
Unused amounts reversed	-
Litigation risks at December 31	**253**
Provisions at Dezember 31	**1,924**

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 includes in particular short-term liabilities in the amount of T € 6,004 related to activation of customer lines (see Note 29).

CASH FLOW STATEMENT DISCLOSURES

36 Cash flow from operating activities

Cash flow from operating activities amounted to T € 60,081 (2007: T € 56,310) in the financial year. The reduction in loss before taxes, as adjusted for the higher level of depreciation and amortization, contributed T € 30,260 to the improvement in cash flow from operating activities. Changes in both trade receivables and payables, on the other hand, resulted in a decline in the amount of T € 36,994 as opposed to the year before. The reduction in trade accounts payable resulting from the network expansion during the previous years, in particular, had a negative impact on cash flow from operating activities.

37 Cash flow from investing activities

Cash flow from investing activities totaled T € -68,075 in 2008 (2007: T € -37,076). The change in available-for-sale financial assets in 2008 amounted to T € 3,481 (2007: T € 59,197). Cash outflow for property, plant and equipment and intangible assets amounted to T € -71,554 (2007: T € -95,211). This item presents payments in the amount of T € 18,352 for the acquisition of property, plant and equipment and of intangible assets acquired under finance lease. The payment in the amount of T € 2 resulted essentially from the acquisition and formation of smaller subsidiaries. Further details are contained in Note 39.

38 Cash flow from financing activities

Cash flow from financing activities amounted to T € -17,315 in fiscal year 2008 (2007: T € 8,911). This decline resulted primarily from the reduction of finance lease liabilities in the amount of T € -24,238. Interest payments in the amount of T € 3,631 are attributed to the cash flow from financing activities.

OTHER DISCLOSURES

39 Subsidiaries

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

in T €	Share in % as of Dec. 31, 2008	Shareholders' equity Dec. 31, 2008	Net profit (loss) 2008
Subsidiaries (disclosures according to German GAAP)			
Plusnet GmbH & Co. KG ("Plusnet"), Cologne	67.5	98,919	946
Ventelo GmbH ("Ventelo"), Cologne	100.0	6,825	612
Q-DSL home GmbH ("DSL home"), Cologne	100.0	1,293	426*
010090 GmbH ("010090"), Cologne	100.0	156	(31)*
EPAG Domainservices GmbH ("EPAG"), Bonn	100.0	(63)	147
Broadnet Services GmbH			
("Broadnet Services"), Hamburg	100.0	17	(328)*
BroadNet Deutschland GmbH			
("BroadNet Deutschland"), Hamburg	100.0	2,870	178
01098 Telecom GmbH ("01098"), Cologne	100.0	25	-
01012 Telecom GmbH ("01012"), Cologne	100.0	24	(3)
Q-DSL privat GmbH ("privat"), Cologne	100.0	25	-

* Net profit (loss) at year end prior to profit transfer

The following subsidiaries have exercised their option for exemption pursuant to § 264 (3) of the German GAAP (HGB): DSL home, 010090, EPAG, BroadNet Deutschland and Broadnet Services.

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. 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 assumes responsibility for the provision of services related 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.

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.

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.

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 Services • Broadnet Services 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, especially call-by-call products.

01012 • On July 17, 2008, QSC acquired 100 percent of 01012. Total acquisition costs for EUTEX European Telco Exchange AG amounted to T € 28. 01012 markets voice telephony products for residential customers, especially call-by-call products.

01098 • On July 2, 2008, QSC acquired 100 percent of the shares of 01098. Total acquisition costs for formerly non-operative Kolibri 113 GmbH amount to T € 25. 01098 markets voice telephony products for residential customers, especially call-by-call products.

privat • privat was founded on December 17, 2008, and is owned 100 percent by QSC. privat markets voice telephony products for residential customers, especially call-by-call products.

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 has thus owned 100 percent of Broadnet's share capital since.
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 purpose of 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.

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 as well as recognition of intangible assets for the Broadnet brand name (T € 950) and for existing customer relationships (T € 6,050) net of deferred tax liabilities of T € 2,793 related to those items, the remaining balance of T € 38,476 was recognized as goodwill.

40 Segment reporting

In accordance with IFRS 8, the source of QSC's reportable segments is the internal organization used by management for making operating decisions and assessing performance. In the fourth quarter of 2007, QSC conducted an extensive reorganization, consolidating its major lines of business into three business units. This also resulted in a change in the segment reporting effective January 1, 2008. The principal change relates to the consolidation of former reporting segments Residential Customers and Business Customers into the Products Business Unit. Apart from relatively minor changes relating to the classification of individual customers, the former segments of Large Accounts and Wholesale/Resellers remained basically unchanged. The Large Accounts segment is now comprised under the Managed Services Business Unit, and the Wholesale/Resellers segment under the Wholesale/Resellers Business Unit. The comparison numbers from the previous year have been correspondingly adjusted.

The Managed Services Business Unit embraces custom-tailored solutions for large and medium-size enterprises. The spectrum of offerings includes the configuration and operation of virtual private networks (IP-VPN) in particular; however QSC also provides a broad range of network-related services.

In the Products Business Unit 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/Resellers segment includes 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.

