Annual Report . 2003 . The Year of Integration

Key data

	2003	2002	2001	2000
All amounts in million EUR				
Revenues	115.6	47.1	29.4	5.0
EBITDA	-28.5	-60.3	-85.4	-79.4
EBIT	-61.9	-101.1	-113.0	-98.0
Net loss	-60.6	-102.6	-104.9	-89.2
Net loss per common share [1] (in EUR)	-0.58	-1.01	-1.04	-1.15
Equity [2]	89.5	145.3	240.0	339.1
Balance Sheet total [2]	132.7	194.6	298.0	419.7
Equity ratio (in %)	67.4	74.7	80.5	80.8
Capital Expenditure	8.4	11.8	41.7	85.8
Liquidity [2]	54.3	87.6	153.8	294.8
Share price [2] (in EUR)	3.03	0.38	1.25	3.98
Number of shares [2]	105,037,396	105,008,714	105,008,714	105,008,714
Market capitalization [2]	318.3	39.9	131.3	417.9
Employees [2]	373	433	263	194

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

Communication is changing the world
Broadband reinvents communication
QSC is the broadband solution

QSC at a glance

Success with integrated solutions // Growing demand on the part of business and project customers was a major factor in QSC's annual revenue growth of 145 percent in 2003 to EUR 115.6 million. QSC's high standards of quality and service enabled the Company to convince both large corporates as well as small and medium enterprises of the benefits offered by its custom-tailored solutions for broadband voice and data communication.

Ventelo successfully integrated // Only twelve months after acquiring Ventelo, QSC has succeeded in integrating this telephony provider to business customers. This acquisition enabled QSC to penetrate the voice market significantly faster than would have been possible on its own. In addition, the Company was also able to achieve significant synergies by combining the two separate networks into one single integrated voice/data backbone network, for example, and by consolidating the two administrations at the Cologne location ahead of schedule.

EBITDA breakeven // Successes in high-margin solutions business, the synergies stemming from the Ventelo integration, as well as strict cost management led to a 53-percent reduction of the Company's EBITDA loss to EUR -28.5 million in 2003, as opposed to EUR -60.3 million in 2002. The fourth quarter of 2003 marked the first time that QSC had passed the EBITDA breakeven threshold. Since January 2004, QSC has been generating a positive monthly EBITDA.

Sustained profitability // QSC anticipates revenue growth of at least 20 percent to more than EUR 138 million for the current fiscal year. The Company is planning on a sustained positive EBITDA and on reaching the cash flow breakeven point during the course of the first half of 2004. A positive and recurring monthly cash flow is planned by July 1, at the latest.

Strong share price performance // The capital market is rewarding QSC's focused positioning as an integrated telecommunication provider to business customers and the resulting improvements in revenues and profitability – during the course of the past fiscal year, trading prices for QSC shares rose by nearly 700 percent to EUR 3.03. The growing importance of QSC shares, as measured by market capitalization and trading volume, led to the Company's inclusion in the TecDAX index on March 22, 2004.

2003: The Year of Integration

As a nationwide telecommunication provider with its own DSL network, QSC can today offer both businesses as well as premium residential customers comprehensive broadband communication over a telephone cable: From leased lines in various bandwidths to voice and data services right through to custom enterprise networks (VPNs).

Within the space of only four years, QSC has succeeded in developing into just this kind of integrated telecommunication provider. During this brief period, QSC has transformed itself from a reseller of pure DSL lines to a solutions provider who offers a broad range of high-quality voice and data services.

Integration of voice and data services // In 2003, QSC expanded its portfolio of services. Today, every customer will find the communication solution here that makes for a perfect fit with his or her needs – from simple telephone calls right through to complex networking.

Integration of decentral workplaces in a network // In 2003, QSC benefited from the high demand for VPN solutions. Today, both major corporates as well as small and medium enterprises place their trust in the performance and service quality of the QSC network.

Integration of voice and data on a single line // In 2003, QSC debuted its first Voice over IP product for residential customers. Utilizing a DSL line for both telephony and data traffic is the logical consequence of modern broadband communication.

2000: Network
QSC focuses on building a network of its own in over 40 major German cities. Strong resellers assume responsibility for marketing DSL lines.

2001: Products
The first Q-DSL products are brought to market – high-quality DSL lines for residential customers. QSC concludes the build-out of its own infrastructure in May of this year.

2002: Solutions
QSC strengthens its direct end-customer relationships, while simultaneously broadening its competence as a solutions provider for data services for business customers.

2003: Integration
The acquisition of telephony provider Ventelo hastens QSC's entry into the voice market, making the Company an integrated telecommunication provider.

January 2003
QSC has been listed in the Prime Standard quality segment since January 15.
Launch of Q-DSLmax, the powerful DSL offering for small and medium enterprises.

March 2003
Earlier than planned, QSC records a positive gross profit for the first time in Q1 2003.
The QSC and Ventelo regional sales offices are consolidated.

April 2003
QSC manages to consolidate the previously separate QSC and Ventelo networks into one single, integrated voice/data backbone network.

May 2003
Q-DSL home2300 opens up a new dimension in Internet access: The new product offers nationwide the so far fastest access for residential customers.

June 2003
Deutsche Börse includes QSC shares in the premium NEMAX 50 index, which is made up exclusively of strong technology issues from the Prime Standard.

July 2003
QSC Scout enables VPN customers to monitor network performance at any time.
Norbert Quinkert, chairman of Motorola Germany, strengthens the Supervisory Board.

August 2003
QSC networks 63 TÜV Rheinland Berlin Brandenburg locations into a virtual private network. The customer praises the quality and availability of the Q-DSL lines.

October 2003
QSC wins two new nationally operating VPN customers, HypoVereinsbank and the MakroMarkt retail chain, and networks their sites throughout Germany.

November 2003
Launch of QSC-IPfonie – QSC's first Voice over IP product for residential customers. Q-DSL home customers can now also use their DSL line to make phone calls.

December 2003
Ventelo's relocation to Cologne concludes the integration process ahead of scchedule. QSC reaches the operating profit threshold at year-end 2003.

January 2004
On January 1, Ventelo General Manager Mark Goossens is appointed to the QSC Management Board – a visible manifestation of Ventelo's successful integration.

Content

To the Shareholders

Dear Shareholders,

On March 22, 2004, Deutsche Börse included QSC in the TecDAX index – marking the crowning moment of a highly successful year for QSC – both in terms of operating progress and share price development. The inclusion in Germany's premier stock market index for technology stocks represents a milestone in the development of our Company and pays tribute to both QSC's business model as well as its people. At the same time, we view it as an incentive to further grow the value of QSC and to expand our Company as a successful provider of premium telecommunication products, services and solutions for business customers in Germany.

We made major progress in this direction in 2003. In spite of the weak economy, revenues rose by 145 percent to EUR 115.6 million. At the same time, our operating results were sharply improved. This highly profitable growth indicates our strategy of focusing on the business customer segment early on. QSC offers businesses one-stop shopping for custom-tailored telecommunication solutions for voice and data services. Our success in the marketplace is based upon a strong competence to devise and deliver solutions, a powerful broadband network, an unrivaled level of quality and service nationwide, as well as an outstanding price-performance ratio. Our contracts with HypoVereinsbank, TÜV Rheinland Berlin Brandenburg and, most recently, German Rail document the high level of recognition we enjoy in the marketplace.

Highly profitable growth indicates strategy of focusing on business customers

Our strong growth in 2003 also resulted from fully consolidating Ventelo for the first time, the company we acquired at year-end 2002. We succeeded in successfully concluding the integration of this Düsseldorf-based voice telephony provider within the space of only twelve months. Earlier than had originally been planned, Ventelo's headquarter moved to Cologne in December 2003 after we were able to sublease Ventelo's headquarter premises in Düsseldorf. While the expenses that this entailed did lead to a non-recurring impact on our profitability in the fourth quarter, this is far outweighed by the savings in rent as well as by the earlier formation of a joint team in Cologne.

We are proud of accomplishing this smooth integration. The way our people worked on the swift integration and dealt with new tasks deserves special mention and appreciation. In this connection, we would like to expressly point to the achievements of our former colleague on the Management Board, Gerd Eickers, who so skillfully guided the consolidation of the two teams throughout the entire past year. We sincerely thank him for that as well as for his accomplishments overall during the past three years. Thanks to his commitment and enthusiasm, his know-how and experience, he has made a crucial contribution toward building QSC.

The appointment of Ventelo General Manager Mark Goossens to succeed Gerd Eickers is a visible manifestation of Ventelo's successful integration. Prompted by this move, we have made changes in the responsibilities of the members of the Management Board to reflect the Company's strongly growing business volume and higher visibility. In the future, Dr. Bernd Schlobohm will be concentrating even more on QSC's strategic alignment, on initiating and cultivating strategic business and customer relationships, as well as on representing the Company to the outside world. Markus Metyas will be spending more time on investor relations and will be responsible for the newly created Mergers & Acquisitions function. Mark Goossens is now in charge of the entire field of technology. And Bernd Puschendorf is coordinating all customer-related activities – from sales and marketing to order management right through to implementing the solutions in project business.

First and foremost, though, we would like to thank you, our shareholders. You have remained steadfastly loyal to QSC in our early years, in spite of the deterioration of the share prices of QSC, believing in the success of our business model as we have done. The rise in our share prices of more than 1000 percent during the past 15 months shows that investors in Germany and other countries are increasingly agreeing with our assessment and recognizing the opportunities that are open to QSC. Four long-term trends, in particular, are driving QSC's growth:

- // The dominance of DSL in Germany. Powerful broadband communication links have now become an indispensable element of business life. As a nationwide provider with its own large DSL network, QSC is outstandingly positioned to serve this market.
- // The sweeping success of virtual private networks. Flexibility and cost considerations are prompting businesses both large and small to replace their traditional leased lines with VPN solutions for which broadband networks are required.
- // The emerging trend toward outsourcing in telecommunications. Following their data centers, the first companies are now also beginning to outsource operation and maintenance of their telecommunication infrastructures to third parties.
- // The advance of Voice over IP. In the future, phone calls over the Internet will displace classical line-switched telecommunication, especially where powerful VPNs are in use. QSC already demonstrated its Voice over IP competence in the residential customer market when it launched QSC-IPfonie; a solution for business customers will follow within the next twelve months.

Possessing its own infrastructure is proving to be a significant competitive advantage for QSC. This enables the Company to provide its services in top quality and at competitive prices independently of Deutsche Telekom, thus lending QSC credibility and flexibility as a provider of technology services. In the future, QSC will continue to focus on directly connecting businesses and premium residential customers to its network in order to generate highly profitable revenue growth.

QSC has been generating a positive monthly EBITDA since January 2004

QSC reached the operating profit threshold at year-end 2003, and has been generating a positive monthly EBITDA since January 2004. In addition, QSC anticipates a positive cash flow starting on July 1, 2004, after the Company has crossed the cash flow breakeven threshold in the first half of the year.

QSC is set for further strong growth. Winning important reference contracts from prominent major accounts like HypoVereinsbank, as well as our inclusion in the TecDAX, have boosted motivation throughout the entire team, while simultaneously strengthening the confidence of our existing and potential customers in the QSC business model. It is upon this foundation that we intend to broaden QSC's market position as a solutions provider for business customers, thus reinforcing our ambition of sustainably establishing QSC as the number two provider of premium telecommunication services for business customers in Germany. It is our conviction that the QSC success story has only just begun.

Cologne, March 2004

Dr. Bernd Schlobohm

Management Board

Dr. Bernd Schlobohm

This postgraduate engineer was the founder of QSC. As the Company's Chief Executive Officer, he was responsible for Strategy, Technology and Communication in 2003. Given the Company's growth potential, the CEO has been focusing on QSC`s strategic alignment and Public Relations since March 2004.

Gerd Eickers

After three years on the Management Board, the second QSC founder resigned his office at his own request effective year-end 2003. He is a candidate for the Supervisory Board, on which he had previously held a seat until the end of 2000.

Mark Goossens

The Supervisory Board appointed the General Manager of Ventelo to the QSC Management Board effective January 1, 2004. In addition to being in charge of Technology, he is also responsible for the Billing and Carrier Management.

Markus Metyas

A seasoned investment banker, he has been responsible for Finance, Human Resources and Legal Affairs since 2000. Since March 2004, he is also responsible for the newly created Mergers & Acquisitions function.

Bernd Puschendorf

An experienced sales and marketing manager, he has been in charge of Sales and Marketing since 2002. Since March 2004, he has additionally been coordinating all customer-related activities.

Supervisory Board

John C. Baker
// Chairman

The General Partner of the Baker Capital Group, a U.S.-based equity capital fund, represents QSC's largest shareholder.

Herbert Brenke
// Vice Chairman

An independent telecommunication consultant, he built mobile communication provider E-Plus.

Ashley Leeds //
The General Manager of Baker Capital focuses on the telecommunication sector.

Norbert Quinkert //
The chairman of Motorola GmbH was appointed to the QSC Supervisory Board in July 2003.

David Ruberg //
An information technology professional and former CEO, he represents Baker Capital on the Supervisory Boards of high-tech companies.

Claus Wecker //
An attorney at law, he is a partner in the internationally operating legal firm of White & Case.

Report of the Supervisory Board

for the financial year 2003 regarding the Company and the group

In accordance with legal requirements and the articles of incorporation, the Supervisory Board monitored and advised the Management Board in the financial year 2003. The Supervisory Board was directly involved in all decisions or measures of fundamental significance particularly for the asset, financial or earnings situations of the Company.

Norbert Quinkert, CEO of Motorola GmbH, strengthens the Supervisory Board

This year the Supervisory Board welcomed Mr. Norbert Quinkert, Chairman of the Management Board of Motorola GmbH Deutschland, as additional member of the Supervisory Board, who was appointed by resolution of the Local Court of Cologne dated July 15, 2003 according to Art. 104 para. 2 sentence 1 of the German Corporation Act. He replaces Mr. Manjit Dale who had already resigned from the Supervisory Board with effect from expiry of December 31, 2002.

At his own request Gerd Eickers chose not to renew his contract and resigned from the Management Board with effect from expiry of December 31, 2003. We would like to take this opportunity to sincerely thank him for his merits in this capacity. We are pleased that Mr. Eickers agreed to be nominated for election to the Supervisory Board at the coming ordinary General Meeting. With effect from January 1, 2004 the Supervisory Board appointed Mr. Marcus Maria (named Mark) Goossens as member of the Management Board. Mr. Goossen's responsibilities originally were customer service, order management, billing and carrier management. Since March 2004 his field of responsibility additionally includes data network services, voice network services and network operation. At that time Bernd Puschendorf took over order management.

In four meetings held on March 20, May 14, August 14, and November 13, 2003, as well as in two telephone conferences on January 17, and December 9, 2003 and by means of several written submittals regarding specific topics the Supervisory Board was informed in detail, on the basis of the Management's monthly reporting including target/actual comparison, about the course of business, the Company's economic situation and about all transactions of significance for the profitability and cash flow situation of the Company. No Supervisory Board member attended fewer than half the meetings during his term of office. Additionally, the Chairman of the Supervisory Board was personally in regular contact with the Management Board.

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

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

Major topics of the Supervisory Board activities during the past financial year were implementing synergy-effects by integration of organizational structure and product range of QSC AG and Ventelo GmbH, current development of the business, business planning and strategy, particularly the review of the actual results versus budget, the cash burn rate, the discussion of potential acquisition opportunities, selecting the new member of the Management Board and evaluating the results of the risk management. Together with the Management Board the Supervisory Board issued the compliance statement according to § 161 of the Stock Corporation Act. Implementing the German Corporate Governance Code the Supervisory Board regularly examines the efficiency of it's activities.

The annual financial statements of QSC AG pursuant to HGB (German Commercial Code) as at December 31, 2003 as well as the consolidated financial statements pursuant to US GAAP as at December 31, 2003, the management report and the consolidated management report were presented to the members of the Supervisory Board, examined by the Supervisory Board and - as well as potential risks resulting from future developments - discussed with Ernst & Young Revisions- und Treuhandgesellschaft mbH Wirtschaftsprüfungsgesellschaft Steuerberatungsgesellschaft, Eschborn/Frankfurt am Main, the auditors mandated by the Supervisory Board, namely, at the meeting on March 26, 2004. By utilization of the exemption provision of Art. 292a HGB, German GAAP consolidated financial statements were not prepared. Accordingly, additional disclosures pursuant to Art. 292a HGB were added. The HGB-annual financial statements of the Company and the consolidated financial statements pursuant to US GAAP for the year 2003 were each granted an unqualified auditor's certificate.

Having conducted its own examination, the Supervisory Board has no objections against the annual financial statements of QSC AG for the 2003 financial year pursuant to HGB and the consolidated financial statements pursuant to US GAAP as well as the management report and the consolidated management report and concurs with the findings of the auditors.

The Supervisory Board approves the consolidated financial statements pursuant to US GAAP

The Supervisory Board approved the consolidated financial statements pursuant to US GAAP as well as the annual financial statements pursuant to HGB, the latter has therefore been formally established. The Supervisory Board would like to thank the Management Board and all employees of the Company for their commitment and dedication, without which the Company's successful development in the past financial year would not have been possible.

