Annual Report 2009

An SME for SMEs

QSC AG

An SME

flexible close by entrepreneurial fast

QSC AG

Contents

To Our Shareholders 01

The Management Board 02
Letter to Our Shareholders 03
The Supervisory Board 05
Report of the Supervisory Board 06
The QSC Share Performance 10

Group Management Report 15

The Company 16
Human Resources 28
Economic Conditions 31
Profitability, Financial Position and Net Worth 35
Report on Opportunities and Risks 49
Outlook 59

Financial Report 65

Consolidated Financial Statements 66
Auditor’s Report 72
Notes 73
Statement of Responsibility 119

Corporate Governance 121

Declaration of Corporate Management / Corporate Governance Report 122
Compensation Report 128
Declaration of Compliance 130
Functions of the Supervisory Board 133

Further Information 134

Glossary 134
Index 137
Calendar, Contact

Key Data

All amounts in € millions	2009	2008	2007	2006	2005
Revenues	420.5	413.3	335.2	262.5	194.4
EBITDA	76.9	67.3	34.9	21.2	5.8
Depreciation/amortization [1]	67.2	61.2	46.4	28.4	24.5
EBIT	9.7	6.1	(11.5)	(7.2)	(18.7)
Net profit (loss)	5.5	0.8	(11.7)	(5.3)	(18.2)
Earnings per share [2] (in €)	0.04	0.01	(0.09)	(0.04)	(0.17)
EBITDA margin (in percent)	18.3	16.3	10.4	8.1	3.0
EBIT margin (in percent)	2.3	1.5	(3.4)	(2.7)	(9.6)
Equity [3]	159.7	153.7	152.2	160.6	85.0
Long-term liabilities [3]	54.2	76.4	85.0	71.7	15.4
Short-term liabilities [3]	97.3	122.4	126.3	67.6	50.8
Balance sheet total [3]	311.3	352.5	363.5	299.9	151.3
Equity ratio (in percent)	51.3	43.6	41.9	53.6	56.2
Capital expenditures	42.2	91.4	122.9	40.1	20.1
Liquidity [3]	41.3	49.2	78.0	108.9	56.4
Share price [3] (in €)	1.70	1.24	2.90	5.00	3.86
Number of shares [3]	136,998,137	136,998,137	136,358,315	133,897,686	115,033,078
Market capitalization [3]	232.9	169.9	395.4	669.5	444.0
Employees [3]	664	678	820	675	450

Consolidated Financial Statements 2005 to 2009 in accordance with IFRS

[1] including non-cash share-based payments

[2] basic and diluted

[3] as of December 31

Highlights 2009

Joachim Trickl augments Management Board as COO

On February 1, 2009, Joachim Trickl began his term of office on the Management Board; the Supervisory Board had appointed him to this post in November 2008. As Chief Operating Officer, he has been responsible since then for the operative development of the three business units as well as for marketing.

QSC wins IT Innovation Prize

At the CeBIT tradeshow in March 2009, the SME Initiative awarded the IT Innovation Prize in the Telecommunications category to QSC for its IPfonie virtual telephone system.

Jürgen Hermann appointed CFO

The Supervisory Board appointed Jürgen Hermann to the Management Board as Chief Financial Officer effective April 1, 2009. As the head of Finance, he had been responsible for helping to build the entire company since 1997.

ARAG broadens order

In May, ARAG Allgemeine Rechtsschutz-Versicherungs-AG commissioned QSC to additionally network its 250 locations throughout Germany with an IP-VPN. Since then, QSC has been running this insurer's complete voice and data communication.

1,250 hotspots for The Cloud

In late June, QSC received an order from The Cloud to network some 1,250 WiFi hotspots throughout Germany, including hotels, airports and office buildings. The Cloud is Europe's largest independent hotspot operator.

New distribution channel for specialty distributors

Following the summer break, QSC succeeded in winning two leading specialty distributors, Michael Telecom and ALLNET, as marketing partners for its products. To assure optimum support, QSC established a dedicated team for specialty distributors.

The bottom line: QSC is debt free

Given the good course of its operative business, in November QSC raised its guidance for free cash flow from at least € 10 million to at least € 12 million. By year-end, this higher influx of cash had enabled net debts to be entirely eliminated.

All of the people at QSC always focus on one thing – satisfied customers. Their success is our goal, is what drives us forward. Day in and day out. We understand their business and know exactly how we can support them: By being flexible, close to them, entrepreneurial and fast. As their mid-size partner at eye level.

Learn more about the commitment of four QSC employees on the following pages.

Flexibility fosters freedom

... because if you can think out of the box, you can grow beyond what you think your limitations are. QSC knows that, too, and empowers its people to continue to develop to be best of their skills and abilities. As in the case of Nicole Kaluza ...

Actually, she began her traineeship as an office clerk with the focus on sales & marketing. But then everything turned out completely different: "During my first six weeks in the Marketing Department, I discovered my passion for event organization," recalls Nicole Kaluza. "After my training, there was an opportunity to work here as a full-fledged employee. Today, I can utilize both my strengths as a fully trained office clerk as well as my experience in connection with sales & marketing and customer support in organizing our events."

QSC, which in November 2008 received an award from the Cologne Chamber of Industry and Commerce for its outstanding achievements in vocational education, had right from the very beginning offered Nicole Kaluza and the other trainees the opportunity of shortening their training period by six months if they achieved high grades. "That was a real incentive for us," recalls Kaluza. "We all had very good or excellent final grades, which meant we were able to complete our training six months earlier."

The Company places great emphasis on the qualifications of its own professionals. During their training, all trainees have an opportunity to visit any number of different operations within the Company. "QSC showed me entirely new prospects, and it's a lot of fun to now be able to work on my own."

»QSC simply believed in me.«

Nicole Kaluza
Manager Tradeshows and Roadshows, QSC

... began her training as an office clerk in Sales & Marketing in 2006. Today it would be inconceivable in Marketing to organize tradeshows, training events and roadshows in close collaboration with marketing partners and customers without her and her know-how.

Customer intimacy is the focal point of our daily work, especially in solutions business. That's why QSC puts a business service manager at the side of its solutions customers at their request. As a central point of contact, this individual monitors compliance with the contractually agreed performance and coordinates all operating procedures in implementing the solutions. He's the one who steers communication with the customer in all matters.

"By definition, there's no task we don't feel we're responsible for," says Thomas Heuser. A trained telecommunications and communications technician, he'll also take a router out to the customer himself if the need is urgent: "I can recall one case where our supplier of preliminaries had failed to keep an agreed activation date with one of our customers. But since the location definitely had to go live on schedule, we simply bought the required hardware ourselves and activated the connection that very same day."

That's why it's possible to always find a solution, even under difficult conditions: QSC, for example, is the only carrier in Germany that can install wireless local loops directly in more than 42 regions, without the need for subcontractors. Customers with network-critical applications or in hard-to-reach areas are especially aware of this advantage.

Customer intimacy stems from identification

... because if you can put yourself in the shoes of others, you'll also be able to understand their needs. For QSC, communication at eye level is the prerequisite for success. And that's what employee Thomas Heuser believes, too ...

« close by

Thomas Heuser
Business Service Manager, QSC

... supports banks and insurance companies first and foremost. Customer satisfaction ranks number one for him. He always finds a way when the need is to swiftly organize something outside the regular processes.

»I also see myself as the voice of the customer.«

»We make optimum use of our resources.«

Dr. Jürgen Mattfeldt
MD, QSC network operating company Plusnet

... monitors the costs of network operations. Mattfeldt wrote his doctoral thesis on “Analyzing and Optimizing Mobile Communication Systems,” and time and time again comes up with new ways of motivating his people to optimize operating costs.

Entrepreneurial thinking is based upon responsibility

... because if you're sensitive to the need for carefully handling available resources, you're acting to the benefit of the company. That's why QSC specifically fosters its employees' self-direction – for example through a contest that Jürgen Mattfeldt invented ...

"Each quarter, all of our colleagues are urged to develop new ideas in order to further optimize operating costs. This so-called 'Piggy Bank Contest' today enjoys tremendous popularity, and it's repeatedly enabled us to find new ways of reaching our goals."

Working on his own, Marcus Flex, one of the Company's very first employees, developed a program that saves cash money year in and year out. On the carrier side, all data lines from a customer connection terminate in a port in the DSLAM at the central office. A computer card comes with 64 ports standard. However not all of them are used. Nevertheless, each of these empty ports consumes a few milliwatts of electricity. Marcus Flex's program simply shuts down the unused ports. The result: less energy consumption, less cooling required in the central office, longer hardware life and six-figure savings each year.

"Our challenge, which we come to grips with on a daily basis, is: To make intelligent use of a small budget – but without making any compromises in quality," is the way Jürgen Mattfeldt sums it up. The reason we're so successful is because we think with greater flexibility, speed and customer focus. Because as a mid-size company, ourselves, we operate like a mid-size company and are accustomed to making optimum use of limited resources."

Dr. Bernd Schlobohm
Chief Executive Officer, QSC

... is a founding shareholder of QSC and embraces the virtues of a traditional Hanseatic merchant. “Fairness, honesty, objectivity and tolerance” – these four principles number among his business maxims.

»In telecommunications, swift implementation is the key to success.«

« fast

Dr. Bernd Schlobohm, QSC co-founder and Chief Executive Officer, knows the value of flat hierarchies in connection with fast decision-making and problem-solving. Nobody can hold a candle to him when it comes to this. The door to his office is always open. And that has more than just symbolic character: "To be successful as a service provider in our industry, we always have to provide an immediate response. Dealing openly with colleagues and the team is a fundamental prerequisite for viable solutions."

With a unique and forward-looking market position, QSC has succeeded in visibly aligning itself as a "mid-size company for mid-size companies." "However we know that given the stiff competition that prevails, we can only be convincing long-term by offering top achievements. That's why we always have to be significantly better than our competition, especially when it comes to profitability, customer satisfaction and employee satisfaction."

For Bernd Schlobohm, motivated employees are indispensable in achieving the Company's goals. "I am firmly convinced that we have succeeded in finding special people who value fairness and credibility, and who take our corporate principles seriously."

Speed begins with openness

... because if you keep internal structures simple and enable direct communication, you'll accelerate the speed of implementation. One reason why Bernd Schlobohm cultivates an open-door culture ...

QSC is a mid-size company through and through. That's why we understand what our customers value. They choose us because we're fast, entrepreneurial, flexible and close to them. And we aren't satisfied until they're completely satisfied with our products and services.

Learn more about the experiences of four QSC customers on the following pages.

RheinLand Insurance Group

»QSC immediately had the most efficient solution for our needs.«

... recalls Herbert Bender, when his company was looking for an optimum link for its own data center. He thinks QSC's understanding of him as a customer is unmatched.

"When we wanted to implement our data center, we initially were looking only for a solution for a high-speed fiber optic link of our own," explains Herbert Bender the point of departure. "But QSC had a much better idea: Instead of running a costly line, they simply used our own equipment to connect us directly to the network nodes at the nearest QSC location."

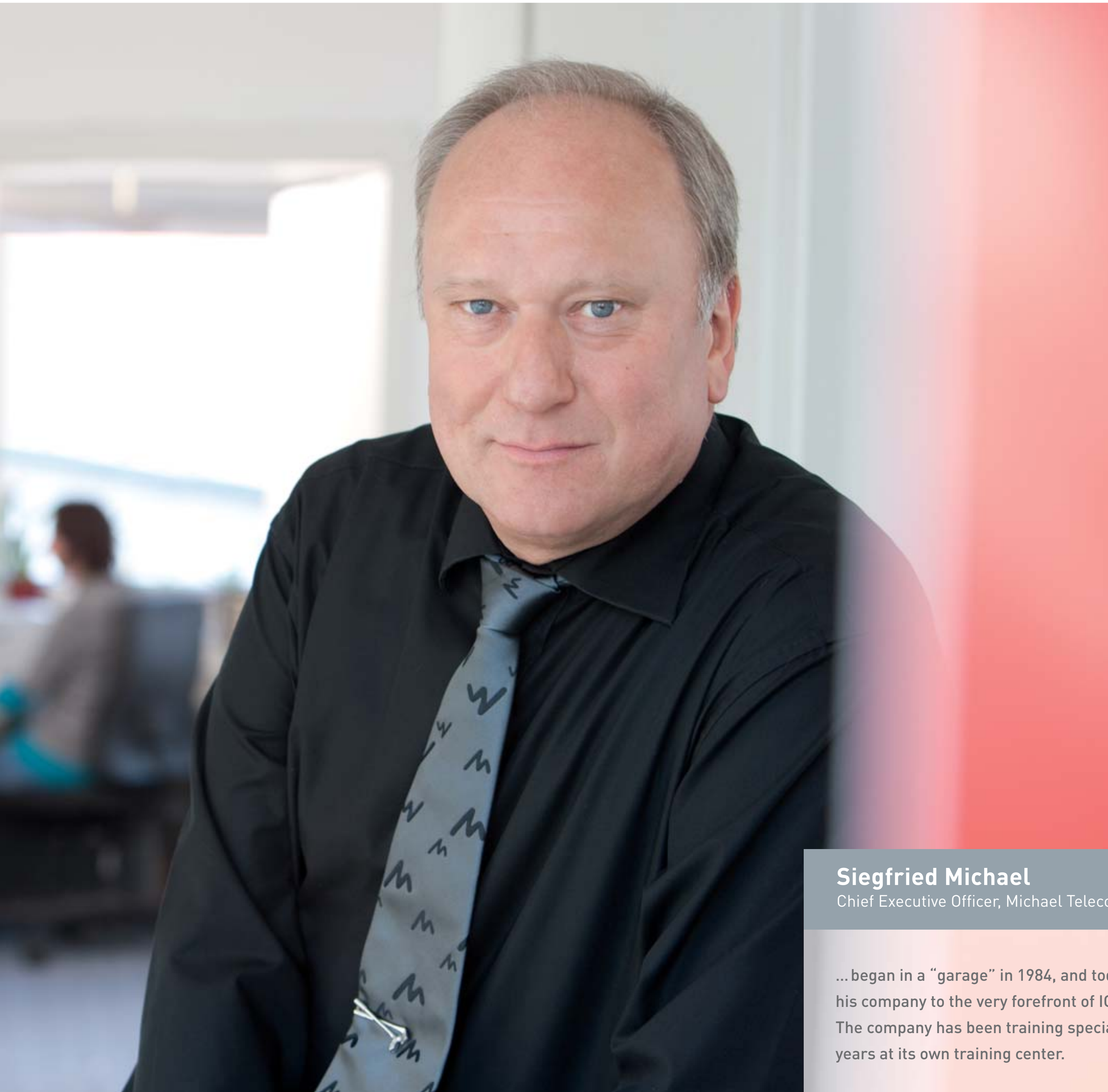
"Server Housing" is the name of the solution in which the customer's own hardware is used to integrate it into QSC's existing data centers. And QSC proved to be highly efficient there: "We hadn't even concluded the preparations when the premises were already available to us," recalls Herbert Bender with a smile.

For a service provider, the task is not only to implement the customer's wishes without delay, but also to understand his business. Only that way can optimum solutions be found by working together. With its 130-year history, RheinLand knows the value of QSC's reliability. "Partnership plays a very major role for us. That's a term that leaves lots of room for interpretation. But we feel we've been in the right hands for years with QSC."

»QSC solved our problem faster than we expected.«

Herbert Bender
IT Department Head, RheinLand Insurance

... has been with RheinLand for 32 years, where he is responsible for all of the company's IT needs – from operational organization to the professional design concept and control of projects to their implementation.



Siegfried Michael
Chief Executive Officer, Michael Telecom AG

... began in a “garage” in 1984, and today has brought his company to the very forefront of ICT distributors. The company has been training specialty retailers for years at its own training center.

»You can only be successful with a partner if the two of you understand each other.«

Michael Telecom AG

»We simply speak the same language.«

... and for Siegfried Michael, that's an important prerequisite for long-term collaboration. Catering to the needs of the other and communicating at eye level is indispensable in this connection.

At the age of 26, Michael Telecom AG is one of the most experienced ICT distributors in the marketplace and has long been internationally aligned. Some 12,000 distribution partners in Germany put their trust in this service provider from the town of Bohmte near Osnabrück in such areas as communication solutions, GSM, multimedia data technology or network marketing. Its partnership with QSC, on the other hand, is still a tender shoot. Yet the company is certain that it made the right choice in going with QSC.

"The telecommunications world finds itself in the midst of upheaval. In looking for an innovative partner, the choice was QSC," says founder and chief executive officer Siegfried Michael. "But it was important for us to not have any short-term expectations, but to build our partnership on a long-term basis. QSC has innovative products and solutions, and offers interesting income prospects for specialty retailers. In the future, this product portfolio will represent an important source of income for specialty retailers."

Yet success isn't defined by just technology and pricing, but also by how we communicate and deal with one another. Siegfried Michael sees a great deal of potential in marketing the IPfonie centraflex virtual telephone system: "There's already strong interest on the part of specialty retailers. With QSC, we've found a reliable, enthusiastic and committed partner that speaks our language. And the professional competence of its people, too, gives us a good feeling."

Schriever GbR Hotel- und Objektplanung

»QSC did an optimum job of implementing our special requirements.«

... explains Heila Schriever, who values her company's proximity to QSC as well as the direct and cordial way the two partners deal with one another. The rule at QSC is: Only if you take the time to cater to the individual needs of your customers will you be able to understand the requirements of small and mid-size businesses.

Since 1992, Bremen-based Schriever GbR Hotel- und Objektplanung has been supporting both residential and business customers in planning holistic interior design concepts. This family-owned and operated company specializes in the field of hotels and gastronomy. In this connection, Heila Schriever has to pay special attention and be able to respond flexibly to the individual requirements and wishes of her customers. And she asked the same of QSC when the need was to install a custom telephone solution for herself and a partner company in one and the same office, often with identical end-user devices for different telephone numbers.

"We had developed the concept beforehand and then took it to QSC, which did not hesitate to implement our undoubtedly highly individual installation wishes on a one-to-one basis. QSC has never disappointed me," is the way Heila Schriever praises the willingness and commitment of QSC's people. The end result was a solution that incorporates the IPfonie centraflex virtual telephone system. "This system offers so much flexibility that we can optimally employ it here for the two companies that share the office."

But it wasn't just the high quality of the telephone system and its ease of operation via PC-based address administration that convinced Heila Schriever: "We're saving 50 percent of our fixed costs today by comparison with our former solution."

Heila Schriever
Managing Director, Schriever GbR

...was one of QSC's first customers to opt for the IPfonie centraflex virtual telephone system in 2007. A hotel professional, she still values the extensive options and comfort her highly customized communication solution offers.

»I'm independent with IPfonie centraflex. Even when I'm at home, I can still see what's going on at the office. I think that's tremendous!«

Hartmut Schröder
CIO, Manager IT EUROPE, HECTAS Gebäudedienste

... is responsible for European IT operations at Hectas. The company is a member of the Vorwerk Group and places the utmost demands on sustainable customer and supplier relationships.

»The enthusiasm and commitment of QSC's people have never flagged in any way since we placed our first order.«

HECTAS Gebäudedienste Stiftung & Co. KG

»QSC has shown a high level of service continuity.«

... says Hartmut Schröder, because as a customer he wants a specific point of contact to shoulder the work for him and look after all of his communication needs. He knows that his entire concept has been in good hands for years with QSC.

Seven years ago, Wuppertal-based Vorwerk subsidiary HECTAS Gebäudedienste Stiftung & Co. KG was looking for a holistic solution for professionalizing communication between locations. Today, QSC operates an IP-VPN for Hectas that includes a large number of national and international location links in Europe.

"Today, we can rest easy in focusing on our core competencies," are the words of praise voiced by Hartmut Schröder. "Over the course of the years, we have always seen QSC as an idea-rich problem-solver that has regularly and proactively presented new opportunities for optimum communication. That's how we view a true partnership."

He especially likes to recall the time that activation of an Eastern European location ran into connection delays on the part of a local network operator. "When that occurred, a QSC employee who happened to be in a neighboring country drove hundreds of kilometers overnight to our location and assured swift connection." Something like that naturally doesn't happen every day, admits Schröder. "But in doing so, QSC proved that it truly embraces mid-size company values." For Hectas, too, quality, sustainability and customer intimacy are the key to success.

Mission » QSC is the leading medium-sized provider in the telecommunications market who creates sustainable value for medium-sized companies, cooperation partners and employees through highest quality and customer focus.

To Our Shareholders

The Management Board 02
Letter to Our Shareholders 03
The Supervisory Board 05
Report of the Supervisory Board 06
The QSC Share Performance 10

The Management Board Dr. Bernd Schlobohm // Jürgen Hermann // Joachim Trickl

• **Dr. Bernd Schlobohm**
CHIEF EXECUTIVE OFFICER //
TERM OF OFFICE ENDS IN 2013

The Chief Executive Officer of QSC has a passion for entrepreneurialism and embodies the Company's mid-size culture. A postgraduate engineer, he co-founded QSC in 1997 and has stood at its helm since then. He continues to be among QSC's largest shareholders, and he has never sold a single share.

• **Jürgen Hermann**
CHIEF FINANCIAL OFFICER //
TERM OF OFFICE ENDS IN 2012

QSC's Chief Financial Officer was one of the Company's very first employees, and has played a major role in shaping its mid-size organizational structure. This economist fosters self-direction and flat hierarchies in his areas of responsibility of Finance, Investor Relations, Legal and Purchasing.

• **Joachim Trickl**
CHIEF OPERATING OFFICER //
TERM OF OFFICE ENDS IN 2012

As the member of the Management Board responsible for operative business in the three business units, this physicist maintains an ongoing dialog with small and mid-size customers. He is convinced that the Company's focus on their needs and its eye-level dialog with them is what sets QSC apart from other telco providers.

Dear Shareholders,

During the past fiscal year, we further sharpened QSC's image in the marketplace. Today, customers see us as the leading mid-size company for small and mid-size companies in the German telecommunications market. We share such key attributes with Germany's successful SMEs as speed, flexibility and entrepreneurialism, enabling us – in contrast to globally operating corporate giants – to deal with our customers at eye level. This focus on small and mid-size customers played a major role in QSC's success during the past fiscal year, while also serving as a crucial foundation for our further profitable growth in the years to come.

Given the serious economic and financial crisis, in 2009 we intentionally and successfully concentrated on growing our profitability and financial strength: During the past fiscal year, QSC increased its EBITDA by € 9.6 million to € 76.9 million and earned a positive free cash flow of € 12.9 million. What's more: At year-end 2009, QSC was debt free overall: Our liquid assets exceeded the value of our interest-bearing liabilities.

At year-end 2009, QSC was debt free overall

This success is based upon the achievements of all of QSC's people, to whom we would like to express our sincere thanks at this point for their enthusiasm and commitment. Our thanks also go to our two Management Board colleagues who retired in fiscal 2009, Markus Metyas and Bernd Puschendorf; over the course of numerous years, they have helped to build QSC into a profitable mid-size company.

In addition to our positioning as a mid-size company for small and mid-size companies, the expansion of our Next Generation Network early on beginning in 2005 is also a key foundation for our success. This IP-based network not only provides us with a cost advantage, it also makes us independent of technology developments in the broadband market. Regardless of whether companies continue to utilize DSL or decide to go with fiber or wireless connections in the coming years – thanks to its NGN, QSC can provide all of its customers with custom-tailored solutions and products. The high efficiency of our network, which is IP-based throughout, also makes QSC a partner of choice for network operators with conventional infrastructures.

In addition, the NGN also serves as our toolbox for innovations. One good example of this is our award-winning IPfonie centraflex virtual telephone system. In contrast to conventional systems, its intelligence is located in the network. This means that customers no longer have to make high up-front investments and reconfigure their system anew for every move and every change in personnel, a costly and time-consuming undertaking; instead, they pay merely for utilizing the network-based telephone system and can integrate new employees in a few easy steps. QSC assures smooth operation of the IPfonie centraflex – on the basis of its Next Generation Network.