Management has stipulated EBIT as the key steering parameter for the segments. Thus 2008 was the first time that the segment reporting had been extended in order to allow for full attribution of costs to their respective business units, thus allowing for a complete calculation of profit or loss up to the operating results to be made.

in T €	Managed Services	Products	Wholesale/ Resellers	Reconciliation	Consolidated
For the year ended December 31, 2008					
Net revenues	**73,290**	**103,775**	**236,239**		**413,304**
Cost of revenues	(39,022)	(60,624)	(176,662)		(276,308)
Gross Profit	**34,268**	**43,151**	**59,577**	**-**	**136,996**
Selling and marketing expenses	(16,627)	(20,210)	(8,479)		(45,316)
General and administrative expenses	(9,877)	(8,027)	(7,379)		(25,283)
Depreciation and amortization	(7,544)	(13,220)	(39,788)		(60,552)
Non-cash share-based payments	(280)	(195)	(199)		(674)
Other operating income	319	320	248		887
Operating profit (loss)	**259**	**1,819**	**3,980**	**-**	**6,058**
Assets	73,905	100,369	178,922	-	353,196
Liabilities	30,991	38,497	127,523	1,757	198,768
Capital expenditures	11,841	15,592	63,976	-	91,409

in T €	Managed Services	Products	Wholesale/ Resellers	Reconciliation	Consolidated
For the year ended December 31, 2007					
Net revenues	**65,062**	**123,446**	**146,687**		**335,195**
Cost of revenues	(34,129)	(73,541)	(118,543)		(226,213)
Gross Profit	**30,933**	**49,905**	**28,144**	**-**	**108,982**
Selling and marketing expenses	(17,042)	(23,725)	(5,624)		(46,391)
General and administrative expenses	(9,426)	(10,856)	(8,285)		(28,567)
Depreciation and amortization	(6,111)	(10,878)	(28,429)		(45,418)
Non-cash share-based payments	(376)	(251)	(328)		(955)
Other operating income	296	296	296		888
Operating profit (loss)	**(1,726)**	**4,491**	**(14,227)**	**-**	**(11,461)**
Assets	78,599	106,516	176,411	1,930	363,456
Liabilities	34,115	42,799	134,091	244	211,249
Capital expenditures	14,991	20,317	87,603	-	122,911

In the fiscal years 2008 and 2007, no material revenues (including intersegment revenues) generated from doing business with companies from foreign countries. The Wholesale/Resellers segments included two customers whose share in total revenues exceeded 10 percent, namely 14 percent and 15 percent, respectively. Both the direct and indirect attribution of costs to the individual segments corresponds to the Company's internal reporting system and steering logic. With regard to assets and liabilities, there were also directly and indirectly attributable items. Assets and liabilities that are indirectly attributable are allocated according to financial viability based on contribution margins, except for deferred tax assets and liabilities.

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. The option values for the convertible bonds under the 2006 SOP were computed at the grant date with the aid of the Black-Scholes option-pricing model, with the following assumptions being employed. In 2008 no convertible bonds were issued under the 2004 SOP.

	2008	2007
SOP 2006		
Expected life of options SOP 2006	8 years	8 years
Dividend yield	0.00%	0.00%
Risk-free interest rate	2.89%	4.27%
Expected volatility (3 years)	55.85%	44.68%
Average fair value of convertible bonds in €	1.31	2.06
Fair value of options granted for the year		
ended December 31, 2008 in €	566,435	295,185

The convertible bonds outstanding as of December 31, 2008 and 2007, under all programs are shown below:

in T €	Number of convertible bonds	Weighted average exercise price in €
Outstanding at December 31, 2006	**3,576,534**	**2.06**
Granted during the year 2007	332,700	4.01
Forfeited during the year 2007	(76,848)	4.30
Exercised during the year 2007	(1,113,349)	1.21
Outstanding at December 31, 2007	**2,719,037**	**3.11**
Granted during the year 2008	434,918	2.11
Forfeited during the year 2008	(274,093)	4.17
Exercised during the year 2008	(639,822)	1.03
Outstanding at December 31, 2008	**2,240,040**	**3.62**

The remaining 2,240,040 convertible bonds have an exercise price range from € 1.00 to € 5.68 and the remaining term for exercise varies from "immediately exercisable" to October 7, 2016. The exercise price is set at the date of issuance and cannot be changed after that date. The Company expects conversion of the remaining bonds (depending on the market trend) to occur by 2016 at the latest.
At balance sheet date 1,249,144 of the remaining convertible bonds were exercisable, with the remaining convertible bonds being subject to the agreed retention period.

42 Related party transactions

During 2008, 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 T €	Net revenues	Expenses	Cash received	Cash paid
For the year ended December 31, 2008				
IN-telegence GmbH & Co. KG	645	28	871	28
Teleport Köln GmbH	12	108	14	124
QS Communication Verwaltungs				
Service GmbH	-	147	-	212
Dr. Bernd Schlobohm	-	105	-	-
For the year ended December 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
Dr. Bernd Schlobohm	-	100	-	-

in T €	Trade receivables	Trade payables
At December 31, 2008		
IN-telegence GmbH & Co. KG	75	-
Teleport Köln GmbH	1	(6)
QS Communication Verwaltungs Service GmbH	-	(9)
At December 31, 2007		
IN-telegence GmbH & Co. KG	5	(6)
Teleport Köln GmbH	-	7
QS Communication Verwaltungs Service GmbH	-	46

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 as well as on products management of voice products. The granting of a pension commitment in the amount of T € 561 relates to the Chief Executive Officer, Dr. Bernd Schlobohm. Expenses for Dr. Bernd Schlobohm relate to inclusion under pension accruals. See note 49 for severance payments made to members of the Management Board who have resigned in the meantime.