Cologne, March 26, 2004
On behalf of the Supervisory Board

John C. Baker
Chairman of the Supervisory Board

Share performance paves the way for TecDAX

With a share price increase of nearly 700 percent to EUR 3.03, QSC shares numbered among the best-performing German stocks in 2003. This upward trend was sustained in the first quarter of 2004. In February 2004, monthly trading volume achieves already more than EUR 56 million. Therefore, Deutsche Börse has decided to include QSC in the TecDAX index effective March 22.

Renaissance in technology issues // Two factors, first and foremost, were responsible for the extremely positive performance of QSC share prices in 2003. On the one hand, the capital market rewarded QSC's steady progress toward achieving the EBITDA and cash flow breakeven points, as well as the huge potential offered by the market for integrated telecommunication solutions for business customers. On the other hand, QSC shares benefited from the generally improved sentiment in the financial markets. Following a three-year bear market and the resulting shakeout in the telecoms industry, share prices went on to advance across the board from their lows of mid March 2003. Within the space of one year, the new lead index for technology issues in Germany, the TecDAX, rose by a strong 50 percent, while the DAX gained 37 percent.

QSC share price performance in 2003 (indexed)

QSC moves up to the TecDAX // In recent months, the positive share price performance led to a sharp increase in QSC's widely held market capitalization and trading volumes. Deutsche Börse uses these two criteria to review the composition of the 30-issue TecDAX index every six months. Consideration is given only to companies that number among the leading 35 stocks in terms of these two criteria.

On January 31, 2004, QSC's free float market capitalization totaled EUR 192.9 million, thus ranking it 21st among all technology companies listed in the Prime Standard. With EUR 119.7 million in trading volume during the past twelve months – and still growing – , QSC held 32nd place in the corresponding rankings. In mid February 2004, the decision was therefore made by Deutsche Börse AG to include QSC shares in the TecDAX effective March 22, 2004.

TecDAX provides greater attention // A strong market position, greater attention on the part of the general public and the media as well as high trading liquidity are prompting many investors to focus on securities that are contained in one of the major stock market indices. QSC is likely to benefit from this strategy in 2004. Even during the run-up to its potential inclusion in the TecDAX, QSC noted growing interest on the part of both institutional and private investors in 2003. The Management Board presented the Company's business model, strategy, results and outlook to fund managers, portfolio managers and analysts during roadshows in Germany and England. The Company is encouraged by the fact that Anglo-Saxon investors, too, increasingly acknowledged QSC's market position as one of the few alternative providers in Germany to have its own DSL-based broadband access network.

In November 2003, QSC responded to the growing demand for its shares by adding BW-Bank as the third designated sponsor, in addition to Morgan Stanley and WestLB. Both BW-Bank and WestLB, as well as Merck Finck & Co. and Hamburg-based SES Research, regularly covered QSC. Prompted by the Company's inclusion in the TecDAX, Sal. Oppenheim and Berenberg Bank have also additionally included QSC in their coverage. The company expects further banks and brokers to extend research coverage to QSC.

More and more banks are including QSC in their coverage

QSC shares clearly outpace indices and telecommunication stocks in 2003 // QSC share price performance was characterized by a steady upward trend throughout the year 2003. Trading prices had reached their low for the year of EUR 0.35 on January 2, 2003. Thereafter, investor confidence rose every time quarterly numbers were published, as they confirmed both the Company's growth plan as well as the sustained improvement in its profitability. With their share price advance to EUR 3.03 at year end, QSC shares significantly outpaced the TecDAX or the Nemax 50 index, in which QSC itself has been included since June 2003. Nor did the 20-percent advance of the Prime Telecommunication Index, which includes the publicly traded telecommunication providers in the Prime Standard, come close to matching the nearly 700-percent trading price performance generated by QSC shares.

It should be noted, however, that at the end of 2002 and the beginning of 2003 QSC's shares also started from their historical all-time low share price since the Company went public in April 2000. During the years 2001 and 2002, QSC shares had suffered from the reluctance of most investors to invest in technology and telecommunication stocks in general and in the growth sector in particular – a reluctance that manifested itself in tumbling values for the entire high-tech sector. However in 2003, QSC shares posted a faster and more sustained recovery than nearly all other German technology stocks.

Trading volumes of QSC shares rise sharply

Trading volumes paralleled this share price advance. While the total monthly trading volume of QSC shares on German stock exchanges had still amounted to only around two million euros in January 2003, it had risen to more than EUR 56 million in February 2004. On average, some 400,000 QSC shares are now changing hands each day. On peak days, trading volumes are totaling well over one million shares.

Basic data about QSC shares

Trading Symbol	QSC
ISIN	DE 000 513700 4
Bloomberg Symbol	QSC GR
Reuters Symbol	QSCG.DE
Market Segment	Prime Standard
Stock Exchanges	XETRA electronic trading system
	Regional German stock exchanges
Index Membership	TecDAX, Nemax 50, HDAX, CDAX, Midcap Market,
	Technology All Share, Prime All Share,
	Prime Telecommunication,
	Prime IG Fixed-Line Telecommunication
Designated Sponsors	Baden-Württembergische Bank AG
	Morgan Stanley Bank AG
	WestLB AG
Shares Outstanding	105,037,396
Share Class	No-Par-Value registered shares of common stock
XETRA price, closing at December 30, 2002	EUR 0.38
XETRA price, maximum in 2003	EUR 3.22
XETRA price, minimum in 2003	EUR 0.35
XETRA price, closing at December 30, 2003	EUR 3.03

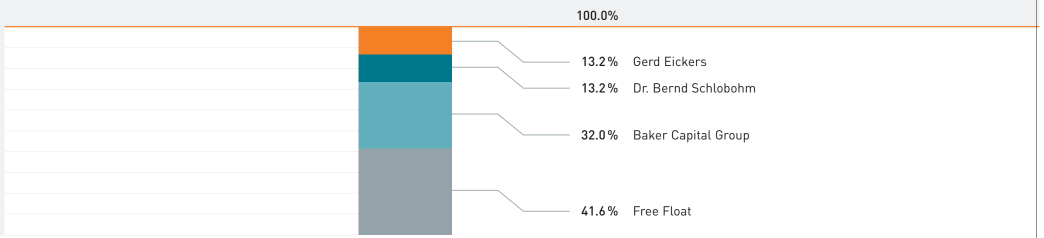
Stable shareholder structure // In spite of strong share price gains, the Company's three largest traditional shareholders – the U.S.-based Baker Capital Group, in addition to the Company's two founders Dr. Bernd Schlobohm and Gerd Eickers – did not sell a single share. Their combined holdings in the Company continue to amount to more than 58 percent. The free float percentage amounts to just under 42 percent. Analysis of the share register as per December 31, 2003, shows that institutional investors accounted for nearly 40 percent of the free float, up significantly from the year before. In spite of this growth, QSC continued to intensively cultivate contacts with retail investors. The Investor Relations Department used e-mails, telephone calls and the Company's website to provide shareholders with first-hand information about current developments, and ensured that this target group was supplied with comprehensive information through regular press releases, as well as quarterly and annual reports.

Intensive investor relations work // Providing all existing and prospective investors with comprehensive, timely information on an equal basis has enjoyed high priority at QSC ever since the Company went public, and represents a key element of its investor relations work. Consequently, QSC decided early on to apply for inclusion in the new Deutsche Börse quality segment, the Prime Standard. QSC shares have been included in the Prime Standard since January 15, 2003, and fully satisfy its high demands with respect to accounting and disclosure requirements.

QSC shares have been included in the Prime Standard since January 15, 2003

The goal of investor relations activities at QSC is to steadily build confidence in its shares and to communicate the Company's business model, strategy, results and outlook to the financial community. The Management Board's personal involvement in roadshows, individual talks with analysts, investors and financial journalists, as well as presentations at the Deutsche Eigenkapitalforum and other events, underscores the high priority the Company attaches to investor relations work.

Shareholder Structure (in percent)



Commitment to transparency and value

Ever since its formation, QSC has placed the utmost value upon good and transparent corporate governance, thus helping to make a significant contribution toward building confidence and trust with existing and potential investors.

Corporate governance is lived at QSC // The term "corporate governance" stands for modern corporate leadership and control with the aim of creating long-term value. Open and transparent communication with both its shareholders as well as its employees, customers and suppliers as well as open and effective collaboration between the bodies of the Company are further hallmarks of modern corporate governance.
Ever since its formation, QSC has viewed transparency, a trust-based corporate culture as well as value-driven corporate leadership as a commitment. Consequently, the Company implements nearly all guidelines set forth in the German Corporate Governance Code and adheres them in its daily work. However QSC does deviate from the recommendations of the government commission in a few instances. These are usually rules that are too strongly tailored to the management and control of large corporate groups and do not sufficiently take into account the situation of more dynamic, lean and growth oriented companies.

QSC is fully committed to good corporate governance

Entrepreneurial Management Board responsible for day-to-day business // In fiscal 2003, QSC's two founders, Dr. Bernd Schlobohm and Gerd Eickers, were members of the QSC Management Board. Each holds more than 13 percent of the Company's shares, and thus significantly shares in the entrepreneurial risk. Given this background, the cumbersome variable compensation system called for under the Code, with its stipulated comparison parameters for Management Board members, would not appear to be very practical. The principles of the compensation system for members of the Management Board are part of the notes on pages 87/88. QSC will publish them as well on its website (www.qsc.de) during the course of the year 2004.

Collaboration in a spirit of trust between Management and Supervisory Boards // QSC's Supervisory Board was selected with great care. With their various qualifications and experience, its members complement one another ideally to the benefit of the Company. In its committee policy, the Supervisory Board therefore intentionally limited itself to forming the Compensation Committee, which was established in May 2001 and deals with questions of Management Board contracts and compensation. All other issues, including accounting, are therefore discussed by the full Supervisory Board. In 2003, the Supervisory Board conducted four meetings; in addition, it regularly informed itself about the course of business as well as major management decisions through telephone conference calls.

QSC publishes all relevant information relating to the capital market at www.qsc.de

Comprehensive information for all shareholders // QSC attaches top priority to comprehensive and timely communication with its shareholders on an equal basis and with capital market participants. The management of QSC is extremely committed to preserving shareholder interests and therefore views the Annual Shareholders Meeting as the key event of the year. The Company places all documents relating to the Annual Shareholders Meeting on its own website in a timely fashion. This is also where QSC immediately publishes all relevant information relating to the capital market, in particular its quarterly and annual reports, press releases and its corporate calendar.

Audit review of each quarterly report assures high level of quality // Even after terminating its listing on the NASDAQ in the United States, QSC continues to embrace the high international standards of quality that this exchange places on accounting. Over and above the legal requirements, the auditor determined by the Annual Shareholders Meeting also performs an audit review of every quarterly report. However the high quality of the Company's interim reporting together with its lean administration necessitates up to 60 days of intensive work following the close of each reporting period, which is why QSC deviates from the 45-day term recommended by the Code.

Declaration Pursuant to § 161 of the German Stock Corporation Act on Compliance with the German Corporate Governance Code, as Amended May 21, 2003, at QSC AG

Since its formation, QSC AG has attached high priority to corporate governance. Its own corporate governance principles largely conform to the requirements set forth in the German Corporate Governance Code. Since submittal of its last Declaration of Compliance, the company has deviated from this code, as amended November 7, 2002, in only few respects, and continues to deviate from the Code, as amended May 21, 2003, in the following respects:

1. The recommendation that demanding, relevant comparison parameters be stipulated for stock options and comparable instruments for members of the Management Board
(Item 4.2.3, Paragraph 2, Sentence 2, of the Code; in the past, we did not follow this previous, similarly worded recommendation either)
2. The recommendation that a possibility of limitation (cap) for extraordinary, unforeseen developments be agreed for stock options and comparable instruments for members of the Management Board
(Item 4.2.3, Paragraph 2, Sentence 4, of the Code; in the past, the Code did not yet contain this recommendation)
3. The recommendation that the company publish information relating to the value of stock options for members of the Management Board on the its website and in its Annual Report
(Item 4.2.3, Paragraph 3, Sentence 2, of the Code; in the past, the Code did not yet contain this recommendation)
4. The recommendation that the compensation of the members of the Management Board be disclosed in individualized form in the notes to the consolidated financial statements
(Item 4.2.4, Sentence 2, of the Code; in the past, this recommendation was formulated in the form of a suggestion, which we did not follow either)
5. Formation of an audit committee
(Item 5.3.2, Paragraph 1, Sentence 1, of the Code; in the past, we did not follow this recommendation either)
6. Taking into account the economic situation and performance of the company, as well as chair and membership positions on committees, in connection with compensation of the members of the Supervisory Board
(Item 5.4.5 of the Code; in the past, we did not follow this recommendation either)
7. Publication of interim reports within 45 days
(Item 7.1.2 of the Code; in the past, we did not follow this recommendation either)

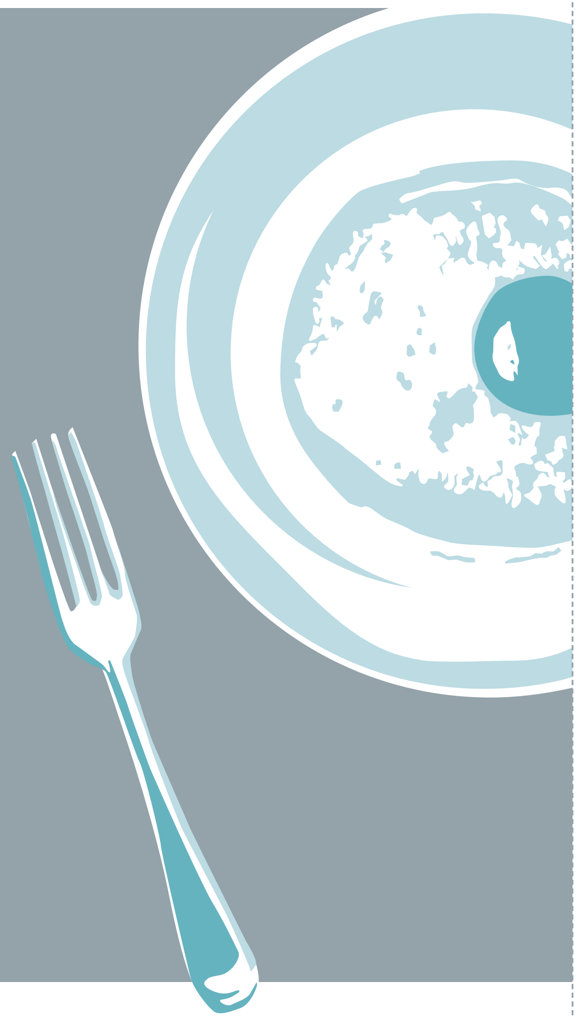
Although we did not follow the recommendation (formulated as a suggestion in the former version of the Code) that payments made to members of the Supervisory Board for personally provided advisory services be disclosed on an individualized basis in the notes to the consolidated financial statements for the 2002 fiscal year, we will do this for the 2003 fiscal year (Item 5.4.5, Paragraph 3, Sentence 2, of the Code). Moreover, during the course of the year 2004 the company will for the first time publish the salient points of the compensation system for members of the Management Board and a portrayal of QSC AG's stock option programs (from which members of the Management Board have received allocations) on its website and provide explanations thereof in its Annual Report for the 2003 fiscal year (Item 4.2.3, Paragraph 3, Sentence 1, of the Code). In the Annual Report for the 2003 fiscal year, the company will also disclose for the first time in individualized form the compensation to the members of the Supervisory Board (Item 5.4.5, Paragraph 3, Sentence 1, of the Code); in the past, we had not followed this suggestion, which has now been changed to a recommendation, as the compensation of the members of the Supervisory Board is governed in the Articles and is therefore publicly accessible. At the 2004 Annual Shareholders Meeting, the Chairman of the Supervisory Board will for the first time outline the salient points of the compensation system for members of the Management Board as well as any changes thereto (Item 4.2.3, Paragraph 4, of the Code).

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

Cologne, December 17, 2003

For the Management Board	For the Supervisory Board
Dr. Bernd Schlobohm	John C. Baker

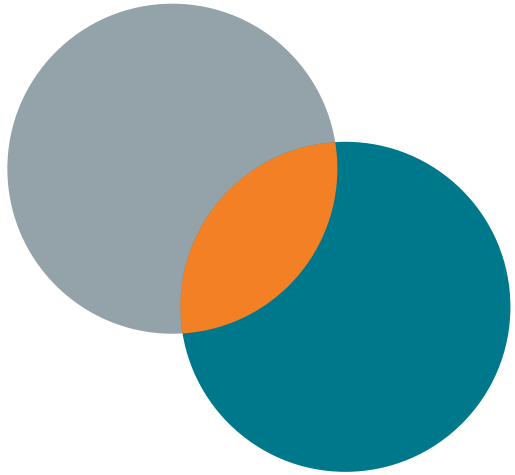
// As you like it



INTEGRATION OF VOICE AND DATA SERVICES

…the optimum telecommunication solution

Operating virtual private networks, high-speed surfing or low-cost phone calls: When it comes to communication and networking, QSC's strongly expanded range of products, services and solutions in 2003 offers just the right option for every customer. The focus is on integrated telecommunication solutions for business customers – QSC-Solutions. They're based upon an extensive portfolio of premium voice and data services: QSC-Voice and QSC-Data. Moreover, every customer receives the kind of service that truly deserves this name. So it comes as no surprise that more and more customers – from major corporates right through to premium residential customers – are finding that they like QSC.