Its positioning as a mid-size company for small and mid-size companies and its nationwide NGN will essentially open up three attractive growth paths for QSC in the coming years:

- First, we will expand our market share among small and mid-size companies by winning new customers and by selling additional services to existing customers, such as IPfonie centraflex.

- Second, we will utilize the NGN as the basis for developing so-called "white label" products and services, which our strong partners will then sell to their respective target audiences. The successful establishment of a distribution channel for specialty distributors was merely the beginning.
- And third, we will increase our percentage of the budgets of small and mid-size companies for information and telecommunications technology (ICT) thanks to new IP-based services. We estimate that QSC will be able to double its share of ICT budgets from 10 percent today to 20 percent medium-term.

Our stronger financial position and profitability in 2009 will serve as a good foundation for instituting this growth strategy in the coming years. QSC's transformation from a network operator to a service provider will visibly continue in 2010. Such classical lines of business for a network operator as call-by-call offerings or the provision of pure ADSL2+ lines will wane in significance; the innovative lines of business offered by a solutions provider, such as network-based telephone systems and software as a service, on the other hand, will take on increasing importance. Yet in spite of this transformation, QSC intends to again grow its revenues, EBITDA and net profit in 2010.

The crucial metric for our success in 2010 will continue to be free cash flow, which we intend to boost by more than 70 percent during the current fiscal year to over € 22 million. The key driver in this sharp rise will be the growing percentage of higher-margin products and services – our transformation to a solutions provider is paying off. Moreover, QSC will sustain its strict cost management in 2010, and further increase the efficiency of all processes.

You, fellow shareholders, will benefit from this higher free cash flow. It increases the financial independence of our Company, and it broadens both our freedom of action as well as our options for increasing the value of the Company. At the same time, rising liquidity surpluses will put us in a position that will enable you to share in the good development of our Company: We are planning to pay our first dividend for the 2011 fiscal year.

For 2011, QSC is planning to pay its first dividend

Payment of a dividend is a logical consequence of QSC's development into a highly profitable mid-size telecommunications provider. We would like to thank you, our shareholders, for your confidence in this strategy. Over the course of the coming years, QSC will continue to broaden its position of leadership as a mid-size company for small and mid-size companies.

We would be pleased if you would continue to give us your trust as we travel this road.

Cologne, March 18, 2010

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

The Supervisory Board

QSC's Supervisory Board is characterized by the sensitivities of a mid-size company: Its members include both entrepreneurs as well as major shareholders and two employee representatives. The terms of office of all shareholder representatives will end at the adjournment of the Annual Shareholders Meeting for the 2012 fiscal year.

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.

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.

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.

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.

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.

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

Report of the Supervisory Board

for the 2009 fiscal year regarding the Company and the Consolidated Group

QSC survived the world's most serious post-war recession in good shape. In spite of the difficult environment, the Company was again able to grow its revenues in 2009, while at the same time entirely eliminating its net debts. 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 applicable laws and regulations, the Articles of Association and the Rules of Procedure. The Supervisory Board was directly involved in all decisions and measures of fundamental importance, in particular those relating to the Company's net worth, finances and profitability. After 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.

The Management Board comprehensively informed the Supervisory Board

Issues of the Supervisory Board • The Management Board regularly and comprehensively 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 thoroughly. 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), its risk situation, the methods and results of its risk identification and monitoring system, compliance 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, 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 2009 were:

1. The Company's strategy. The Supervisory Board discussed with the Management Board its decision to focus QSC on small and mid-size customers and to broaden service business, and kept itself constantly informed as to the progress being made in these lines of business.
2. The operative development of the three business units. The Supervisory Board dealt intensively with the selected sales and marketing strategies and their success, as manifested in particular in the monthly and quarterly reports.

3. The Company's financial position. The Supervisory Board monitored the development very precisely, especially with a view to the overall economic situation. In this connection, the Supervisory Board was informed about both the continuing decrease in net debts as well as the reduction of leasing liabilities and utilization of the agreed credit line.
4. The appointment of Jürgen Hermann as a new member of the Management Board. On March 31, 2009, the Supervisory Board appointed QSC's long-serving Head of Finance, Jürgen Hermann, to the Management Board effective April 1, 2009, where he succeeded Markus Metyas. Once again, the Supervisory Board would like to take this opportunity to express its thanks to Markus Metyas for his service from 2000 through 2009. During this period, he played a major role in shaping QSC's growth from € 5 million to now over € 400 million in revenues and was crucial to helping the Company enter the profitability zone.

Moreover, in fiscal 2009 the Supervisory Board concentrated on QSC's internal control mechanisms, and in this connection especially on its risk management system as well as its corporate management and compliance in accordance with statutory requirements. The Supervisory Board reviewed these factors on the basis of submitted documents and in a dialog with the Management Board.

Composition of the Supervisory Board • In fiscal 2009, the Supervisory Board continued to comprise four shareholder representatives, Supervisory Board Chairman Herbert Brenke, Supervisory Board Vice Chairman John C. Baker, Gerd Eickers and David Ruberg, as well as two employee representatives, Jörg Mügge and Klaus-Theo Ernst.

The Supervisory Board conducted four regular meetings during 2009

Meetings of the Supervisory Board and its committees • The members of the Supervisory Board conducted four regular meetings during the year under review. With the exception of one Supervisory Board member who was not in attendance at one meeting, all members attended all meetings in 2009. Where necessary, resolutions on individual issues were additionally adopted in writing.
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 three times during the year under review. In addition, resolutions on individual issues were adopted in writing. The members of this Committee are its Chairman, Herbert Brenke, as well as John C. Baker and Jörg Mügge. Prior to the coming into force of the German Board Member Compensation Appropriateness Act ("VorstAG"), the Compensation Committee had decided on the compensation system for members of the Management Board, including the major contractual elements. Since the coming into force of the German Board Member Compensation Appropriateness Act, these kinds of decisions are being made by the full Supervisory Board. The Compensation Committee deliberated on the contract to be entered into with Jürgen Hermann as a member of the Management Board, including the compensation to be agreed, and prepared the corresponding resolution for the full Supervisory Board. In addition, this Committee also dealt, in particular, with issues relating to variable compensation as well as to the goals to be defined for the members of the Management Board.

Moreover, the Supervisory Board additionally established an Audit Committee in August 2007 and re-established it at the formation meeting of the Supervisory Board on May 21, 2008. Committee Chairman John C. Baker, Herbert Brenke and Gerd Eickers are the members of the Audit Committee. The Audit Committee monitors the accounting process, deals with the effectiveness of the internal control system and risk management system, as well as with compliance issues, and readies decisions for the full Supervisory Board relating to accounting issues. It additionally oversees the requisite independence of the independent auditor. The Audit Committee met three times during the past fiscal year, and readied the review of the financial statements for the full Supervisory Board, discussed with the Management Board the interim reports to be published and negotiated and agreed upon the audit fees with the independent auditor.

The Audit Committee also recommended to the Supervisory Board that KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and with 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 2010 fiscal year, as well as the independent auditor of any Semiannual Financial Statements which may be subject to review by an independent auditor. On the basis of this recommendation, at its meeting on March 16, 2010, the Supervisory Board resolved to make a corresponding proposal to the Annual Shareholders Meeting.

A Nominating Committee has 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 Nominating Committee are its Chairman, John C. Baker, and Gerd Eickers. Since there were no upcoming elections of shareholder representatives to the Supervisory Board, this Committee did not meet during the year under review.

The Chairmen of the Compensation and Audit Committees regularly report to the full Supervisory Board on the work of their committees.

Corporate Governance • The Supervisory Board continuously monitors the evolution of the German Corporate Governance Code and its implementation at QSC. Following the requirements of the Code, during the past fiscal year the Supervisory Board also reviewed the efficiency of its own activities. At its meeting on November 19, 2009, 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 on the Company's website.

Compliance with recommendations made by the German Corporate Governance Code confirmed

The Management Board – also acting on behalf of the Supervisory Board – reports on corporate governance in QSC AG's Declaration of Corporate Management. During the year under review, there were no conflicts of interest, which must be disclosed without delay to the Supervisory Board, with information thereon being provided to the Annual Shareholders Meeting.

Audit • KPMG AG Wirtschaftsprüfungsgesellschaft, domiciled in Berlin and with a branch office in Cologne, audited both the Annual Financial Statements of QSC AG for the year ended December 31, 2009, 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, 2009, 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 commission had been awarded by the Supervisory Board in accordance with the resolution adopted by the Annual Shareholders Meeting on May 20, 2009. The major focus areas of the audit included goodwill accounting, revenue deferral and accrual, valuation of receivables, institution of the German Accounting Legislation Modernization Act ("BilMoG"), especially with respect to corporate governance, as well as the compensation paid to members of the Management Board.

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 2009 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 16, 2010, 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. At this meeting, the auditor also informed the Supervisory Board about additionally provided services and that there were no circumstances that could give rise to concerns about any biases he might have.

The Supervisory Board approves QSC's Financial Statements for 2009

Having conducted its own examination, the Supervisory Board has no objections to the Annual Financial Statements of QSC AG for the 2009 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 16, 2010
On behalf of the Supervisory Board

Herbert Brenke
Chairman of the Supervisory Board

The QSC Share Performance

Capital markets overcome global economic and financial crisis • After the crash in 2008, capital markets saw broad-based recovery in 2009. While the first quarter of 2009 was still characterized by the global economic and financial crisis, beginning in the second quarter the recession was gradually overcome in the industrialized nations, leading to considerable share price appreciation. The DAX advanced by 24 percent during the course of the year, while the TecDAX surged by an impressive 61 percent. Telecommunications shares, too, benefited from the worldwide trend of recovery, with the German Prime Telecommunications industry index rising by 37 percent in 2009.

QSC shares recover over the course of the year • QSC shares participated in the worldwide capital market recovery in 2009. Like the Prime Telecommunications index, QSC shares advanced by 37 percent to close at € 1.70 on December 30, 2009. In this connection, QSC was forced to suffer considerable setbacks during the first quarter of 2009, with trading prices reaching their low for the year of € 0.75 on March 6, 2009. By year-end, shares had risen by 127 percent from this low, with share prices advancing sharply, especially in the second and third quarters. QSC shares marked their high for the year on July 31, 2009, at € 2.00. This swift rise stemmed, in particular, from the positive development of business during the year. Although QSC adjusted its guidance for the full fiscal year accordingly in early November 2009, the capital market failed to respond with a renewed rise in share prices. On the contrary, institutional investors, in particular, were waiting for indications as to how the Company's operative business would develop beyond 2009. In presenting the preliminary numbers for the past fiscal year on March 3, 2010, QSC stressed that, in spite of a difficult environment, the Company would continue to increase its profitability and financial strength in fiscal 2010, and at the same time improve all of its key performance indicators.

QSC shares rose by 37 percent in fiscal 2009

SHARE PRICE PERFORMANCE IN 2009 (indexed)

QSC
TecDAX
DAX

It is QSC's conviction that the level of share price that was reached at year-end 2009 does not yet sufficiently reflect the Company's positive development and greater financial strength. QSC anticipates that the progress it is making in its operative business and its ability to generate a further rise in free cash flow during the course of fiscal year 2010 will open up new valuation latitude for its shares.

QSC shares among the most highly traded technology issues • Following a cautious start in a difficult capital market environment, interest in QSC shares rose sharply, especially during the second and third quarters of 2009, with a resulting rise in trading volumes on German stock markets. On average, some 420,000 shares were traded each day in fiscal 2009. However trading volume did decline 15 percent by comparison with 2008 as a result of the financial market crisis. At the same time, trading volumes declined to € 162 million, as opposed to € 247 million the year before. However since investors generally tended to be cautious about share trading in 2009, QSC shares continued to number among the 30 most actively traded technology issues on German stock markets at year-end.

Some 420,000 shares on average were traded each day in 2009

15 analysts following QSC • The global financial crisis also impacted staffing levels at many banks, thus reducing their ability to publish studies on individual shares and industries. Nevertheless, 15 analysts were regularly following the Company at year-end 2009, a large number for a relatively small-cap issue like QSC. Although four financial institutions, Berenberg Bank, Credit Suisse, Merrill Lynch and WestLB, terminated their coverage during the course of the year, QSC was able to win a new financial institution, Silvia Quandt Research, which is especially active in the small- and mid-cap sectors.

At the close of 2009, one third of the analysts were issuing "Buy" recommendations for QSC shares, seven advised that investors hold their shares and three that they sell them. These differing assessments correlate to the wait-and-see attitude on the part of some institutional investors toward QSC. Following the good development of operative business in 2009, they, like the analysts, are waiting to see whether the Company will be able to continue its strategy of sustained profitable growth in a difficult market environment during the current fiscal year – the guidance presented in early March 2010 provided major initial indications of this.

FINANCIAL INSTITUTIONS THAT PUBLISH STUDIES ON QSC

Commerzbank	JPMorgan Cazenove	New Street Research
Deutsche Bank	Kepler Capital Markets	Sal. Oppenheim
DZ Bank	Landesbank Baden-Württemberg	SES Research
Exane BNP Paribas	Merck Finck & Co.	Silvia Quandt Research
HSBC Trinkaus & Burkhardt	Metzler Equities	UniCredit

BASIC INFORMATION ON 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, HDAX, CDAX,
	Midcap Market, Technology All Share,
	Prime All Share, DAX International Mid 100,
	DAXplus Family,
	DAXsector All Telecommunication,
	DAXsector Telecommunication,
	DAXsubsector All Fixed-Line Telecommunication,
	DAXsubsector Fixed-Line Telecommunication
Designated Sponsorship	Close Brothers Seydler Bank AG,
	HSBC Trinkaus & Burkhardt AG
Shares outstanding as of December 31, 2009	136,998,137
Share class	No-par-value registered shares of common stock
Xetra price, closing at December 30, 2008	€ 1.24
Xetra price, maximum in 2009	€ 2.00
Xetra price, minimum in 2009	€ 0.75
Xetra price, closing at December 30, 2009	€ 1.70

QSC present among institutional investors across Europe • The numerous research studies assured a corresponding level of investor attention in 2009. During the course of the year, board members presented QSC at roadshows in all major financial hubs in Europe, as well as at capital market conferences conducted by such leading financial institutions as Chevreux, Commerzbank, Deutsche Bank, UniCredit and WestLB. Fund managers attentively noted the progress that QSC was making in its operative business and in reducing its net debts, in particular. At the same time, many signaled in talks that a rising free cash flow in 2010 and beyond, in particular, would enhance the attractiveness of QSC shares, and thus increase the focus of international investors on them.

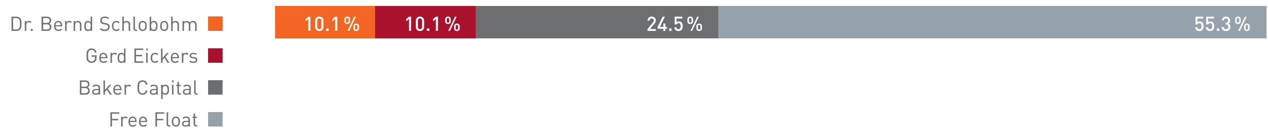
Major shareholder continuity • The wait-and-see attitude on the part of institutional investors, on the one hand, and the Company's good operative development and a corresponding level of positive media coverage, on the other, altered QSC shareholder structure in fiscal 2009, with the weight of private investors rising moderately. Overall, the Register of Shares showed that the number of shareholders increased to 31,046 as of December 31, 2009, as opposed to 29,421 one year earlier.

QSC's largest shareholders have not sold a single share since the IPO

The Company's three largest shareholders continued to be its two founders, Dr. Bernd Schlobohm and Gerd Eickers, each holding 10.1 percent of QSC's 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.
At year-end 2009, the free-float stood at 55.3 percent. 45.8 percent of these shares were attributable to private investors, 54.2 percent to institutional investors. In May 2009, DWS Investment GmbH, of Frankfurt am Main, Germany – a subsidiary of Deutsche Bank – notified QSC that it now held less than three percent of voting rights.

Website the key information platform • All shareholders and other interested parties can find all relevant information relating to QSC and its shares at the Company's website: www.qsc.de/en/qsc-ag/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. The Company also publishes all news of relevance to capital markets in a timely fashion on its website. As a service, QSC offers an Investor Relations newsletter that informs subscribers about such news immediately after it is announced. Moreover, since 2009 the Company has additionally been utilizing the Twitter social network, in addition to an RSS feed, to provide information to interested parties.

SHAREHOLDER STRUCTURE AS OF DECEMBER 31, 2009



Innovations for SMEs » At the CeBIT tradeshow in March 2009, QSC won the IT Innovation Prize for its network-based telephone system. IPfonie centraflex provides the kind of efficiency and flexibility that small and mid-size companies expect. QSC offers these kinds of convincing innovations – and generates high-margin revenues with them.

Group Management Report

The Company 16

Human Resources 28

General Conditions 31

Profitability, Financial Position and Net Worth 35

Report on Opportunities and Risks 49

Outlook 59

The Company

BUSINESS OPERATIONS

QSC offers mid-size companies high-quality broadband services

Broadband communication for business customers • QSC is a leading mid-size service provider in the telecommunications industry with its own Next Generation Network (NGN), and offers small- and mid-size enterprises, first and foremost, the entire portfolio of high-quality broadband services. In addition to providing intelligent network-related voice and data services, QSC also implements complete site networking (IP-VPN), including Managed Services, and affords high-performance DSL, Ethernet and wireless local loop connections that offer speeds of up to 800 Mbit/s. In addition, in its Wholesale business the Company provides the requisite preliminaries to national and international carriers, Internet service providers, as well as strong marketing partners in the residential customer market. QSC structures its lines of business into three business units (BU):

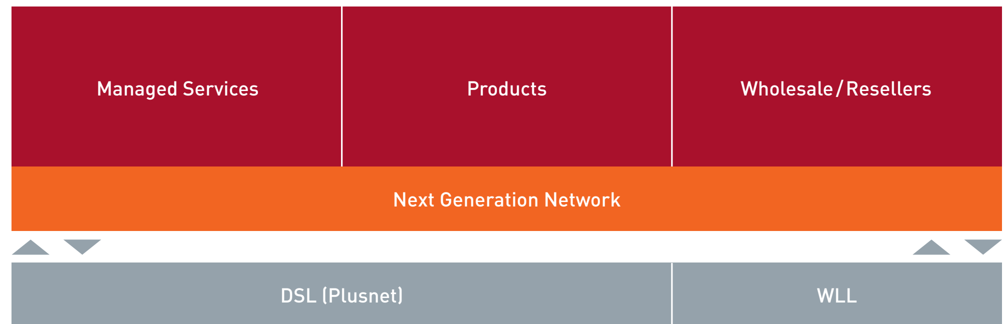
Managed Services • QSC develops and operates custom-tailored, sophisticated telecommunications solutions for large and mid-size enterprises, and markets them directly through its own key account management organization. The foundation for these Managed Services typically consists of IP-based virtual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

Products • With products from QSC, small and mid-size companies can operate all of their voice and data communications over one and the same broadband line. The spectrum of offerings includes Internet connections, direct connections to the QSC voice network, as well as Voice over IP products and standardized solutions such as the virtual telephone system, IPfonie centraflex. QSC collaborates exclusively with regional distribution partners, distributors and systems houses.

Wholesale/Resellers • National and international carriers, Internet service providers, as well as 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 operates QSC's wholesale voice business, under which QSC makes voice telephony services available to resellers who do not possess a corresponding nationwide infrastructure of their own.

QSC operates Next Generation Network throughout • All of the business units utilize QSC's nationwide infrastructure. The Company possesses an IP-based Next Generation Network throughout Germany. Network operating subsidiary Plusnet operates a nationwide DSL network over the last mile. It 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. Moreover, the Company also possesses one of the largest Wireless Local Loops (WLL) in Germany, thus enabling it to assure maximum redundancy for business customers.

QSC'S BUSINESS OPERATIONS



KEY MARKETS AND COMPETITIVE POSITION

Focusing on small and mid-size customers in Germany • QSC is a telecommunications provider for enterprises of every size – from handicraft business right through to large corporates. The focus is on serving small and mid-size customers, as QSC, itself a mid-size company, enjoys particular credibility here and can collaborate with customers at eye level. The Products and Wholesale/Resellers Business Units operate exclusively on the German market; in the Managed Services business, European sites can be integrated into national IP-VPN solutions if needed.

QSC has a good market position in all three business units

QSC has established a good position in the marketplace in all three business units. In Managed Services, QSC is the only mid-size player to number among the key providers of networking solutions, in addition to internationally operating concerns Deutsche Telekom, Telefónica and Vodafone. Ex-monopolist Deutsche Telekom is the Company's main competitor in the Products segment, as well, along with Vodafone, Versatel and city carriers like M-net and NetCologne. In this environment, QSC shines in particular with the product and service quality of a mid-size provider. In the Wholesale/Resellers segment, the Company competes against the other alternative network operators in Germany, first and foremost Telefónica and Vodafone. The NGN additionally affords the Company an outstanding market position in voice business, as this enables QSC to offer voice services at extremely competitive terms.

LEGAL AND ECONOMIC FACTORS

QSC operates in a regulated market • The German telecommunications market is largely subject to regulation by the German Federal Network Agency. The purpose of this is to assure fair competition in this market, where liberalization started not until 1989. Up until then, Deutsche Telekom (DTAG) had operated as a monopolist on the German market; it 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 issued during the past fiscal year:

On March 31, 2009, the regulatory authority issued a decision calling for a lowering of the monthly fee that competitors have to pay to DTAG for the local loop from € 10.50 to € 10.20. While the German Federal Network Agency did clearly deny DTAG's request for an increase, the fee nevertheless continues to be around two euros higher than the level in other major European markets and far above the real costs of DTAG. A decision by the Administrative Court of Cologne in August 2009 about the local loop prices of 2001 broadened the latitude for potential price decreases. As in its decision about the local loop prices of 1999, the court criticized the fact that not just theoretical replacement costs should serve as the basis for calculating the local loop fee, but that historical costs, too, must be taken into consideration. This decision had not yet become final at the close of the 2009 fiscal year, as the losing parties filed an appeal with the German Federal Supreme Administrative Court against the refusal to hear the lower-instance appeal.

In 2009, the regulatory authority lowered the monthly local loop fee

Following months of discussion, on December 7, 2009, the German Federal Network Agency issued its decision on the concrete rules of competitor access to DTAG's DSL network. The regulatory authority stated clearly that competitors are also entitled to fee-based co-utilization of the former monopolist's infrastructure in connection with VDSL, as well. This applies, on the one hand, with respect to the cable branches, where DTAG has to provide space for other providers' hardware or an access possibility in the direct vicinity. On the other hand, the German Federal Network Agency defined the terms and conditions for the use of conduit and obligated DTAG to provide access to unutilized fiber should no conduit capacity be available. A decision on this basis relating to the amount of the individual fees is expected during the current fiscal year, even though temporary relief providing access to unused fiber has since been rescinded by a decision of the German Federal Supreme Administrative Court on July 4, 2007, relating to the underlying regulatory decree.

STRATEGY

QSC views itself as the leading mid-size player in the telecommunications industry • During the course of fiscal 2009, QSC further focused its strategic alignment, summing it up in a new Mission Statement:

> »QSC is the leading medium-sized provider in the telecommunications market who creates sustainable value for medium-sized companies, cooperation partners and employees through highest quality and customer focus.«

In order to achieve this kind of positioning, the Company is striving for leading positions in the telecommunications industry in three areas:

» Profitability
» Customer satisfaction
» Employee satisfaction

Greater value leads to greater profitability • QSC's strategy is aligned toward profitable growth, and thus toward sustainably increasing the value of the Company. In spite of the economic and financial crisis, QSC was thus able to increase its EBITDA margin, the key metric for profitability, from 16 percent in 2008 to 18 percent in fiscal 2009.