43 Deferred taxes

For the purpose of calculating deferred taxes and due to the corporate tax reform, a new income tax rate of 31.58 percent was utilized (previous year: 39.90 percent). Deferred taxes for the fiscal years 2008 and 2007 are:

in T €	Asset	Liability	Asset	Liability	Profit & Loss Statement	
	2008		2007		2008	2007
Deferred taxes						
Intangible assets	-	12,668	-	6,276	(6,392)	(1,413)
Property, plant and equipment	-	3,731	-	143	(3,588)	28
Financial assets	-	9	-	25	16	(83)
Trade receivables	51	-	-	-	51	-
Trade receivables related parties	-	39	-	39	-	10
Prepayments	-	175	-	628	453	(385)
Other receivables	13	134	-	-	(121)	-
Deferred revenues	6,713	-	3,817	-	2,896	2,180
Accrued pensions and provisions	-	45	80	-	(71)	51
Other liabilities	-	51	2	3	(50)	(1)
Total deferred taxes referred to temporary differences	**6,777**	**16,852**	**3,899**	**7,114**	**(6,806)**	**387**
Total deferred taxes referred to losses carry forward	8,341	-	4,901	-	3,440	(9)
Total deferred taxes referred to temporary differences before netting out	**15,117**	**16,852**	**8,800**	**7,114**		
Netting out	(15,117)	(15,117)	(6,870)	(6,870)		
Total deferred taxes	**-**	**1,735**	**1,930**	**244**		

The temporary differences in connection with interests in subsidiaries for which no deferred tax liabilities have been recorded amounts to T € 12,720 (2007: T € 123).

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:

in T €	2008	2007
Reconciliation		
Net profit (loss)	**4,535**	**(11,833)**
Tax rate	31.58%	39.90%
Expected tax income (loss)	(1,432)	4,741
Tax effect of		
different tax rate	-	(433)
non-deductible expenses	(159)	-
neglected capitalization of deferred taxes referred	(1,969)	(3,817)
to carry forward of losses		
permanent fluctuation	(213)	(358)
non-current expenses	(37)	-
Miscellaneous	42	95
Tax income (loss)	**(3,768)**	**228**

Reconciled income tax is composed of municipal trade expense in the amount of T € 375, corporation tax in the amount of T € 20 as well as deferred income tax income totaling T € 3,373. Tax expense includes deferred tax expenses in the amount of T € 3,528, which result from changes in accounting policies that have been recognized in profit or loss in the reporting period (see Note 5). In fiscal year 2008, tax income of T € 54 in connection with the recognition of actuarial gains or losses was directly recognized in equity.

As of December 31, 2008, QSC had corporation tax losses available for carry forward amounting in total to € 465 million (2007: € 446 million). These tax losses can be carried forward without restriction for future offset against the taxable profits of entities in which the tax losses arose. For carry forwards of still unutilized corporation and municipal tax losses in the amount of € 439 million and € 434 million, respectively, no deferred tax assets have been recorded in the balance sheet.

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:

in T €	2008	2007
up to 1 year	814	222
1 to 5 years	965	286
Operating lease commitments	**1,779**	**508**

In fiscal year 2008, expenses from operating lease contracts were recognized in the amount of T € 1,139 (2007: T € 885).

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:

in T €	Minimum lease payments	Value in use of minimum lease payments	Minimum lease payments	Value in use of minimum lease payments
	2008		2007	
Finance lease and hire				
purchase commitments				
up to 1 year	28,034	26,156	22,221	20,360
1 to 5 years	20,830	20,155	23,924	23,059
Total minimum lease payments	**48,864**	**46,311**	**46,145**	**43,419**
less interest share	(2,553)	-	(2,726)	-
Value in use of minimum lease payment	**46,311**	**46,311**	**43,419**	**43,419**

Other commitments • Other commitments in the coming fiscal years arising from long-term contracts, in particular for fiber optic lines, technical premises, and office premises amount to T € 60,414 (2007: T € 78,411). Purchase commitments for future investments amount to T € 5,746 for the Group.

Guarantees • As of December 31, 2008, QSC had guarantees in the amount of T € 17,334 (2007: T € 10,284) outstanding, especially to Plusnet and to suppliers of rental and other contractual obligations.

Litigations • In a judicial review proceeding (Spruchverfahren) before the regional court in Hamburg, 30 former minority shareholders of Broadnet AG have filed an application for an additional contribution in cash in addition to the shares of QSC AG, which they received in exchange for their Broadnet AG shares.