QSC®-Voice

Telephony offerings with attractive rates for business and residential customers

QSC-Direct
The direct link to QSC's own network

QSC-Direct basic
Allows several simultaneous telephone calls over a single DSL line

QSC-Select
The cost-saving preselection alternative

QSC-IPfonie
The first Voice over IP product for residential customers

QSC®-Solutions

Custom-tailored voice and data solutions

IP-VPN
QSC designs, implements and operates broadband solutions on the basis of VPNs

Managed Services
QSC's comprehensive service portfolio for voice and data network management

QSC®-Data

DSL products for business and residential customers

Q-DSLmax
Q-DSL home2300pro
Q-DSL home

QSC-VPN
QSC-Security
QSC-Backup
QSC-Remote
Modular VPN solution for small and medium enterprises

// Unlimited freedom

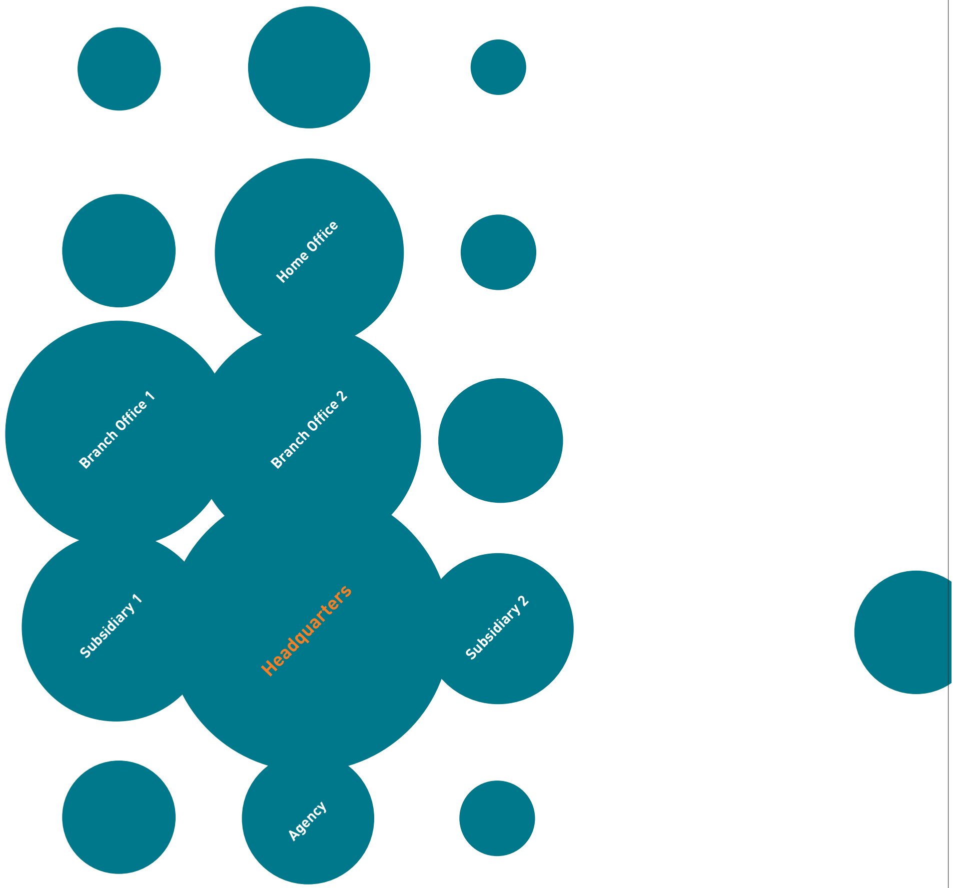
INTEGRATION OF DECENTRAL WORKPLACES IN A NETWORK

... in selecting time and location

Whether they're bankers, engineers or retailers: Most employees today across all industries utilize their enterprise intranets or the Internet any number of times each day to place orders, research questions or communicate. Their lifeline to the net is being assured by virtual private networks, which efficiently and securely link corporate headquarters, branch locations, sales offices and home offices.

QSC recognized the enormous demand for enterprise networks early on and has specifically aligned its portfolio of products, services and solutions to reflect this need. Customers like HypoVereinsbank or the Kaufhof Group place their trust in the performance and service quality of QSC networks.

These kinds of broadband networks afford employees a high level of flexibility. The ability to connect outside locations and home offices frees them from the bonds of rigid working hours and fixed workplaces – bringing them one step closer to the dream of working under palms!

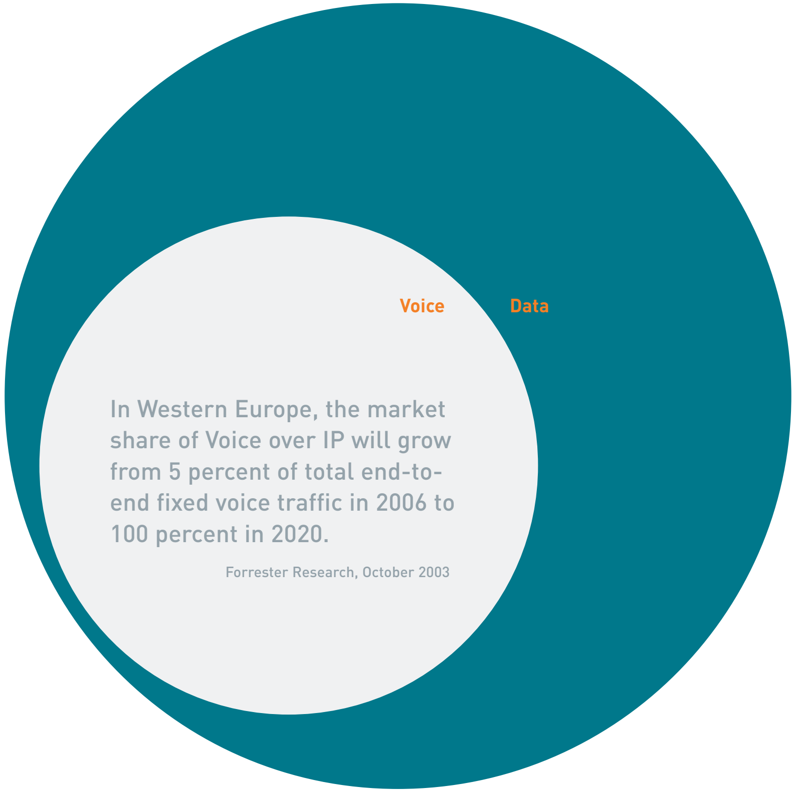


INTEGRATION OF VOICE AND DATA ON A SINGLE LINE

// Doing double duty

... one line for two services

A line for phone calls, a line for e-mail and surfing: The sweeping success of the Internet has brought a twin infrastructure to businesses and residential households. Over the medium term, QSC anticipates that data and voice services will be integrated on one line, and views this as a logical consequence of modern broadband communication. The company had been successfully marketing a product that enables phone calls to be made over a DSL line since 2002. And in November 2003, QSC underscored its role as an innovation leader with a software-based Voice over IP solution for residential customers, which enables Q-DSL home customers to make phone calls easily and affordably via their PC. And what makes it extra special: It costs absolutely nothing for them to call one another. Who would ever want to use two lines in the future?



In Western Europe, the market share of Voice over IP will grow from 5 percent of total end-to-end fixed voice traffic in 2006 to 100 percent in 2020.

Forrester Research, October 2003

Management Report

Group Management Report for Fiscal Year 2003

Success factor integration

QSC was able to significantly expand its market position in 2003 and reach the EBITDA breakeven point at year-end due to its comprehensive portfolio of voice and data products, services and solutions for business customers, as well as by expanding its competence as an integrated provider of telecommunication solutions for large enterprise customers.

QSC significantly improves profitability // The consolidation of locations and integration of products and employees was one of the focal points of QSC's business activities in 2003. This played a major role in enabling the Company to cross the EBITDA threshold at year-end 2003 and make crucial strides in nearing the cash flow breakeven point:

// **Integration of multiple locations into a VPN.** Building and operating virtual private networks proved to be a major growth driver in 2003. QSC built complex VPNs and networked numerous locations for such customers as HypoVereinsbank, German Rail or TÜV Rheinland Berlin Brandenburg, thus providing smooth, secure communication between their branch locations and corporate headquarters.

HypoVereinsbank, German Rail and TÜV number among QSC's customers

// **Integration of voice and data services into networked solutions.** QSC responded to the growing customer requirement for comprehensive one-stop shopping telecommunication solutions by specifically broadening its service and product portfolio. With its first Voice over IP product for the residential market, QSC-IPfonie, the Company underscored its competence in integrating voice and data services.

// **Integration of QSC and Ventelo.** The relocation of Ventelo's administration operations ahead of schedule at year-end 2003 marked the conclusion of the swift consolidation of QSC and Ventelo, the telephony provider for business customers the Company had acquired in December 2002. The development of a joint product portfolio, organizational structure and corporate culture, as well as the achievement of synergies was a top priority last year.

Both the strong growth in high-margin project business as well as the successful integration of Ventelo at all levels played a crucial role in significantly improving the Company's revenues, earnings and liquidity positions:

// During the past fiscal year, QSC grew its revenues by 145 percent to EUR 115.6 million, as opposed to EUR 47.1 million in 2002. In 2003, QSC was already generating 53 percent of its revenues with business customers – as opposed to 32 percent in 2002.

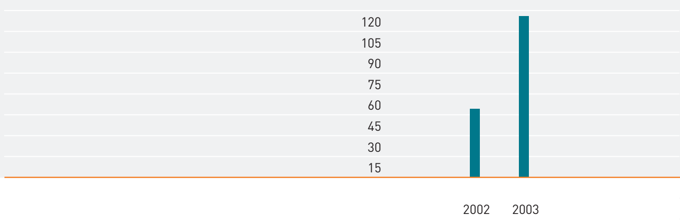
// As in previous years, QSC's cash burn continued to decline from quarter to quarter – for the eleventh time in a row in the fourth quarter of 2003, to EUR -5.9 million. The Company plans on reaching the positive cash flow threshold during the course of the first half of 2004.

// The Company's EBITDA loss for 2003 improved by 53 percent to EUR -28.5 million, as opposed to EUR -60.3 million in 2002.

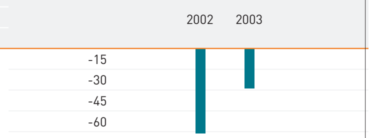
Concluding the Ventelo integration ahead of schedule resulted in non-recurring, earlier-than-planned expenditures in the fourth quarter of 2003 for the relocation itself, for refurbishment obligations at the old location, for networking all workplaces, as well as for consolidating the data and network control centers in Cologne. As a result, the annual EBITDA loss of EUR -28.5 million, while remaining within the bandwidth of between EUR -25 million and EUR -30 million that had been announced in February 2003, was somewhat higher than the revised EBITDA target of less than EUR -25 million that had been envisioned in August 2003. During the current fiscal year, the Company will benefit from the early termination of Ventelo's long-term lease agreement for premises in Düsseldorf and from the earlier achievement of all synergies stemming from this acquisition. QSC has been generating a positive monthly EBITDA since January 2004 and anticipates a sustained positive EBITDA for the entire 2004 fiscal year.

QSC anticipates a sustained positive EBITDA for 2004

Revenues (in million EUR)



EBITDA (in million EUR)



Focus on solutions

At the heart of QSC's business activities is its nationwide portfolio of integrated telecommunication solutions for business customers. Its solutions business is based upon an extensive range of premium voice and data services, as well as a powerful, nationwide DSL infrastructure. The Company's own broadband network enables this business model to be highly scalable.

One-stop shopping for integrated telecommunication solutions // Project business – under the brand name QSC-Solutions – is the centerpiece of the QSC business model. QSC develops voice and data solutions for both corporates as well as small and medium enterprises, custom-tailored to the individual needs of each customer. QSC's portfolio of offerings ranges from consulting and design to rollout planning and installation right through to ongoing network monitoring and administration, including managed services such as security management for example.
Often enough, virtual private networks serve as the core for these kinds of solutions. Linking both branch locations and home offices as well as customers and suppliers, these networks enable efficient, fast and secure data communication. QSC is increasingly being asked to not only build these kinds of networks, but also to operate them as well. Managed services, i.e. the outsourcing of all network management activities, is likely to number among the key growth drivers in solutions business in the years to come.
These custom solutions are based upon a comprehensive range of premium voice and data services – QSC-Voice and QSC-Data. In the voice segment, QSC is focusing on direct end-customer access. Its core product, QSC-Direct, enables both major accounts as well as small and medium enterprises to handle their telecommunication over the QSC network. In addition, QSC-Direct basic can also be used to intelligently link voice and data communication. This product allows up to eight simultaneous telephone calls, complete with all ISDN features, to be made over a single DSL line. QSC-IPfonie, the Company's first Voice over IP product for residential customers that was introduced in November 2003, also uses the data line to carry voice.
QSC-Data clearly positions the Company as a premium broadband provider. At the heart of this product portfolio is Q-DSLmax, a high-performance, up to 2.3 Mbit/s SDSL Internet link for business customers. Thanks to standardized solutions for VPN, security and backup, smaller companies, too, can build and operate their own enterprise networks. Products for premium residential customers, Q-DSL home2300, as well as for freelance professionals, Q-DSL home2300pro, complement the product spectrum.

New products intelligently link voice and data communication

QSC services nationwide available // QSC is a nationwide telecommunication provider for business customers. The Company is able to link locations throughout Germany to its powerful DSL network and thus to build and operate nationwide VPNs. In the majority of cases, QSC utilizes its own infrastructure for this purpose. Because the Company operates its own powerful DSL network in over 40 German cities, it can directly reach one million potential business customers. In other regions, QSC collaborates with selected partners.

Scalability thanks to its own network // The QSC infrastructure is designed for growth; its existing capacity can easily accommodate higher voice and data volumes, generating corresponding revenue growth. And rising revenues lead to a leveraged improvement in profitability and margins – the QSC business model produces high contribution margins through low incremental costs.
A second factor makes this business model even more attractive: Both corporates as well as small and medium enterprises typically prove to be long-term QSC business partners, thus significantly increasing the predictability of the Company's planning. The reason for this advantage lies in the way QSC operates: It develops and implements custom-tailored telecommunication solutions in close coordination with the customer, thus creating the foundation for close and long-term collaboration. Experience has shown that it can take up to twelve months from the time of the initial contact to design these kinds of complex, custom enterprise networks and put them into operation – this is why today's project business wins do not translate into revenues until later.

Custom-tailored solutions make business customers long-term partners

Customer Segment	Product/Service	
Large Enterprises (> 500 empl.)	QSC-Solutions IP-VPN / Managed Services	
Medium and Small Enterprises	QSC-Data Q-DSLmax QSC-VPN QSC-Security QSC-Speedw@y-DSL	QSC-Voice QSC-Direct QSC-Direct basic QSC-Select
Premium Residential	Q-DSL home	QSC-IPfonie Call by Call

VPNs are driving QSC`s growth

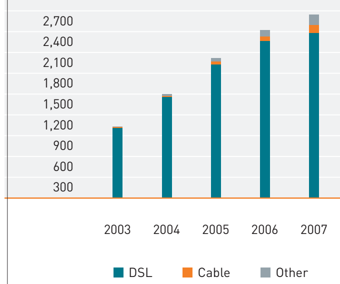
In spite of the very weak overall economic situation in Germany, QSC remained on its growth course. The Company benefited from sustained high demand on the part of business customers for integrated and secure telecommunication solutions, as well as from the positive market reception for DSL technology in Germany. Both factors are likely to drive QSC's future growth.

Strong demand in spite of the weak economy // As in previous years, in 2003 QSC again succeeded in improving strongly on all accounts against the trend of the persistently weak overall economic situation in Germany. The economy teetered at the brink of recession; only toward the end of the year could signs of a recovery be seen. A dramatic hesitancy to invest characterized broad segments of the economy, which also included the information technology and telecommunication industries. Business customers limited themselves largely to replacement investments, postponed innovative projects and strove to amortize their investments within twelve months.

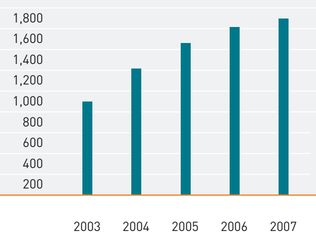
However, the relentless shift of business processes to the Internet prompted companies from across all industries to continue to increase the use of broadband communication. In Germany, DSL has clearly emerged as the key technology, accounting for more than 90 percent of all broadband connections of business customers. According to a study conducted by IDC, the German DSL business customer market is expected to grow from 1.0 million sold lines in 2003 to 2.4 million sold lines in 2007.