QSC is evolving from a network operating company to a service provider

In the coming years, QSC anticipates that profitable growth will stem first and foremost from its evolution from a network operating company to a service provider that generates a growing share of its total revenues in such forward-looking markets as Software as a Service and Cloud Computing. In this connection, QSC will be benefiting from the convergence of information and telecommunications technology, as it can be expected to spark increased demand for network-related services. Although the Company is primarily utilizing internal resources in its continuing development, it does not preclude the possibility of targeted acquisitions.

QSC's focus on profitable growth will go hand in hand with a further industrialization of all processes, as well as strict cost management. At the same time, a strong balance sheet assures financial independence. On balance, the Company was debt free as of December 31, 2009, and plans to increase its financial strength during the current fiscal year by generating a growing free cash flow.

Focusing on small and mid-size customers • With its new Mission Statement, QSC is sustainably and clearly positioning itself as a mid-size company for small and mid-size companies. Thanks to its own mid-size structure, QSC possesses a clear competitive advantage with small and mid-size companies, and can swiftly and competently satisfy the needs of these customers. The

Company intends to broaden this competitive advantage in the coming years, and thus win new customers and increase its percentage of the ICT budgets of its existing customers through cross-selling of voice and data services, as well as through its offerings of additional network-related services. By constantly improving its service, QSC will at the same time further strengthen customer loyalty and generate profitable growth.

Central importance of the QSC workforce • It takes first-class people to provide first-class service. For this reason alone, the motivation and satisfaction of all employees is of crucial importance for QSC's corporate success. All employees are self-directed within their own areas of responsibility; this plays a significant role in employee satisfaction. In the coming years, QSC will be further improving its human resources policies, thus developing even more strongly into a modern, socially responsible company that offers a performance-based yet equitable compensation system. This includes the introduction of a variable salary element for all employees, as well as standardization of the contract structures at the individual Group companies.

In the coming years, QSC will be further improving its HR policies

ORGANIZATIONAL STRUCTURE

QSC AG the hub of the organization • Cologne-based QSC AG is the parent corporation of the QSC Group and 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. Selling operations essentially occur within the three business units, to which the majority of the employees are organizationally allocated. Each of these business units has a clear customer focus and operates in its own markets with a high degree of independence; the respective business unit managers are responsible for their own revenues and profitability.

QSC AG's Headquarters in Cologne are also the Company's largest location; a total of 70 percent of the workforce are employed here. QSC's second largest location is Hamburg, where broadband provider Broadnet, which merged with QSC in October 2007, had previously been headquartered. In addition, the Company also maintains sales offices in Berlin, Frankfurt, Leipizig, Hanover, Munich and Stuttgart, as well as business offices in Bremen and Vellmar.

One major equity investment consists of network operating company Plusnet GmbH & Co. KG, which was founded in July 2006. QSC holds 67.5 percent of its shares, while the German subsidiary of the Swedish-based TELE2 telecommunications group holds 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.

A further major equity investment consists of Ventelo GmbH. Acquired in late 2002, this company's offerings to small and mid-size customers include direct landline connections, preselect and call by call, as well as value-added services.

QSC additionally includes numerous smaller companies, which market call-by-call offerings for residential customers, in particular. These companies, all headquartered in Cologne, are Broadnet Services GmbH, BroadNet Deutschland GmbH, 010090 GmbH, 010052 Telecom GmbH, 01012 Telecom GmbH, as well as 01098 Telecom GmbH.
Two further companies round out QSC's organizational 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
010052 Telecom GmbH	100.0
01012 Telecom GmbH	100.0
01098 Telecom GmbH	100.0
EPAG Domainservices GmbH	100.0
Q-DSL home GmbH	100.0

HOW QSC IS STEERED

Consistent steering system utilizes three key metrics • QSC is steered through a consistent system involving three key metrics: Cash flow per share, EBIT margin and revenue growth. The Company uses these steering parameters to assure that well-balanced decisions are being made throughout the company within the factors of liquidity, profitability and growth.

QSC'S STEERING CONCEPT

The three business units, Managed Services, Products and Wholesale/Resellers, operate as independent profit centers within the organization, and are steered on the basis of the target parameter of EBIT margin. This is the ratio between the costs attributable to the respective business unit and its revenues, as presented in the external segment reporting on page 105.
The key steering parameters developed as follows for the past two fiscal years:

	2009	2008
Cash flow per share (in €)	+0.09	(0.24)
EBIT margin, Managed Services	(0.1%)	+0.4%
EBIT margin, Products	+5.0%	+1.7%
EBIT margin, Wholesale / Resellers	+2.0%	+1.7%
Revenue growth	+2%	+23%

In addition to further financial parameters, QSC also uses the following non-financial performance indicators for steering the Company internally: Time to live for new customers, measurement of customer satisfaction through surveys, hotline availability and network uptime are employed to measure the strategic objective of customer satisfaction. The strategic objective of employee satisfaction is currently being operationalized through the parameters of personnel attrition and, in the future, through annual employee surveys. QSC plans to broaden these non-financial parameters in order to do equal justice to all three of the Company's strategic objectives.
From an organizational standpoint, the following instruments are essentially utilized to steer QSC:

In the future, QSC plans to broaden nonfinancial parameters

- 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.

MANAGEMENT AND OVERSIGHT

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. 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 also a member of the eleven-person Executive Board, which is in charge of daily operative business and meets once a week for this purpose. It is made up of the following members:

Members of the Executive Board *	Function
Dr. Bernd Schlobohm	Chief Executive Officer
Jürgen Hermann	Management Board member (CFO)
Joachim Trickl	Management Board member (COO)
Dr. Stefan Barth	Manager, Managed Services Business Unit
Andreas Matthias	Manager, Products Business Unit
Arnold Stender	Manager, Wholesale/Resellers Business Unit
Ralph Vaupel	Manager, Information Technology
Martin Rüther	Manager, Human Resources
Tobias Gramm	Manager, Legal Affairs
Frank Thelen	Manager, Telecommunications Technology
Dr. Jürgen Mattfeldt	Manager, Corporate Strategy

* As of December 31, 2009

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 such corporate staff departments as Finance, Marketing and Human Resources. The Declaration of Corporate Management / Corporate Governance Report that begins on page 122 contains further information relating to the operations of the Management and Supervisory Boards.

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, 2009, 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 31,046 shareholders as of December 31, 2009.

Limitations of voting rights or transfers of shares • Each share possesses one vote. The Management Board is not aware of either limitations to voting rights or restrictions to the transfers of shares.

Direct or indirect holdings of more than 10 percent of capital • As of December 31, 2009, 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 September 11, 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 September 11, 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, 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, authorized the Management Board pursuant to § 71, Sub-Para. 1, No. 8, German Stock Corporation Act (old version), to acquire QSC shares totaling up to 10 percent of the capital stock of the Company by October 31, 2009. The Management Board did not make use of this authorization.

The Company did not acquire QSC shares in the past fiscal year

Authorized capital • The Management Board is 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 € 51,232,720 (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.

In 2009, QSC did not use the authorized capital

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. It was not used during the past fiscal year.

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 2008, QSC entered into a contract with three financial institutions for a line of credit in the amount of € 50 million; this contract provides the financial institutions with the option of special termination should a natural or legal person, acting either alone or together with others, gain control over QSC. 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.

DEVELOPMENT OF KEY PERFORMANCE FACTORS

Research and development an integral element of business operations • 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 and budget, but instead views innovation as a central element of the daily work of all of its people. Year in and year out, they develop any number of quality and process innovations through their interaction with customers. These innovations assure the smooth migration of customers' complex information technology and telecommunication systems to QSC's portfolio of services and form a key prerequisite for long-term collaboration.

This close collaboration with customers simultaneously sparks new ideas for evolving QSC's own products and services. During the past fiscal year, this strong interest on the part of customers prompted the Company, in particular, to expand the functionalities of its software-based IPfonie centraflex telephone system. Since the summer of 2009, Unified Communications and comfortable control functions have been making call management even more efficient, flexible and straightforward. This telephone system, which won the IT Innovation Prize at CeBIT 2009, enables telephone calls to be initiated by a mouse-click from within Outlook, faxes to be sent and received on a PC (Fax to Mail/Mail to Fax), as well as conference calls to be initiated via e-mail. IPfonie centraflex underscores QSC's competence in the forward-looking Software as a Service (SaaS) market. The Company will be readying further SaaS applications for market in 2010.

Selling is QSC's core competence • In marketing its products and services, QSC uses differing approaches in its three business units, each of which is aligned to the needs of its customers.

The Managed Services Business Unit addresses some 8,300 larger and mid-size companies in Germany who want products and services that are custom-tailored to their individual needs. QSC works this market with a 39-member key account management organization. This assures that every customer has a specific point of contact he can turn to in connection with any questions or issues that might arise. The key account management organization works in collaboration with the various departments to assure that the desired custom solutions are built and operated.

The target market for the Products Business Unit consists of the nearly 900,000 smaller SMEs in Germany, where one employee is typically responsible for information and communication technology and which otherwise work with regional partners. In this segment, QSC therefore focuses on partnering with these kinds of regional telecommunications providers and trains them intensively. In fiscal 2009, contracts were in place with some 100 regional distribution partners, some of whom in turn partner with subcontractors (small companies) at the local level. Moreover, in 2009 QSC established a new distribution channel for distributors who supply specialty retailers. Michael Telecom, alone, works together with some 12,000 companies throughout Germany.

QSC has contracts with some 100 regional distribution partners

Since August 2009, this IT and telecommunications distributor has been marketing voice and data products from QSC, with particular emphasis on the IPfonie centraflex virtual telephone system. And ALLNET has also numbered among QSC's distributors since September 2009.

The Wholesale/Resellers Business Unit focuses on some 150 key customers

In the Wholesale/Resellers Business Unit, QSC addresses some 150 Internet service providers, national and international carriers, as well as telecommunications providers who do not possess an infrastructure of their own. A 19-member key account management organization at QSC engages in an ongoing dialog with these target companies, while simultaneously coordinating the internal processes that are required for supplying and billing DSL and voice preliminaries.

QSC'S BUSINESS UNITS AND TARGET MARKETS

BU Managed Services	BU Products	BU Wholesale / Reseller
about 8,300 larger and mid-size companies in Germany	nearly 900,000 small and mid-size companies in Germany	about 150 Internet service providers, national / international carriers

Sustainability the guiding principle in both purchasing and regular operations • 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 being able to transmit 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 work-at-home plans, 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. Logically enough, the Company uses work-at-home plans and videoconferences for its own operations; all locations are equipped with videoconferencing systems for this purpose.

Resource conservation governs QSC's behavior in all areas, and especially in connection with its purchasing policies. The Company optimizes its energy inputs, for example, by deactivating unused ports in central offices and swiftly replacing outmoded, energy-intensive servers. Moreover, in 2009 Purchasing changed over the lion's share of the electricity it purchases to regenerative energies. At the same time, QSC's Purchasing Department monitors the overall lifecycles of all resources used within the Company and assures that materials are largely reused within the framework of statutory regulations and beyond.

The following section entitled "Human Resources" contains further information relating to sustainable development and QSC's social engagement.

Human Resources

WORKFORCE

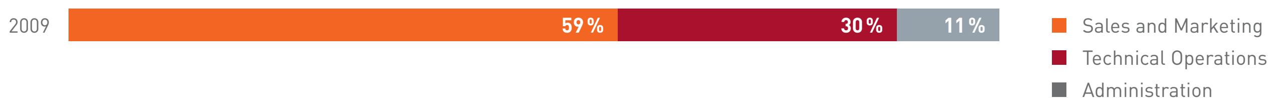
People are QSC's major asset • QSC's success is based upon the achievements of all of its people. This is why their satisfaction enjoys particular attention. A value-based corporate structure, a high degree of self-direction and performance-based, equitable compensation play a major role in the employees' identification with their company.

At year-end 2009, QSC employed 664 people

Totaling 664 people, the workforce on December 31, 2009, was down moderately from the previous year's level, when QSC employed 678 people. QSC measures its workforce on the basis of full-time equivalencies. 462 of our people work in Cologne, where all Group companies with the exception of EPAG Domainservices are legally domiciled. Hamburg remains the second-largest location with 83 jobs; this is where broadband operating company Broadnet had been headquartered until its merger in October 2007. The remaining employees are mainly distributed among the six sales offices and two branch offices throughout Germany. Legally speaking, the majority of the employees are employed at QSC AG, which numbered a workforce of 571 people on December 31 of the past fiscal year. Network operating company Plusnet GmbH & Co. KG had 82 employees, EPAG Domainservices GmbH 11.

Key importance of selling operations • QSC is increasingly developing into a distribution-oriented organization, and the composition of its workforce reflects this development. As of December 31, 2009, 59 percent of our employees were working in distribution-related areas; these include the three business units, as well as Marketing and Quality and Complaint Management. 30 percent work in technical operations to assure smooth operation of the nationwide infrastructure, while simultaneously helping to evolve QSC's products and services. Only 11 percent of all employees work in administration.

WORKFORCE STRUCTURE



Sales and Marketing
Technical Operations
Administration

COMPENSATION

Compensation linked to corporate success • Since going public, QSC has taken pains to provide performance-based and equitable compensation. QSC is not subject to any collective-bargaining agreements, preferring instead to utilize a compensation system that is geared to the Company's needs. This system reflects the organization's entrepreneurial spirit and allows employees to share in the Company's success in the form of variable compensation schemes and stock option plans. Details of the stock option plans are contained on pages 106 – 107 of the Notes.

A variable salary system that is based upon an over-arching Company agreement is in place for executives and professionals. Under this system, the variable compensation is based increasingly upon corporate objectives as executive responsibility rises; these corporate objectives correspond to the guidance that is traditionally announced at the outset of the year.
100 percent of the variable compensation for members of the Executive Board relate to the three corporate objectives of EBITDA, free cash flow and net income, thus rewarding their commitment to the Company as a whole. Corporate objectives account for 70 percent in the case of second-tier management; 30 percent of the variable compensation here is measured on the basis of so-called performance targets, which can relate to either individual targets or to targets in that employee's own area. On the two next levels of the hierarchy, the share of compensation accounted for by these performance targets rises to 50 and 70 percent, respectively, thus intentionally providing a greater reward for accomplishments in the employee's own work environment.

Compensation report • Detailed information relating to the compensation paid to members of the Management Board is contained on pages 128–129 of the Corporate Governance Report; the compensation report contained therein is an element of the Group Management Report.

INITIAL AND CONTINUING TRAINING AND EDUCATION

In fiscal 2009, the trainee ratio rose to 5.3 percent

Strong commitment to training • On December 31, 2009, QSC employed 35 trainees, seven more than the year before; the trainee ratio rose to 5.3 percent. QSC views its commitment to in-company training not just as an essential element in securing new blood for the future, but also as an important element of the Company's social responsibility. QSC primarily trains information technology specialists, focusing on systems integration and applications development, as well as administrative clerks and IT systems 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. In addition, QSC is also involved in training university graduates under an intern program. On December 31, 2009, the Company employed five interns, in particular in clerical areas.
Recruiting new people leads to an ongoing reduction in the average age of the workforce. At year-end 2009, 58 percent of QSC's employees were younger than 40. 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.

Ongoing continuing training and education • 70 percent of the 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 consisted of broadening professional and leadership competencies, customer focus, as well as self-discipline and time management. During the past fiscal year, QSC spent € 0.4 million on additional external measures.

CORPORATE CULTURE

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 helping to assure the loyalty of its people to the Company; as of December 31, 2009, the average seniority of the workforce stood at five years.

Compatibility between family and work • A major element of QSC's value-based corporate culture consists of an understanding for the personal situation of every employee and taking his or her wishes into consideration within the framework of the opportunities offered by a mid-size employer. This includes the creation of work-at-home jobs as well as part-time work; in 2009, the part-time ratio stood at some six percent. The use of flexible working hours throughout the organization facilitates the compatibility between family and work. Nearly 20 employees are regularly on parental leave, and QSC makes a very special effort to ease parents' re-entry into working life. This also includes offering both male and female employees prospects for their further careers as professionals or executives. In 2009, 11 percent of all executives were female.

Employees can do work-at-home jobs

Social commitment to youth • In its social commitment, mid-size company QSC intentionally focuses on initiatives within the Company or its direct environment, with emphasis centering on such issues as in-company training and compatibility between family and work. 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 for daycare facilities right through to easing young people's entry into their working lives.

Economic Conditions

GENERAL ECONOMIC CONDITIONS

2009 characterized by global recession • According to calculations from the International Monetary Fund (IMF), world gross domestic product declined by 0.8 percent in 2009 as a result of the global economic and financial crisis. While major Asian economies like China and India were able to sustain their growth, albeit in weaker form, the economy stabilized only sluggishly in Europe and North America following a serious slump in growth. The IMF calculates that the U.S. economy contracted by 2.5 percent over the course of the entire year, with the euro zone countries having to accept a 3.9-percent decrease in gross domestic product.

Economies like Germany, which are highly dependent upon exports, were especially hard-hit by the global recession. The German Federal Office of Statistics calculates that German gross domestic product sank by five percent in 2009. While consumer spending remained largely stable, domestic capital spending on equipment fell by 20 percent. Over the course of the year, the German economy was sluggish in following the global trend; the world's most serious post-war recession ended in the second quarter of 2009 in Germany. During the months that followed, early indicators like the IFO business climate index improved, but from an extremely low baseline. Nevertheless, enterprises across all industries sustained both their cautious attitude toward capital investments as well as their strict cost management.

GDP DEVELOPMENT IN GERMANY

GENERAL INDUSTRY CONDITIONS

Revenues of the telecommunications industry decreased again in 2009

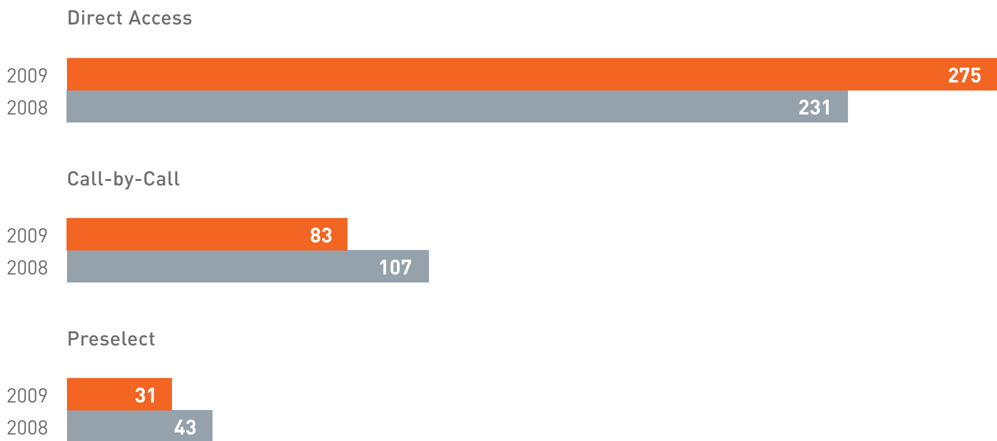
Telecommunications market burdened by price degradation and recession • According to a study conducted by the German Association of Providers of Telecommunications and Value Added Services (VATM), the revenues of the German telecommunications industry again decreased in 2009: Including the revenues of cable network operators, the industry posted revenues of € 62.0 billion during the past fiscal year, as opposed to € 64.3 billion in 2008. In this connection, a recession-induced wait-and-see attitude on the part of many enterprises toward capital investments was noticeable as a result of the recession, on the one hand. On the other, the sustained price war as a result of flat rate and Voice over IP offerings, especially in legacy voice telephony, drove revenues downward. According to the German Federal Office of Statistics, telecommunication prices were down by 2.4 percent year on year on annual average in 2009.

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 19 percent to 275 million. In contrast, the number of minutes per day for call-by-call and preselect offerings declined by more than 20 percent to 83 million and 31 million minutes per day, respectively.

Growth in complete connections was attributable, in particular, to the rising significance of Voice over IP technology, which was already accounting for 28.7 percent of all complete connections in 2009. Three years earlier, when QSC was one of the first telecommunications providers in Germany to drive the establishment of an NGN, this technology had only accounted for 1.9 percent of the total.

Nearly 30 percent of all complete connections are based on VoIP technology

VOICE CALL MINUTES IN GERMANY (in million minutes per day)

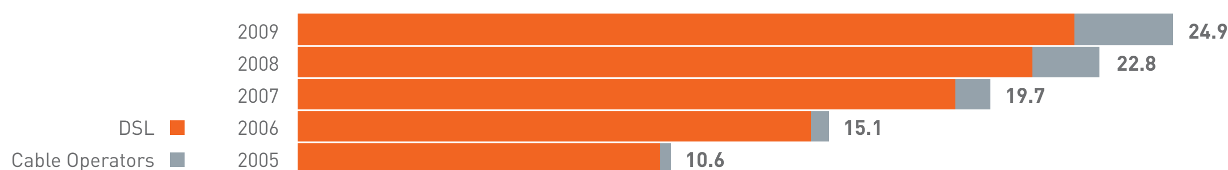


German DSL market nearing saturation • In 2009, according to the VATM, the number of broadband connections in Germany rose by another 2.1 million; growth was thus down from the previous years. The German Federal Network Agency anticipates that with a broadband penetration rate of over 60 percent, the German market is gradually nearing the saturation point. In contrast to previous years, Deutsche Telekom and cable network operators dominated new business.

At year-end 2009, more than 90 percent of all DSL connections in Germany were providing downstream speeds of at least two Mbit/s. 52 percent were already offering downstream speeds of more than six Mbit/s, as opposed to only 31 percent the year before. These kinds of high bandwidths afford smooth usage of video, television and gaming over the Internet and can be provided by QSC's infrastructure.

DSL remains the dominant broadband technology for enterprises • DSL's high availability serves as the foundation for the sustained high market share enjoyed by this technology in Germany; in 2009, according to IDC, 89 percent of all broadband connections were based upon DSL. While cable television did win market share, especially in the metropolitan areas – with the number of connections rising by 0.9 million to 2.8 million in 2009 – there were still 22.1 million DSL connections.

NUMBER OF BROADBAND CONNECTIONS (in millions)



Since DSL technology, in contrast to cable TV, 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 continued to be based upon DSL technology in 2009; this represents 3.0 million connections. The number of connections rose by another 0.2 million by comparison with 2008, with the corresponding expenditures increasing to € 1.5 billion.

DSL CONNECTIONS AT ENTERPRISES (in millions)

QSC's core market has reached € 9.8 billion

Attractive core market • QSC's strategy targets the telecommunications market for small- and mid-size enterprises in Germany. According to internal estimates, this was a € 9.8-billion market during the past fiscal year. In its calculations, QSC assumes that enterprises spend two to three percent of their revenues on information technology (IT) and telecommunications technology (TC), depending upon their industry. The vast majority of these expenditures are for hardware and software; 10 percent are accounted for by landline-based telecommunications services like voice and data transfer, as well as cross-site networking. QSC anticipates that the convergence of IT and TC in the coming years will double this addressable market – network-related services as Software as a Service solutions, in particular, will open up new revenue potential.

During the past fiscal year, QSC's core market developed on a stable note. This is also underscored by numbers from market research institute IDC. These figures show that the volume of the IP-VPN market in Germany rose moderately to € 1.4 billion in 2009, as opposed to € 1.3 billion the year before. The Voice over IP market for enterprise customers posted extremely good growth dynamics: In fiscal 2009, telecommunications providers were already generating € 0.4 billion with VoIP products and services, one third more than in 2008. Thanks to the expansion of its NGN early on, QSC is especially benefiting from this trend.