All minority interest shareholders of Broadnet AG had received 12 QSC shares in exchange for 11 Broadnet shares in connection with the merger. This corresponds to an exchange ratio of 1 Broadnet share for 1.0908 QSC shares. Should the regional court in Hamburg effectively rule an additional contribution in cash, it would have to be granted to all former minority shareholders of Broadnet AG who held shares of Broadnet AG at the time the merger came into effect. As a consequence, a possible ruling for an additional payment per share would have to be made for 999,359 former Broadnet shares. A first hearing was held on November 26, 2008, before the regional court in Hamburg. On the basis of a proposal made by the court, QSC made a proposal for a scheme of arrangement to the applicant, under which QSC (without changing its interpretation of the law with respect to matters of law) obliges itself to make an additional payment in cash in the amount of 73 cents per Broadnet share and to bear certain expenses incurred on the part of the applicant. Proceedings in connection with the proposed scheme of arrangement are ongoing.

Deutsche Telekom AG (DTAG) claims reimbursement from Ventelo for an allegedly overpaid amount of now € 912,539.29. The reason for this lawsuit lies in invoices submitted by Ventelo to DTAG for securing the interconnection of both networks in 2003 and 2004. According to the rules of the interconnection agreement, the transmission links between the DTAG location and the location of Ventelo are made by the latter, if the physical collocation is established at the DTAG location (physical collocation at the DTAG location). Since the transmission links between both sites serves the interests of DTAG in the availability of customers (= termination of connections in the Ventelo network), the rules of the agreement stipulate a distribution of expense for the interbuilding section in proportion to the respective attributable traffic minutes. DTAG utilizes an interpretation of the rules of agreement to justify its claim for partial reimbursement of invoices paid for the interbuilding sections realized by Ventelo.

In connection with its lawsuit, DTAG is of the opinion that Ventelo would have had to include cheaper prices for "transmission systems" in the quotation. Ventelo relies on the interpretation of a clause according to which transmission links of corresponding bandwidths at the interconnection points available at the collocations would have had to be billed. A first hearing was held on October 17, 2008, before the regional court in Cologne. After the hearing both parties were given opportunity to comment on existing practice and to also voice their legal opinions. The next step in the lawsuit involves a further hearing before the regional court in Cologne.

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 operating activities. 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 operating activities. In 2008 and 2007 no trading in derivatives was concluded.
The Group's major risks arising from the use of financial instruments include interest rate risk, credit risk and liquidity risk. Since no material transactions in foreign currencies are carried out, there are no material foreign currency risks. The following summarizes the strategies and procedures for managing each of the aforementioned risks.

Interest rate risk • The Group's exposure to the risk of changes in market interest rates results primarily from the Group's short-term liabilities due to banks, which bear floating interest rates, as well as from existing liquidity, which is invested in variable interest-bearing instruments. 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 24 percent as of December 31, 2008. The following table shows the sensitivity of the Group's earnings before taxes to a reasonably possible change in interest rates in relation to variable rate debts as of December 31, 2008, and liquidity (including financial assets held for trading).

	Increase / decrease in basis points	Effect on profit before tax in T €
2008	+ 100	342
2008	(100)	(342)
2007	+ 15	8
2007	(10)	(5)

Credit risk • QSC strives to trade with creditworthy third parties only. For this reason, it is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. After establishing business relations, receivable balances are monitored on an ongoing basis in order to reduce the Group's possible risk of bad debt. The maximum risk of bad debts is limited to the carrying value as disclosed in Note 19. There are no significant concentrations of credit risk within the Group.
With regard to the Group's other financial assets such as cash and short-term deposits as well as available-for-sale financial assets, the maximum credit risk arising from default of the counterparty corresponds to the carrying value of these instruments.

Liquidity risk • The Group monitors its risk to a shortage of funds using a monthly recurring liquidity planning tool, which takes into account the remaining term of available financial assets as well as the expected future cash flows from operating activities. 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 following table summarizes the Group's maturity profile of short- and long-term liabilities as of December 31, based on contractual undiscounted payments.

in T €	Carrying amount	On demand	Due end of 2009	Due end of 2010	Due end of 2011	Total
Finance lease liabilities	37,533	-	21,623	14,572	3,343	39,538
Trade payables	49,954	-	49,954	-	-	49,954
Bank debts	15,000	-	15,061	-	-	15,061
Other liabilities due to leasing contracts	8,778	-	6,411	2,331	583	9,325
Other long- and short-term liabilities	7,154	-	7,154	-	-	7,154
At December 31, 2008	**118,419**	**-**	**100,203**	**16,903**	**3,926**	**121,032**

in T €	Carrying amount	On demand	Due end of 2009	Due end of 2010	Due end of 2011	Total
Finance lease liabilities	43,419	-	22,221	15,343	8,581	46,145
Trade payables	74,129	-	74,132	-	-	74,132
Bank debts	5,000	-	5,032	-	-	5,032
Other liabilities due to leasing contracts	9,404	-	5,929	4,080	-	10,009
Other long- and short-term liabilities	7,811	-	7,811	-	-	7,811
At December 31, 2007	**139,763**	**-**	**115,125**	**19,423**	**8,581**	**143,129**

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 parameters: 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.

in T €	2008	2007
Capital management		
Finance lease liabilities	(37,533)	(43,419)
Current and non-current liabilities	(8,778)	(9,404)
Bank debts	(15,000)	(5,000)
Fixed rate debts	**(61,311)**	**(57,823)**
plus cash and cash equivalents	48,823	74,132
plus available-for-sale financial assets	327	3,858
Net liquidity	**(12,161)**	**20,167**
Equity	154,428	152,207
Balance sheet total	353,196	363,456
Equity ratio	**44%**	**42%**

At balance sheet date, all targets stipulated by the syndicate loan's financial ratios had been met. These financial ratios consist of financial parameters relating to equity, earnings before interest, taxes, depreciation and amortization, as well as liabilities from financial leasing.