German DSL market for business customers grows fast

Broadband Connections in Germany (in thousand)



IP-VPN Market Volume in Germany (in million USD)



Source (on the left): IDC Report 4/2003 "European Broadband Access Services Market Analysis, 2002-2007"

Source (on the right): IDC Report 12/2003 "Western Europe IP VPN Forecast, 2002-2007"

Business customers opting for VPNs // The VPN business is developing at an even faster pace. According to IDC, the replacement of expensive leased lines with flexible DSL links as well as the growing need for solutions aimed at networking locations will lead to rapidly rising demand on the part of business customers. IDC is predicting annual growth rates of 31 percent and potential revenues of USD 1.7 billion by the year 2007.

As a nationwide telecommunication provider with its own DSL network and strong competence in VPN solutions, QSC sees itself excellently positioned in these growth markets. Over the medium term, QSC anticipates neither an increase in the number of competitors nor competition from alternative technologies. Building a DSL network of the type QSC operates today is an extremely capital-intensive and lengthy undertaking. The same also applies with respect to building a corresponding market presence.

Market concentration is proving to be an advantage for QSC, especially in connection with major accounts. These customers value healthy competition between fewer but stronger suppliers and are very much inclined to retain second-source alternatives to Deutsche Telekom, not in the least in order to assure a sustained price-performance comparison. With this approach, they not only mitigate their dependence upon one single supplier, they are also able to simultaneously increase network redundancies and protect themselves better against outages in their networks. QSC is benefiting from this trend toward second-sourcing.

Germany is a DSL country // Both business and residential customers value the existing DSL-based broadband infrastructure, making the capital-intensive creation of alternative, backchannel-capable broadband networks a highly risky proposition. Logically enough, the private-sector cable TV network operators are concentrating on their broadcasting and media content competence. QSC views mobile broadband technologies like UMTS or WLAN primarily as an additional source of business for QSC and not so much as competition, since UMTS or WLAN operators often link their base stations via DSL lines.

QSC benefits from business customers' need for high quality

Two-track broadband market // The crucial importance of a well-functioning telecommunication infrastructure in the Internet Age is prompting business customers to select their suppliers primarily on the basis of a comparison between failsafe reliability, service quality, flexibility and innovative strength. As a result, the kind of intensive price-based competition that is raging in the mass market does not occur in the business customer segment, nor is it likely to play a decisive role in the future. In the mass market, on the other hand, it can be assumed that prices will continue to decline in both voice and data communication. With its focus on business customers, QSC can largely avoid this price war and use its quality and service to set itself apart from the competition.

Strong growth with business customers

In spite of an extremely difficult economy, QSC's revenues rose by 145 percent to EUR 115.6 million in 2003. Project business proved to be one of the key growth drivers. Business customers accounted for 53 percent of total revenues, as opposed to 32 percent the year before.

VPN services for business customers a growth driver // QSC's revenues totaled EUR 115.6 million for the past fiscal year, as opposed to EUR 47.1 million the year before, thus reaching the level of revenue guidance that had been published in August 2003. In the fourth quarter of 2003, alone, revenues amounted to EUR 30.3 million, as opposed to EUR 13.4 million for the same quarter the year before. In addition to the consolidation effect stemming from the Ventelo acquisition, this rise was attributable first and foremost to growing project business.
With its solutions competence, QSC is winning even major requests for proposals. In 2003, for example, the Company networked 75 HypoVereinsbank locations into a VPN. And in August 2003, TÜV Rheinland Berlin Brandenburg entrusted QSC with the task of building and operating its network. Further contracts with both corporates as well as nationally operating small and medium enterprises made the project business the number one growth driver for QSC in 2003.

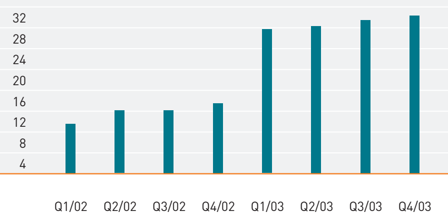
Business customers account for more than 50 percent of QSC's total revenues

Business with smaller companies also experienced a positive development. The Q-DSLmax base product, which was launched in January 2003, has been well-received by the market. In the voice segment, there was a sharp rise in the number of direct connections for small and medium enterprises. Overall, the percentage of total revenues accounted for by business customers in 2003 rose to 53 percent, as opposed to 32 percent in 2002 and 25 percent in 2001.

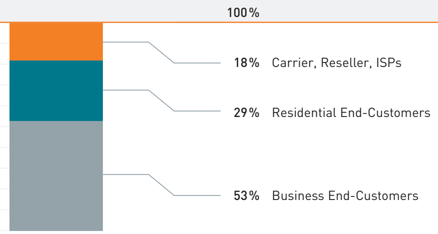
Concentration on strong resellers // On the other hand, there was a sharp decline in the share of business accounted for by resale products. In 2003, the percentage of revenues generated by such products as QSC-Speedw@y-DSL declined to 18 percent, as opposed to 51 percent in 2002. In absolute terms, however, these revenues declined only moderately by EUR 3 million to EUR 21 million. This relative stability underscores the continued importance of resellers for the QSC business model. In this connection, the Company is increasingly focusing on collaboration with selected, strong partners, as the reseller market continues to remain under strong consolidation pressure.

Focus on premium residential customers // QSC generates nearly 30 percent of its revenues with data and voice services for residential customers. The Company intentionally foregoes price-sensitive mass-market business to focus on selected lines of business. In the data segment, QSC concentrates on Q-DSL home, a product for premium residential customers. In the voice segment, QSC uses telephony offerings to provide greater utilization of its own infrastructure during evening and night hours.

Revenues (in million EUR)



Revenue Mix (in percent)



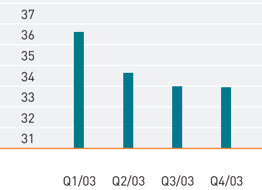
High synergies stemming from Ventelo

QSC's infrastructure-based business model enables the Company to largely break the correlation between revenue growth and higher expenses – rising revenues do not result in corresponding cost growth. In fact, the achievement of additional synergies following the Ventelo acquisition, along with strict cost management, led to significantly lower expenses during the course of 2003, in spite of strongly advancing revenues.

Stable network expenses // Network expenses, which are reported under cost of revenues, are QSC's largest expense item. In 2003, they amounted to EUR 135.2 million, as opposed to EUR 93.6 million the year before. This 44-percent rise year on year was essentially attributable to the full consolidation of Ventelo for the first time. During the course of 2003, however, network expenses declined by nearly eight percent – in spite of sharply rising revenues. While network expenses had amounted to EUR 35.6 million for the first quarter of 2003, they stood at only EUR 32.9 million in the fourth quarter of 2003. This decline is all the more remarkable in view of the fact that non-recurring expenses were additionally incurred in the fourth quarter as a result of Ventelo's relocation to Cologne ahead of schedule, e.g. for refurbishment, consolidating the data and network control centers as well as for networking all workplaces.

During the course of 2003, QSC reduced its network expenses significantly

Network Expenses * (in million EUR)



* including depreciation and non-cash compensation

A detailed view of network expenses illustrates the scalability of QSC's infrastructure-based business model:

QSC reduces network costs through strict cost management

- // The largest item in network expenses consists of the network costs. This includes expenses for leased lines and for maintaining and expanding the Company's own network, as well as the rental expenses for utilizing Deutsche Telekom's colocation rooms. These expenses do not correlate with the utilization factor of the network and thus with rising revenues. In recent years, QSC has even been able to achieve cost reductions through extremely strict cost management.
- // The second major aspect of network expenses consists of personnel expenses. QSC operates a nationwide telecommunication infrastructure with 150 employees. This item does not increase proportionately with rising revenues either.
- // In contrast to its quarterly reports, QSC also includes both depreciation on the network as well as non-cash compensation under network expenses in its annual financial statements. In 2003, these items amounted to EUR 27.9 million, as opposed to EUR 34.8 million the year before. On the one hand, this reduction was attributable to the fact that more than four years after the capital investment phase began the first items of plant and equipment have now been fully depreciated. On the other hand, QSC has been able to achieve considerable discounts on the end-user devices with which it equips each new customer. The Company expenses these devices during the twelve-month period subsequent to their acquisition.
- // Additional expenses are incurred through the connection of new customers to the QSC network. QSC has to pay Deutsche Telekom both a one-time charge of EUR 121.01 as well as a monthly fee of EUR 11.80 for utilizing its infrastructure over the last mile – as revenues grow and the subscriber base rises, this cost increases.
- // The same also applies with respect to interconnection fees. These are expenses paid for utilizing third-party lines, such as those incurred in the case of a telephone call between a QSC end-customer and a customer of another network operator.

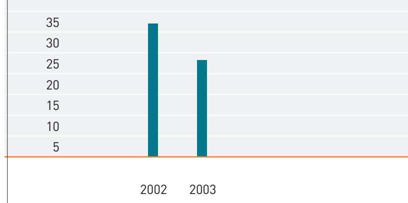
Overall, the percentage of fixed network expenses far surpasses the variable element, thus resulting in leveraged improvements in the Company's gross profit – a visible manifestation of the scalability of the QSC business model. In 2003, QSC generated a gross loss of EUR -19.6 million after depreciation and non-cash compensation, as opposed to EUR -46.5 million in 2002. Exclusive of depreciation and non-cash compensation, the Company would have earned a gross profit of 8.4 million for 2003 (2002: EUR -11.7 million). QSC has been consistently earning a gross profit on this basis since the first quarter of 2003.

Dramatically increased efficiency in selling operations // With EUR 23.2 million, selling and marketing expenses were down significantly from the previous year's level of EUR 32.0 million – in spite of full consolidation of the Ventelo expenses for the first time. This 28-percent improvement was made possible by directly addressing major accounts as well as by specific marketing campaigns. QSC was also able to considerably reduce administrative expenses, which declined by 17 percent to EUR 17.2 million, as opposed to EUR 20.6 million the year before.

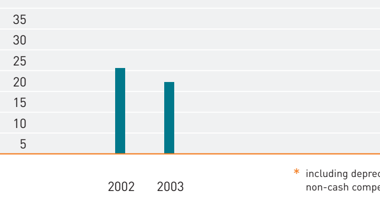
Lower selling and marketing expenses despite higher revenues

Strong synergies from the Ventelo acquisition // The decline in selling and administrative expenses also documents the potential for synergies throughout the Company stemming from the integration of Ventelo. QSC estimates the total amount of these positive synergies during the past fiscal year, alone, at close to EUR three million. Beginning in 2004, the Company anticipates positive synergies of up to EUR five million per year.

Selling and Marketing Expenses * (in million EUR)



Administrative Expenses * (in million EUR)



* including depreciation and non-cash compensation

Depreciation masks gross profit // In its quarterly reports, QSC follows the customary international practice of presenting depreciation as a separate line item in its statements of operations. The table shows an abridged version of the statements of operation for the full 2003 fiscal year that presents depreciation and non-cash compensation as a separate line item.

In thousands of EUR	2003	2002
Net revenues	115,625	47,088
Cost of revenues *	107,244	58,786
Gross profit (loss)	8,381	(11,698)
Selling and marketing expenses *	22,327	30,716
General and administrative expenses *	13,494	16,996
Research and development expenses *	1,103	895
EBITDA	(28,543)	(60,305)
Depreciation and non-cash compensation	33,311	40,787
Operating loss (EBIT)	(61,854)	(101,092)

* excluding depreciation and non-cash compensation

As can be seen from the table, the operative cost of revenues in 2003 amounted to EUR 107.2 million, as opposed to EUR 58.8 million the year before. Exclusive of depreciation and non-cash compensation, however, QSC earned a gross profit of EUR 8.4 million in 2003, as opposed to a gross loss of EUR -11.7 million the year before. Both operative selling and marketing expenses, operative general and administrative expenses, as well as operative research and development expenses were actually somewhat lower than the numbers presented in the statements of operation, which include depreciation and non-cash compensation.

Clear focus on business customers

In marketing its voice and data services, QSC prefers to specifically address relevant customer groups. Its direct selling activities focus on major accounts with their highly individual requirements. In the case of other customer groups, QSC collaborates with selected partners.

One-stop shopping for voice and data // QSC's sales and marketing structure is geared to meet the needs of its customers, thus ensuring that every enterprise receives a telecommunication solution that fits with its needs perfectly. Since a growing number of customers are asking for one-stop shopping for voice and data services, QSC very swiftly pursued the integration of voice carrier Ventelo into its sales and marketing organization. By the spring of 2003, the sales offices of QSC and Ventelo were already working under one roof, thus enabling cross-selling potential to be utilized early on.

Direct selling in project business // QSC serves larger companies with more than 500 employees directly. This enables the Company to respond flexibly to the individual needs of each and every customer, and to drive the development and implementation of custom-tailored solutions in house. A 38-person key account management team that bundles the competencies of sales and marketing specialists and pre-sales engineers is responsible for these project customers and major accounts. In addition, the team can also draw upon the competence of systems engineers and installation engineers in implementing major projects.

Smaller companies typically tend to need a competent partner in their vicinity – QSC's regional sales partners. They develop an optimal solution for the customer out in the field and receive extensive service and support from QSC. The Company's network of authorized sales partners is complemented by numerous engineering companies, IT and telecommunication providers with special industry expertise. Moreover, these regional partners are supported by trained specialists at QSC's six branch offices in Germany.

Regional sales partners offer ideal onsite support for customers

QSC's reseller business is characterized by strong partners. Strong Internet service providers and carriers, including BT Global Services, MCI and clara.net, market DSL lines from QSC under their own names and for their own account.

Business with residential DSL customers, on the other hand, is handled largely over the Internet. More than 90 percent of all Q-DSL home lines are sold online. This Web-based concept allows extremely lean sales and marketing structures: Largely automated processes and an efficient organization enable a team of only five specialists to handle the entire residential customer business.

QSC is focusing on specifically addressing potential customer groups

Highly efficient sales and marketing operations // The separation between direct and indirect selling operations that was introduced in early 2003 has proven to be an extremely efficient and effective way for QSC to win and keep customers. Selling and marketing expenses declined by 28 percent in 2003 to EUR 23.2 million. Highly targeted marketing activities, where QSC is focusing on specifically addressing potential customer groups, also made a major contribution to this increased efficiency. QSC contacts the top IT managers of major corporations personally. Together with further IT decision-makers and opinion leaders, they are additionally invited to the "Business Lounges" that QSC regularly conducts with great success in major business centers. In the case of small and medium enterprises, the Company utilizes direct mailing and telesales campaigns to identify for initial contacts. These direct activities are accompanied by intensive public relations work. QSC largely foregoes classical advertising campaigns as those are too inefficient in addressing a relatively small and clearly identifiable potential customer group.

PR work enjoys high priority. The number of articles published about QSC rose significantly during the past fiscal year. Product tests, for example, are strong customer attention-getters. In June 2003, Network Computing magazine gave an award to Q-DSLmax and praised its consistently high performance of the DSL connection. In January 2004, PC Professionell had this to say about its test winner Q-DSL home: "High speed, even over and above the warranted performance, as well as true premium support." In addition, so-called decision-maker media, such as national daily newspapers or opinion-leading magazines, regularly report on the progress QSC is making in its operating business, thus strengthening the confidence of larger customers in the soundness and sustainability of the QSC business model.

Sales Channel	Customer Segment	Product/Service	
Direct	Top 100 Enterprises	QSC®-Solutions	
Direct	Large Enterprises [>500 empl.]		
Indirect - ISPs - Partners - Online - Telesales	Medium and Small Enterprises	QSC®-Data	QSC®-Voice
	Small Offices / Home Offices		
Online	Premium Residential		

Innovations for the customer

Research at QSC primarily involves the development and implementation of innovative solutions for business customers. In addition, the Company also develops products and services aimed at specifically broadening its portfolio.

Low expenses, high solutions competence // QSC traditionally records only low expenses for research and development (R&D) as a separate line item. As in 2002, these expenses amounted to EUR 2.0 million in 2003. During the past fiscal year, R&D expenses essentially related to two developments: QSC-Scout and QSC-IPfonie. The QSC-Scout Web-based monitoring tool enables customers to check the performance and service level of their VPN solution themselves. With its software-based QSC-IPfonie product, QSC succeeded in entering the extremely promising Voice over IP market. In a first step, QSC has been offering this product to residential customers since December 2003.