Sustained growth in the German Voice over IP market also in 2009

IP-VPN MARKET IN GERMANY **(in € billions)**

IMPACT OF THE GENERAL ENVIRONMENT ON QSC

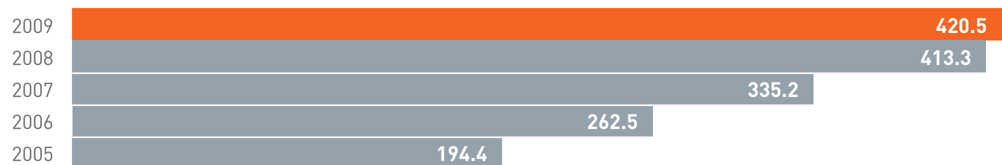
Given the very difficult environment during the past fiscal year, the Company's focus on profitable growth paid off. In spite of the world's most serious post-war recession, QSC succeeded in boosting its profitability while simultaneously reducing its net debts to zero by year-end. In this connection, QSC has benefited from systematically working the telecommunications market for small- and mid-size customers. Moreover, thanks to the expansion of its IP-based NGN throughout, the Company has also benefited from the growing demand for VoIP products on the part of enterprises and resellers. In spite of revenue declines as a result of the price war in legacy voice telephony, QSC was thus nevertheless able to record a moderate rise in revenues.

Profitability, Financial Position and Net Worth

PROFITABILITY

Focusing on profitable growth • In an extremely difficult environment, QSC grew its revenues to € 420.5 million in fiscal 2009, as opposed to € 413.3 million the year before. Given the economic crisis, the Company continued to focus on lines of business that offer sufficiently high contribution margins, while taking a cautious attitude toward markets that are characterized by price competition. In addition to conventional voice telephony, these markets increasingly also include the DSL residential customer market, in which QSC is represented by Wholesale partners. During the course of the year, QSC nevertheless activated 33,100 additional lines, increasing the total to 588,800, as opposed to 555,700 as of December 31, 2008.

REVENUES (in € millions)



The new order situation developed on a satisfactory note during the course of the year. As a result of contracts with enterprise customers that typically involve multiple-year terms and the operation of a large number of DSL lines for resellers, QSC possesses a stable customer base. Building upon this, the Company was able to broaden its share of the telecommunications budgets of its existing customers in 2009 and additionally win new customers. In contrast, the Company paid strict attention to achieving sufficient contribution margins in extending existing contracts and in ADSL2+ business, in particular, intentionally foregoing orders that offered only little profitability. Further information relating to the development of new orders and revenues is contained in the comments on the new order situation by segment on pages 39 ff.

Highly efficient network operation • With revenues rising by € 7.2 million, network expenses, which are recorded under cost of revenues and include depreciation and non-cash share-based payments, rose by merely € 1.8 million during the past fiscal year to € 325.1 million. In this connection, QSC further increased the efficiency of its infrastructure, which enabled it to achieve cost savings.

The costs of building, operating and maintaining the network decreased

As a result of strict cost management, the costs of building, operating and maintaining the network, itself, decreased to € 58.2 million in fiscal 2009, as opposed to € 63.5 million the year before. Personnel expenses declined to € 14.8 million, as opposed to € 17.2 million in fiscal 2008. Taking depreciation and amortization into account, in which, in contrast to the quarterly financial statements, the individual cost items are included in the annual financial statements in accordance with IFRS, the structural elements of network expenses declined overall to € 120.3 million, as opposed to € 127.7 million the year before; they accounted for 37 percent of total network expenses in fiscal 2009, as opposed to 39 percent in 2008.

By contrast, 63 percent of network expenses were attributable to cost of materials; this line item rose by € 9.2 million year on year to € 204.8 million, first and foremost because of QSC's success in IP-based voice business.
On balance, gross margin improved by one percentage point to 23 percent; gross profit rose to € 95.5 million in 2009, as opposed to € 90.0 million the year before.

The gross margin improved to 23 percent

GROSS PROFIT (in € millions)

Year	Gross profit
2009	95.5
2008	90.0

Highly efficient selling and administrative operations • At € 54.0 million, as opposed to € 54.1 million in fiscal 2008, selling and marketing expenses remained virtually unchanged. In addition to depreciation expense, this line item essentially records three blocks of costs: Personnel expenses, commission payments and advertising expenses. Pages 26 f. of the Group Management Report contain further information relating to the way Sales operates.
General and administrative expenses rose moderately to € 32.3 million in fiscal 2009, as opposed to € 30.8 million in 2008. However at eight percent, this line item continued to account for a very low share of total revenues; the same also applies with respect to selling and marketing expenses, which continue to account for 13 percent of total revenues.

SELLING AND MARKETING EXPENSES (in € millions)

Year	Selling and marketing expenses
2009	54.0
2008	54.1

High-margin revenues 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, these metrics are included in the line items for cost of revenues, 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:

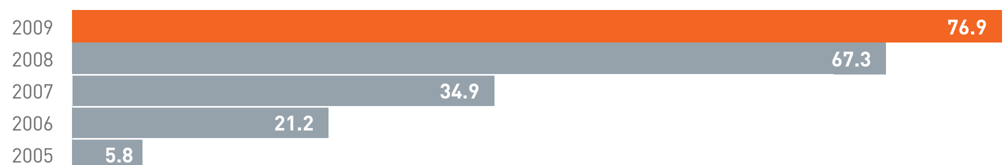
in T €	2009	2008
Net revenues	**420,546**	**413,304**
Cost of revenues *	(277,817)	(276,308)
Gross profit	**142,729**	**136,996**
Selling and marketing expenses *	(39,849)	(45,316)
General and administrative expenses *	(26,459)	(25,283)
Other operating income	1,849	2,749
Other operating expenses	(1,380)	(1,862)
EBITDA	**76,890**	**67,284**
Depreciation/amortization	(66,728)	(60,552)
Non-cash share-based payments	(490)	(674)
Operating profit (EBIT)	**9,672**	**6,058**

* Excluding depreciation/amortization and non-cash share-based payments

QSC grew its EBITDA to € 76.9 million

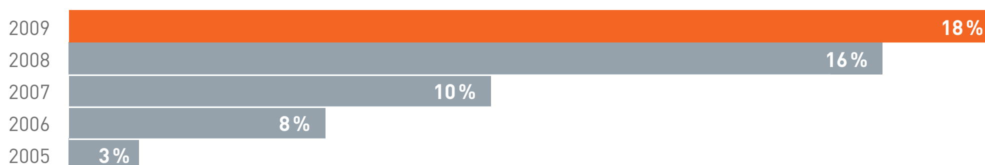
EBITDA margin rises to 18 percent • In an extremely difficult environment, the Company's focus on profitable growth as well as strict cost discipline throughout the organization enabled QSC to grow its EBITDA by € 9.6 million to € 76.9 million in fiscal 2009 – while revenues increased by € 7.2 million during the same period. QSC defines EBITDA as earnings before interest, taxes, amortization of deferred non-cash share-based payments, as well as depreciation and amortization of fixed assets, intangible assets and goodwill.

EBITDA **(in € millions)**



During the past fiscal year, QSC was able to grow its EBITDA margin – the key metric for the profitability of operative business in the telecommunications market – to 18 percent, as opposed to 16 percent in 2008.

EBITDA MARGIN



Depreciation expense increased to € 66.7 million during the past fiscal year, as opposed to € 60.6 million the year before, thus reaching its peak. QSC anticipates declining depreciation expense beginning in fiscal 2010. The rise in 2009 was chiefly attributable to high customer-related capital expenditures during the course of 2007 and 2008, in particular for connecting new customers in ADSL2+ business; QSC depreciates the majority of these capital expenses over a period of two years. Moreover, longer actual service lives prompted QSC to adjust the depreciation periods of individual fixed assets in 2008 and 2009 in order to reflect actual conditions. The Notes to the Consolidated Financial Statements on page 77 contain further comments on this subject.

EBIT advances by 59 percent • During the past fiscal year, QSC earned an operating profit before interest and taxes (EBIT) of € 9.7 million, as opposed to € 6.1 million in 2008. The Company's financial loss rose moderately to € -2.5 million, as opposed to € -1.5 million in 2008, in particular due to the extremely low interest rate level for investments of liquid assets. Earnings before income taxes thus totaled € 7.2 million, as opposed to € 4.5 million the year before.

Operating profit (EBIT) rose to € 9.7 million during the past fiscal year

Net income up sharply • As of December 31, 2009, QSC recorded income taxes in the amount of € -1.7 million, as opposed to € -3.8 million the year before. € -0.4 million of this total was attributable to local business taxes and € -1.3 million to non-cash deferred tax expenses.
Consolidated after-tax net income stood at € 5.5 million in 2009, as opposed to € 0.8 million the year before. QSC was thus able to grow its profitability by € 4.7 million on a € 7.2-million rise in revenues – the Company's focus on profitable growth paid off in recession year 2009.

NET PROFIT (LOSS) (in € millions)

PROFITABILITY BY SEGMENT

Focus on small and mid-size customers in the Managed Services segment • Revenues in the Managed Services segment rose moderately to € 74.3 million in fiscal 2009, as opposed to € 73.3 million the year before. In this connection, the positive development of new business was offset by greater price sensitivity in connection with contract extensions as a result of the recession. In its new business, QSC further tightened its strategy in 2009 under the direction of the new member of the Management Board, Joachim Trickl; the Company is now focusing even more strongly on winning small and mid-size customers and assuring their loyalty. There were two reasons, in particular, for the caution on the part of large concerns: Firstly, competition from international providers is putting pressure on margins and, secondly, many of these customers have proven to require extremely intensive support in the past. In the SME sector, on the other hand, QSC can operate at eye level and score points against its internationally operating competitors by offering top quality and personal service.

MANAGED SERVICES REVENUES (in € millions)

QSC's success in new business in fiscal 2009, for example, included German automobile club ADAC, where the Company networked 180 national locations and its headquarters in Munich via a modern IP-VPN. QSC also used an IP-VPN to network some 1,250 WiFi locations, including hotels, office buildings, chain stores and public buildings, for Europe's largest hotspot operator, The Cloud.

70 percent of new business came from existing customers

70 percent of new business came from existing customers. This enabled QSC to significantly broaden its volume of orders with Düsseldorf-based legal insurance company ARAG in May 2009, for example. After having already operated complete voice communications for this prominent insurance company since 2006, QSC is now also networking some 250 locations throughout Germany with an IP-VPN. Moreover, existing customers also increasingly ordered further services, such as IP telephony or network-based telephone systems.

Significant improvement in EBITDA • In the Managed Services segment, the cost of revenues, a line item that is incurred in particular, for utilization of QSC's nationwide infrastructure, totaled € 41.4 million in 2009, as opposed to € 39.0 million the year before. Moreover, the Company's focused selling strategy also enabled selling and marketing expenses to be reduced to € 11.7 million, as opposed to € 16.6 million the year before; at € 9.1 million, as opposed to € 9.9 million the year before, general and administrative expenses remained virtually unchanged. In fiscal 2009, the significant decline in selling and marketing expenses played a major role in boosting segment EBITDA to € 12.1 million, as opposed to € 8.1 million the year before, with the corresponding margin improving to 16 percent, as opposed to 11 percent in 2008.

The EBITDA margin in the Managed Services segment rose to 16 percent

MANAGED SERVICES EBITDA MARGIN

Depreciation expense rose to € 12.1 million, as opposed to € 7.5 million in 2008. As a result, the operating loss of € -0.1 million in the Managed Services segment was down slightly from the previous year's level of € 0.3 million.

MANAGED SERVICES EBIT (in € millions)

Two-track development in the Products segment • At € 92.1 million for the past fiscal year, revenues in the Products segment remained clearly below the previous year's level of € 103.8 million. In this connection, expected revenue declines in legacy voice telephony concealed QSC's success in business with small and mid-size enterprises.

PRODUCTS REVENUES (in € millions)

The determining factors in business with conventional voice telephony in fiscal 2009 were price competition, which heightened even further as a result of the recession, as well as the growing popularity of flat rates. The share of revenues accounted for by preselect and call-by-call offerings continued to decline during the course of the year, amounting to only 43 percent in the fourth quarter of 2009, as opposed to 47 percent for the first quarter of 2009. This decline was also attributable to growing customer demand for Voice over IP products instead of conventional voice products. While, by comparison, QSC did achieve lower revenues with its IPfonie product family, contribution margins were considerably higher.

During the past fiscal year, QSC intentionally focused on marketing these kinds of high-margin products which, in addition to IPfonie, also include the Q-DSLmax data products and their combination with VoIP products, the QSC Complete packages. After the first quarter of 2009, on the other hand, the Company withdrew its low-margin Q-DSL home residential customer product from marketing. Instead, QSC expanded its Q-DSLmax product portfolio for symmetrical DSL connections during the course of the year in response to demand; business customers can now choose between seven different bandwidths – ranging from 2,048 kbit/s to 20,000 kbit/s.

IPfonie centraflex won IT Innovation Prize at CeBIT 2009

The high-margin products also include the Company's IPfonie centraflex virtual telephone system. At CeBIT in March 2009, QSC was awarded the IT Innovation Prize from the SME Initiative under the sponsorship of the German Federal Ministry of Economics and Technology for being the most innovative company in the Telecommunications category from among a total of some 2,000 applicants in 34 categories. During the past fiscal year, QSC established a new distribution channel for distributors to market this product, in particular, and was already posting initial success during the course of the year.

Higher profitability in spite of lower revenues • Focusing on profitable lines of business as well as strict cost discipline led to a rise in profitability in the Products segment in fiscal 2009, in spite of lower revenues. In this connection, network costs declined to € 49.0 million in 2009 as a result of declining revenues, as opposed to € 60.6 million in 2008. QSC was able to achieve considerable savings in selling and marketing expenses, as well, causing segment EBITDA to rise to € 19.4 million during the past fiscal year, as opposed to € 15.2 million the year before. The Company's EBITDA margin improved to 21 percent, as opposed to 15 percent in 2008.

PRODUCTS EBITDA MARGIN

In spite of moderately higher depreciation expense, QSC was also able to significantly grow its EBIT in the Products segment; it stood at € 4.6 million, as opposed to € 1.8 million the year before; the EBIT margin rose to five percent, as opposed to two percent one year earlier. In no other segment does QSC have such a high EBIT margin as in the Products segment – the Company's focus on higher-margin products is paying off.

PRODUCTS EBIT (in € millions)

Growing importance of Wholesale voice business • In the Wholesale/Reseller segment, QSC grew its revenues to € 254.2 million in fiscal 2009, as opposed to € 236.2 million the year before. The Company's success in Wholesale voice business played a key role in this growth; the importance of Wholesale ADSL2+ business, on the other hand, declined during the course of the year. While this business had still accounted for 49 percent of revenues in January 2009, it had fallen to 41 percent by December.

WHOLESALE/RESELLERS REVENUES (in € millions)

As expected at the outset of the year, Wholesale ADSL2+ business developed on a weaker note in fiscal 2009 than in previous years; at the same time, the lower number of new customers led to a significant decline in the especially high-margin non-recurring revenues for connecting them. Essentially, there were three reasons for this weak development: Firstly, saturation is slowly setting in for DSL connections, especially in metropolitan areas, where QSC has its own infrastructure. Secondly, price competition has heightened in this line of business, and QSC was not willing to forego a sufficient margin in order to achieve further growth here. And thirdly, a growing number of potential DSL customers were also using cable TV for broadband Internet access, especially in metropolitan areas.

On the other hand, the growing importance of cable TV also strengthened Wholesale voice business. This is because cable network operators are utilizing QSC's nationwide NGN for their voice services. Its extremely competitive cost structure also made QSC a partner of choice for voice services for other providers in the residential customer market. Classical Wholesale SHDSL business with international carriers and Internet service providers developed on a stable note in 2009.

Wholesale voice business was strengthened in the past fiscal year

Segment earning an attractive EBITDA • Both Wholesale ADSL2+ business as well as Wholesale voice business play a major role in the utilization factor of QSC's network infrastructure; consequently, at € 187.4 million, as opposed to € 176.7 million the year before, the Wholesale/Reseller segment also bears the lion's share of network expenses. The highly automated processes in this segment, on the other hand, make for relatively lower selling and marketing expenses as well as general and administrative expenses by comparison with revenues. As a result, the Wholesale/Reseller segment again earned the highest segment EBITDA in fiscal 2009, in spite of lower non-recurring revenues. Segment EBITDA reached € 45.4 million, as opposed to € 44.0 million the year before; the corresponding margin stood at 18 percent, as opposed to 19 percent in 2008.

The Wholesale/Reseller segment earned an 18-percent segment EBITDA margin in 2009

WHOLESALE/RESELLERS EBITDA MARGIN

Although the Wholesale/Reseller segment has to bear the highest depreciation expense as a result of its high network utilization factor and customer-related capital expenditures, it also recorded the highest segment EBIT of € 5.2 million in 2009, as opposed to € 4.0 million the year before.

WHOLESALE/RESELLERS EBIT (in € millions)

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, 2009, QSC's surplus liquidity was invested exclusively in money market accounts. During the course of the year, as well, the Company pursued an extremely conservative investment policy; in spite of the turbulences on financial markets, the Company did not have to make any write-downs on capital investments. Generally speaking, QSC does not employ derivative financial instruments. The Company's off-balance sheet liabilities consist only of guarantees, which are detailed in the Notes on page 112.

QSC debt-free on balance • In fiscal 2009, QSC concentrated on strengthening its financial position and profitability. The Company utilizes the parameter of free cash flow as the key metric for its financial strength. QSC defines free cash flow as the difference between its holdings of liquid assets and interest-bearing liabilities. In fiscal 2009, QSC earned a positive free cash flow in the amount of € 12.9 million; the year before, the negative free cash flow had still totaled € -32.3 million. Liquid assets, which in addition to cash and short-term deposits also include available-for-sale assets, totaled € 41.3 million as of December 31, 2009, as opposed to € 49.2 million at the close of the previous fiscal year. At the same time, during the course of 2009 QSC reduced its interest-bearing liabilities by € 20.8 million to € 40.5 million. This produced a positive free cash flow in the amount of € 12.9 million. QSC also reduced its net debts by the same volume, and on balance was thus debt-free as of December 31, 2009. Net liquidity stood at € 0.7 million; at year-end 2008, QSC was still recording net indebtedness of € -12.2 million.

in T €	Dec. 31, 2009	Dec. 31, 2008
Capital management		
Finance lease liabilities	(22,775)	(37,533)
Other short-term liabilities	(2,774)	(8,778)
Liabilities due to banks	(15,000)	(15,000)
Interest-bearing liabilities	**(40,549)**	**(61,311)**
Plus cash and short-term deposits	40,952	48,823
Plus available-for-sale financial assets	330	327
Net liquidity (net debt)	**733**	**(12,161)**

FINANCIAL POSITION

Profitable growth and elimination of debt characterize cash flow accounts • The positive development of business in fiscal 2009 led to a further rise in net cash provided by operating activities to € 65.5 million, as opposed to € 57.9 million the year before. At the same time, QSC reduced its net cash used in investing activities to € -40.3 million, as opposed to € -69.0 million in 2008. In this connection, there was a clear decrease in both payments for the acquisition of fixed assets following conclusion of the network expansion project as well as payments for the acquisition of intangible assets. Acquisitions of intangible assets consisted first and foremost of the presentation of activated customer connections in ADSL2+ business.

Further rise in net cash provided by operating activities in fiscal 2009

CASH FLOW FROM OPERATING ACTIVITIES (in € millions)

Year	Value
2009	65.5
2008	57.9

The Company redeemed € 23.5 million in liabilities under finance leasing

The strong rise in net cash used in investing activities to € -33.0 million, as opposed to € -14.2 million the year before, stemmed from the significant reduction in debt during the past fiscal year. QSC redeemed € 23.5 million, alone, in liabilities under finance leasing and reduced its further short- and long-term debt by € 6.0 million.

QSC's capital expenditures total only € 42.2 million • As planned, QSC significantly reduced its capital expenditures to € 42.2 million in fiscal 2009, as opposed to € 91.4 million the year before. 69 percent of these capital expenses were customer-related, consisting predominantly of capitalized provisioning costs for customer connections as well as technical end-user devices, such as routers.
Merely € 10.0 million, or 24 percent, was attributable to ongoing modernization and replacement investments in QSC's nationwide network, as well as to the evolution of the NGN. Seven percent of capital expenditures went for such further purposes as furniture and fixtures.

CAPITAL EXPENDITURES (in € millions)

Year	Value
2009	42.2
2008	91.4

QSC reduces debt significantly in 2009 • Thanks to its operative success, QSC was able to make even stronger use of the cash generated from operating activities for financing purposes, enabling the Company to reduce its interest-bearing liabilities. In particular, the Company redeemed debt under finance leasing agreements. Long-term liabilities under finance leasing agreements amounted to only € 7.3 million as of December 31, 2009, as opposed to € 17.4 million at the close of the 2008 fiscal year; short-term liabilities were reduced to € 15.5 million, as opposed to € 20.2 million as of December 31, 2008.
Other long-term liabilities also include a further € 0.6 million in debt from financing of customer-related capital investments; their short-term element (remaining term up to one year) in the amount of € 2.2 million is included in other short-term liabilities.
Moreover, QSC also utilized an agreement with three financial institutions on credit lines totaling € 50 million that 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, 2009, as in the year before.

NET WORTH

Sound balance sheet structure • The balance sheet total declined to € 311.3 million as of December 31, 2009, as opposed to € 352.5 million at year-end 2008. As in the year before, long-term assets accounted for 67 percent of this total, short-term assets for 33 percent. On the liabilities side, 51 percent of these assets are financed through equity capital and 49 percent through outside capital; the share of this total that is attributable to equity capital increased by seven percentage points by comparison with 2008. Long-term assets were thus financed entirely through equity capital and long-term debt.

In fiscal 2009, long-term assets represented two-thirds of all assets

Scheduled depreciation reduces value of long-term assets • Scheduled depreciation and the Company's focus on replacement and modernization investments significantly reduced the value of fixed assets to € 126.2 million in fiscal 2009, as opposed to € 141.0 million the year before. The value of other intangible assets decreased to € 33.7 million, as opposed to € 45.0 million at year-end 2008, as QSC's Wholesale partners had won fewer new ADSL2+ customers during the past fiscal year than in the year before. QSC writes off the capital expenditures for connecting these customers within a period of two years.

Strict management of accounts receivable • Given the extremely difficult economic environment, QSC very closely monitored the development of its accounts receivable in fiscal 2009, paying special attention to strict management of accounts receivable. As a result, it was possible to again reduce the level of trade accounts receivable to € 53.6 million, as opposed to € 57.9 million as of December 31, 2008. At € 1.3 million, allowances for bad debts and goodwill on accounts receivable remained very manageable, representing merely 0.3 percent of revenues. At year-end 2009, there were no accounts receivable that were older than 90 days that had not been written off in full.
Inventory is where QSC records its technical equipment for end-customers, routers and CPEs. Inventories totaled € 2.4 million in 2009, as opposed to € 3.7 million the year before.

ACCOUNTS RECEIVABLE (in € millions)

Equity ratio improves to 51 percent • In fiscal 2009, the Company's net income in the amount of € 5.5 million led to a reduction in the loss carry forward and played a major role in increasing capital stock to € 159.7 million, as opposed to € 153.7 million as of December 31, 2008. This increased the equity ratio as of December 31, 2009, to 51 percent, as opposed to 44 percent at the end of the past fiscal year.

EQUITY RATIO

Significant reduction in liabilities • In fiscal 2009, QSC continued to reduce its debt and strengthen its financial position. Long-term liabilities decreased to € 54.2 million, as opposed to € 76.4 million as of December 31, 2008; short-term liabilities declined to € 97.3 million, as opposed to € 122.4 million the year before. Over and above the decrease in debt under finance leasing agreements that was detailed within the framework of the Company's financial position, QSC also reduced its trade accounts payable as of December 31, 2009, to € 41.0 million, as opposed to € 50.0 million one year earlier.
As of December 31, 2009, QSC additionally recorded long-term debt to minority shareholders in the amount of € 42.6 million under long-term liabilities, as opposed to € 53.8 million at year-end 2008. This line item is the capital account of the co-owner of network operating company Plusnet, TELE2. This company had originally made a contribution in cash in the amount of € 50 million for its 32.5-percent holdings in Plusnet. The depreciation expenses for the DSL network that were attributable to TELE2 were deducted from this contribution. Following conclusion and financial settlement of the network expansion project, in 2009 Plusnet additionally disbursed € 10.9 million in liquidity, which it had been holding for network expansion purposes, on the basis of its owners' shareholdings. In this connection, € 3.5 million went to TELE2 on a non-recurring basis. Long-term liabilities to minority shareholders did not otherwise have any impact on liquidity.