46 Financial instruments

The following table shows 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).

in T €	Classification according to IAS 39	Carrying value		Fair value	
		2008	2007	2008	2007
Financial instruments					
Cash and cash equivalents	LaR	48,823	74,132	48,823	74,132
Available-for-Sale Financial Assets					
Available-for-Sale Financial Assets	AfS	327	-	327	-
Financial Assets Held for Trading	FAHfT	-	3,858	-	3,858
Trade receivables	LaR	57,880	64,944	57,880	64,944
Trade payables	FLAC	49,954	74,129	49,954	74,129
Bank loans	FLAC	15,000	5,000	15,000	5,000
Finance lease liabilities	n.a.	37,533	43,419	39,538	46,541
Other current and non-current liabilities	FLAC	15,932	17,215	16,480	17,622
Aggregated according to classification in line with IAS 39					
Loans and Receivables	LaR	106,703	139,076	106,703	139,076
Financial Assets Held for Trading	FAHfT	327	3,858	327	3,858
Available-for-Sale Financial Assets	AfS	-	-	-	-
Financial Liabilities measured at Amortized Cost	FLAC	80,886	96,344	81,434	96,751

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 sheet date. The same applies to trade payables and liabilities due to banks. The fair value of finance lease obligations and other short- and long-term liabilities was calculated on the basis of regular interest rates.

in T €	from interests, dividends	subsequent to initial recognition		Net gain (loss)	
		Allowance	at fair value	2008	2007
Loans and Receivables (LaR)	2,488	(2,866)	-	(378)	(737)
Financial Assets Held for Trading (FAHfT)	188	-	(377)	188	1,336
Available-for-Sale Financial Assets (AfS)	-	-	-	-	402
Financial Liabilities measured at Amortized Cost (FLAC)	(3,904)	-	-	(3,904)	(3,688)
Net gain (loss) according to classification	(1,228)	(2,866)	(377)	(4,094)	(2,687)

Expenses arising from allowances for trade receivables are presented in the income statement under the line item 'Selling and marketing expenses'.

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 14, 2007, and, after becoming valid, in the version dated June 6, 2008, has been issued by the Management Board and the Supervisory Board and is permanently available to the shareholders on the Company's website. 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

For services provided by the auditing firm appointed to audit the Group's consolidated financial statements, T € 198 for audit services, T € 36 for other audit-related services, and T € 19 for other services were recognized as an expense in 2008.

49 Compensation of the Management Board

The total compensation of the members of the Management Board is, to a very high degree, performance driven. Total compensation for fiscal year 2008 amounted to T € 2,463 (2007: T € 1,371). The amount of T € 2,463 includes provisions for payments of T € 676 to members of the management board who have resigned/retired in the meantime; these payments will be made in future reporting periods. Net of this item, total compensation amounts to T € 1,787.
This increase in comparison to the year before is primarily attributable to the better-than-expected course of business and thus underscores the principle of success-based compensation.

Of the total amount of T € 1,787 for fiscal year 2008, fixed and variable components accounted for 49 percent and 48 percent respectively, 3 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 at the beginning of each annual period and reviews them again at the end of the period.
QSC continues to consider that this description of the Management Board's compensation provides an important basis for assessing its appropriateness. QSC is exempt from the legal requirement of disclosing compensation on an individual basis 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 analysis and discussion of risks can be found in the Risk Report, which is contained in the Management Report.

51 Subsequent events

No events or transactions have occurred since December 31, 2008, that would have a material effect on the consolidated financial statements.

Cologne, March 13, 2009

QSC AG
The Management Board

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Joachim Trickl

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 13, 2009

QSC AG
The Management Board

Dr. Bernd Schlobohm
Chief Executive Officer

Markus Metyas

Joachim Trickl

Corporate Governance

Collaboration between corporate bodies in a spirit of trust, value-based corporate leadership and transparent communication are the focus of good corporate governance at QSC. During 2008, a new Supervisory Board was elected, and a new member of the Management Board appointed.

Corporate Governance / Compensation Report

QSC to publish interim reports within 45 days in the future

High priority to good corporate governance • QSC attaches high priority to good corporate governance – the responsible management and supervision of the Company. The focus is on transparent communication, collaboration between all of the Company's bodies in a spirit of trust, as well as value-oriented corporate management. 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 overseeing 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; in its meeting on December 11, 2008, the Supervisory Board, upon the recommendation of the Management Board, resolved that in the future the interim reports will be published within 45 days, thus bringing the Company into compliance with Item 7.1.2 of the Code.

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 2008, 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.