Process innovations are at the heart of QSC's R&D activities

Yet QSC's R&D competence goes far beyond that. Innovations play a key role in every new project – process innovations that assure secure, reliable and fast communication for the customer.
In 2003, for example, QSC implemented one customer's highly complex networking project, involving nearly 100 locations, within only four months through very close collaboration between developers and the sales and marketing team. The network is designed on the basis of symmetrical DSL lines that afford transfer speeds of up to 2.3 Mbit/s. In addition to the classical Internet Protocol (IP), the complexity of the IT structure also necessitated IPX, a protocol for Novell environments, as well as the SNA protocol developed by IBM. For reasons of security, all data traffic routed via IP runs only via private IP addresses. Today, this custom-tailored network enables the customer to perform up-to-the-minute comparisons between merchandise and cash levels, initiates just-in-time deliveries and handles credit rating inquiries – for QSC, this is a textbook example of innovation to the benefit of the customer.

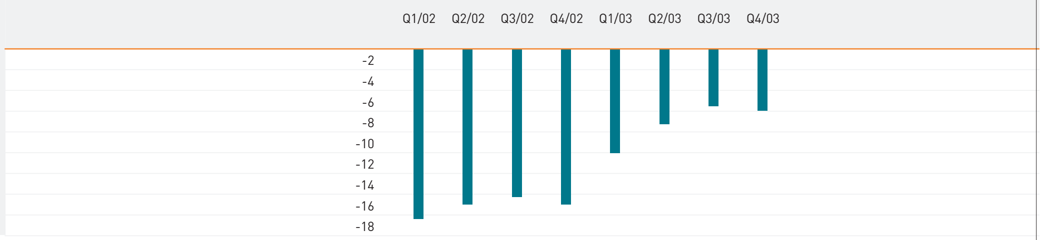
Heading for the profit zone

In 2003, QSC succeeded in reducing its EBITDA loss by more than one half and in crossing the EBITDA profitability threshold at year-end. As a result, the Company's net loss for 2003 improved significantly.

EBITDA improves by more than 50 percent

Progress in operative business enables improved profitability // During the past fiscal year, QSC's strong growth in high-margin project business, the synergies stemming from the Ventelo acquisition, as well as strict cost management played a key role in reducing the Company's annual EBITDA loss by 53 percent to EUR -28.5 million, as opposed to EUR -60.3 million in 2002. QSC defines EBITDA as earnings before interest, taxes, the pro-rated results of equity investments accounted for under the equity method, amortization of deferred non-cash compensation, as well as depreciation on plant and equipment and amortization of goodwill.
The relocation of Ventelo's headquarters operations to Cologne ahead of schedule impacted the EBITDA result in the fourth quarter of 2003. However, it nevertheless improved by 61 percent to EUR -5.8 million, as opposed to EUR -14.9 million during the comparable period the year before.
As a result of these non-recurring, earlier-than-planned expenses, the Company's EBITDA loss for the full 2003 fiscal year was higher than the EBITDA target of less than EUR -25 million that had been revised upwards in August 2003, but remained within the guidance of between EUR -25 million and EUR -30 million that was announced in February 2003. At year-end 2003, QSC succeeded in reaching the EBITDA breakeven point.
As a result of this significant improvement in EBITDA, there was a sharp reduction in the Company's annual net loss, which amounted to EUR -60.6 million in 2003, as opposed to EUR -102.6 million the year before. The net loss per share declined to EUR -0.58, compared to EUR -1.01 in 2002.

EBITDA (in million EUR)



Sound financial position

QSC's high equity ratio and largely non-existent debt financing document its sound financial position. In 2003, the Company additionally succeeded in dramatically reducing its cash burn, thus making a crucial stride in nearing its goal of reaching the cash flow breakeven point during the course of the first half of 2004.

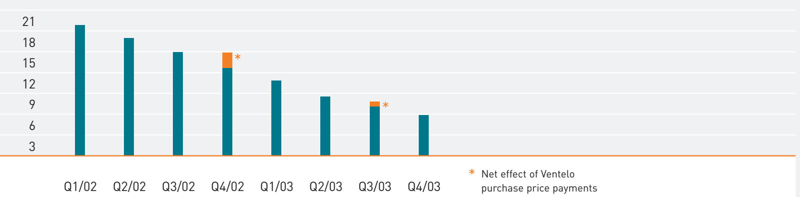
QSC steadily reduces cash burn // In 2003, QSC succeeded in continuing to significantly reduce its cash burn from quarter to quarter. While consumption of liquid assets had totaled EUR -10.9 in the first quarter of 2003, it amounted to only EUR -5.9 million in the fourth quarter of 2003. Year on year, the Company's cash burn improved by some 50 percent to EUR -33.3 million, as opposed to EUR -66.2 million in 2002.

Year on year, the Company's cash burn improved by more than 50 percent

Only one tranche of the purchase price of the Ventelo acquisition in the amount of EUR 0.7 million was incurred in 2003. Payment of the first tranche in December 2002 had a net effect of EUR -2.2 million on liquid assets as of December 31, 2002; the final tranche of up to EUR 4.5 million is expected to come due later in 2004.

As of December 31, 2003, QSC possessed net liquid assets of EUR 54.3 million and therefore views itself as being fully financed until it crosses the cash flow breakeven threshold as planned during the course of the first half of 2004, and even beyond that point.

Cash Burn (in million EUR)



* Net effect of Ventelo purchase price payments

Equity capital ratio stands at 67 percent // The Company's sound financial position is underscored by the fact that QSC again remained largely debt-free in 2003. The Company's non-current liabilities essentially consist of expenses for pension accruals in the amount of EUR 0.5 million (2002: EUR 0.3 million). Shareholders' equity continues to dominate the Company's balance sheet structure. In 2003, the equity ratio totaled 67.4 percent, as opposed to 74.7 percent the year before.

High equity ratio underscores sound financial position

QSC's share capital rose moderately by EUR 28,682 in 2003. This growth was attributable to the holders of QSC's convertible bonds who exercised their right to convert these bonds to new shares of QSC stock in 2003. (Detailed information relating to the Company's employee stock ownership plans is contained on pages 84/85 of the notes to the consolidated financial statements.)

The vast majority of shareholders' equity is invested in non-current assets. Amounting to EUR 46.9 million (2002: EUR 68.3 million), the largest item in the balance sheet consists of plant and equipment. The decline primarily resulted from ongoing depreciation on capital investments in networking equipment and plant as well as operational and office equipment.

Network optimization necessitates capital investments // At the same time, QSC invested EUR 8.5 million in new non-current assets during the past fiscal year (2002: EUR 2.4 million). This amount primarily consists of investments in the end-user devices with which QSC equips its new customers, as well as purchases in connection with the consolidation of the QSC and Ventelo networks. Moreover, QSC continued to further optimize its DSL network. On the back of existing customer demand, the Company enters new colocation rooms, invests in the required equipment and integrates those in its own DSL network, especially on the fringes of major metropolitan areas.

Swift integration at all levels

With a view to making full use of the synergies with Ventelo, QSC rigorously pushed the integration of the two organizations in 2003. The appointment of Ventelo General Manager Mark Goossens to the QSC Management Board effective January 1, 2004, as well as the relocation of Ventelo headquarters in December 2003 marked the successful conclusion of the integration process.

QSC and Ventelo teams grow together // Directly following the acquisition of Ventelo, QSC formed working groups throughout the Company to scrutinize the processes in the individual departments and define common structures and procedures. Within the space of only four months, the six sales offices were already working together under one roof. QSC pushed team building in both the branch offices as well as at headquarters. This rigorous approach played a key role in enabling QSC to conclude the integration process ahead of schedule in December 2003 with the relocation of the Düsseldorf-based Ventelo employees to Cologne. Only twelve months after the acquisition, employees in all of the Company's departments are now working hand in hand and complementing one another's competencies.

Mark Goossens strengthens management team // One visible manifestation of the successful integration of Ventelo was the appointment of Ventelo General Manager Mark Goossens to the QSC Management Board effective January 1, 2004. An engineer who holds an MBA, his responsibilities focus on technology. Following three years of operational activities, QSC co-founder Gerd Eickers requested that his expiring Management Board contract not be renewed. At the Annual Shareholders Meeting in May 2004, he intends to again be a candidate for the Supervisory Board, on which he had previously held a seat until the end of the year 2000.

Moderate workforce reduction // As of December 31, 2003, QSC employed a total of 373 people, 304 of them at headquarters in Cologne and 69 at sales and business offices throughout Germany. This nearly 14-percent decline from the year before was essentially attributable to three factors:

Outsourcing leads to a focus on core competencies

- // Outsourcing of technical services: Pan Dacom Networking AG and its up to 100 service specialists have been assuring smooth operation of QSC's network infrastructure since July 1, 2003. Twelve QSC employees moved to Pan Dacom in connection with this outsourcing process.
- // Outsourcing of customer service functions to SNT Deutschland AG: In 2003, this specialist for integrated customer marketing assumed responsibility for providing first-level customer service to new and existing QSC voice services customers – the Company's own call center had previously been responsible for this.
- // Natural attrition: In many instances, the realignment of QSC's organizational structure had resulted in overlapping responsibilities. In addition, it also necessitated the relocation of employees in both Sales as well as Administration. QSC did not re-staff all positions that became vacant.

On the other hand, QSC augmented its sales and marketing team for project and major account business in 2003. As of December 31, 2003, 38 key account managers, including presales engineers, were serving this core QSC target group. QSC employed a total of 108 people in Sales and Marketing as of December 31, 2003, representing 29 percent of its total workforce. Together with the other customer-related departments, Customer Service and Customer Care, they continue to represent the largest segment of the QSC workforce.

Technology operations support sales team in solution businesst

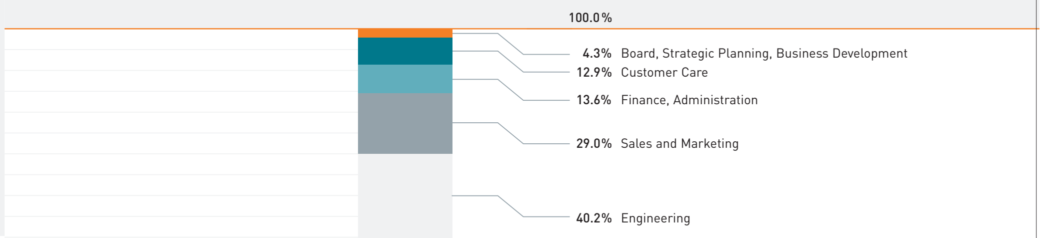
Customer focus and service are also key issues in connection with technology operations. These 150 employees develop and implement innovative voice and data services, and work together with the sales and marketing team to develop custom-tailored solutions for project customers.

In spite of the integration of Ventelo, the number of employees in business operations remained virtually unchanged in 2003. With 51 administrative employees, QSC continues to maintain a very lean administration, which will also be able to handle the anticipated growth in business volume with its existing resources.

Training and continuing employee development play a key role // QSC's aim of providing first-class quality and premium service necessitates ongoing training and continuing development for all employees. As an example, from members of the Management Board right through to office clerks, employees from all departments attended seminars and workshops on the issue of customer focus during the past fiscal year.

The high priority that the Company attaches to internal training and continuing development is also underscored by the fact that for the first time QSC created six training slots for information technology specialist apprentices for the training year that began in September 2003. The Company views in-house training as a key building block in assuring a qualified in-house recruiting pool for QSC, while enabling it to live up to its social responsibility of offering vocational training prospects for young people. Consequently, QSC will be creating additional training slots for future business operations specialists in 2004.

Workforce Structure (in percent)



Risk Report

QSC further expanded its risk management system in 2003, linking it even more closely with the Company's organizational structure and procedures. This led to the desired greater awareness of all employees for this issue.

Ongoing optimization of risk management // As an integrated telecommunication provider for business customers, QSC is well-positioned in the German market. The Company's high growth during the past fiscal year documents its strong market position. Nevertheless, QSC is subject to certain risks in connection with the development of its business. Monitoring these risks enjoys high priority within the framework of the risk management system required pursuant to § 91, para. 2, of the German Stock Corporation Act. Risk management is an integral element of the Company's operative business processes, and was reviewed by its independent auditors. The findings thus obtained regularly flow into further optimizing the Company's risk management system.
During the past fiscal year, QSC integrated risk management even more closely into its organizational structure and procedures. This led to greater awareness and sensitivity toward this issue on the part of all employees – an objective that the Company will continue to pursue in 2004.

Risk management is integrated more closely into organizational structure and procedures

Particular attention is paid to monitoring the following issues:

- **The development of the economy.** QSC succeeded in strongly expanding its business in 2003, in spite of the very weak economy. However, sustained stagnation could further impact the willingness on the part of business customers to invest in a modern telecommunication infrastructure. This risk is being mitigated by the signs of a moderate economic recovery that have been seen since the fourth quarter of 2003, as well as by the forecasted recovery of the telecommunications market.
- **The competitive behavior of former monopolist Deutsche Telekom (DTAG).** DTAG's aggressive pricing policy, in particular, has already had a negative impact on margins in the German telecommunications market, and could continue to do so in the future. As an infrastructure provider, however, QSC is much less dependent upon DTAG's reselling prices than the majority of its competitors. Both in its end-customer business as well as in connection with required services, such as interconnection fees and access to unbundled subscriber connection lines, QSC continues to bank upon well-functioning supervision by the German Regulatory Authority for Telecommunications and Posts (RegTP) as well as the European Commission.
- **The probability of bitstream access offerings from DTAG.** It is highly likely that there will be bitstream access offerings from DTAG during the course of the year 2004. These offerings will enable even companies that do not have their own access infrastructure to offer DSL products under their own names and for their own accounts. However, in addition to the risk of greater competitive pressure for QSC as a result of aggressive pricing on the part of DTAG, bitstream access will also generate opportunities for QSC. The Company will then be in a position to better and more profitably offer nationwide data networks for business customers under its own name than it can today – these data networks will be able to be complemented with bitstream access in locations in which QSC does not possess its own infrastructure.
- **The emergence of alternative technologies.** QSC operates a powerful, DSL-based broadband network in Germany's 40 largest cities. Alternative broadband technologies, such as cable TV, could endanger QSC's competitive position. However, attempts that have already been made to bring these kinds of technology to market show that both business and residential customers in Germany are preferring DSL.
- **The integration of future acquisitions.** QSC does not preclude the possibility of also growing through acquisitions in the future. The risk in this connection is that the acquisition might not live up to expectations. The effect of this could include difficulties in consolidating products, employees and operational business. However, QSC's successful migration to become an integrated telecommunication provider through the acquisition of Ventelo documents the Company's ability to manage these kinds of integration processes.
- **The way QSC is financed.** For the past eleven quarters, the Company has steadily reduced its cash burn, and plans on reaching the cash flow breakeven point during the course of the first half of 2004. However, a persistent recession or a sustained, aggressive price war could lead to a delay in reaching the cash flow breakeven point, resulting in the need for new funding. As of December 31, 2003, QSC did not have any financial debt and its liquid assets totaled EUR 54.3 million.

As a result of these and other risks or incorrect assumptions, QSC's actual future results could vary materially from the Company's expectations. 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.

QSC remains on a growth path

During the current fiscal year, QSC plans to achieve organic revenue growth of at least 20 percent, as well as a sustained positive EBITDA. In particular, the Company anticipates high growth rates from sustained strong demand for network solutions for business customers (VPNs) and, building upon them, from increased outsourcing of further network functions on the part of major accounts.

Strong demand for VPN solutions will sustain in 2004

High-margin project business the centerpiece // In 2004, QSC will again be focusing on designing, selling, implementing and operating integrated telecommunication solutions for business customers on the basis of virtual private networks. There are four reasons for expecting the strong demand for VPN solutions to be sustained here:

- Enterprises are increasingly using the possibilities offered by the Internet for optimizing their own economic value added and are therefore networking all of their locations with VPNs.
- Due to cost considerations, enterprises are migrating from dedicated fixed leased lines to flexible DSL solutions.
- In addition, the concept of linking home offices, field service personnel and traveling sales forces is taking on increasing significance, as qualified employees are asking for flexibility in selecting where and when they want to work.
- New, modular solutions are also enabling smaller companies to utilize VPNs.

Because QSC positioned itself as a VPN solutions provider early on, the Company is likely to derive particular benefit from the growth of this high-margin market segment.

Managed services – a source of future growth // The VPN market is additionally being sparked by a further trend: Outsourcing network operation and maintenance to external service providers. In the case of these managed services, a telecommunication provider not only builds a VPN, it also handles its end-to-end operation, as well as regular software and hardware updates. The outsourcing service provider additionally assures agreed standards of quality and security on the basis of service level contracts.

Voice over IP for business customers within the coming twelve months // Following the market's positive response to QSC-IPfonie, the Company's first Voice over IP offering for Q-DSL home customers, QSC also plans to offer a powerful Voice over IP product to business customers during the course of the coming twelve months. This will also include the integration of a VoIP offering in IP-VPN solutions. The expansion of its Voice over IP business characterizes QSC's strategy of working first and foremost to specifically broaden its solutions and technology competence for business customers.

Growth through specific acquisitions // During the next two years, as well, QSC anticipates a continuation of the consolidation that is occurring in the IT and telecommunications markets. Against this backdrop, one viable option consists of specific acquisitions aimed at further accelerating the implementation of the Company's strategy and its growth in the business customer segment. As in the past, however, this will only be an option if QSC is convinced that the acquisition will make for a strategic fit with its core business and that the purchase price is appropriate. Moreover, the Company has to be convinced that the acquisition will be able to be integrated at predictable expense, that synergies will be able to be achieved and that the net result will be the creation of additional value for the Company's shareholders.