EVENTS OF MAJOR SIGNIFICANCE FOR THE COURSE OF BUSINESS

No unusual events in fiscal 2009 • There were no singular events either within the Company or within the marketplace during the course of the past fiscal year that would have had a significant influence on the development of QSC's business.

COMPARISON BETWEEN ACTUAL AND FORECAST COURSE OF BUSINESS

Successful focus on strengthening financial position and profitability • In late February 2009, in the midst the world's most serious post-war recession, QSC had submitted an initial outlook for the 2009 fiscal year. It showed that the Company planned to continue the positive development of its business, with a significant focus on strengthening its financial position and profitability. At that time, QSC had anticipated a positive free cash flow of more than € 10 million, as well as an EBITDA of between € 68 and € 78 million. This was to go hand in hand with planned

annual revenues of between € 420 and € 440 million, as well as sustained net income. The successful increase in profitability from quarter to quarter and the swift reduction of its net indebtedness prompted the Company to adjust its guidance in early November 2009: QSC was then planning on an EBITDA at the upper end of the € 68 to € 78 million corridor and revenues at the lower end of the € 420 to € 440 million corridor. At the same time, QSC raised its free cash flow forecast: An anticipated free cash flow of at least € 12 million, instead of the previously forecast € 10 million, was to enable net debts to be entirely eliminated by year-end. QSC has been able to fully satisfy this guidance. Revenues in 2009 totaled € 420.5 million, EBITDA € 76.9 million and net income € 5.5 million. Thanks to a positive free cash flow of € 12.9 million, QSC was additionally able to entirely eliminate its net debts by year-end.

In November 2009, QSC raised its free cash flow forecast

REVENUES (in € millions)

2009	420.5
Nov *	420 – 440
Feb *	420 – 440

EBITDA (in € millions)

2009	76.9
Nov *	68 – 78
Feb *	68 – 78

FREE CASH FLOW (in € millions)

2009	12.9
Nov *	> 12
Feb *	> 10

* Guidance

GENERAL REMARKS REGARDING THE COURSE OF BUSINESS IN 2009

QSC's operative business developed on a positive note during the past fiscal year, in spite of the recession. The Company's focus on strengthening its financial position and profitability has paid off: In an extremely difficult environment, QSC was able to further increase its profitability, while simultaneously eliminating its net debts entirely.

Report on Opportunities and Risks

RISK POLICY

Management of opportunities and risks the basis for decision-making • QSC's strategy is geared toward both profitable growth as well as customer and employee satisfaction. Since QSC's markets are subject to ongoing change, what is required is a 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 the 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 risks and management of opportunities are closely interrelated

Management of opportunities based upon market analyses and market research • Management of opportunities and management of risks are closely interrelated at QSC. Opportunities result, in particular, from changes in QSC's markets. The responsibility for identifying and taking advantage of these kinds of opportunities early on rests with the coordinators in the 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 on pages 59 ff. 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 against 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

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 they are appropriately taken into consideration in connection with decision-making. The RMS is accompanied by guidelines, process instructions and standard operating procedures, which assure its implementation in everyday operations.

Two-track risk management responsibility • There are two offices that share these responsibilities within the RMS: Corporate Risk Management, which reports to the Chief Executive Officer, 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 risks on the basis of operational and financial performance indicators.

Corporate Risk Management issues comprehensive risk reports on a quarterly basis

Ongoing monitoring and assessment of risks that arise is handled decentrally by risk coordinators; as of December 31, 2009, the Company had entrusted 19 executives with this task. 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. These executives regularly report to the Management Board on the risks and challenges in their areas, thus assuring that the Management Board always is appraised as to daily business as well as the risks related to it.
Corporate Risk Management oversees the introduction of and compliance with all risk-avoidance and risk-reduction measures. It additionally 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 additionally 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. Pages 113 ff. of the Notes to the Consolidated Financial Statements contain further information on the disclosure of the risk management system relating to financial instruments in accordance with IFRS 7.

SUPPLEMENTARY INFORMATION PURSUANT TO § 289, Sub-Para. 5, German Commercial Code ("HGB")

Accounting process subject to ongoing monitoring • Accounting-related risk management is an integral part of the RMS at QSC. The billing and accounting risks are constantly monitored, with the results flowing into the Group-wide reporting. Within the framework of the audit of the annual financial statements, the auditor also reviews the accounting process and the IT systems that are employed for this purpose. On the basis of his observations, the Supervisory Board's Audit Committee, as well as the full Supervisory Board, also deal with the issue of accounting-related risk management, in addition to many other factors.

Major characteristics of the accounting-related RMS • QSC details the major characteristics of this RMS below:

- QSC possesses a clear management and corporate structure. The accounting for all wholly-owned subsidiaries is handled by QSC AG on the basis of non-gratuitous contracts for services or work. Those responsible for the individual processes are clearly named at the parent corporation.
- Among other things, QSC utilizes the following to assure strict compliance with both statutory requirements as well as International Financial Reporting Standards (IFRS):
  - Employment of qualified professionals
  - Specific and ongoing continuing and further education for these professionals
  - Strict observance of the four-eyes principle
  - Clear separation of roles in creating and posting documents, as well as in Controlling
- QSC utilizes a consistent suite of standard software from SAP at both the parent corporation as well as at all subsidiaries. This software is comprehensively safeguarded against unauthorized access.
- A set of Accounting Principles serves as the basis for accounting and consolidation at all companies.
- Monthly Group-wide reporting assures identification of potential risks early on during the course of the year. It includes all accounting processes that are of relevance for the corporate Group, such as consolidation of capital, debt, expense and earnings.

Moreover, the annual financial statements of all major Group companies are audited once a year by an auditor. This measure enables QSC to provide the requisite transparency in its accounting and to largely prevent the occurrence of potential risks in this process, in spite of the enormous complexity of IFRS.

Since 2009, a new archiving system has further simplified documentation throughout

During the past fiscal year, the Company introduced a new archiving system, which further simplifies documentation of all payment-related transactions throughout. This system interfaces seamlessly with the fully integrated functional SAP system, which serves as the basis for accounting throughout the corporate Group.

INDIVIDUAL RISKS

Detailed on the following pages are those 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.

INDUSTRY RISKS

Alternative technologies – Cable TV • Cable TV operators are marketing broadband connections with growing success. Their Triple Play offerings compete against QSC's Wholesale partners. Yet the nationwide availability of DSL, as well as its years of head start in marketing broadband business, assure that DSL will continue to remain the dominant broadband technology in Germany in the years to come – with market research institute IDC forecasting a market share of 85 percent for the year 2012. QSC therefore views competition from cable TV as a moderate risk.

Alternative technologies – FttX • All current Internet applications, including Triple Play, can be easily achieved with ADSL2+ technology. Nevertheless, there have long been discussions about 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. Long-term, the rollout of a fiber optic network 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 resorting to 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 (open access). In this case, 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. With its focus on small- and mid-size enterprise customers and an infrastructure of its own, QSC continues to see itself well aligned in this environment. The carve-out of the DSL network to network operating company Plusnet additionally increases the Company's freedom of action should market conditions change, as it would simplify consolidation of the networks. Overall, QSC therefore views the potential impact stemming from a market consolidation as being moderate.

Substitution of legacy voice telephony • Fiscal 2009 again saw a continuation of stiff price competition in legacy voice telephony stemming from Voice over IP and flat rate offerings. Because it expanded its IP-capable Next Generation Network early on, QSC had prepared for this change, even though it is still currently being forced to incur shortfalls in conventional voice telephony. At the same time, however, the Company is already achieving rising revenues with VoIP telephony and other IP-based services, and therefore does not anticipate that this risk will have any major impact on its business operations.

QSC is already achieving rising revenues with VoIP telephony

REGULATORY RISKS

An end to regulation • During the past two fiscal years, prompted by the general recommendations of the EU Commission, the German Federal Network Agency ended mandatory regulation of various markets, restricting itself in the future to monitoring 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. Same is true as a result of those markets that are no longer being regulated.
Initial experiences with 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 being handled will foster behavior that is in conformity with the rules of competition, and that the German Federal Network Agency would otherwise make use of its opportunities. QSC is keenly observing this risk, as its ramifications for the Company could be considerable should regulation fail.
In fiscal 2010, political discussions will be dominated by the implementation of the directives of the European Union for telecommunications markets that were adopted in 2009. QSC is precisely monitoring the resulting risks with respect to a reduction in regulatory intensity in further markets requiring regulation, on the one hand, as well as to cost-driving consumer protection and other requirements, on the other hand, and is participating in the public political discussion both directly as well as through its associations.

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.
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.

Expansion of the VDSL network • Another risk consists of DTAG's improved DSL network. While the German Federal Network Agency had already clarified in 2009 that other market players must receive access to the VDSL network, there has still been no decision relating to the prices upon which this would be based. Without regulation in conformity with the markets, DTAG and any of its potential partners would be given a virtual monopoly on broadband communication lines with speeds in excess of 25 megabits per second; were there to be limited regulation governing access to the passive infrastructure, there would also be a risk of a dual monopoly on offerings enjoyed by DTAG and another provider with strong finances.

Over and above the decision by the German Federal Network Agency in 2009, however, the European Commission 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. QSC therefore views the potential impact of this risk as being moderate.

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 manageable in the event of a potential acquisition.

QSC is able to successfully manage integration processes

Shareholder structure and consolidation of Plusnet • Plusnet is a network operating company that is owned by 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 a shareholder might not satisfy its contractual obligations. 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 company.
The German Financial Reporting Enforcement Panel (Deutsche Prüfstelle für Rechnungslegung e.V.) has been conducting a random review of the consolidated financial statements and the consolidated management report for the period ended December 31, 2008. The risk exists that, as a subsidiary, Plusnet might no longer be able to be fully consolidated in the consolidated financial statements, but that only a pro-rata share of the jointly carried assets and liabilities, income and expenses, could be recorded. The proceedings have not yet been concluded, and QSC continues to be convinced that Plusnet satisfies the requirements that are to be met by a special-purpose entity in the sense of SIC-12, and that it is correct to have been fully including it in the consolidating financial statements since September 1, 2006, in agreement with IFRS.

PERFORMANCE RISKS

Revenues as a subscriber network operator • In recent years, QSC has built a nationwide infrastructure, from which it generates a considerable portion of its revenues with voice and data services. The emergence of new technologies or heightened competitive pressure from other network operators could strongly restrict this QSC business. Thanks to its NGN, though, QSC is already able today to offer favorable prices that are geared toward this market, without endangering its margin position. From today's vantage point, QSC therefore views this risk as being moderate for fiscal 2010 and beyond.

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 • QSC generates high 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, especially with a view to continuing consolidation of the market. However since QSC, as the network operator, and the respective Wholesale/Reseller partners are mutually dependent upon one another, the Company views this risk as being manageable. Moreover, past experience has shown that Wholesale/Reseller partners will only gradually migrate to other networks, if at all, in the event their existing customers are churned, as this involves costs that are often considerable.

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 heat-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 operations.

Security and reliability throughout the network enjoys the utmost priority

Customer communication in the event of maintenance work or outages • Voice and data services, and the Managed Services that build upon them, are indispensable for smooth everyday operations at modern companies. QSC utilizes numerous measures to assure troublefree network operation. Nevertheless, the possibility of temporary outages cannot be excluded. There is a risk that customer relationships would be burdened by these kinds of interruptions or by the need for indispensable maintenance work.

QSC therefore takes pains to assure transparent communication as well as the utilization of redundancies in connection with maintenance work. A professionally staffed hotline is available around the clock for any inquiries that might nevertheless arise in order to identify potential sources of trouble with the customer. QSC therefore views this risk as being easily manageable.

Strategic partnerships with suppliers • In 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, 2009, QSC possessed liquid assets in the amount of € 41.3 million. Nevertheless, a weak economy, aggressive price competition or a potential acquisition 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, 2009, the Company possessed an unused line of credit in the amount of € 17.0 million. In addition, QSC anticipates a rising positive free cash flow for the current fiscal year, and thus a further reduction of this risk.

Rising free cash flow further reduces risk of additional funding

No external rating • QSC's financing has traditionally been based upon equity capital and, more recently, additionally upon the cash generated from operating activities. Moreover, the Company makes only relatively little use of outside capital through the vehicle of finance leasing. Essentially, QSC utilizes a credit line agreement in place with three financial institutions for this purpose, involving credit limits totaling € 50 million. Their internal risk assessment manifests itself in an interest rate that is merely 100 basis points above the Euribor. There are no other assessments from external rating agencies.

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, whose leader reports directly to the Chief Executive Officer. This security leader bears the primary responsibility for a sophisticated security concept, which includes the latest firewalls and a multi-tier virus protection concept and results in virtually complete avoidance of the above-described risks. In addition, the Company-wide IT security policy provides all QSC employees with concrete guidance for avoiding IT security risks. As a result of all of these measures, IT security risks can be viewed as being manageable by QSC according to reasonable standards.

IT security risks can be viewed as manageable

Loss of data • Operating errors, hardware defects or the destruction of the data center through attack or natural disaster 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; in addition, QSC maintains a backup data center in Düsseldorf. 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, on the other, that it might not be possible to recruit new talent from the market at the planned terms and conditions. QSC combats this risk through extensive personnel loyalty measures. During the current fiscal year, the Company will further improve its human resources policies, thus increasing employee satisfaction even more. In-house training and education, university partnerships and any number of networking activities additionally assure that QSC possesses a sufficient number of new staff. The Company therefore views this risk as being under control, especially in view of the current economic situation.

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 meaningful and reasonable 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

QSC is not aware of any events or transactions that have either occurred since the close of the fiscal year on December 31, 2009, or that are still pending which would have a material effect on the Consolidated Financial Statements for the period then ended.

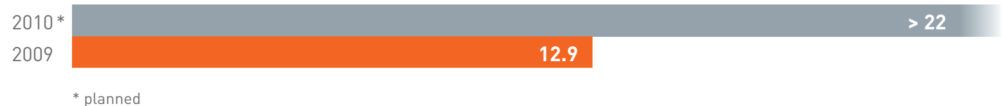
Outlook

GENERAL REMARKS ON FURTHER DEVELOPMENT

QSC plans to improve free cash flow to more than € 22 million

QSC plans to further strengthen its financial position and profitability • Given the sometimes weak attitude of the market, in fiscal 2010 QSC will be maintaining its strategy of focusing on lines of business that offer sufficiently high contribution margins and thus the prospect of strengthening its financial position and profitability. The Company plans to improve free cash flow to more than € 22 million, as opposed to € 12.9 million in fiscal 2009. At the same time, QSC anticipates a further rise in revenues, EBITDA and net income. From today's vantage point, QSC is planning to sustain this profitable growth in fiscal 2011, with the Company's evolution into a service provider being expected to open up new potential in terms of revenues and profitability, in particular. QSC is striving to pay a dividend for the first time for the 2011 fiscal year.

FREE CASH FLOW (in € millions)



* planned

FUTURE GENERAL ECONOMIC CONDITIONS

Sluggish recovery in Germany • At the outset of the 2010 fiscal year, there were still no signs of a stable recovery in Germany. Following the slump in 2009, the International Monetary Fund (IMF) anticipates growth of 1.5 percent for Germany for the current fiscal year and of 1.9 percent for 2011. It should be noted in this connection that short-term government stimulus programs will be playing a major role in the forecast economic growth, especially in 2010. In this kind of environment, enterprises are very cautious in investing in new assets, and thus in new telecommunications solutions.

FUTURE GENERAL INDUSTRY CONDITIONS

Convergence opening up new opportunities • QSC expects to see the telecommunications market take a two-track course of development in the coming two years. While it will be possible to observe shakeout competition through often aggressive pricing policies in connection with standard products and conventional voice telephony, in particular, solutions business with enterprise customers will see further growth.

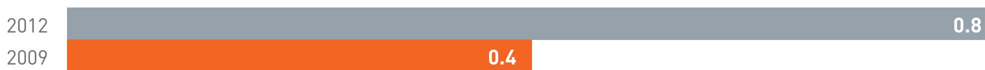
The convergence of the markets for telecommunications and information technology will be of particular interest in this connection. With Software as a Service-based network-related services, such as network-based telephone systems, a considerably larger market than in the past will be opening up for QSC; internal projections call for the total addressable market to double from € 9.8 billion today to nearly € 20 billion near term. This is because the convergence of these markets will enable QSC to address some 20 percent of its customers' ICT budgets medium-term, instead of 10 percent up until now.

QSC's market is expected to double in the coming years

Yet market researchers also expect QSC's present core markets to develop on a positive note. IDC, for example, is predicting that the volume of the IP-VPN market will rise from € 1.4 billion in 2009 to € 1.7 billion in 2012. According to IDC, VoIP business with enterprise customers is expected to double during this period, from € 0.4 billion in 2009 to € 0.8 billion.

IP-VPN MARKET IN GERMANY (in € billions)

VOIP BUSINESS CUSTOMER MARKET IN GERMANY (in € billions)



The market for conventional voice telephony, on the other hand, is expected to continue to decline in the coming years. At the same time, the German DSL market will gradually reach the saturation point, this limiting Wholesale ADSL2+ business. Here, more and more residential customers are utilizing the expiration of their typically two-year contracts in order to change to more favorable offerings. In spite of this, however, QSC will continue to take pains to assure the profitability of each and every ADSL2+ connection and forego volume growth at the expense of profitability.

ANTICIPATED PROFITABILITY

Focusing on profitable growth • QSC anticipates a further rise in revenues for the 2010 fiscal year. In this connection, the Company will continue to focus on improving revenue quality and give higher profitability priority over higher revenues.

QSC anticipates profitable growth in the Managed Services segment, where the Company's further focus on small and mid-size customers is expected to produce rising revenues over the course of the year. In the Products segment, QSC expects to see revenues stabilize and perhaps improve moderately. In this connection, success in selling higher-margin products is expected to compensate for the unavoidable decrease in revenues from legacy voice telephony during the course of the year, while however leading to far higher profitability. In the Wholesale/Reseller segment, QSC expects to see revenues develop on a constant note. In this connection, the positive development of Wholesale voice business is expected to be offset by a decline in Wholesale ADSL2+ business.
The current fiscal year will see the continuation of QSC's evolution from a network operator to a solutions provider. In fiscal 2010, the positive effects stemming from pushing solutions business will be weakened by declining revenues with standard products. But beginning in 2011, success in solutions business is expected to predominate, opening up further potential for profitable growth at QSC.

Further rise in profitability • Under QSC's planning, the Company's focus on high-margin lines of business and strict cost discipline will lead to a further rise in EBITDA in fiscal 2010. In this connection, QSC will maintain its rigorous focus on its core competencies, while further optimizing its processes and workforce structure.

QSC anticipates increasing net income in the coming two years

QSC anticipates decreasing depreciation expense beginning in fiscal 2010. This decline will play a major role in increasing net income in the coming two years. Over the course of the coming twelve months, QSC AG will additionally put in place the legal prerequisites for enabling its shareholders to participate in the Company's growing success.

ANTICIPATED FINANCIAL POSITION

Strengthening QSC's financial position • In the coming two years, the Company expects to see high levels of cash provided by operating activities. The cash burn for investing activities, on the other hand, will be moderate, as QSC does not plan to make any major capital expenditures in its infrastructure, with the exception of replacement and modernization investments as well as ongoing optimization of its NGN. The majority of capital expenditures will continue to be for customer-related purchases.
High levels of net cash from operating activities and a moderate level of capital expenditures will enable a significant rise in free cash flow to more than € 22 million in fiscal 2010. During the current fiscal year, QSC will be using this cash to further strengthen its financial position and to again reduce interest-bearing liabilities; medium-term, the Company's stronger financial position will also serve to enable its owners to share in its success. Moreover, QSC does not preclude the possibility of smaller acquisitions, and could use a portion of its cash for this purpose.

ANTICIPATED NET WORTH

Higher equity ratio • QSC's positive free cash flow, its low level of interest-bearing liabilities, as well as its current depreciation expense, will alter the balance sheet ratios in fiscal 2010 toward a higher equity ratio and a higher percentage of short-term assets.

By December 31, 2009, the Company was debt-free on balance. Because of this, and in view of its anticipated income and liquidity influx in fiscal 2010 and beyond, QSC views itself as being well and, in particular, conservatively financed.

The Company is well and conservatively financed

OPPORTUNITIES FOR QSC

Unrivaled positioning • Its unrivaled positioning as a mid-size company in the telecommunications industry serving small and mid-size companies affords QSC the following opportunities, in particular, for the coming two years:

- **Winning new small and mid-size customers** • As Germany's mid-size nationwide telecommunications provider, QSC can operate at eye level with its customers. QSC will utilize this competitive advantage and a focused selling strategy to increase its SME market share.

- **Specialty distributors improve access to SMEs** • In 2009, QSC established a new marketing channel in the Products segment for specialty distributors. In 2010, they will be specifically introducing regional customers to such products as the IPfonie centraflex virtual telephone system, thus enabling QSC to tap into new revenue potential.

- **Increasing the budgets of existing customers** • Up until now, many customers have been using either voice or data services or IP-VPN solutions. By addressing customers in a targeted manner, QSC will be positioning itself even more strongly as an integrated voice/data service provider and winning new customers, especially in the SME sector.

- **Expanding solutions business** • Following the successful market launch of the IPfonie centraflex telephone system, QSC plans to develop and market further network-related Software as a Service-based solutions. This will enable the Company to tap into additional high-margin potential in connection with new and existing customers.

- **Acquisition of solutions providers** • In order to swiftly broaden its spectrum of products and services, QSC does not preclude the possibility of acquiring smaller providers, especially in forward-looking ICT Software-as-a-Service business and beyond. The sustained weakness of the economy is improving the Company's negotiating position in this connection.

- **White label capability of its products** • QSC will develop its products independently of the respective technology, such as DSL or fiber optics, while additionally keeping them open for white label solutions. In doing so, QSC will create the prerequisites for distributing its solutions and products through various marketing channels, as well as under other brand names.

- **Voice over IP making rising contributions to revenues in all segments** • With its NGN, QSC can offer all customer categories IP-based voice services in high quality at extremely competitive prices nationwide. All QSC segments will benefit from this, with the growth dynamics of Wholesale voice business, in particular, likely to be sustained in fiscal 2010.

Cologne, March 15, 2010

QSC AG
The Management Board

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

Efficiency for SMEs » QSC is constantly improving itself and creating the most efficient processes. This enables the Company to offer small and mid-size customers top quality products and services at attractive prices. And the Company's growing efficiency is also contributing to the further growth of its financial position and profitability, which benefits our customers as well as our owners.