SHAREHOLDERS AND ANNUAL SHAREHOLDERS MEETING

Central importance of the Annual Shareholders Meeting • The Management Board submits the Annual and Consolidated Financial Statements to the Annual Shareholders Meeting. It decides on ratification of the acts of the Management and Supervisory Boards, elects the shareholder representatives to the Supervisory Board, as well as the independent auditor. Moreover, the Annual Shareholders Meeting also decides on the Articles of Association and Bylaws, on amendments to the Articles of Association and Bylaws and on major entrepreneurial measures.

Shareholders can comprehensively inform themselves about impending decisions sufficiently in advance of the Annual Shareholders Meeting on the basis of the Annual Report, the Consolidated Financial Statements 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 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 of its shareholders, 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 MANAGEMENT AND SUPERVISORY BOARDS

A spirit of trust • The Management and Supervisory Boards of QSC collaborate closely and in a spirit of trust with one another to the benefit of the Company. Both of these corporate bodies view themselves as being committed to sustainably increasing shareholder value through profitable growth. 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. QSC has taken out D&O insurance coverage with an appropriate deductible for both the Supervisory and Management Boards. The Report of the Supervisory Board provides detailed information about the activities of this six-member corporate body.

QSC's corporate bodies view themselves committed to increasing the value of the Company

MANAGEMENT BOARD

New composition of the Management Board beginning in 2009 • The three-member Management Board manages the Company under its own direction. It develops the Company's strategic alignment, coordinates it with the Supervisory Board and assures that it is implemented. It additionally assures 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.
In November 2008, the Supervisory Board appointed Joachim Trickl (50) to QSC's Management Board effective February 1, 2009. He succeeds the member of the Management Board responsible for Sales and Marketing, Bernd Puschendorf (59), who will continue to be available to the Company in an advisory capacity. Trickl had last served as a managing director of Reliance Globalcom/Vanco GmbH, where he was responsible for the Germany/Austria/Switzerland region.

Limited term of contracts with members of the Management Board • The Supervisory Board typically appoints the members of QSC's Management Board for a term of from three to a maximum of five years. Prior termination without cause can only be effected through mutual termination of the contract. In this connection, however, QSC is not in compliance with the new Item 4.2.3, Sub-Para. 4, of the Code, which calls for structuring contracts with members of management boards with a defined settlement cap in the amount of two annual compensations in the event of premature termination of that individual's activities. Firstly, this kind of advance agreement is in contradiction to the nature of such term-limited contracts, which fundamentally cannot be terminated without cause. Secondly, this kind of agreement restricts the latitude available for negotiations relating to potentially leaving the Management Board prematurely, which could prove to be disadvantageous, especially if it is uncertain whether there is cause for the termination. It is therefore in QSC's interest to not be in compliance with this recommendation.

MANAGEMENT BOARD COMPENSATION

Transparency • Good corporate governance also necessitates transparency with respect to the aggregate compensation paid to the members of the Management Board. Pursuant to the resolution of the Annual Shareholders Meeting on May 23, 2006, no individualized presentation of this compensation is made in this connection; this waiver applies to the Annual and Consolidated Financial Statements for the 2006 through 2010 fiscal years.

Success-based compensation • To a high degree, the aggregate compensation paid to members of the QSC Management Board again took their performance and their contributions to the success of the Company into consideration in fiscal 2008. This aggregate compensation amounted to € 2.46 million, as opposed to € 1.37 million the year before. In this connection, the fact should be taken into consideration that this total includes € 0.67 million in provisions for compensation to be paid to members of the Management Board who have since retired and will be disbursed during future periods. Following deduction of this line item, the aggregate compensation for the past fiscal year amounts to € 1.79 million. The year-on-year increase was essentially attributable to the Company's better course of business, thus documenting the success-based nature of this compensation.
The variable elements depend upon the level of attainment of corporate goals; in addition, it is also possible for individual goals to be defined. The corporate goals for the past fiscal year related to the development of revenues and EBITDA.
At the outset of each fiscal year, the Supervisory Board's Compensation Committee defines the goals for the individual members of the Management Board, and then reviews them subsequent to the close of the fiscal year. QSC is convinced that, with its competence, this committee is in the best position to deal with the issue of compensation to members of the Management Board. The Company is thus retaining its proven procedure, and is not in compliance with the new Item 4.2.2, Sub-Para. 1, of the Code, which calls for treatment and review of the compensation system, including the major contractual elements, by the full Supervisory Board at the suggestion of the Compensation Committee.

Stock options with a long-term incentive effect • 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 against payment of the exercise price upon the expiration of a fixed term, sometimes comprising multiple years. This exercise price corresponds to the trading price of the shares on the day the convertible bonds are issued. 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. Between April 8 and 10, 2008, Markus Metyas, the member of the Management Board responsible for Finance, converted his 500,000 convertible bonds from the 2002 Stock Option Program (SOP), which he had held for five years, to a corresponding number of shares; otherwise, the conversion rights vested in the convertible bonds would have expired on April 28, 2008. To pay the exercise price for the new shares and the tax due under the conversion, he gradually sold on the stock market 382,655 of the shares thus created during this period. Markus Metyas placed 117,345 shares in his personal custody account. The Supervisory Board did not issue any new convertible bonds to members of the Management Board during the 2008 fiscal year.

in T €	Shares		Convertible Bonds	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Markus Metyas	233,652	112,307	175,000	675,000
Bernd Puschendorf	348,397	348,397	125,000	125,000

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). However for the first time, the current 2006 SOP contains 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.