QSC anticipates revenue growth of at least 20 percent and positive EBITDA

Ambitious goals for 2004 // QSC again plans to outpace average industry growth during the current fiscal year. The Company anticipates revenue growth of at least 20 percent to more than EUR 138 million. Its focus on high-margin lines of business is expected to result in a sustained positive EBITDA in 2004. Moreover, QSC plans on reaching the cash flow breakeven point during the first half of 2004 and on earning sustained cash flow surpluses starting with the month of July 2004, at the latest.

Cologne, March 5, 2004
The Management Board

Dr. Bernd Schlobohm Chief Executive Officer	Mark Goossens	Markus Metyas	Bernd Puschendorf

Financial Report

Audit Opinion

We have audited the consolidated financial statements, comprising the balance sheet, the income statement and the statements of changes in equity and cash flows as well as the notes to the financial statements, prepared by the QSC AG, Köln, for the fiscal year from 1. January to 31. December 2003. The preparation and the content of the consolidated financial statements are the responsibility of the Company's management board. Our responsibility is to express an opinion whether the consolidated financial statements are in accordance with accounting principles generally accepted in the United States (US GAAP) based on our audit.

We conducted our audit of the consolidated financial statements in accordance with German auditing regulations and 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 it can be assessed with reasonable assurance whether the consolidated financial statements are free of material misstatements. Knowledge of the business activities and the economic and legal environment of the Group and evaluations of possible misstatements are taken into account in the determination of audit procedures. The evidence supporting the amounts and disclosures in the consolidated financial statements are examined on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the net assets, financial position, results of operations and cash flows of the Group for the fiscal year in accordance with US GAAP.

Our audit, which also extends to the group management report prepared by the executive board for the business year from 1. January to 31. December 2003, has not led to any reservations. In our opinion, on the whole the group management report provides a suitable understanding of the Group's position and suitably presents the risks of future development. In addition, we confirm that the consolidated financial statements and the group management report for the business year from 1. January to 31. December 2003 satisfy the conditions required for the Company's exemption from its obligation to prepare consolidated financial statements and the group management report in accordance with German law.

Eschborn/Frankfurt/Main, March 5, 2004

Ernst & Young
Revisions- und Treuhandgesellschaft mbH
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

Fluck	Janssen
Wirtschaftsprüfer	Wirtschaftsprüfer

Statements of Operations

Consolidated Statements of Operations

(EUR amounts in thousands (TEUR), except for per share amounts)

Notes	No.	2003	2002
Net revenues	1	**115,625**	**47,088**
Cost of revenues	2	135,175	93,594
(including TEUR 1,377 in non-cash compensation in 2003; 2002: TEUR 2,042)			
Gross loss		**(19,550)**	**(46,506)**
Selling and marketing expenses	2	23,172	31,998
(including TEUR 437 in non-cash compensation in 2003; 2002: TEUR 1,023)			
General and administrative expenses		17,185	20,594
(including TEUR 2,353 in non-cash compensation in 2003; 2002: TEUR 2,925)			
Research and development expenses		1,947	1,994
(including TEUR 668 in non-cash compensation in 2003; 2002: TEUR 924)			
Operating loss		**(61,854)**	**(101,092)**
Other income (expenses)			
Interest income		2,150	4,233
Interest expense		(175)	(192)
Share of post acquisition losses of equity method investees		-	(5,432)
Other non-operating income (loss)		(732)	(138)
Net loss before income taxes		**(60,611)**	**(102,621)**
Income taxes	15	-	-
Net loss		**(60,611)**	**(102,621)**
Net loss per common share (basic and diluted)	1	(0.58)	(1.01)
Weighted average shares outstanding (basic and diluted)		105,037,396	101,134,647

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

Balance Sheets

Consolidated Balance Sheets

(EUR amounts in thousands (TEUR))

	Notes No.	Dec. 31, 2003	Dec. 31, 2002
ASSETS			
Current assets			
Cash and cash equivalents	5	34,964	43,095
Marketable securities	5	19,322	44,526
Trade accounts receivable, net	6	18,559	16,948
Trade accounts receivable due from related parties	4	-	7
Unbilled receivables		42	239
Other receivables	6	3,263	9,476
Prepayments and other current assets		4,140	4,410
Total current assets		**80,290**	**118,701**
Non-current assets			
Investment in equity method investees	10	**-**	**301**
Other non-current assets		**479**	**460**
Plant and equipment, net			
Networking equipment and plant	7	40,261	61,463
Operational and office equipment	7	6,655	6,837
Total plant and equipment, net		**46,916**	**68,300**
Intangible assets, net			
Licenses	8	850	2,004
Software	8	1,761	2,420
Others	8	3	5
Total intangible assets, net		**2,614**	**4,429**
Goodwill	9	**2,393**	**2,393**
Total non-current assets		**52,402**	**75,883**
Total assets		**132,692**	**194,584**

	Notes No.	Dec. 31, 2003	Dec. 31, 2002
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade accounts payable		18,631	25,917
Trade accounts payable due to related parties	4	547	504
Accrued liabilities	11	15,123	17,871
Deferred revenues		1,778	2,028
Other current liabilities	11	6,571	2,549
Total current liabilities		**42,650**	**48,869**
Non-current liabilities			
Convertible bonds		63	50
Accrued pensions	12	510	321
Other non-current liabilities		-	90
Total non-current liabilities		**573**	**461**
Shareholders' Equity			
Common stock, 190,024,719 and 189,996,037 shares authorized at December 31, 2003 and 2002, respectively; 105,037,396 and 105,008,714 shares issued and outstanding at December 31, 2003 and 2002, respectively	13	105,037	105,009
Treasury stock 358,747 shares at December 31, 2003 and 2002	13	(266)	(266)
Additional paid-in capital		473,302	473,442
Deferred compensation	14	(75)	(5,058)
Other comprehensive income	1	(46)	-
Receivables due from shareholders		-	(1)
Accumulated deficit		(488,483)	(427,872)
Total Shareholders' Equity		**89,469**	**145,254**
Total liabilities and Shareholders' Equity		**132,692**	**194,584**

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

Statements of Cash Flows

Consolidated Statements of Cash Flows

(EUR amounts in thousands (TEUR))

	2003	2002
Cash flow from operating activities		
Net loss	**(60,611)**	**(102,621)**
Adjustments to reconcile net loss to cash used in operating activities		
Non-cash compensation charge	4,835	6,914
Depreciation and amortization	28,476	33,873
Loss/(Gain) on sale of equipment	976	(70)
Gain on sale of investment	(536)	-
Bad debt expense	1,439	1,273
Share of post acquisition losses of equity method investees	-	5,432
Non-cash interest expense	-	82
Change in operating activities		
Decrease/(Increase) in trade accounts receivable, net	(3,050)	5,775
Decrease in trade accounts receivable due to related parties	7	674
Decrease in unbilled receivables	197	9,971
Decrease in other receivables	6,213	8,760
Decrease/(Increase) in prepayments and other current assets	270	(1,243)
Decrease/(Increase) in other non-current assets	(19)	143
Decrease in trade accounts payable	(7,243)	(16,805)
Decrease in accrued liabilities	(2,748)	(5,685)
Increase/(Decrease) in deferred revenues	(250)	1,145
Increase/(Decrease) in other current liabilities	4,022	(1,910)
Increase in accrued pensions	61	28
Net cash used in operating activities	**(27,961)**	**(54,264)**

	2003	2002
Cash flow from investing activities		
Change in marketable securities	25,204	(41,537)
Available-for-sale securities (unrealized gain)	82	(2,989)
Acquisition of business, net of cash acquired	61	(9,384)
Purchases of intangible assets	(907)	(491)
Purchases of plant and equipment	(7,567)	(1,902)
Proceeds from sale of equipment	2,169	231
Proceeds from sale of investment	837	-
Net cash used in investing activities	**19,879**	**(56,072)**
Cash flow from financing activities		
Payments of short-term debt and current portion of long-term debt	(90)	(357)
Issuance of convertible bonds	13	12
Proceeds from issuance of common stock	28	-
Net cash (used in) provided by financing activities	**(49)**	**(345)**
Net decrease in cash and cash equivalents	**(8,131)**	**(110,681)**
Cash and cash equivalents at beginning of the year	43,095	153,776
Cash and cash equivalents at end of the year	**34,964**	**43,095**
Supplemental disclosures of cash flow information		
Cash paid during the period for		
Interest expenses	175	111

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

Statements of Equity

Consolidated Statements of Shareholders` Equity from January 1, 2002 to December 31, 2003

(EUR amounts in thousands (TEUR), except for per share amounts)

	Ordinary Shares		Treasury Shares		Additional Paid-In Capital	Deferred Compensation Account	Comprehensive Income	Accumulated Other Comprehensive Income	Receivables Due from Shareholders'	Accumulated Deficit	Total Shareholders' Equity
	Shares	TEUR	Shares	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR	TEUR
Balance at January 1, 2002	105,008,714	105,009	1,125,473	(3,312)	473,480	(12,086)		-	(1)	(323,124)	239,966
Reissue of treasury stock (January 1, 2002)			(575,000)	2,869						(2,127)	742
Convertible bonds forfeited due to termination of employment (January 1, 2002)					(45)	45					-
Reissue of treasury stock (April 1, 2002)			(191,726)	177	76						253
Convertible bonds forfeited due to termination of employment (April 1, 2002)					(46)	46					-
Convertible bonds forfeited due to termination of employment (October 1, 2002)					(23)	23					-
Amount amortized during the period						6,914					6,914
Net loss										(102,621)	(102,621)
Balance at December 31, 2002	105,008,714	105,009	358,747	(266)	473,442	(5,058)		-	(1)	(427,872)	145,254
Net loss							(60,611)			(60,611)	(60,611)
Other Comprehensive Loss							(46)	(46)			(46)
Comprehensive Income							(60,657)				-
Convertible bonds forfeited due to termination of employment (January 1, 2003)					(69)	69					-
Convertible bonds forfeited due to termination of employment (April 1, 2003)					(11)	11					-
Convertible bonds forfeited due to termination of employment (October 1, 2003)					(68)	68					-
Issuance of common stock in connection with the conversion of convertible bonds (June 30, 2003)	3,300	3									3
Issuance of common stock in connection with the conversion of convertible bonds (September 30, 2003)	9,360	9									9
Issuance of common stock in connection with the conversion of convertible bonds (December 31, 2003)	16,022	16			8						24
Redemption									1		1
Amount amortized during the period						4,835					4,835
Balance at December 31, 2003	105,037,396	105,037	358,747	(266)	473,302	(75)		(46)	-	(488,483)	89,469

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

Notes to the Consolidated Financial Statements for Fiscal Year 2003

1. Basis of presentation

General // The consolidated financial statements of QSC AG ("QSC" or "the Company") and subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States ("US GAAP"). All amounts, except per share amounts, are in thousands of Euro ("TEUR").
In order to comply with § 292a of the German Commercial Code ("HGB"), the consolidated financial statements were supplemented with Management's discussion and analysis on a consolidated basis and additional explanations. Therefore, the consolidated financial statements, which have to be filed with the Commercial Registry and published in the German Federal Gazette ("Bundesanzeiger"), comply with the Fourth and Seventh Directives of the European Community. For the interpretation of these directives the Company relied on the German Accounting Standard No. 1 of the German Accounting Standards Committee.

Principles of consolidation // The consolidated financial statements include the accounts of QSC and its subsidiaries. All significant inter-company transactions have been eliminated in the consolidation. The equity method of accounting is used for companies and other investments in which QSC has significant influence. Generally, this represents ownership of at least 20% and not more than 50%. The consolidated financial statements of QSC include the following subsidiaries and investments:

	Share in %	Equity TEUR	Net loss TEUR
Ventelo GmbH, Germany *	100	9,250	(1,826)
NETCHEMYA S.p.A., Italy **	25	16,558	(3,471)

* as of December 31, 2003
** as of June 30, 2002 (NETCHEMYA S.p.A. is currently in liquidation)

Use of estimates // The preparation of the financial statements in conformity with US GAAP requires management to make estimates and assumptions related to the reported amounts of assets and liabilities and the disclosures of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses for the period. Although these estimates are based on our knowledge of current events and actions we expect to undertake in the future, actual results may ultimately differ from estimates.

Foreign currencies // QSC's financial statements are presented in Euro, its functional currency. Transactions in currencies other than the Euro are originally recorded at the exchange rate at the day the transaction is made between the Euro and the respective foreign currency. The difference between the exchange rate at the day the transaction was made and the exchange rate at the balance sheet date or at the day the transaction is finally closed, if sooner, are included in other non-operating income or other expense.

Credit losses // QSC sells its products and services through sales partners and directly to end-users. In 2003, there was no one sales partner or end-user customer accounting for more than 10% of total revenues individually. QSC determines its allowances for doubtful accounts based on an ongoing systematic review and evaluation performed as part of the credit-risk evaluation process. Specific allowances are calculated on an item-by-item basis. Trade accounts receivables are stated at their nominal value net of allowances for doubtful accounts.

Cash and cash equivalents // Cash and cash equivalents consist of highly liquid instruments with original maturities of three months or less from the date of purchase.

Marketable securities // Trading securities, representing securities bought and held principally for the purpose of near term sales, are accounted for at fair value as of the balance sheet date and unrealised gains and losses are included in earnings.
Held-to-maturity securities are accounted at amortised cost and unrealised gains and losses are included in earnings.
Available-for-sale securities are accounted for at fair value as of the balance sheet date and related unrealised gains and losses are included in other comprehensive income (loss), until realized.
A decline in value of any available-for-sale security below cost is deemed to be other than temporary resulting in a deduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis is established.

1 Earnings per common share

Earnings per share // Earnings per share is computed by dividing loss applicable to common stockholders by the weighted average number of shares of QSC's common stock outstanding. Diluted earnings per share are calculated in the same manner except that the number of shares is increased assuming exercise of dilutive stock options and convertible bonds where these are dilutive. For the years ended December 31, 2003 and 2002, the dilutive effect of options was not considered because QSC recorded net losses and the impact of an assumed option exercise would be anti-dilutive.

Derivative instruments and hedging activities // In accordance with Statements of Financial Accounting Standards ("SFAS") 133 "Accounting for Derivative Instruments and for Hedging Activities", as amended, derivative instruments, such as interest rate swap contracts and foreign-currency exchange contracts, are recognised in the financial statements and measured at fair value regardless of the purpose or intent for holding them. The Company does not use derivative financial instruments and based upon SFAS 133 no adjustments were made.

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

Intangible assets // Intangible assets consist of goodwill, software, licences and similar rights. SFAS 141 "Business Combinations" requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill represents the excess of the cost of an acquired entity over the fair values assigned to the assets acquired and the liabilities assumed.
In accordance with SFAS 142, QSC amortises software using the straight-line method over the useful life of 4 years and amortises licenses on a straight-line basis over an estimated useful life of 10 years. SFAS 142 prohibits the amortization of goodwill and indefinite life intangible assets. Instead, goodwill and indefinite life intangible assets are tested for impairment at least annually and on an interim basis when an event occurs or circumstances change between annual tests that would more-likely-than-not result in an impairment. Under SFAS 142, goodwill is assessed for impairment by using the fair value based method. The Company determines fair value by utilizing discounted cash flows. The fair value test required by SFAS 142 for goodwill and indefinite life intangible assets includes a two-step approach. Under the first step, companies must compare the fair value of a "reporting unit" to its carrying value. A reporting unit is the level at which goodwill impairment is measured, and it is defined as an operating segment or one level below it if certain conditions are met. If the fair value of the reporting unit is less than its carrying value, goodwill is impaired and companies must proceed with step two. Under step two, the amount of goodwill impairment is measured by the amount that the reporting unit's goodwill carrying value exceeds the "implied" fair value of goodwill. The implied fair value of goodwill can only be determined by deducting the fair value of all tangible and intangible net assets (including unrecognised intangible assets) of the reporting unit from the fair value of the reporting unit (as determined in Step 1). In this step, companies must allocate the fair value of the reporting unit to all of the reporting unit's assets and liabilities (a hypothetical purchase price allocation). The Company did not have any impairment loss as a result of adopting SFAS 142 and as a result of performing the required annual impairment test which the Company has elected to perform on December 31, 2003.

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

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

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

Pensions // Provisions for pensions are determined using the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions". All disclosures are in accordance with SFAS 132 "Employers' Disclosures about Pensions and Other Postretirement Benefits".

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

Recognition of revenues // QSC primarily derives its revenues through the sale of fixed-wire integrated telecommunication services in Germany. These sales are recognised when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price of the transaction is fixed and determined, and collectibility is reasonably assured. Revenues are recognised net of discounts, cash sales incentives, customer bonuses and rebates granted.

1 Net revenues

Revenues are generated with sales partners and with end-user customers of QSC. The sales partner acts as reseller of QSC services and as such is the principal interface to its end-customer, and the sales partner assumes the credit risk associated with the payment of services by its end-customer.