Financial Report

Consolidated Financial Statements 66

Auditor's Report 72

Notes 73

Statement of Responsibility 119

CONSOLIDATED STATEMENTS OF INCOME

Euro amounts in thousands (T €)

	Notes No.	2009	2008
Net revenues	7	420,546	413,304
Cost of revenues	8	(325,056)	(323,318)
Gross profit		95,490	89,986
Selling and marketing expenses	9	(54,000)	(54,050)
General and administrative expenses	10	(32,287)	(30,765)
Other operating income	11	1,849	2,749
Other operating expenses	11	(1,380)	(1,862)
Operating profit		9,672	6,058
Financial income	12	779	2,676
Financial expenses	12	(3,256)	(4,199)
Net profit before income taxes		7,195	4,535
Income taxes	43	(1,681)	(3,768)
Net profit		5,514	767
Earnings per share (basic) in €	13	0.04	0.01
Earnings per share (diluted) in €	13	0.04	0.01

CONSOLIDATED STATEMENTS OF CASH FLOWS

Euro amounts in thousands (T €)

	Notes No.	2009	2008 [1]
Cash flow from operating activities	36		
Net profit before income taxes		7,195	4,535
Depreciation and amortization	15, 18	58,468	50,794
Non-cash share-based payments		213	1,000
Loss from disposal of long-term assets		1,679	726
Changes in provisions	30, 33	175	376
Changes in trade receivables	19	4,284	7,064
Changes in trade payables	32	(1,605)	(18,199)
Changes in other financial assets and liabilities		(4,915)	11,590
Cash flow from operating activities	36	**65,494**	**57,886**
Cash flow from investing activities	37		
Purchase of available-for-sale financial assets		-	(17,995)
Disposal of available-for-sale financial assets		-	21,476
Payments related to acquisitions	39	-	(2)
Purchase of intangible assets		(28,303)	(40,319)
Purchase of property, plant and equipment		(12,028)	(32,148)
Cash flow from investing activities	37	**(40,331)**	**(68,988)**
Cash flow from financing activities	38		
Changes in convertible bonds		2	(5)
Repayment of liabilities to minority interest shareholders	31	(3,536)	-
Proceeds from issuance of common stock	25	-	662
Repayment of other short- and long-term liabilities	29	(6,004)	(626)
Disposal of loans granted		-	10,000
Repayment of finance lease	29	(23,496)	(24,238)
Cash flow from financing activities	38	**(33,034)**	**(14,207)**
Change in cash and short-term deposits		**(7,871)**	**(25,309)**
Change in cash and short-term deposits at January 1		48,823	74,132
Cash and short-term deposits at December 31	24	**40,952**	**48,823**
Interest paid		2,863	3,631
Interest received		828	2,906
Income tax paid		271	37

[1] Please see Note 3 for the changes in the 2008 results

CONSOLIDATED BALANCE SHEETS

Euro amounts in thousands (T €)

	Notes No.	Dec. 31, 2009	Dec. 31, 2008[1]
ASSETS			
Long-term assets			
Property, plant and equipment	15	126,187	141,028
Goodwill	16	49,279	49,279
Other intangible assets	18	33,658	45,008
Other long-term financial assets		769	828
Long-term assets		**209,893**	**236,143**
Short-term assets			
Trade receivables	19	53,595	57,880
Prepayments	20	2,497	3,051
Inventories	21	2,372	3,690
Other short-term financial assets	22	1,671	2,550
Available-for-sale financial assets	23	330	327
Cash and short-term deposits	24	40,952	48,823
Short-term assets		**101,417**	**116,321**
TOTAL ASSETS		**311,310**	**352,464**

	Notes No.	Dec. 31, 2009	Dec. 31, 2008 [1]
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Capital stock	25	136,998	136,998
Capital surplus	26	563,687	563,197
Other reserves	28	(1,129)	(1,141)
Consolidated balance sheet loss		(539,844)	(545,358)
Shareholders' equity		**159,712**	**153,696**
Liabilities			
Long-term liabilities			
Long-term liabilities to minority shareholders	31	42,580	53,790
Long-term portion of finance lease obligations	29	7,272	17,381
Convertible bonds	41	24	22
Accrued pensions	30	741	678
Other long-term liabilities	29	576	2,774
Deferred tax liabilities	43	3,056	1,735
Long-term liabilities		**54,249**	**76,380**
Short-term liabilities			
Trade payables	32	40,982	49,954
Short-term portion of finance lease obligations	29	15,503	20,152
Liabilities due to banks	29	15,000	15,000
Provisions	33	2,037	1,924
Deferred revenues	34	13,785	22,200
Other short-term liabilities	35	10,042	13,158
Short-term liabilities		**97,349**	**122,388**
Liabilities		**151,598**	**198,768**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**311,310**	**352,464**

[1] Please see Note 3 for the changes in the 2008 results

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Euro amounts in thousands (T €)

		Equity attributable to equity holders of the parent				
	Notes No.	Capital stock	Capital surplus	Other capital reserves	Consolidated balance sheet loss	Total Share-holders' equity
Balance at January 1, 2009		136,998	563,197	(1,141)	(545,358)	153,696
Net profit					5,514	5,514
Income and expenses directly recognized in equity	28			12		12
Net profit and recognized income and expenses				12	5,514	5,526
Non-cash share-based payments	41		490			490
Balance at December 31, 2009		136,998	563,687	(1,129)	(539,844)	159,712
Balance at January 1, 2008		136,358	562,501	(1,259)	(545,393)	152,207
Adjusted goodwill	3				(732)	(732)
Adjusted carry forward as of January 1, 2008		136,358	562,501	(1,259)	(546,125)	151,475
Net profit					767	767
Income and expense directly recognized in equity	28			118		118
Net profit and recognized income and expense				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)	(545,358)	153,696

CONSOLIDATED STATEMENTS OF DIRECTLY RECOGNIZED INCOME AND EXPENSES

Euro amounts in thousands (T €)

	2009	2008
Directly recognized in equity		
Actuarial gains on defined benefit pension plans	18	172
Apportionable to tax effect	(6)	(54)
Directly recognized in equity	**12**	**118**
Net profit	5,514	767
Net profit and recognized income and expenses	**5,526**	**885**

Auditor's Report

We have audited the consolidated financial statements prepared by QSC AG, Cologne, comprising the balance sheet, the income statement, the statement of recognised income and expense, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the financial year from 1 January to 31 December 2009. 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 15, 2010

KPMG AG
Wirtschaftsprüfungsgesellschaft

Kraus	Gall
Wirtschaftsprüfer	Wirtschaftsprüfer

Notes to the Consolidated Financial Statements for Fiscal Year 2009

CORPORATE INFORMATION

QSC AG (QSC, the Company, or the Company) is a medium-sized service provider to the telecommunications industry with its own Next Generation Network (NGN). QSC offers a complete portfolio of high-quality broadband communication services with a particular focus on medium-sized companies. In addition to providing intelligent network-related voice and data services, QSC implements complete enterprise networks (IP-VPNs), including managed services. It provides high-performance DSL, Ethernet and wireless local loop connections of up to 800 Mbit/s. In the Wholesale line of business, QSC additionally supplies national and international carriers, ISPs, and strong marketing partners in the residential customer market with the necessary unbundled preliminary products.
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 the consolidated financial statements in accordance with German GAAP. QSC prepares the consolidated financial statements on a historical cost basis, except for available-for-sale financial assets, which have been measured at fair value.
QSC prepares the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), which became mandatory at December 31, 2009, and which are required to be applied in the EU. The Company also prepares the consolidated financial statements in accordance with the supplementary rules of § 315a (1) HGB.
The Company took into consideration all IFRS and International Accounting Standards (IAS) as well as their interpretation by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) that became mandatory at 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 Group's profitability, financial position and net worth as well cash flows for the period then ended occurred prior to March 15, 2010 (which is the date of the consolidated financial statements' approval by the Management Board for handover to the Supervisory Board).

2 Basis of consolidation

The consolidated financial statements comprise the financial statements of QSC AG and its subsidiaries as of December 31 each year. QSC prepares the subsidiaries' financial statements for the same reporting year as the parent company, using consistent accounting policies. All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized in assets, are eliminated by the Company 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 and associated companies that are included in the consolidated financial statements are listed in Note 39.

3 Changes in accounting policies

The accounting policies adopted are consistent with those for the previous financial year except for the change in presentation of the statement of cash flows. In the statement of cash flow, changes in liabilities to other shareholders are presented in the cash flow from financing activities only if they represent a disposal of liquidity to the minority shareholder. The remaining line items are presented in depreciation and amortization, non-cash share-based gains and losses as well as in payments for the acquisition of immaterial assets and property, plant and equipment. (see also long-term liabilities to minority shareholders in Note 5 and Note 38).
Payments for the acquisition of immaterial assets and property, plant and equipment relate only to investments that led to an outflow of cash in the corresponding reporting periods. The previous years' figures have been adjusted accordingly (see Note 37).

Changes in the consolidated financial statements for fiscal 2008 • For the 2008 fiscal year goodwill was reduced in the amount of T € 735. Of this T € 735, T € 732, which consist of cost incurred in connection with the foundation of Plusnet, were recorded against the consolidated balance sheet loss. T € 3 were transferred to 'Other inventories'. The following tables present the changes and adjustments made.

in T €	2009	2008 adjusted	2008 previous
Goodwill	**49,279**	**49,279**	**50,014**

in T €	2009	2008 adjusted	2008 previous
Other short-term financial assets	**1,671**	**2,550**	**2,547**

in T €	2009	2008 adjusted	2008 previous
Capital stock	136,998	136,998	136,998
Capital surplus	563,687	563,197	563,197
Other reserves	(1,129)	(1,141)	(1,141)
Consolidated balance sheet loss	(539,844)	(545,358)	(544,626)
Shareholders' equity	**159,712**	**153,696**	**154,428**

Due to the marginal effect on net assets and results of operations in the period under report, a presentation of the effects on the balance sheet as of January 1, 2008, has been omitted.

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 • At each reporting date, the Group assesses whether there are any indicators of an impairment in all non-financial assets. Goodwill and other intangible assets are tested for impairment at least once a year 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. The CGUs correspond to the reportable segments. 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 are given in Note 17.

Deferred tax assets • QSC recognizes deferred tax assets for all temporary differences, as well as for unused tax losses to the extent that it is probable that taxable, which can be utilized against the losses, will be available. Significant judgment by management 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 underlying future tax planning strategies. As of December 31, 2009, the carrying value of recognized corporation tax losses was € 457 million (2008: € 465 million), and the carrying value of recognized municipal trade tax losses was € 453 million (2008: € 460 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 exercised the option stipulated in IAS 19 that actuarial gains and losses are recognized directly in equity in other reserves. As of December 31, 2009, provisions for pensions and similar commitments amounted to T € 741 (2008: T € 678). Further details are given in Note 30.

Share-based payments • QSC measures the expense recognized for share-based remuneration in cases where equity instruments are used to remunerate work performed, using an appropriate option price model. The computation is done using assumptions relating to the risk-free interest rate relevant for the duration of the option, the expected dividend to be paid and the share's expected market price volatility. Due to the long-term nature of these remuneration agreements, the estimates used are subject to significant uncertainties.

Trade receivables • QSC presents trade receivables 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, 2009, allowances totaling T € 7,561 (2008: T € 7,135) 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, when it is likely that an outflow of resources embodying economic benefits will be required to settle such an obligation, and when the obligation's amount can be reliably estimated. Such estimates are subject to significant uncertainties. As of December 31, 2009, provisions totaling T € 2,037 (2008: T € 1,924) were recognized in the balance sheet.

5 Summary of significant accounting policies

Revenue recognition • QSC recognizes revenue to the extent that it is probable that the economic benefits will flow to the Group, and when 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 services have been provided. QSC recognizes services that have not been provided completely or throughout the entire reporting period, respectively, at balance sheet date on a time-apportioned basis with regard to the stage of completion.
- QSC defers revenue from the installation of customer lines on a time-apportioned basis over an average contractual term of 24 months.
- QSC recognizes revenue 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 • QSC presents the consolidated financial statements in euros. 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 differences between the exchange rate at the day the transaction was closed and the exchange rate at balance sheet date, or at the day the transaction is finally closed, if sooner, are included in the income statement.

Property, plant and equipment • QSC states property, plant and equipment 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 estimated useful lives of the assets.

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

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

In fiscal year 2009, after the successful launch of the marketing of VoIP technology, management reviewed and adjusted the initially assumed useful lives for the necessary network components. For this reason, the useful life of network equipment and plant was extended from five to eight years. According to IAS 8, the result of those revised assumptions is taken into consideration in the reporting period and in 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 Group's net results for the corresponding periods.

in T €	2009	2010	2011	2012
Network equipment and plant	2,512	1,000	548	188
Total	2,512	1,000	548	188

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

Business combinations and goodwill • QSC accounts business combinations using the acquisition accounting method. It 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, QSC measures goodwill at cost, less any accumulated impairment losses. QSC tests goodwill and other indefinite life intangibles for impairment annually, and at other times when there are indicators of a potential impairment in the carrying amount.

Other intangible assets • Intangible assets are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination correspond to the fair value as of the date of acquisition. Internally generated intangible assets are capitalized if capitalization conditions according to IAS 38 are met. QSC recognizes directly related expenses in profit or loss in the period in which they incur, except for capitalized development costs.
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 additionally assessed for impairment whenever there is an indication that the intangible asset may be impaired. Such a review of the amortization period and the amortization method for such an intangible asset with a finite useful life is done 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 include primarily software, licenses and similar rights as well as non-recurring provisioning costs for activating customers. The Company amortizes licenses over a period of five to 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 financial assets • QSC classifies financial assets within the scope of IAS 39 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. A reclassification is done if permitted and necessary.
Upon initial recognition, QSC designates financial assets at fair value. At the same time, QSC also considers transactions costs, which are directly attributable to the acquisition of the asset, except for financial assets designated at fair value through profit or loss.
QSC recognizes directly in equity all regular way purchases and sales of financial assets on the trade date, which is the date that the Group committed itself to purchasing 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.

- QSC classifies financial assets at fair value through profit or loss as held for trading, particularly if they are acquired for the purpose of selling in the near term. Gains or losses from 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. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the income statement when the investments are derecognized or impaired, as well as through the amortization process.

- 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, but also suppliers and consultants, may also receive share-based remuneration in the form of equity instruments in return for work performed. QSC measures the expense of issuing such equity instruments on the basis of the fair value of the equity instrument at the grant or provision date (based on the stock option programs resolved or modified after November 7, 2002), 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. QSC recognizes no expense 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 • QSC determines whether an arrangement is or contains a lease on the basis of the substance of the arrangement at inception date. This requires judgment as to 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.

QSC capitalizes finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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.
QSC classifies lease arrangements which do not transfer substantially all the risks and rewards incidental to ownership from the Group to the lessee 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 to minority shareholders • The long-term liabilities to 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, QSC measures the long-term liabilities to minority shareholders at amortized cost. Consequently, on the one hand, the long-term liabilities of other shareholders increase, as agreed upon, with each and every investment in Plusnet that is backed by TELE2; and on the other, they are reduced by the portion of depreciation and amortization which can be attributed to TELE2 within Plusnet. The long-term liabilities to 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 • QSC measures all interest-bearing loans on initial recognition at fair value, less directly attributable transaction costs. 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 • QSC recognizes current income tax assets and liabilities for the current and prior periods at the amount expected to be recovered from or paid to the taxation authorities. To compute the amount, QSC uses the tax rates and tax laws that are enacted or substantively enacted by the corresponding assessment period. Actual 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. QSC recognizes deferred income tax liabilities 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.

QSC recognizes deferred income tax assets 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 for 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 also 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.
QSC measures deferred income tax assets and liabilities 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 QSC is unable to recover the sales tax incurred on a purchase of assets or services from the taxation authority, in which case the Company recognizes the sales tax 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.

QSC includes the net amount of sales tax recoverable from or payable to the taxation authority in the balance sheet under other short-term financial assets or other short-term liabilities, respectively.

6 Changes in financial regulations

The Company has adopted the following new financial reporting pronouncements which became mandatory for fiscal years beginning from 2009 on.

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 amendment did not have an impact on on the consolidated financial statements.

IFRS 7 – Financial Instruments: Disclosures • In March 2009, the IASB published an amendment to IFRS 7 on enhancing disclosures about the fair value of financial instruments. The amendment relates to the introduction of a three-level hierarchy for fair value measurement disclosures. This hierarchy reflects the significance of the inputs used in making the measurements and sheds light on the availability of observable market information used for measuring fair value. In addition, the amendment enhances existing principles for the disclosure of liquidity risk by clarifying the nature and extent of liquidity risk arising from financial instruments.

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.

IAS 23 – Borrowing Costs • An essential change in IAS 23 relates to the fact that 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. The amendment did not have an impact on on the consolidated financial statements.

IASB has published a number of further pronouncements, which were mandatory for annual periods beginning on or after January 1, 2009 (e. g. changes in IAS 32 "Financial Instruments: Presentation", IAS 39 "Financial Instruments: Recognition and Measurement", IFRIC 9 "Embedded Derivatives", IFRIC 13 "Customer Loyalty programmes", IFRIC 14). These amendments had no material effect on the consolidated financial statements of QSC AG. These amendments did not have a material impact on the consolidated financial statements.

Recent pronouncements – not mandatory yet • The following new standards, interpretations and amendments were published by December 31, 2009, but have not become mandatory yet. QSC AG will take the aforementioned into consideration as soon as they become effective.

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 (the "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 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 necessary to report negative balances for minority interests. In other words, in the 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.

In addition to this, the IASB has published a number of further pronouncements, which will become mandatory only in future annual periods, and which have also been declared applicable by the EU.
- IFRS 3 – Business Combinations (revised 2008)
- IAS 27 – Consolidated and Separate Financial Statements (amended 2008)
- IAS 39 – Financial Instruments (Recognition and Measurements: Elligible Hedged Items (amended); Reclassification of Financial Assets: Effective Date and Transition)
- IAS 32 – Financial Instruments: Classification of Rights Issues
- 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
- IFRIC 17 – Distributions to Non-Cash Assets to Owners
- IFRIC 18 – Transfer of Assets from Customers

Based on our current state of knowledge it is not to be expected that changes resulting from the pronouncements will have a material effect on future consolidated financial statements of QSC AG.

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. In addition, QSC generates revenues from the installation of customer lines. In fiscal 2008 they amounted to T € 18,060 (2008: T € 14,863). The structure of the Company's revenues by segment is shown in Note 40. QSC defers non-recurring revenue from the installation of customer lines on a time-apportioned basis over an average contractual term of 24 months.

8 Cost of revenues

Cost of revenues include the cost of material, 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 €	2009	2008
Cost of materials	204,825	195,632
Building, operation and maintenance of the network	58,190	63,527
Depreciation and amortization	47,209	46,962
Personnel expenses	14,802	17,150
Nicht zahlungswirksame aktienbasierte Vergütung	30	48
Non-cash share-based payments	**325,056**	**323,318**

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 and the non-cash share-based payment in connection with SOPs, 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 €	2009	2008
Personnel expenses	17,459	23,669
Commissions	14,668	13,692
Other selling and marketing expenses	4,481	4,104
Allowance of bad debts and fair dealing payments	1,343	1,720
Advertising expenses	1,898	2,131
Depreciation and amortization	14,061	8,567
Non-cash share-based payments	90	167
Selling and marketing expenses	**54,000**	**54,050**

10 General and administrative expenses

In addition to the personnel expenses and the non-cash share-based payments for the members of the Management Board and for staff positions, as well as for employees from Finance, Human Resources, Legal Operations, and IT 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 €	2009	2008
Other general and administrative expenses	10,996	13,599
Personnel expenses	15,463	11,683
Depreciation and amortization	5,457	5,023
Non-cash share-based payments	371	459
General and administrative expenses	**32,287**	**30,765**

11 Other operating income and expenses

in T €	2009	2008
Miscellaneous operating income	1,548	1,489
Reversals of unutilized provisions and write-off of liabilities	1	1,240
Gains from disposal of property, plant and equipment	300	20
Other operating income	**1,849**	**2,749**

in T €	2009	2008
Miscellaneous operating expenses	1,339	1,423
Losses from disposal of property, plant and equipment	41	439
Other operating expenses	**1,380**	**1,862**

12 Financial result

in T €	2009	2008
Interest income	779	2,676
Financial income	**779**	**2,676**

in T €	2009	2008
Interest expense	3,183	3,904
TELE2's minority interest in Plusnet GmbH & Co. KG	73	295
Financial expenses	**3,256**	**4,199**

Interest expense includes expenses from finance lease contracts in the amount of T € 1,958 (2008: T € 3,355).

13 Earnings per share

For the purposes of calculating undiluted earnings per share, QSC divides profit attributable to the holders of the Company's common stock by the weighted average number of shares of common stock in circulation during the year. The Company computes the weighted average number of issued shares approximately as mean from the respective number of common stock to quarterly closing dates.

For the purposes of calculating diluted earnings per share, QSC divides profit attributable to the holders of the Company's common stock 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, 2009, the number of potential shares of common stock with a dilutive effect was 2,406,263. Of these, 669,082 convertible bonds from the existing conditional capital are still allocable.

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, 2009.

	2009	2008
Net profit attributable to ordinary equity holders of the parent in T €	5,514	767
Weighted average number of common shares	136,998,137	136,746,652
Earnings per share (basic) in €	**0.04**	**0.01**

	2009	2008
Net profit attributable to ordinary equity holders of the parent in T €	5,514	767
Weighted average number of common shares	139,404,400	138,986,692
Earnings per share (diluted) in €	**0.04**	**0.01**

14 Personnel expenses and employees

in T €	2009	2008
Wages and salaries	41,583	45,295
Employer's social security contributions (pension fund)	3,138	3,346
Employer's social security contributions (other)	2,697	2,845
Net pension costs	305	342
Non-cash share-based payments	490	674
Personnel expenses	**48,213**	**52,502**

Wages and salaries include expenses for termination of employment contracts in the amount of T € 1,614.

During fiscal year 2009, the Group employed 722 people on average (2008: 755 employees). The following table provides the number of employees by function.

	2009	2008
Selling and marketing	106	140
Engineering	369	368
General and administration	219	219
Board and staff positions	28	28
Number of employees by function (on average)	**722**	**755**

BALANCE SHEET DISCLOSURES

15 Property, plant and equipment

in T €	Network equipment and plant	Operational and office equipment	Total
Gross value at January 1, 2008	251,984	33,383	285,367
Additions	42,899	2,288	45,187
Disposals	(5,645)	(784)	(6,429)
Gross value at December 31, 2008	289,238	34,887	324,125
Additions	17,554	451	18,005
Disposals	(3,019)	(577)	(3,596)
Gross value atat December 31, 2009	303,773	34,761	338,534
Accumulated depreciation and amortization at January 1, 2008	126,377	27,766	154,143
Additions	29,516	3,980	33,496
Disposals	(3,761)	(781)	(4,542)
Accumulated depreciation and amortization at December 31, 2008	152,132	30,965	183,097
Additions	27,794	2,757	30,551
Disposals	(1,171)	(130)	(1,301)
Accumulated depreciation and amortizationat December 31, 2009	178,755	33,592	212,347
Carrying amount at December 31, 2008	137,106	3,922	141,028
Carrying amount at December 31, 2009	125,018	1,169	126,187

At December 31, 2009, the carrying amount of plant and equipment, as well as operational and office equipment held under finance lease and hire purchase contracts totaled T € 23,826 (2008: T € 33,611).

Additions during the year amounted to T € 18,005 (2008: T € 45,187). As of December 31, 2009, the line item 'Network and equipment' included assets under construction amounting to T € 77 (2008: T € 12).

QSC presents depreciation and amortization in the income statement under 'Cost of revenues', 'Selling and marketing expenses' and 'General and administrative expenses', respectively.

16 Goodwill

Goodwill amounts to T € 49,279. This amount has been adjusted retroactively (see Note 3).

17 Impairment of goodwill

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 €	2009
Managed Services	5,720
Products	15,543
Wholesale / Resellers	28,016
Carrying amount of goodwill	**49,279**

Previous year's adjustment in the amount of T € -735 related to the Wholesale/Reseller segment.
QSC initially determines the recoverable amount of the Group's CGUs on the basis of a 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 projected industry growth rates and the overall development of the economy. For all CGUs, a long-term growth rate of 1.0 percent was assumed.
The capitalization interest rate utilized for discounting the expected future cash flows is 9.25 percent. In the past fiscal year, a capitalization interest rate of 9.1 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, 2009) and a risk-uplift factor (reflecting the risk structure of the Group and of the telecommunications industry in general).
The calculation of the CGUs' value in use requires management to make estimates about gross profit, discount rate, and the development of prices and market share, which are 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 €	Licences	Software	Customer acquisition	Other	Total
Cost at January 1, 2008	1,205	12,162	25,292	13,461	52,120
Additions	-	2,394	43,386	442	46,222
Disposals	(41)	(337)	-	(152)	(530)
Cost at December 31, 2008	1,164	14,219	68,678	13,751	97,812
Additions	-	2,911	21,067	233	24,211
Disposals	-	(311)	-	-	(311)
Cost at December 31, 2009	1,164	16,819	89,745	13,984	121,712
Accumulated amortization at January 1, 2008	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
Additions	294	2,704	31,472	1,091	35,561
Disposals	-	(311)	-	-	(311)
Accumulated amortization at December 31, 2009	706	12,496	65,093	9,759	88,054
Carrying amount at December 31, 2008	752	4,116	35,057	5,083	45,008
Carrying amount at December 31, 2009	458	4,323	24,652	4,225	33,658

QSC presents depreciation and amortization in the income statement under 'Cost of revenues', 'Selling and marketing expenses' and 'General and administrative expenses', respectively.