SUPERVISORY BOARD

Employee representation on the Supervisory Board • Since the regular Annual Shareholders Meeting on May 21, 2008, two thirds of the six-member QSC Supervisory Board have been shareholder elected and one third employee elected. Only one member of the Supervisory Board, QSC co-founder Gerd Eickers, had previously been a member of the Management Board, through December 31, 2003.

Following the Annual Shareholders Meeting in May 2008, at the suggestion of the Supervisory Board's former Chairman, John C. Baker, the Supervisory Board elected Supervisory Board Vice Chairman of long years' standing, Herbert Brenke, to be its new Chairman, thus reflecting the fact that the majority of the members of the Supervisory Board now come from Germany. The willingness of John C. Baker, who represents the Company's largest shareholder, to assume the office of Supervisory Board Vice Chairman underscores his continued close loyalty to QSC.

Herbert Brenke new Chairman of the QSC Supervisory Board

SUPERVISORY BOARD COMPENSATION

Appropriate compensation to members of the Supervisory Board • In the 2008 fiscal year, the members of the Supervisory Board received aggregate compensation in the amount of € 155,180.28. Pursuant to the Articles of Association and Bylaws, the Chairman of the Supervisory Board, John C. Baker through May 21, 2008, and Herbert Brenke thereafter, as well as their respective Vice Chairmen, each received € 30,000. The other members received € 25,000 each or pro-rata compensation for the duration of their term of office during the fiscal year. Since Norbert Quinkert was unable to attend 75 percent of the Supervisory Board meetings during his term of office, his pro-rata compensation was reduced by one half during his term of office pursuant to the Articles of Association and Bylaws.

Supervisory Board of QSC intentionally foregoes success-based compensation

The Supervisory Board intentionally foregoes the option contained in Item 5.4.6 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 paid to and the number of shares and stock options held by members of the Supervisory Board.

in T €	Compensation	Shares		Convertible bonds	
		Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
John C. Baker	30,000	10,000	10,000	-	-
Herbert Brenke	30,000	187,820	187,820	-	10,000
Gerd Eickers	25,000	13,877,484	13,877,484	-	-
David Ruberg	25,000	14,563	14,563	-	-
Ashley Leeds					
(through May 21, 2008)	9,699.45	9,130*	9,130	10,000*	10,000
Norbert Quinkert					
(through May 21, 2008)	4,879.73	3,846*	3,846	-	-
Klaus-Theo Ernst					
(from May 21, 2008)	15,300.55	500	500	3,258	3,258
Jörg Mügge					
(from May 21, 2008)	15,300.55	-	-	6,000	6,000

* As of May 21, 2008

TRANSPARENCY

Transparent communication • On its website, QSC provides timely and comprehensive information about all relevant developments within the Company. Shareholders will find ad-hoc and press releases, quarterly and annual reports and financial dates, as well as extensive documents on major events at http://www.qsc.de/en/investor-relations.html.
The website additionally contains information relating to the acquisition or sale of QSC shares, or derivatives based upon them, by members of QSC's Management and Supervisory Boards. 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 if their value equals or exceeds € 5,000 within a calendar year.

QSC provides timely and comprehensive information on its Investor Relations website

Trading Day / Stock Market	Name / Status	Financial Instrument	Type of Transaction	Par-Value in € / Quantity	Volume in €	Remarks
January 16, 2008	Markus Metyas	QSC shares	Purchase	2.230	4,460.00	
Xetra	Management Board			2,000		
January 16, 2008	Markus Metyas	QSC shares	Purchase	2.200	4,400.00	
Xetra	Management Board			2,000		
April 8, 2008	Markus Metyas	QSC shares	Sale	2.012	440,268.85	With the 2002
Xetra	Management Board			218,769		SOP framework
April 8, 2008	Markus Metyas	QSC shares	Exercise of	1.010	71,374.68	With the 2002
Over the counter	Management Board		convertible bonds	70,668		SOP framework
April 9, 2008	Markus Metyas	QSC shares	Sale	1.872	302,460.60	With the 2002
Xetra	Management Board			161,557		SOP framework
April 9, 2008	Markus Metyas	QSC shares	Exercise of	1.010	47,143.77	With the 2002
Over the counter	Management Board		convertible bonds	46,677		SOP framework
April 10, 2008	Markus Metyas	QSC shares	Sale	1.868	4,350.82	With the 2002
Xetra	Management Board			2,329		SOP framework

ACCOUNTING AND AUDIT

Timely information about the business development • First and foremost, QSC informs shareholders and third parties through its Consolidated Financial Statements, as well as through its quarterly reports during the course of the year. QSC prepares its Consolidated Financial Statements under IFRS rules within 90 days subsequent to the close of the respective fiscal year; for purposes of German corporate law, the Company additionally prepares Annual Financial Statements under German Commercial Code (HGB) rules. Beginning in fiscal 2009, QSC will submit its quarterly reports within 45 days subsequent to the close of each reporting period, and in the future will thus be in compliance with Item 7.1.2 of the Code.