Revenues from non-recurring installation charges are capitalized and amortized over the estimated average customer subscription life of 24 months, in 2002 over 12 months. Payments received in advance of providing services are recorded as deferred revenues until the period when such services are provided.
During 2001, the Company successfully resolved a dispute with a vendor and received an option for equipment valued up to USD 4.8 million at no cost. During 2002 and 2001, the Company received and subsequently sold to third parties equipment for TEUR 1,018 and TEUR 1,840, respectively. The Company has included these sales in operating revenues as this equipment is also included in the Company's service offering.

Stock option programs // In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS 148 "Accounting for Stock-Based Compensation – Transition and Disclosure". This Statement provides additional disclosure requirements for stock-based compensation plans and alternative methods of transition for companies that elect to change from Accounting Principles Board ("APB") 25 "Accounting for Stocks Issued to Employees" to SFAS 123 "Accounting for Stock-Based Compensation" for stock-based compensation.
On January 1, 2003, QSC adopted the fair value recognition provisions of SFAS 123 prospectively, as permitted by SFAS 148, to all stock option programs granted or modified after January 1, 2003. Compensation expense for all awards granted prospectively from December 31, 2002, will be measured at the grant date based on the fair value of the equity award using a Black-Scholes option-pricing model. Compensation expense will be recognised over the expected life with an offsetting credit to additional paid in capital. There were no stock option programs granted or modified since January 1, 2003, and therefore QSC did not record any compensation expense on the basis of SFAS 123 in 2003. Existing stock option based compensation plans granted until December 31, 2002, will continue to be accounted for under the provisions of APB 25.
The following table illustrates the effect on net loss and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period.

	2003 in TEUR *	2002 in TEUR *
Net loss as reported	(60,611)	(102,621)
Stock compensation expense recorded	4,835	6,914
SFAS 123 expense	(8,369)	(438)
Net loss pro forma	**(64,145)**	**(96,145)**
Earnings per share		
as reported	(0.58)	(1.01)
pro forma	(0.61)	(0.95)

* except for per share amounts

Segment information // QSC applies the "management approach" in accordance with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information", for identifying reportable segments. The management approach designates the internal organization used by management for making operating decisions and assessing performance as the source of QSC's reportable segments. QSC is operating in one segment: fixed-wire integrated telecommunication services in Germany.

Other comprehensive income // Other comprehensive income costs as of December 31, 2003, consist of the following:

1 Other comprehensive loss

	2003 in TEUR
Additional minimum pension liability	(128)
Unrealized gain on available-for-sale securities	82
Other comprehensive loss	**(46)**

New accounting standards // Effective January 1, 2002, the Company adopted SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which addresses financial accounting and reporting for the impairment and disposal of long-life assets. These statements supersede SFAS 121, "Accounting for the Impairment of Long-Lived Assets to be Disposed Of". The Company reviews the carrying value of its long-lived assets, including fixed assets, investments, (this is tested for impairment in accordance with FAS 142 as disclosed above), and intangible assets, for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Recoverability of long-life assets, excluding goodwill (see discussion above), is assessed by a comparison of the carrying amount of the asset or the group of assets to the total estimated undiscounted cash flows expected to be generated by the asset or group. If the estimated future net undiscounted cash flows are less than the carrying amount of the asset or group, the asset or group is considered impaired and an expense is recognized equal to the amount required to reduce the carrying amount of the asset to its then fair value. No adjustments were required to the carrying value of long-lived assets in 2003 or 2002.
In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations". SFAS 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. SFAS 143 is effective for fiscal years beginning after June 15, 2002. The adoption of SFAS 143 did not have a material impact on the results of operation or the financial position of QSC.

In June 2002, the FASB issued SFAS 146 "Accounting for Costs Associated with Disposal or Exit Activities". This Statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3 "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)". This Statement requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under Issue 94-3, a liability for an exit cost as defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. However, this standard does not apply to costs associated with exit activities involving entities acquired under business combinations or disposal activities covered under SFAS 144. The adoption of SFAS 146 did not have a material impact on the results of operations or the financial position of QSC.
In December 2003, the FASB issued FIN 46R (a revision of FIN 46 as issued in January 2003) "Consolidation of Variable Interest Entities", which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R is effective for all interests in structures commonly referred to as special-purpose entities for periods ending after December 15, 2003, and for all other types of variable interests for periods ending after March 15, 2004. The Company does not have any variable interests in special-purpose entities, and therefore the adoption of FIN 46R did not have a significant impact on the financial position of the Company. In addition, the Company does not have any interests in any other variable interest entities, and therefore the Company does not anticipate that the adoption of FIN 46R will have a material impact on its results of operations or its financial position.

2. Cost of revenues and other cost

Cost of revenues // Cost of revenues are our network expenses totaling TEUR 135,175 and TEUR 93,594 for 2003 and 2002, respectively. Cost of revenues consists of cost of services, personnel expense and depreciation and deferred compensation. Cost of services are TEUR 93,272 for 2003 (2002: TEUR 51,205).
The Company capitalizes installation costs and amortizes these costs over the estimated average customer subscription life of 24 months, in 2002 over 12 months.

Personnel cost // Personnel expenses of fiscal year 2003 totalled TEUR 30,374 (2002: TEUR 28,953) and are comprised of:

	2003 in TEUR	2002 in TEUR
Personnel cost		
Wages and salaries	26,260	25,909
Social security contribution	3,966	2,979
Net pension cost	148	65
Personnel cost	**30,374**	**28,953**

Additionally the Company recorded deferred compensation expense for stock option programs of TEUR 4,835 (2002: TEUR 6,914).
QSC employed an average of 386 persons in fiscal year 2003 (2002: 337).

Advertising cost // Sales and marketing cost in fiscal year 2003 include advertising cost of TEUR 1,192 in comparison to TEUR 7,380 in 2002. Advertising costs are expensed as incurred.

3. Acquisitions and investments

Acquisitions // On December 13, 2002, QSC acquired 100% of Ventelo GmbH, Düsseldorf ("Ventelo"). Ventelo is a nationwide voice telephony carrier providing business customers with voice telephony services. Ventelo's market position in voice communications for business customers complements QSC's broadband data communications service to the same customer segment. Ventelo will further enhance QSC's ability to offer integrated telecommunication solutions for all business customer segments. Total acquisition cost for Ventelo was TEUR 11,454, including direct acquisition costs of TEUR 90. As of December 31, 2003, a second and final tranche of TEUR 4,450 was payable by QSC.
On April 1, 2002, Ventelo was outsourced from its former parent company Ventelo Deutschland GmbH due §§ 159 et seqq. "Umwandlungsgesetz". Ventelo is responsible for potential liabilities of the former parent company for a period of five years. The estimated fair value of the identifiable net assets exceeds the purchase price resulting in a negative goodwill of TEUR 193 and reducing the acquired assets, on a pro rata basis, by this amount. The results of operations of Ventelo have been included in the consolidated financial statements since December 13, 2002. Therefore, the financial statements of the fiscal years 2002 and 2003 are not comparable.

Investments // Netchemya S.p.A., Italy, one of QSC's investments made in 2000, is currently in liquidation because follow-on funding and the implementation of the business plan were not secured. QSC therefore wrote-off its remaining investment in Netchemya of TEUR 4,136 in 2002. The write-off expense is included in share of post acquisition losses of equity method investee in the statement of operations.
On January 28, 2002, the Company acquired a 49% interest in Grell Beratungs GmbH, Cologne ("Grell"). Purchase price consideration consisted of 575,000 ordinary shares of QSC stock valued at EUR 1.29 per share, which approximates the market price of the Company's stock when the acquisition was agreed to and announced. On September 11, 2003, QSC sold its 49% interest in Grell for TEUR 837. The difference for its estimated fair market value of TEUR 301 resulted in other non-operating income of TEUR 536.

4. Related party transactions

During 2003, QSC participated in transactions with companies affiliated with members of the management. All contracts with these companies require approval of the Supervisory Board. The business relationships and transactions with related parties during 2003 were all performed at arms-length and were as follows:

IN-telegence GmbH & Co. KG ("IN-telegence") // IN-telegence provides value-added telecommunication services. All contracts with IN-telegence have been terminated on May 31 and June 30, 2002. The transactions in 2003 were based on the settlement of these contracts.
As of December 31, 2003, TEUR 533 (2002: TEUR 490) were recognized as accounts payable to IN-telegence and there were no accounts receivable from IN-telegence (2002: TEUR 7).

Teleport Köln GmbH ("Teleport") // Teleport operates and maintains QSC's private broadcast exchange and in-house telephone systems. As of December 31, 2003, payables to Teleport amounted to TEUR 10 (2002: TEUR 3).

microShare AG ("microShare") // microShare provides consulting services on the conception, documentation and implementation of internal IT-based processes. As of December 31, 2003, payables to microShare amounted to TEUR 4 (2002: TEUR 29).
The following table sets forth the development of related party transactions from 2002 to 2003:

	Revenues in TEUR	Expenses in TEUR	Accounts payable in TEUR	Accounts receivable in TEUR
Fiscal Year 2002				
IN-telegence	796	34	1,595	38,343
Teleport	-	40	-	46
microShare	-	160	-	162
Fiscal Year 2003				
IN-telegence	25	25	563	445
Teleport	2	54	2	56
microShare	-	87	-	142

5. Cash and cash equivalents and marketable securities

Cash and cash equivalents and marketable securities as of December 31, 2003, and 2002, are comprised of:

	Dec. 31, 2003 in TEUR	Dec. 31, 2002 in TEUR
Cash and cash equivalents	34,964	43,095
Trading Securities	10,046	41,537
Held-to-maturity Securities	4,138	2,989
Available-for-sale Securities	5,138	-
	54,286	87,621

The fair market value of the held-to-maturity securities approximates the carrying value as of December 31, 2003 and 2002.

6. Trade accounts receivable, net and other receivables

Trade accounts receivable, net and other receivables as of December 31, 2003 and 2002, are comprised of:

	Dec. 31, 2003 in TEUR	Dec. 31, 2002 in TEUR
Trade accounts receivable, net		
Trade accounts receivable	21,271	18,221
Allowance for doubtful accounts	(2,712)	(1,273)
Trade accounts receivable, net	**18,559**	**16,948**
Other receivables		
Tax claims	2,199	8,556
Others	1,064	920
Other receivables	**3,263**	**9,476**

Trade account receivables, net and other receivables have a term of less than one year.

7. Plant and equipment, net

After having largely completed the network rollout capital expenditures consist primarily of success based capital expenditures for customer premises equipment and select, demand driven network extension.
The changes in plant and equipment, net in 2003, were as follows:

	Network equipment and plant in TEUR	Operational and office equipment in TEUR
Cost as of January 1, 2003	118,087	12,608
Additions	4,681	2,886
Disposals	(18,757)	(2,272)
Adjusting journal entry	(1,041)	1,005
Cost as of December 31, 2003	**102,970**	**14,227**
Accumulated depreciation as of January 1, 2003	56,624	5,771
Additions	23,156	3,168
Disposals	(16,933)	(1,922)
Adjusting journal entry	(138)	555
Accumulated depreciation as of December 31, 2003	**62,709**	**7,572**
Plant and Equipment, net as of December 31, 2003	**40,261**	**6,655**
Plant and Equipment, net as of December 31, 2002	**61,463**	**6,837**

8. Intangible assets, net

QSC requires a class 3 license to operate transmission lines in Germany as well as a class 4 license for the provision of voice telephony services. These licenses are awarded by the German regulatory authority and are subject to an initial, one-time fee. QSC, together with other German license holders, took legal action appealing the authority's license fee directive. On April 23, 2003, QSC received a revised license fee directive concerning its class 3 licence that led to a reassessment of intangible assets.
A reassessment of the license fee of class 4 license is expected, but it has yet to take place.

Intangible assets, net changed in 2003 as follows:

	Licenses in TEUR	Software in TEUR	Other in TEUR
Cost as of January 1, 2003	2,954	3,986	13
Additions	4	903	-
Disposals	(1,456)	(397)	-
Adjusting journal entry	14	22	-
Cost as of December 31, 2003	**1,516**	**4,514**	**13**
Accumulated depreciation as of January 1, 2003	950	1,566	8
Additions	200	1,950	2
Disposals	(437)	(393)	-
Adjusting journal entry	(47)	(370)	-
Accumulated depreciation as of December 31, 2003	**666**	**2,753**	**10**
Intangible assets, net as of December 31, 2003	**850**	**1,761**	**3**
Intangible assets, net as of December 31, 2002	**2,004**	**2,420**	**5**

The annual amortization expense is estimated to be TEUR 1,061 for 2004, TEUR 696 for 2005, TEUR 436 for 2006, TEUR 213 for 2007 and TEUR 153 for 2008.

9. Goodwill

Upon acquisition of the shares in COMpoint Networking Consulting GmbH and GINKO AG, both companies were merged into QSC in 2002, QSC recorded as goodwill the excess purchase price over the fair value of the identifiable net assets acquired. As QSC adopted SFAS 142 on January 1, 2002, goodwill has not changed since then. Goodwill amounted TEUR 2,393 as of December 31, 2003 and as of December 31, 2002.

10. Investments at equity method

In 2003, QSC sold its 49% interest in Grell resulting in a gain of TEUR 536. At December 31, 2002, this investment had a carrying value basis of TEUR 301.

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

All liabilities shown in the table below have a term of less than one year, apart from TEUR 4,450 included in other current liabilities. This amount is the second and final tranche for the acquisition of Ventelo.

	Dec. 31, 2003 in TEUR	Dec. 31, 2002 in TEUR
Other current liabilities		
Social security	454	651
Taxes	1,098	604
Other	5,019	1,294
Other current liabilities	**6,571**	**2,549**
Other accrued liabilities		
Outstanding invoices	9,838	14,014
Employee bonus and renumeration	3,955	2,620
Vacation outstanding	674	997
Workmen's compensation	182	100
Tax consulting and legal fees	474	140
Other accrued liabilities	**15,123**	**17,871**
	21,694	**20,420**

In accordance with SFAS 146, the accrued liability for leased data centre capacity was TEUR 969 and TEUR 1,692 as of December 31, 2003 and 2002, respectively, and is included in outstanding invoices.

12. Employee benefit plan

As of December 31, 2003, there were employee benefit plans for one of QSC's executive managers and the executive manager of Ventelo. Pension benefits are fixed at a monthly amount after legal retirement age.

The components of net periodic benefit costs were:

	Dec. 31, 2003 in TEUR	Dec. 31, 2002 in TEUR
Net periodic benefit cost		
Service cost	65	28
Interest cost	32	9
Net periodic benefit cost	**97**	**37**

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

	Dec. 31, 2003 in TEUR	Dec. 31, 2002 in TEUR
Change in benefit obligation		
Benefit obligation at beginning of year	289	239
Service cost	28	23
Interest cost	10	6
Settlement	24	-
Actuarial loss (gain)	313	21
Benefit obligation at end of year	**664**	**289**
Unfunded status	664	289
Unrecognized net actuarial loss (gain)	(282)	-
Minimum liability	128	32
Accrued benefit cost	**510**	**321**
Weighted-average assumptions		
Discount rate	6%	6%
Expected return on plan assets	3%	3%
Rate of compensation increase	3%	3%

13. Share capital

Nominal share capital // The nominal share capital of QSC consists of ordinary share capital of TEUR 105,037 (2002: TEUR 105,009) and is divided into 105,037,396 (2002: 105,008,714) ordinary shares having a notional value of one Euro each. Each share gives the registered holder one vote at the general meeting of shareholders and the right to fully share in dividends. There are no restrictions on voting rights. During 2003, nominal share capital increased by TEUR 28 due to the conversion of 28,682 convertible bonds. Employees used their right to convert their convertible bonds to registered ordinary shares of QSC.

Treasury shares // As of December 31, 2003, QSC held 358,747 (2002: 358,747) treasury shares having a total notional value of TEUR 359 and representing 0.34% of total common stock. QSC intends to offer its treasury stock for sale to employees. In 2003, there were no changes in treasury shares.

Conditional capital as per commercial register // As of December 31, 2003, QSC had conditional capital of TEUR 34,959. TEUR 9,959 relates to stock option plans for QSC's employees as well as Advisory and Supervisory Board members and TEUR 25,000 for bonds, which are to be underwritten by a banking syndicate with the obligation to offer the bonds for subscription to the shareholders.

Authorization to issue treasury shares // The authorization of the annual general meeting of QSC on May 16, 2002, to acquire its own shares up to an imputed share in the capital stock in the total amount of TEUR 10,000 through the stock exchange or based on a public tender offer, was time-limited by law until October 31, 2003. Therefore, this authorization was revoked at the annual general meeting on May 15, 2003, and replaced by a new identical authorization being in effect until October 31, 2004.