19 Trade receivables

in T €	2009	2008
Trade receivables	53,595	57,880

Trade receivables do not bear interest and generally have an original maturity of between 30 and 90 days. As of December 31, 2009, trade receivables amounting to T € 7,561 (2008: T € 7,135) were impaired. Allowances developed as follows:

in T €	2009	2008
Allowance at January 1	**7,135**	**4,367**
Charge for the year	1,503	4,931
Amounts written off	(790)	(98)
Unused amounts reversed	(287)	(2,065)
Allowance at December 31	**7,561**	**7,135**

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

in T €	2009	2008
Impaired	8,147	14,619
Neither past due nor impaired	50,581	50,396
Past due but not impaired		
< 90 days	2,428	3,038
91 - 120 days	-	-
> 120 days	-	-
Trade receivables not impaired	**61,156**	**65,015**

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 € 2,497 (2008: T € 3,051) and essentially consist of prepaid expenses for leased lines and technology premises, as well as insurance.

21 Inventories

Inventories amount to T € 2,372 (2008: T € 3,690) and essentially contain supply of technical devices for direct customers. At the end of the reporting period, an exceptional write-down of T € 615 (2008: T € 1,294) was made. Direct customer devices are presented in the working capital at the date of acquisition and transferred to property, plant and equipment at the date of dispatch to direct customers.

22 Other short-term financial assets

Other short-term financial assets total T € 1,671 (2008: T € 2,550) and relate primarily to tax receivables.

23 Available-for-sale financial assets

in T €	2009	2008
Available-for-sale financial assets	330	327

Available-for-sale financial assets consist of shares in a money market fund.

24 Cash and short-term deposits

in T €	2009	2008
Cash on hand	37,945	13,767
Short-term deposits (< 1 week)	-	15,380
Short-term deposits (1 month)	-	10,000
Short-term deposits (2 months)	3,007	-
Short-term deposits (3 months)	-	9,676
Cash and short-term deposits	40,952	48,823

As of December 31, 2009, cash included restricted cash in the amount of T € 735. This essentially included cash that was provided to banks as security for guarantees.

25 Capital stock

	2009	2008
Issued capital		
Capital stock in T €	136,998	136,998
No-par common stock in €	136,998,137	136,998,137

Each share of stock entitles the registered owner to cast one vote at the Annual Shareholders Meeting and enjoy full dividend entitlement. The voting right is not subject to any restrictions. There was no change in capital stock in fiscal year 2009. All issued shares have been fully paid-in.

26 Capital surplus

Capital surplus amounts to T € 563,687 as of December 31, 2009 (2008: T € 563,197). This amount includes deferred share-based remuneration which relates to the Company's stock option program. 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 2009, the Company's authorized capital amounts to T € 51,233. The Company's conditional capital amounts to T € 29,125 as of December 31, 2009.

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 2009 and 2008 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 2009	Due date	2009	2008
Short-term liabilities				
from finance lease contracts	7.18	2010	15,503	20,152
due to banks	EURIBOR + 1.00	2010	15,000	15,000
Other short-term liabilities	7.24	2010	2,198	6,004
Short-term liabilities			**32,701**	**41,156**
Long-term liabilities				
from convertible bonds	3.50	2010 – 2019	24	22
from finance lease contracts	7.18	2010 – 2012	7,271	17,381
Other long-term liabilities	7.24	2010 – 2012	576	2,774
Long-term liabilities			**7,871**	**20,177**
Interest-bearing liabilities			**40,572**	**61,333**

In 2009, short-term liabilities due to banks consisted of liabilities arising from the syndicate loan arrangement dated June 2008. This arrangement 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 was reduced due to the consolidated financial statements 2008 to the respective EURIBOR plus an additional 1.00 percentage point.
Other short- and long-term liabilities comprise interest-bearing liabilities in the amount of T € 2,774. The latter are presented under 'Short- and long-term liabilities' as they do not constitute a lease business according to IAS 17, but relate to investment companies' financing of assets (activated customer lines) acquired by QSC.
As of December 31, 2009, there were 2,406,263 convertible bonds (issued in conjunction with stock option programs) outstanding (see also Note 41). 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. In 2009, the accumulated amount of all actuarial gains and losses as presented in the consolidated statements of directly recognized income and expenses was T € -193 (2008: T € -290).

in T €	2009	2008
Present value of defined benefit obligation at January 1	**773**	**843**
Service costs	57	67
Interest costs	46	50
Actuarial gains	(18)	(178)
Benefits paid	(9)	(9)
Present value of defined benefit obligation at December 31	**849**	**773**
Fair value of plan assets at January 1	(95)	(83)
Expected return on plan assets	(4)	(3)
Actuarial losses	6	6
Employer contributions for plan assets	(15)	(15)
Fair value of plan assets at December 31	**(108)**	**(95)**
Accrued pensions at December 31	**741**	**678**
Discount rate	5.41%	6.00%
Expected return on plan assets	3.50%	3.50%
Rate of compensation increase	3.00%	4.00%
Rate of pension indexation	3.00%	3.00%

Total actuarial gains amount to T € 12 (2008: T € 172). The composition of the pension costs under defined benefit plans is as follows, whereas the actual losses on the fund assets amounted to T € 6:

in T €	2009	2008
Service costs	57	67
Interest costs	46	50
Expected return on plan assets	(4)	(3)
Net pension costs	**99**	**114**

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

in T €	2009	2008	2007	2006	2005
Present value of defined benefit obligation	(849)	(773)	(843)	(791)	(857)
Fair value of plan assets	108	95	83	70	61
Deficit	**(741)**	**(678)**	**(760)**	**(721)**	**(796)**

In 2009, QSC did not make any adjustments based on past experience with regard to the present value of defined benefit obligations and plan assets.

31 Long-term liabilities to other shareholders

The long-term liabilities to 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 in 'Summary of significant accounting policies').

32 Trade payables

in T €	2009	2008
to third parties	40,956	49,939
to related parties	26	15
Trade payables	**40,982**	**49,954**

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

33 Provisions

Provisions comprise mainly trade tax provisions, 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 were measured on the basis of past experience.

in T €	2009
Other provisions at January 1	1,398
Arising during the year	508
Utilized	(808)
Unused amounts reversed	(191)
Other provisions at December 31	907
Provisions due to receivables at January 1	273
Arising during the year	86
Utilized	(159)
Unused amounts reversed	(84)
Provisions due to receivables at December 31	116
Litigation risks at January 1	253
Arising during the year	-
Utilized	(10)
Unused amounts reversed	-
Litigation risks at December 31	243
Tax provisions at January 1	-
Arising during the year	771
Utilized	-
Unused amounts reversed	-
Tax provisions at December 31	771
Provisions at December 31	2,037

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 € 2,198 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 € 65,494 in fiscal 2009 (2008: T € 57,886). The higher EBIT, adjusted by an higher level of depreciation and amortization, contributed to a-T-€ 10,334 improvement in cash flow from operating activities compared to the previous fiscal year. This was offset by a-T-€ 2,725 reduction resulting from other changes, especially changes in trade payables as well as other financial assets and liabilities. The paid income tax in the amount of T € 271 (2008: T € 37) are to be subsumed under cash flow from operating activities.

37 Cash flow from investing activities

Cash flow from investing activities totaled T € -40,331 in fiscal 2009 (2008: T € -68,988). Due to the reduced inventory, there was no change in available-for-sale financial assets in fiscal year 2009 (2008: T € 3,481). Cash outflow for property, plant and equipment and intangible assets amounted to T € -40,331 (2008: T € -72,467). Of the total investments made in 2009, totaling T € -42,216, T € 8,737 had been financed through finance lease, and are thus not included here. Also not included are investments in the amount of T € 513, which had been made by TELE2. In addition, investments in the amount of a further T € 7,365 were not presented, since they will either lead to an outflow of cash only in 2010, or had originated from 2008, and led to an outflow only in 2009.

38 Cash flow from financing activities

In fiscal year 2009, cash flow from financing activities amounted to T € -33,034 (2008: T € -14,207). This decline resulted essentially from the reduction of finance lease liabilities in the amount of T € -29,500. In addition, T € 3,536 were paid to TELE2. Interest paid in the amount of T € 2,863 and interest received in the amount of T € 828 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 % at Dec. 31, 2009	Shareholders' equity at Dec. 31, 2009	Net profit (loss) 2009
Subsidiaries (disclosures according to German GAAP)			
Plusnet GmbH & Co. KG, Cologne	67,5	73,043	732
Ventelo GmbH („Ventelo"), Cologne	100,0	7,464	638
Q-DSL home GmbH („DSL home"), Cologne	100,0	1,293	(339)*
010090 GmbH („010090"), Cologne	100,0	156	(40)*
EPAG Domainservices GmbH („EPAG"), Bonn	100,0	25	194*
Broadnet Services GmbH			
(„Broadnet Services"), Cologne	100,0	19	2*
BroadNet Deutschland GmbH			
(„BroadNet Deutschland"), Cologne	100,0	2,870	(35)*
01098 Telecom GmbH („01098"), Cologne	100,0	25	3*
01012 Telecom GmbH („01012"), Cologne	100,0	27	5*
010052 Telecom GmbH („010052"), Cologne			
(formerly „Q-DSL privat GmbH")	100,0	23	(2)

* Net profit (loss) before consolidation

The following subsidiaries have exercised their option for exemption pursuant to § 264 (3) of the German GAAP (HGB): DSL home, 010090, EPAG, BroadNet Deutschland, Broadnet Services, 01098, and 01012.

Plusnet • On July 10, 2006, QSC and TELE2 founded Plusnet. Following approval of the Federal Germany Cartel Office on August 21, 2006, Plusnet commenced operations on September 1, 2006, according to 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. Plusnet assumes responsibility for the provision of vital ongoing services, which otherwise would have to be provided by QSC itself. QSC has consolidated the special purpose entity in 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. This merger made EPAG a direct QSC investment. EPAG specializes in the registration and administration of international domains, and 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 01012 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.

010052 • 010052 emerged on October 30, 2009, from a name change of Q-DSL privat GmbH. The latter was formed on December 17, 2008, and is a wholly-owned QSC company. 010052 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 who accepted the offer 1.0542 QSC shares for each Broadnet share. The offer was 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. For the initial consolidation of Broadnet, QSC (in accordance with IFRS 3) utilized the acquisition method. One important aspect of this method 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. Moreover, 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 (amounting to T € 950) and for existing customer relationships (amounting to 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 foundation 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 (in accordance with IFRS) as the key steering parameter for the segments. Thus operating costs are fully attributed to their respective business units; plus a complete calculation of profit or loss up to the operating results is made. 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.

in T €	Managed Services	Products	Wholesale / Resellers	Reconciliation	Consolidated
For the year ended December 31, 2009					
Net revenues	**74,261**	**92,066**	**254,219**		**420,546**
Cost of revenues	(41,429)	(49,025)	(187,363)		(277,817)
Gross profit	**32,832**	**43,041**	**66,856**	**-**	**142,729**
Selling and marketing expenses	(11,727)	(14,890)	(13,232)		(39,849)
General and administrative expenses	(9,098)	(8,845)	(8,516)		(26,459)
Depreciation and amortization	(12,125)	(14,641)	(39,962)		(66,728)
Non-cash share-based payments	(116)	(132)	(242)		(490)
Other operating income	89	76	304		469
Operating profit (loss)	**(145)**	**4,609**	**5,208**	**-**	**9,672**
Assets	66,386	82,980	161,944	-	311,310
Liabilities	23,750	24,106	100,686	3,056	151,598
Capital expenditures	9,929	8,736	23,551	-	42,216

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	**259**	**1,819**	**3,980**	**-**	**6,058**
Assets	73,905	100,369	178,190	-	352,464
Liabilities	30,991	38,497	127,523	1,757	198,768
Capital expenditures	11,841	15,592	63,976	-	91,409

In the 2009 and 2008 fiscal years, no material revenues generated from doing business with companies from foreign countries, and neither were intersegment revenues generated. Long-term financial assets are exclusively domestic. In fiscal year 2009, the Wholesale/Reseller segment included two customers whose share in total revenues exceeded 10 percent, namely 19 percent and 13 percent respectively.

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 date of issuance. 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 and 2009, no convertible bonds were issued under the 2004 SOP.

	2009	2008
2006 SOP		
Expected average life of options 2006 SOP	8 years	8 years
Dividend yield	0.00%	0.00%
Average risk-free interest rate	3.17%	2.89%
Expected volatility (3 years)	57.68%	55.85%
Average fair value of convertible bonds in €	0.75	1.31
Fair value of options granted		
for the year ended Dec 31, 2009/2008, in €	189,457	566,435

The convertible bonds outstanding under all programs as of December 31, 2009 and 2008, are shown below:

	Number of convertible bonds	Weighted average exercise price in €
Outstanding at December 31, 2007	**2,719,037**	**3.11**
Granted in 2008	434,918	2.11
Forfeited in 2008	(274,093)	4.17
Exercised in 2008	(639,822)	1.03
Outstanding at December 31, 2008	**2,240,040**	**3.62**
Granted in 2009	253,000	1.18
Forfeited in 2009	(86,777)	4.46
Exercised in 2009	-	-
Outstanding at December 31, 2009	**2,406,263**	**3.33**

The remaining 2,406,263 convertible bonds have an exercise price range from € 1.00 to € 5.68 and the remaining term for exercise varies from "immediately exercisable" to December 28, 2017. 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 price development) to occur by 2017 at the latest.

At balance sheet date 1,533,245 of the remaining convertible bonds were exercisable, with the remaining convertible bonds being subject to the agreed retention period.

42 Related party transactions

In 2009, QSC participated in transactions with companies affiliated with members of the Management and Supervisory Boards. 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, 2009				
IN-telegence GmbH & Co. KG	751	137	817	160
Teleport Köln GmbH	12	104	14	128
QS Communication Verwaltungs				
Service GmbH	-	167	-	187
Dr. Bernd Schlobohm	-	96	-	-
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	-	-

in T €	Trade receivables	Trade payables
At December 31, 2009		
IN-telegence GmbH & Co. KG	153	(2)
Teleport Köln GmbH	1	(3)
QS Communication Verwaltungs Service GmbH	-	(21)
At December 31, 2008		
IN-telegence GmbH & Co. KG	75	-
Teleport Köln GmbH	1	(6)
QS Communication Verwaltungs Service GmbH	-	(9)

IN-telegence GmbH & Co. KG is a provider of value-added telecommunications services in the telecommunications industry. 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 incurred for Dr. Bernd Schlobohm relate to the transfer to pension provisions.

43 Deferred taxes

As in the previous year and due to the 2008 corporate tax reform, QSC utilized an income tax rate of 31.58 percent for calculating deferred taxes. Deferred taxes for the corresponding periods are:

in T €	Asset	Liability	Asset	Liability	Consolidated Statements of Income	
	2009		2008		2009	2008
Deferred taxes						
Intangible assets	-	9,064	-	12,668	(3,610)	(6,392)
Property, plant and equipment	-	6,326	-	3,731	2,594	(3,588)
Financial assets	-	9	-	9	-	16
Trade receivables	-	-	51	-	51	51
Trade receivables related parties	-	39	-	39	-	-
Prepayments	-	85	-	175	(90)	453
Other receivables	13	72	13	134	(61)	(121)
Deferred revenues	4,080	-	6,713	-	2,633	2,896
Accrued pensions and provisions	-	234	-	45	183	(71)
Other liabilities	-	-	-	51	(51)	(50)
Total deferred taxes referred to temporary differences	**4,093**	**15,829**	**6,777**	**16,852**	**1,649**	**(6,806)**
Total deferred taxes referred to losses carry forward	8,680	-	8,341	-	-	3,440
Total deferred taxes referred to temporary differences before netting out	**12,773**	**15,829**	**15,117**	**16,852**		
Netting out	(12,773)	(12,773)	(15,117)	(15,117)		
Total deferred taxes	**-**	**3,056**	**-**	**1,735**		

The temporary differences in connection with interests in subsidiaries for which no deferred tax liabilities are recorded amounted to T € 17,364 for fiscal year 2009 (2008: T € 12,720).

The following table is a reconcilement of the expected income tax to the actual income tax expense. The expected tax income is calculated by multiplying net loss before taxes with the assumed income tax rate:

in T €	2009	2008
Reconciliation		
Net profit	**7,195**	**4,535**
Tax rate	31.58%	31.58%
Expected tax expense	2,272	1,432
Tax effect of		
adjustments made to allowances on deferred taxes		
relating to carry forward of losses	(339)	-
non-deductible expenses	400	159
neglected capitalization of deferred taxes relating		
to carry forward of losses	(693)	1,969
permanent differences	155	213
income (expenses) unrelated to accounting period	(26)	37
Miscellaneous	(88)	(42)
Reconciled tax expense	**1,681**	**3,768**

Reconciled income tax expense consists of municipal trade expense in the amount of T € 338, corporation tax in the amount of T € 28, and deferred income tax income totaling T € 1,315. In fiscal year 2009, tax income of T € 6 in connection with recognized actuarial gains and losses was directly recognized in equity.

As of December 31, 2009, QSC had corporation tax losses and trade tax losses available for carry forward amounting in total to € 457 million (2008: € 465 million), and € 453 million (2008: € 460 million), respectively. 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 still unutilized corporation tax losses available for carry forward in the amount of € 434 million, and for still unutilized trade tax losses in the amount of € 426 million, there were no deferred tax assets recorded in the balance sheet.

44 Commitments and contingencies

Operating lease commitments • The Group has entered into commercial leases on various 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 €	2009	2008
up to 1 year	633	814
1 to 5 years	541	965
Operating lease commitments	1,174	1,779

In fiscal year 2009, QSC recognized expenses from operating lease commitments in the amount of T € 1,009 (2008: T € 1,139).

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
	2009		2008	
Finance lease and hire purchase commitments				
up to 1 year	18,645	17,701	28,034	26,156
1 to 5 years	8,035	7,848	20,830	20,155
Total minimum lease payments	**26,680**	**25,549**	**48,864**	**46,311**
less interest share	(1,131)	-	(2,553)	-
Value in use of minimum lease payment	25,549	25,549	46,311	46,311

Other commitments • Other commitments in the coming fiscal years arising from long-term contracts for fiber optic lines, technical premises, and office premises, in particular, amounted to T € 53,046 (2008: T € 60,414). Purchase commitments to future investments amounted to T € 5,514 (2008: T € 5,746) in the past fiscal year.

Guarantees • As of December 31, 2009, QSC had guarantees in the amount of T € 5,832 (2008: T € 7,334) outstanding, especially to suppliers of rental and other contractual obligations.

Litigation • In a judicial review proceeding (Spruchverfahren) at 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, at 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. The settlement negotiations have failed since the settlement offer was not accepted by all applicants. A new appointment for an oral hearing has not yet been made.
Deutsche Telekom AG (DTAG) is claiming 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, at the regional court in Cologne. After the hearing both parties were given opportunity to comment on the hitherto-used practice and also to voice their legal opinions. The next step in this lawsuit involves a further hearing at the regional court in Cologne.

45 Financial risk management objectives and policies

The Group's principal financial liabilities comprise essentially 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. Financial assets which arise directly from the Group's operating activities are, in particular, trade receivables, cash and short-term deposits, and available-for-sale financial assets. In 2009 and 2008 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 • QSC is exposed to the risk of changing market interest rates. This risk results primarily from the Group's variable interest-bearing short-term liabilities due to banks, as well as from variable interest-bearing liquidity. Fixed rate debts in contrast are short- and long-term finance lease obligations, including lease obligations, which are classified under other short- and long-term liabilities.
The share of variable rate debts in total rate debts amounts to 37 percent as of December 31, 2009. 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 and liquidity (including available-for-sale financial assets).

	Increase / decrease in basis points	Effect on profit before taxes in T €
2009	+100	260
2009	(100)	(260)
2008	+100	342
2008	(100)	(342)

Credit risk • QSC is exposed to the risk of bad debt on the part of customers and issuers. The Company strives to trade with creditworthy third parties only, thereby trying to rule out this risk from the very beginning. 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 debts. The maximum risk of bad debts is limited to the carrying value of the trade payable as disclosed in Note 19. In the past fiscal year, there were no significant concentrations of credit risk within the Group. As far as trade receivables not yet written down are concerned, QSC expects them to be collectible.
With regard to the Group's other financial assets, QSC is also subject to a credit risk arising from default on the part of the counterparty. The maximum credit risk arising from such a default corresponds to the carrying value of these instruments. QSC is therefore pursuing a highly conservative investment policy, and in the past fiscal year only invested in securities with first-class credit rating.

Liquidity risk • The Group monitors its risk to a shortage of funds by 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 strives to achieve an equilibrium 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 2010	Due end of 2011	Due end of 2012	Total
Finance lease liabilities	22,775	-	16,315	4,761	2,690	23,766
Trade payables	40,982	-	40,982	-	-	40,982
Bank debts	15,000	-	15,064	-	-	15,064
Other lease contract obligations	2,774	-	2,331	583	-	2,914
Other short- and long-term liabilities	7,844	-	7,844	-	-	7,844
At December 31, 2009	**89,375**	**-**	**82,536**	**5,344**	**2,690**	**90,570**

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 lease contract obligations	8,778	-	6,411	2,331	583	9,325
Other short- and long-term liabilities	7,154	-	7,154	-	-	7,154
At December 31, 2008	**118,419**	**-**	**100,203**	**16,903**	**3,926**	**121,032**

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 €	2009	2008
Capital management		
Finance lease liabilities	(22,775)	(37,533)
Short- and long-term liabilities	(2,774)	(8,778)
Bank debts	(15,000)	(15,000)
Fixed rate debts	**(40,549)**	**(61,311)**
plus cash and short-term deposits	40,952	48,823
plus available-for-sale financial assets	330	327
Net liquidity (debt)	**733**	**(12,161)**
Equity	159,712	153,696
Balance sheet total	311,310	352,464
Equity ratio	**51%**	**44%**

At balance sheet date, all performance indicators stipulated by the syndicate loan's had been met. The latter includes financial ratios with regard to equity, earnings before interest, taxes and amortization, as well as finance lease obligations.

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	
		2009	2008	2009	2008
Financial instruments					
Cash and Short-term Deposits	ACAC	40,952	48,823	40,952	48,823
Financial Assets Held for Trading	FAHfT	330	327	330	327
Trade Receivables	ACAC	53,595	57,880	53,595	57,880
Trade Payables	FLAC	40,982	49,954	40,982	49,954
Bank Debts	FLAC	15,000	15,000	15,000	15,000
Finance Lease Liabilities	n.a.	22,775	37,533	23,766	39,538
Other Short- and Long-Term Liabilities	FLAC	10,618	15,932	10,758	16,480
Aggregated according to classification in line with IAS 39					
Assets Carried at Amortised Cost	ACAC	94,547	106,703	94,547	106,703
Financial Assets Held for Trading	FAHfT	330	327	330	327
Financial Liabilities measured at Amortised Cost	FLAC	66,600	80,886	66,740	81,434

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. The fair value of financial assets held for trading was determined on the basis of market prices.

in T €	From interests, dividends	Subsequent to initial recognition		Net gain (loss)	
		Allowance	At fair value	2009	2008
Assets Carried at Amortised Cost (ACAC)	776	(1,503)	-	(727)	(378)
Financial Assets Held for Trading (FAHfT)	3	-	-	3	188
Financial Liabilities measured at Amortised Cost (FLAC)	(3,183)	-	-	(3,183)	(3,904)
Net loss according to classification	**(2,404)**	**(1,503)**	**-**	**(3,907)**	**(4,094)**

Expenses arising from the valuation adjustment on trade receivables are presented in profit or loss under 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 6, 2008, and, since its enforcement, in the version dated June 18, 2009, respectively has been issued by the Management Board and the Supervisory Board and is permanently and publicly 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

In fiscal year 2009, QSC recognized the following services provided by the auditing firm appointed to audit the Group's annual financial statements as expense: T € 212 for the consolidated financial statements audit, T € 9 for other opinion-related services, and T € 123 for other services.