Declaration of Compliance

Declaration Pursuant to § 161 of the German Stock Corporation Act on Compliance with the German Corporate Governance Code in its version dated June 14, 2007, respectively as of its validity in its version dated June 6, 2008, 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 to 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 14, 2007, respectively as of its validity in its version dated June 6, 2008, 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)

2. the recommendation that, based on the respective proposal of the committee dealing with the contracts of the Management Board members, the plenum of the Supervisory Board shall resolve upon the compensation system of the Management Board members including the material elements of the contracts and shall review it on a regular basis
(Item 4.2.2, Paragraph 1 of the Code in its version dated June 6, 2008)

3. the recommendation that demanding, relevant comparison parameters shall 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)

4. the recommendation that a possibility of limitation (cap) for extraordinary, unforeseen developments shall 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)

5. the recommendation when concluding contracts with members of the Management Board to mind that payments to a member of the Management Board in case of the premature termination of such Board members' contract for other reasons than material breach shall not exceed two annual payments (including benefits) and shall not exceed the sum of the salary which would have been paid in case the contract would not have been terminated prematurely
(Item 4.2.3, Paragraph 4 of the Code in its version dated June 6, 2008)

6. the recommendation that the Company shall publish information relating to the value of stock options for members of the Management Board in a compensation report
(Item 4.2.5, Paragraph 2 of the Code)

7. the recommendation to take 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 5.4.6, Paragraph 2 of the Code)

8. QSC will follow the recommendation to publicize interim reports within 45 days in 2009
(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 compliance with the German Corporate Governance Code on its website.

Cologne, December 11, 2008

For the Management Board	For the Supervisory Board
Dr. Bernd Schlobohm	Herbert Brenke

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	Chairman of Supervisory Board	InterXion Inc., Schiphol-Rijk, Netherlands
	Member of Board of Directors	Digi TV Plus Oy, Helsinki, Finland
	Member of Board of Directors	Verified Identity Pass Inc., New York, U.S.A.
Herbert Brenke	Chairman of Supervisory Board	ASKK Holding AG, Hamburg, Germany
	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 NV, Brussels, Belgium
David Ruberg	Member of Board of Directors	Adaptix Inc., Dallas, U.S.A.
	Member of Board of Directors	Broadview Networks Inc., New York, U.S.A.

Glossary

ADSL • The Asymmetric Digital Subscriber Line. Transfer of digital data over a twisted copper pair telephone line with an "asymmetric" transfer capacity of up to 8 Mbit/s for downloads and up to 800 Kbit/s for uploads.

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 • An interconnected high-speed network to which networks with lower speeds/capacities are linked. At QSC, the backbone resembles a ring through Germany. Berlin, Munich, Frankfurt, Düsseldorf and Hamburg are interconnected in ring form by a 10-gigabit Ethernet line, thus forming the QSC backbone.

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 at least 1 Mbit/s.

Bundesnetzagentur • (German Federal Network Agency) The regulatory authority for electricity, gas, telecommunications, postal and railway markets in Germany. 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.

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.

IP-Centrex • Centrex (CENnTRal Office EXchange) describes the outsourcing of a telephone system to a telecommunications provider. This is a concept that was introduced in fixed networks in the United States in the late 1950s. The Internet Protocol is now affording Centrex a renaissance in the form of "IP-Centrex." The end-user devices are linked directly to the data connection and communicate via the provider's server, which assumes the functionality of the system.

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

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, telco 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. 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, data 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.

Preselect • Preselection is automatic dialing of a prefix for a communication operator to handle calls. Every network operator has its own carrier selection code. In the case of preselection, this code is preselected in the subscriber's exchange and is automatically utilized.

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 • Router A device with network connections and configurable software that interconnects multiple networks and organizes the path the messages take between networks. first and foremost, Routers are employed in order to link local area networks (LANs) with wide area networks (WANs).

SaaS • Software as a Service. This is a 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 are currently possible at QSC.

SHDSL bis • An extension of the SHDSL standard affords data transfer rates of up to 5.7 megabits per second. Moreover, the expanded standard defines bundling up to 4 twisted copper pairs.

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.

Triple Play • Triple Play is the term used for multimedia services that are provided by telecoms, network operators, 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 to transfer voice 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.

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

WLL • Wireless Local Loop. Technology allowing to wirelessly linking subscriber lines to the network.

Calendar

Annual Shareholders Meeting
May 20, 2009

Quarterly Reports
May 13, 2009
August 12, 2009
November 12, 2009

Contacts

QSC AG
Investor Relations
Mathias-Brüggen-Strasse 55
50829 Cologne, Germany
Phone +49-(0)221-6698-724
Fax +49-(0)221-6698-009
E-mail invest@qsc.de
Internet www.qsc.de

Imprint

Overall Responsibility
QSC AG, Cologne

Art Direction
sitzgruppe, Düsseldorf

Photography (Management Board)
Nils Hendrik Müller, Peine

Illustrations
Felix Heinen, Vancouver

Further information under www.qsc.de