14. Employee equity incentive program

The following table summarizes activity under QSC's stock option plans for the years ended December 31, 2003 and 2002:

	Number of stock options	Weighted average exercise price in EUR
Issued and subscribed, below market	4,157,623	2.11
Issued and subscribed, at market	5,146,926	2.10
Exercised	(3,874,067)	1.95
Forfeited	(423,106)	4.05
Outstanding at December 31, 2002	**5,007,376**	**2.05**
Issued and subscribed, below market	-	-
Issued and subscribed, at market	1,794,167	1.41
Exercised	(28,682)	1.27
Forfeited	(391,186)	2.97
Outstanding at December 31, 2003	**6,381,675**	**1.82**

QSC accounts for its stock option plans under provisions of APB 25. Under APB 25, compensation expense is recognized based on the amount by which the fair value of the underlying common stock exceeds the exercise price of the stock options at the measurement date. Compensation expenses were recognised for convertible bonds exercised under SOP 2000 and for convertible bonds which were exercised under SOP 2000A before the initial public offering.
In the case of SOP 2001 and 2002 and convertible bonds of SOP 2000A exercised after the initial public offering, the fair value of the underlying common stock and the exercise price of the stock options are the same. Therefore, no compensation expense is recorded due to APB 25.
In the case of SOP 2000A, the exercise price of 483,169 convertible bonds was adopted in November 2000. The 483,169 convertible bonds have a weighted average exercise price of EUR 4.23. As QSC's stock closed at EUR 3.03 on the last trading day of 2003, QSC was not required to record any compensation expense in connection with the 483,169 convertible bonds.
As of December 31, 2003, QSC had deferred compensation totaling TEUR 75. This amount is yet to be amortised as a charge to operations until it will be fully amortized. In 2003, QSC amortized TEUR 4,835 (2002: TEUR 6,914).

14 Deferred compensation

Had compensation expense for share options granted under the plans been determined in accordance with SFAS 123, deferred compensation expense would have been TEUR 8,369 (2002: TEUR 438), consisting of TEUR 5,595 for SOP 2000 (2002: TEUR 5), TEUR 1,737 for SOP 2000A (2002: TEUR 29), TEUR 650 for SOP 2001 (2002: TEUR 399) and TEUR 387 for SOP 2002 (2002: TEUR 5).
The average fair value of options granted as of December 31, 2003 was estimated at EUR 10.06 (SOP 2000), EUR 5.24 (SOP 2000A), EUR 0.66 (SOP 2001) and EUR 0.66 (SOP 2002). The following weighted average assumptions were used: dividend yield of 0% (2002: 0%), expected life of 4 years (2002: 5 years) and a risk free interest rate of 2.07% for government bonds with a maturity less than one year, 2.02% for government bonds with one year maturity, 2.24% for government bonds with a two year maturity, 2.67% for government bonds with a three year maturity and 2.98% for government bonds with a four year maturity depending on the remaining term of the convertible bond. A volatility of 79.4% (2002: 72.3%) was used in valuing options.

15. Income taxes and deferred taxes

For fiscal year 2003, corporate income tax rate was 26.3% and solidarity surcharge rate 5.5%. Including trade tax on income, the effective tax rate was 39.9% (2002: 40.2%).
The differences between accounting regulations set out in HGB ("German GAAP") and US GAAP are described in chapter 20. These differences, including additional adjustments due to differences between book basis and tax basis under German GAAP, are leading to the following reconciliation:

	Dec. 31, 2003 in TEUR	Dec. 31, 2002 in TEUR
Net loss before taxes	**(60,611)**	**(102,621)**
Income tax benefit based on the statutory tax rate	24,184	41,254
Share of post acquisition losses	-	1,259
Valuation allowance for treasury stock	(50)	51
Deferred revenues	(26)	(460)
Deferred cost	594	940
Pension accruals	(38)	(55)
Non-tax deductible stock compensation expense	(2,988)	(2,905)
Impact of tax rate changes	(970)	-
Other	111	1,022
	20,816	**41,106**
Change valuation allowance	(20,816)	(41,106)
	-	-

As of December 31, 2003, QSC's accumulated losses for taxation purposes amounted to TEUR 369,866. The tax effect from these losses is capitalized for US GAAP purposes. Based on a tax rate of 39.9% the tax effect is TEUR 147,582. As required by SFAS 109 on basis of the current information, it is not more likely than not that QSC will generate sufficient taxable income during the carry-forward period to utilize the tax-loss carry-forwards. As a result, a valuation allowance of TEUR 147,582 has been provided against all of these tax loss carry-forwards. There is no current or deferred tax income expense.

The reconciliation of the tax benefit is as follows:

	Dec. 31, 2003 Tax asset in TEUR 39.9%	Dec. 31, 2002 Tax asset in TEUR 40.2%
Deferred tax asset		
At equity consolidation	-	(2,183)
Deferred revenues	(709)	(815)
Deferred cost	1,061	1,199
Pension reserve	(21)	(36)
Other	(335)	-
Tax loss carry forward	(147,577)	(124,930)
	(147,582)	(126,765)
Less valuation allowance	147,582	126,765
	-	-

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

16. Litigations

QSC has currently no significant litigations.

17. Lease commitments and contingent liabilities

Contingent liabilities are primarily based on long-term leasing agreements for dark-fibre lines, technical centres, office space and company vehicles. As of December 31, 2003, QSC's commitments from operating leases with a non-cancellable lease term in excess of one year were as follows:

Year ending December 31,	in TEUR
2004	23,277
2005	14,583
2006	3,565
2007	2,524
2008	2,481
after 2008	2,748
Total	49,178

These expenses were TEUR 50,251 and TEUR 29,580 for the years ended December 31, 2003 and 2002, respectively.
As of December 31, 2003, QSC had contingent liabilities of TEUR 5,535 (2002: TEUR 3,396). Contingent liabilities are primarily for guarantees granted mainly to suppliers for lease and other contractural obligations.

18. Management Board and Supervisory Board

Management Board // The members of the Management Board are:

Dr. Bernd Schlobohm	Engineer	Chief Executive Officer
Gerd Eickers *	Businessman	
Markus Metyas	Businessman	
Bernd Puschendorf	Businessman	
Mark Goossens **	Engineer	

until December 31, 2003 *
since January 1, 2004 **

As of December 31, 2003, Gerd Eickers is a member of the Supervisory Board of microShare AG, Dortmund and MVC AG, Frankfurt and a member of the Advisory Board of GTT GmbH, Duisburg.
Mark Goossens is Managing Director of Ventelo GmbH, Düsseldorf, Ventelo Project GmbH, Düsseldorf and Esprit Telecom Deutschland GmbH, Düsseldorf.
The total remuneration awarded to the Management Board for financial year 2003 amounted to TEUR 2,520, in comparison to TEUR 1,856 for financial year 2002. For each board member at least 50% of the contractual compensation is variable and depending on the realization of targets and company objectives, defined by the Compensation Committee. At the end of the fiscal year, the realization of targets and company objectives is checked and the variable compensation fixed. The Compensation Committee informs the Supervisory Board about the decision. In 2003, a total of 909,130 convertible bonds were allocated to the members of the Management Board, of which 909,130 were subscribed at December 31, 2003. Based on the fair value method of SFAS 123, the compensation expense of these convertible bonds would be TEUR 113.

Shares and conversion rights of members of the Management Board:

	Dec. 31, 2003		Dec. 31, 2002	
	Shares	Conversion rights	Shares	Conversion rights
Dr. Bernd Schlobohm	13,818,372	-	13,818,372	-
Gerd Eickers	13,841,100	9,130	13,841,100	-
Markus Metyas	2,307	1,559,116	2,307	1,059,116
Bernd Puschendorf	-	1,000,000	-	1,000,000
Mark Goossens	384	400,000	-	-

Supervisory Board // The members of the Supervisory Board are:

John C. Baker	Private Equity Investor	Chairman
Herbert Brenke	Businessman	Vice Chairman
Ashley Leeds	Private Equity Investor	
Norbert Quinkert *	Businessman	
David Ruberg	Private Equity Investor	
Claus Wecker	Lawyer	

* since July 15, 2003

John C. Baker is a member of the Board of Directors of Cherry Road Technologies Inc., Parsippany, USA.
Herbert Brenke is Chairman of the Supervisory Boards of Telegate AG, Martinsried and ASKK Holding AG, Hamburg, as well as member of the Supervisory Boards of SHS Informationssysteme AG, Munich and ASR Auto-Stern von Russland AG, Moscow, Russia. Herbert Brenke is also a member of the Advisory Board of Küttner GmbH & Co. KG, Essen and Vice President of the Administrative Board of Euka AG, Zürich, Switzerland.
Ashley Leeds is a member of the Board of Directors of Connected Corporation, Framingham, USA, Voltaire Ltd., Herzlia, Israel and Canal + Television AB, Stockholm, Sweden.
Norbert Quinkert is member of the Supervisory Board of ALD Vacuum Technologies AG, Hanau and Pfalz Flugzeugwerke AG, Speyer. Norbert Quinkert is also Executive Vice President of the American Chamber of Commerce in Germany and member of the Advisory Board of Dresdner Bank AG, Frankfurt.
David Ruberg is Chairman of the Supervisory Board of InterXion Inc., Amsterdam, Netherland, Chairman of the Board of Directors of Permabit Inc., Boston, USA as well as a member of the Board of Directors of Broadview Networks Inc., New York, USA and of Sand Video Inc., Boston, USA.
Claus Wecker is a member of the Supervisory Board of ASKK Holding AG, Hamburg.
The total remuneration of the Supervisory Board for financial year 2003 was TEUR 148, in comparison to TEUR 148 for financial year 2002. In 2003, no convertible bonds were allocated to the members of the Supervisory Board. 20,000 convertible bonds that were allocated in 2002 have been subscribed in 2003. As resolved in the Annual General Meeting on May 17, 2001 the compensation for the Chairman and the Vice Chairman of the Supervisory Board is TEUR 30 per year. The compensation for all other members of the Supervisory Board is TEUR 25 per year. A member of the Supervisory Board will receive only 50% of these amounts if the participation at regular called meetings is below 75% per fiscal year.
Claus Wecker is partner of a law firm that provides legal consultancy services to QSC. In 2003, total cost for these services was TEUR 106.

Shares and conversion rights of members of the Supervisory Board:

	Dec. 31, 2003		Dec. 31, 2002	
	Shares	Conversion rights	Shares	Conversion rights
John C. Baker	-	19,130	-	19,130
Herbert Brenke	187,820	19,130	187,820	9,130
Ashley Leeds	9,130	10,000	9,130	-
Norbert Quinkert	3,846	-	3,846	-
David Ruberg	4,563	19,130	4,563	19,130
Claus Wecker	83,025	-	83,025	-

19. Declaration pursuant to § 161 of the corporation act on compliance with the German Corporate Governance Code

The Management Board and the Supervisory Board executed the declaration due to § 161 Stock Corporation Act and published it on the website of the Company.

20. Major differences between German and U.S. accounting principles

§ 292a of the accounting regulations set out in the German Commercial Code ("HGB") offers an exemption to prepare consolidated financial statements in accordance with the accounting regulations set out in HGB if consolidated financial statements are prepared and published in accordance with internationally accepted accounting principles (US GAAP or IFRS). To make use of this exemption, the Company is required to describe the major differences between the accounting methods applied and German accounting methods.
Providing all relevant information to investors in order to facilitate future investment decision-making is generally a primary emphasis of US GAAP, while German HGB accounting rules emphasises the principle of prudence and creditor protection.
Under German GAAP, type of revenue generally has no impact on revenue recognition. Under Staff Accounting Bulletin ("SAB") 101 "Revenue Recognition in Financial Statements", revenues received at the beginning of a contract be capitalised and amortised over the estimated average customer subscription life of 24 months. Installation costs are capitalised as well and amortised costs over the estimated average customer subscription life of 24 months.
In accordance with US GAAP deferred compensation resulting from the issuance of convertible bonds based on stock option programs is recorded as personnel expenses. In consolidated financial statements prepared according to German accounting principles, this approach need not be taken.
Under German GAAP, deferred tax assets are not recorded for net operating losses. Under US GAAP, deferred tax assets are recorded for net operating losses and a valuation allowance is established when it is not secured that deferred tax assets will be realised.
According to German GAAP, goodwill and intangible assets acquired in business combinations are capitalised and subject to amortisation and impairment testing. According to SFAS 142, goodwill and intangible assets with an indefinite life acquired in business combinations are only subject to impairment testing but not to amortisation. Goodwill and intangible assets are tested for impairment at least annually.
According to German GAAP, treasury shares are considered as marketable securities and are valued at the lower of cost or market at the balance sheet date. Unrealised and realised losses and realised gains are included in earnings. Under US GAAP, treasury shares are recorded at cost within shareholders' equity. Changes in value, whether realised or unrealised, are not recognised.
Under German GAAP, marketable securities are valued at the lower of acquisition cost or market value at the balance sheet date. In accordance with SFAS 115, securities are considered to be either held-to-maturity, trading or available-for-sale securities. Under US GAAP, held-to-maturity securities are accounted at amortised cost, trading and available-for-sale securities are valued at fair value as of the balance sheet date. Unrealised gains and losses from trading and held-to maturity securities are included in earnings. Unrealised gains and losses from available-for-sale securities are reported net of tax in accumulated other comprehensive income. A decline in value below cost is deemed to be other than temporary resulting in a deduction in carrying amount to fair value, and the impairment is charged to earnings.
For some employees there were employee benefit plans in place which led to accrued benefit cost in the balance sheet. Based on an actuarial opinion, the provisions for pensions are determined using the projected unit credit method in accordance with SFAS 87, "Employers' Accounting for Pensions". The determination under German GAAP is different.
The equity method of accounting is used for companies and other investments in which QSC represents ownership of at least 20% and not more than 50%. The investment is recorded at cost and adjusted by the share of post-acquisition results. German GAAP follows another approach.

21. Subsequent events

With effect of January 1, 2004, QSC and Ventelo signed a mutual agreement. Based on this contract, QSC will provide business functions and services conducted on instructions for and on behalf of Ventelo primarily in the area of network operations and administration. Furthermore, Ventelo sold a business area to QSC and QSC will have the rights to market and copy specific products of Ventelo. On February 17, 2004, with effect as of March 22, 2004, the German Stock Exchange ("Deutsche Börse AG") decided to list QSC in the technology index TecDAX, representing the thirty largest technology companies.

Cologne, March 5, 2004

Dr. Bernd Schlobohm Chief Executive Officer	Mark Goossens	Markus Metyas	Bernd Puschendorf

Appendix

Glossary

ADSL
Asymmetrical Digital Subscriber Line: asymmetric data transmission technology with downstream rates between 1.5 Mbit/s and 8 Mbit/s and upstream rates between 16 kbit/sand 640 kbit/s.

ATM
Asynchronous Transfer Mode: universal transfer method for broadband applications, with speeds ranging from 2 Mbit/s to 622 Mbit/s.

Backbone
High-speed network that interconnects networks with lower speeds/capacities.

Bandwidth
Line transmission capacity: the greater the bandwidth, the more units of information (voice, images and other data) can be transported within a given time interval.

Bitstream Access
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.

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

Colocation Room
Central Office or colocation room: the 'colocation room' at Deutsche Telekom; this is where the 'last mile' to an end-user begins. The Central Office houses the DSL infrastructure of alternative network operators such as QSC. Here, the twisted copper wire pair is handed over by Deutsche Telekom to the alternative network operator.

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

ISP
Internet Service Provider: they facilitate customer data communication by providing Internet access and related services, e.g. e-mail management.

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

Last Mile
The distance from the telephone outlet to the nearest local switching center (central office).

Leased Line
A permanent connection line.

Mbit/s / kbit/s
Megabit per second/Kilobit per second; measuring units of data transmission speed.

MSC
Metropolitan Service Center: QSC 's local access network mode where local broadband traffic is bundled and connected with Internet and/or the PoTS (Plain old Telephony System) world.
The MSC 's also house broadband application servers.

SDSL
Symmetric Digital Subscriber Line: symmetric transmission technology, allows for data transfer into both directions at equal speeds of up to 2.3 Megabit per second.

SMEs
Small and medium enterprises with up to 500 employees.

SoHos
Small offices, Home offices: The term used to denote mini-companies (with up to nine employees) as well as free-lance professionals.

TAL
Teilnehmeranschlussleitung (subscriber line or local loop): line between a central office and the subscriber 's physical connection to the respective network.

TKG
German acronym for the German Telecommunications Act. It serves as the basis for liberalization of the telecommunication sector in Germany.

UMTS
Universal Mobile Telecommunications System. The Third Generation mobile communication standard, which enables data transfer rates of up to two megabits per second. Transfer can be via either wireless or wireline networks.

Voice over DSL
The possibility to transmit voice and data simultaneously within the frame work of DSL technology.

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

VPN
Virtual Private Network: in a VPN, several corporate sites are connected through a public network to form a secure network impervious to outsiders. Only persons or sites with due authorization are able to communicate with each other, access data or exchange data via such a network.

Calendar

Annual Shareholders' Meeting
Mai 27, 2004

Quarterly Reports
May 25, 2004
August 26, 2004
November 25, 2004

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