49 Compensation of the Management Board

The total compensation of the members of the Management Board is, to a very high degree, performance driven. Total compensation for fiscal year 2009 amounted to T € 2,336 (2008: T € 2,463), which includes T € 186 from granted conversion rights.
The amount of T € 2,336 includes provisions for the payment of T € 676 to a former member of the management board for the past fiscal year. Net of provisions, total compensation for the QSC management board increased in the past fiscal year, since the Company was able to met or even exceed all business targets that were stipulated at the outset of the year – despite a difficult economic environment. Of the total amount of T € 2,336 for fiscal year 2009, fixed and variable components accounted for 39 percent and 58 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 the 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, 2009, that would have a material effect on the consolidated financial statements.

Cologne, March 15, 2010

QSC AG
The Board of Management

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

Statement of Responsibility

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 15, 2010

QSC AG
The Board of Management

Dr. Bernd Schlobohm
Chief Executive Officer

Jürgen Hermann

Joachim Trickl

Values for SMEs » QSC's corporate culture is based upon a common value system with clear principles that embrace both service to the customer and a commitment to teamwork in a spirit of partnership as well as targeted communication. This is how QSC creates values for owners, partners and customers.

Corporate Governance

Declaration of Corporate Management 122
Compensation Report 128
Declaration of Compliance 130
Functions of the Supervisory Board 133

Declaration of Corporate Management / Corporate Governance Report

QSC places great emphasis on Corporate Governance • Good corporate governance – the responsible management and oversight of the Company – is what characterizes the actions of QSC's corporate bodies. Since the German Corporate Governance Code ("Code") went into force in 2002, the Company has therefore largely been in compliance with its recommendations. However QSC 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 mid-size companies with a strong entrepreneurial culture. The Management and Supervisory Boards regularly subject the exceptions noted in the Declaration of Compliance to critical review and deal intensively with QSC's corporate governance; most recently in the Supervisory Board meeting on November 19, 2009.
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 2009. The following report also integrates the Compensation Report called for by Item 4.2.5 of the Code, and additionally contains information pursuant to § 289a, Sub-Para. 1, of the German Commercial Code ("HGB").

SHAREHOLDERS AND ANNUAL SHAREHOLDERS MEETING

Central importance of the Annual Shareholders Meeting • The regular Annual Shareholders Meeting is typically conducted during the first five months of the subsequent fiscal year and adopts key resolutions. The Management Board, for example, submits the Annual and Consolidated Financial Statements to the Annual Shareholders Meeting. The Annual Shareholders Meeting 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, it also decides on the Articles of Association and Bylaws, on amendments to the Articles of Association and Bylaws and on major entrepreneurial issues.
QSC invites its shareholders to the Annual Shareholders Meeting by mail, as the Company is already in possession of a comprehensive overview of the postal addresses of its shareholders thanks to its bearer shares. 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.
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. Each share grants one vote in connection with voting.

COLLABORATION BETWEEN MANAGEMENT AND SUPERVISORY BOARDS

A spirit of trust • As a stock corporation organized under German law, QSC is subject to German stock corporation law and possesses a two-body management and oversight structure comprising a Management Board and a Supervisory Board. Both of these corporate bodies collaborate with one another closely and in a spirit of trust to the benefit of the Company. The Management and Supervisory Boards view themselves as being committed to sustainably increasing shareholder value through profitable growth and consider good corporate governance to be an indispensable element in achieving this goal.
The Management Board promptly and comprehensively reports to the Supervisory Board on all relevant questions relating to planning, business development, risks and risk management, as well as compliance. At regular meetings and in telephone conference calls, the Supervisory Board advises and monitors the activities of the Management Board, and discusses key issues frankly and in a spirit of trust. The Supervisory Board receives the documents required for this, in particular the Annual Financial Statements, the Consolidated Financial Statements and the audit report, sufficiently in advance of the respective meetings.

MANAGEMENT BOARD

Decisions reached by the full three-member Management Boardt • A three-member Management Board manages the Company under its own direction and in the interest of the Company, taking into consideration the needs of the shareholders, employees and other groups associated with QSC (stakeholders). 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.

The Management Board meets weekly in connection with the Executive Board meetings

The Management Board meets at least once a month as a corporate body and, in addition, weekly within the framework of the meetings of the Executive Board, whose responsibilities are detailed in the Management Report in the section entitled "Management and Oversight." In this connection, over and above the issues stipulated by legislation or the Articles of Association and Bylaws, it decides, in particular, on measures and transactions that are of major significance for the Company or that involve a greater economic risk. The Rules of Procedure for the Management Board stipulate that resolutions be adopted by a simple majority of the votes cast. Moreover, a division of tasks plan governs the responsibilities of the individual members of the Management Board for specific areas. The Management Board member in question manages these areas under his own responsibility within the framework of Management Board resolutions. The following table offers an overview of the division of tasks at year-end 2009:

	Areas of Responsibility
Dr. Bernd Schlobohm	Strategy, Corporate Communications, Human Resources, Quality and Complaint Management, Information Technology, Networks
Jürgen Hermann	Finance, Investor Relations, Legal Affairs, Purchasing
Joachim Trickl	Managed Services, Products and Wholesale / Resellers Business Units, Marketing

QSC's Management Board collaborates closely and in a spirit of trust. Given the size of the Company and of its own corporate body, it refrains from forming committees to address specific issues. On the contrary, the full Management Board additionally discusses and decides on such issues as drawing up the annual financial statements as well as staffing second-tier executive positions. The Supervisory Board appoints all 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.

Two new Management Board members in fiscal 2009 • In November 2008, the Supervisory Board had appointed Joachim Trickl to the Management Board of QSC effective February 1, 2009, where he has since been driving the operative and sales and marketing development of the three business units. The former Management Board member responsible for sales and marketing, Bernd Puschendorf, left the Company effective January 31, 2009.
On March 31, 2009, the Supervisory Board appointed former Finance Manager Jürgen Hermann to the QSC Management Board effective April 1, 2009. Since mid April, he has been the member of the Management Board responsible for the areas of Finance, Investor Relations, Legal Affairs and Purchasing. The former Management Board member responsible for Finance, Markus Metyas, retired from this corporate body effective April 15, 2009.

SUPERVISORY BOARD

Six-member Supervisory Board • Under the terms of the Articles of Association and Bylaws, the Supervisory Board of QSC comprises six members, two thirds of whom are elected by the shareholders and one third by the employees. In connection with the nominations of potential Supervisory Board members, care is taken to assure that this corporate body consists at all times of members who possess the requisite knowledge, skills, abilities and professional experience for properly executing their duties. These nominations additionally take into consideration the appropriate diversity with regard to nationality and industry experience as well as the independence of a sufficient number of members. 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.

2/3 of the Supervisory Board elected by shareholders, 1/3 by employees

QSC presents the nominations for the election of Supervisory Board members to the Annual Shareholders Meeting individually for voting, and in this connection also informs it about the candidate or candidates for Chairman of the Supervisory Board. Since the regular Annual Shareholders Meeting in May 2008, this corporate body has been chaired by Herbert Brenke, who had previously served as its Vice Chairman.

Intensive advisory and oversight activities • The Supervisory Board of QSC intensively advises and oversees the Management Board in connection with management of the Company, and is involved in all decisions of fundamental significance. The Management Board's Rules of Procedure require the prior consent of the Supervisory Board before any major business transactions, such as stipulation of the annual planning, major capital investments, acquisitions and financial measures.

The Supervisory Board Chairman is in regular contact with the Management Board and, in particular, with the Chief Executive Officer, and deliberates QSC's strategy, business development and risk management with the Management Board. The Report of the Supervisory Board on pages 6 ff. provides detailed information about the activities of this six-member corporate body and its committees:

In fiscal 2009, there were three committees of the Supervisory Board

In 2009, there were three committees of the Supervisory Board: The Compensation, Audit and Nominating Committees. Pursuant to the Supervisory Board's Rules of Procedure, the Nominating Committee comprises two members, as it is merely a preparatory committee, while the other committees, which actually adopt resolutions, consist of three members. Under the Rules of Procedure, the decisive criterion in selecting the committee members consists of their qualifications for the task in question. Unless otherwise prescribed by legislation or the Articles of Association and Bylaws, the committees adopt their resolutions by a simple majority. All three committees regularly report on their work to the full Supervisory Board and ready its resolutions. The following table offers an overview of the members and chairmen of the respective committees:

	Chairmen and members of the committees of the Supervisory Board
Nominating Committee	John C. Baker (Chairman), Gerd Eickers
Audit Committee	John C. Baker (Chairman), Herbert Brenke, Gerd Eickers
Compensation Committee	Herbert Brenke (Chairman), John C. Baker, Jörg Mügge

TRANSPARENCY

Transparent communication • On its website, QSC provides timely and comprehensive information in German and English about all relevant developments within the Company, thus assuring that all shareholders are treated equally. Interested parties 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 Internet site 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.

Trading Day / Stock Market	Name / Status	Financial Instrument	Typ of Transaction	Price in € / Quantity	Volume in €
April 9, 2009	Jürgen Hermann	QSC Shares	Purchase	1.15	63,434.00
Xetra	Management Board			55,160	
June 12, 2009	Jörg Mügge	QSC Shares	Purchase	1.56	6,240.00
Berlin	Supervisory Board			4,000	

ACCOUNTING AND AUDIT

Timely information about the course of business development • First and foremost, QSC informs shareholders and third parties through its annual 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. Both sets of financial statements are drawn up by the Management Board and then reviewed by the auditor and the Supervisory Board. QSC submits its quarterly reports within 45 days subsequent to the close of each reporting period. Both the Consolidated Financial Statements as well as the Annual Financial Statements of QSC AG for the 2009 fiscal year were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, headquartered in Berlin with a branch office in Cologne, which was elected by the 2009 Annual Shareholders Meeting. The audit commission issued by the Supervisory Board also included compliance with reporting obligations relating to corporate governance.

COMPLIANCE

QSC largely minimizes risk of improper behavior • QSC's value system is based upon collaboration in a spirit of partnership and mutual respect, and gives every employee a high degree of responsibility. Yet even in this kind of corporate culture, the risk of improper behavior on the part of some individuals cannot be completely eliminated. QSC has therefore taken a number of measures in order to minimize this risk as much as possible, thus preventing damage to the Company, itself, and to society as a whole. Dealing with internal and external counterparts fairly, openly and in a spirit of trust numbers among QSC's four guiding principles and is lived in everyday Company life. Seminars and training sessions additionally serve to sensitize all employees to the central importance of such issues as obeying the law and professionalism in their dealings.

QSC strictly observes compliance with the four-eyes principle and the division of responsibilities throughout the entire Company, which means that every transaction affecting liquidity is seen by multiple people. Guidelines governing such critical points as travel expenses and purchasing provide the required clarity for correct behavior in everyday operations.

Compliance is a major leadership task at QSC

Compliance is also a major leadership task at QSC. The Executive Board, the Management Board, the Supervisory Board and its Audit Committee regularly deal with these issues. In doing so, they draw upon risk reports and internal controlling, and critically call into question the processes that apply within the Company. This enables QSC to further refine its compliance and to further reduce the risk of improper behavior.

Compensation Report

Extensive explanations • Good corporate governance necessitates extensive explanations of the 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 takes their performance and their contributions to the success of the Company into consideration. This aggregate compensation amounted to € 2.34 million in fiscal 2009, as opposed to € 2.46 million the year before. In this connection, the fact should be taken into consideration that a provision in the amount of € 0.67 million had been formed in 2008 for compensation to be paid to a retired member of the Management Board for the past fiscal year. Leaving this provision out of consideration, there was an increase in the aggregate compensation paid to the QSC Management Board for the past fiscal year, as the Company had been able to achieve or even exceed all of the goals that had been specified at the outset of the year, in spite of the difficult economic environment.

During the 2009 fiscal year, 39 percent of the aggregate compensation in the amount of € 2.34 million was attributable to fixed salary elements, 58 percent to variable salary elements and 3 percent to fringe benefits. The fixed element is paid in installments as base compensation. In particular, fringe benefits are granted to the members of the Management Board in the form of a Company old-age pension as well as the use of a company car or the utilization of a car allowance.

58 percent of the compensation attributable to variable salary elements

The variable elements depend upon the level of attainment of corporate goals. Dring the past fiscal year, the annual corporate objectives related to the development of the Company's EBITDA and the development of its net indebtedness, as well as to the achievement of a balanced net income. These objectives are annual objectives and are embedded in a multiple-year sustainability path, which is based upon the overall planning for the period 2009 – 2011. It is assured that the amount of the variable compensation element will remain appropriate in the event of extraordinary developments and that the members of the Management Board will also participate appropriately in negative developments. The Supervisory Board's Compensation Committee defines these goals at the outset of each fiscal year, and then reviews them subsequent to the close of that fiscal year.

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.

	Shares		Convertible Bonds	
	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
Dr. Bernd Schlobohm	13,818,372	13,818,372	350,000	350,000
Jürgen Hermann (from April 1, 2009)	145,000	89,840[2]	47,000	47,000[3]
Markus Metyas (through April 15, 2009)	233,652[1]	112,307	175,000[1]	675,000
Bernd Puschendorf (through Jan 31, 2009)	348,397[1]	348,397	125,000[1]	125,000
Joachim Trickl (from Feb 1, 2009)	5,000	5,000[2]	250,000	-

[1] Holdings at the time of retirement from the Management Board
[2] Holdings before joining the Management Board
[3] Convertible Bonds signed as an employee

SUPERVISORY BOARD COMPENSATION

Appropriate compensation paid to members of the Supervisory Board • In the 2009 fiscal year, the members of the Supervisory Board received aggregate compensation in the amount of € 160,000. Pursuant to the Articles of Association and Bylaws, both the Chairman of the Supervisory Board, Herbert Brenke, as well as his Vice Chairman, John C. Baker, each received € 30,000 and the other members € 25,000 each, as all of them had attended at least 75 percent of the meetings. This compensation is neither linked to the success of the Company nor does it provide a separate reward for the chairmanship of or membership on 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. No member receives any further compensation or other advantages for personal services rendered over and above the remuneration set forth herein.

	Compensation	Shares		Convertible Bonds	
	(in €)	Dec. 31, 2009	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2008
John C. Baker	30,000	10,000	10,000	-	-
Herbert Brenke	30,000	187,820	187,820	-	-
Gerd Eickers	25,000	13,877,484	13,877,484	-	-
David Ruberg	25,000	14,563	14,563	-	-
Klaus-Theo Ernst	25,000	500	500	3,258	3,258
Jörg Mügge	25,000	4,000	-	6,000	6,000

Declaration of Compliance

Declaration Pursuant to section 161 of the German Stock Corporation Act (Aktiengesetz) as regards QSC AG's Compliance with the German Corporate Governance Code (Deutscher Corporate Governance Kodex) as amanded June 6, 2008, respectively as of its validity as amanded June 18, 2009

Since its formation, QSC AG („QSC") 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 (Deutscher Corporate Governance Kodex) and adheres them in its daily work. Since the 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 6, 2008, respectively as of its validity in its version dated June 18, 2009, with the following exceptions:

- **No sending of the 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 (Item 2.3.2 of the Code)** • There are two reasons why QSC sends the convention documents only by mail: Firstly, the experience shows that an invitation provided by mail leads to a higher participation of the shareholders at the General Meeting. Secondly, as QSC is in possession of all postal addresses of its shareholders due to the fact that QSC has issued registered shares, QSC refrains from collecting e-mail addresses of its shareholders for efficiency reasons.

- **No agreement as regards a deductible in the D&O insurance for members of the Supervisory Board (Section 93 para. 2 of the German Stock Corporation Act (Aktiengesetz) mutatis mutandis) (Item 3.8, Paragraph 2 of the Code as amended June 18, 2009)** • QSC accepts the recommendation of the German Corporate Governance Code insofar as the D&O insurance policy will include a deductible for Supervisory Board members of 10 percent of the respective damages per damage event as of July 1, 2010. However, and in contrary to the recommendation, the deductible will be limited to 100 percent of the fixed annual remuneration of the Supervisory Board members. In particular against the background of the comparatively low remuneration of the Supervisory Board Members, QSC deems inappropriate a deductible which exceeds the annual remuneration.

- **Until the entering into force of the Act Regarding the Adequacy of the Remuneration of the Members of the Management Board (Gesetz zur Angemessenheit der Vorstandsvergütung): No decisions of the Supervisory Board's plenum upon the compensation system of the Management Board members including the material elements of the contracts (Item 4.2.2, Paragraph 1 of the Code as amended June 6, 2008)** • Until the Act Regarding the Adequacy of the Remuneration of the Members of the Management Board has entered into force, the Compensation Committee of the Supervisory Board had decided on the compensation system of the Management Board members including the material elements of the contracts. QSC had the opinion that the Compensation Committee was due to its competences best prepared to deal with the Management Board's remuneration. Since the Act Regarding the Adequacy of the Remuneration of the Members of the Management Board has entered into force, such decisions are passed by the Supervisory Board's plenum.

- **No periodic review of the Management Board members' compensation system including the material elements of the contracts by the Supervisory Board's plenum (Item 4.2.2, Paragraph 1 of the Code as amended June 18, 2009)** • The periodic review of the compensation system is carried out by the Compensation Committee of the Supervisory Board. According to QSC's opinion, the Compensation Committee is due to its competences best prepared to deal with the Management Board's remuneration.

- **Changed Circumstances are not retroactively taken into account in determining the variable elements of Management Board's remuneration (Item 4.2.3, Paragraph 2 of the Code as amended June 18, 2009)** • According to the current employment contracts between QSC and the members of the Management Board, variable elements of the Management Board's remuneration depend on positive or negative developments during the agreed assessment period to the extend that the variable remuneration will be higher, lesser or not be paid at all according to such developments. To the extent that the Act Regarding the Adequacy of the Remuneration of the Members of the Management Board generally postulates variable remuneration elements on the basis of perennial assignment periods, QSC was not able to change the existing contracts with the members of the Management Board yet. In the event of future changes to the existing contracts with members of the Management Board, the Supervisory Board will take the aforementioned into account.

- **No stipulation of demanding, relevant comparison parameters for stock options and comparable instruments as regards the members of the Management Board (Item 4.2.3, Paragraph 3, Sentence 2, of the Code as amended June 6, 2008)** • Due to the fact that the QSC stock option plans are linked to the quotation of QSC's shares and their long term design, QSC believes that there is no need to stipulate demanding, relevant comparison parameters. However, the current stock option plan 2006 (SOP 2006) contains exercise barriers and, therefore, strengthens the link between the stock option plan and the development of the quotation of QSC's share respectively to its development compared to the development of the TecDAX.

- **No limitation (cap) for extraordinary, unforeseen developments for stock options and comparable instruments for members as regards the Management Board (Item 4.2.3, Paragraph 3, Sentence 4, of the Code as amended June 6, 2008)** • Due to the link of the stock option plans to the development of the quotation of QSC's share as well as their long term design, QSC has deemed a limitation (cap) for extraordinary, unforeseen developments not necessary.

- **The contracts of the Management Board members do not contain a cap on severance payments in case of premature termination (Item 4.2.3, Paragraph 4 of the Code)** • To postulate a cap as regards severance payments would be contrary to the spirit of the Management Board contract, which is usually concluded for a fixed term and does, in principle, not provide for the possibility of an ordinary termination by notice. Moreover, a contractual severance payment cap would practically be difficult to enforce against a Management Board member in the circumstances where it would be relevant. Furthermore, such advance stipulation would be unfeasible to reasonably take into account the particular facts and the surrounding circumstances that later actually give rise to the premature ending of a Management Board member's contract.

- **No publishing of 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 as amended June 6, 2008)** • Due to the link of the stock option plans to the development of the quotation of QSC's share as well as their long term design, QSC deems a complex evaluation of the value of the stock options not necessary. The current stock option plan 2006 (SOP 2006) contains exercise barriers and, therefore, strengthens the link between the stock option plan and the development of the quotation of QSC's share respectively to its development compared to the development of the TecDAX.

- **No consideration of the performance of the company or chair and membership positions in committees as regards the compensation of the members of the Supervisory Board (Item 5.4.6, Paragraphs 1 and 2 of the Code)** • QSC does not believe that the Supervisory Board members' motivation and responsibility as regards their duties will be improved by considering the performance of the company or any chair or membership position in committees regarding the compensation of the members of the Supervisory Board.

Cologne, November 19, 2009

For the Management Board
Dr. Bernd Schlobohm

For the Supervisory Board
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
Herbert Brenke	Chairman of Supervisory Board	ASKK Holding AG, Hamburg, Germany
	Member of Supervisory Board	SHS VIVEON AG, Munich, Germany
Gerd Eickers	Chairman of Supervisory Board	Contentteam AG, Cologne, Germany
	Member of Supervisory Board	Amisco NV, Brüssel, Belgium
David Ruberg	Member of Board of Directors	Adaptix Inc., Dallas, USA
	Member of Board of Directors	Broadview Networks Inc., New York, USA

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.

ICT • Information and Communication Technology. Industry which offers enterprises and residential customers information technology (hardware, software and IT services) and telecommunication technology (voice and data services, devices, infrastructure). The ubiquitous use of the Internet protocol leads to a convergence of information and telecommunication technology.

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.

Index

B

Balance Sheet 46 ff., 68 f., 90 ff.

C

Capital expenditures 45, 61
Cash flow statements 44 f., 67, 100
Compensation 28 f., 128 f.
Corporate Governance 122 ff.
Corporate strategy 19 f.

D

Debts 44 f., 47
Depreciation 38, 77 f.
Dividend 4, 59
DSL market 32 f., 60

E

EBIT 21 f., 38
EBITDA 37 f.
Employees 28 ff.
Executive Board 22 f.

F

Financial position 3 f., 44 ff., 47 f., 59
Free cash flow 44, 47 f., 59, 61

I

Industry conditions 31 ff., 59 f.
Investor Relations 13
IPfonie centraflex 26, 41

L

Liquidity 43 f.

M

Managed Services 16 f., 39 f.
Management Board 2, 22 f., 123 f.
Mission Statement 19

N

Next Generation Network 3 f., 16

O

Opportunities 62 f.
Outlook 59 ff.

P

Profitability 3 f., 35 ff., 47 f., 59

R

Regulation 18, 53 f.
Revenues 35
Risks 49 ff., 113 ff.

S

Sales 26 f.
Segment Reporting 39 ff., 104 ff.
Shares 10 ff., 23 f.
Shareholders 12 f., 122
Shareholders' Equity 24 f., 46 f., 69 f., 95
Statements of Income 35 ff., 66, 85 ff.
Supervisory Board 5, 6 ff., 124 f.

V

Vocational training 29
Voice over IP 31 f., 41, 63

Calendar

Annual Shareholders Meeting
May 20, 2010

Quarterly Reports
May 10, 2010
August 9, 2010
November 8, 2010

Contact

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

Overall Responsibility
QSC AG, Cologne

Art Direction
sitzgruppe, Düsseldorf

Photography
Marcus Pietrek, Düsseldorf

This translation is provided as a convenience only.
Please note that the German-language original of
this Annual Report is definitive.

Certification

Further information at www.qsc.de