QSC AG

with Registered Offices in Cologne
Securities Code No. 513 700
ISIN DE 0005137004

INVITATION TO THE ANNUAL SHAREHOLDERS' MEETING

on Tuesday, May 23, 2006, at 10:00 a.m.
in the 'Theater am Tanzbrunnen', Rheinparkweg 1, 50679 Cologne

AGENDA

Item 1 **Presentation of the Established Financial Statements of QSC AG as at December 31, 2005 together with the Management Report and the Approved Consolidated Financial Statements as at December 31, 2005 together with the Consolidated Management Report as well as the Report of the Supervisory Board for the 2005 Financial Year Regarding the Company and the Group**

Item 2 **Formal Approval of the Activities of the Management Board Members for the 2005 Financial Year**

The Management and Supervisory Boards propose adoption of the following resolution:

Formal approval of the activities of the members of the Management Board is granted for financial year 2005.

Item 3 **Formal Approval of the Activities of the Supervisory Board Members for the 2005 Financial Year**

The Management and Supervisory Boards propose adoption of the following resolution:

Formal approval of the activities of the members of the Supervisory Board is granted for the 2005 financial year.

Item 4 **Selection of the independent auditor for financial year 2006**

The Supervisory Board proposes the appointment of Ernst & Young AG Wirtschaftsprüfungsgesellschaft Eschborn/Frankfurt am Main, as the independent auditor of the Company and the Group for financial year 2006.

Item 5 **Resolution to Dispense with Individualized Information on the Remuneration of Members of the Management Board in the Notes to Individual and Consolidated Financial Statements**

Pursuant to §285 sentence 1 No. 9 lit. a respectively §314 Abs. 1 No. 6 lit. a of the German Commercial Code ("HGB") as amended by the German Management Compensation Disclosure Act which took effect on August 11, 2005 the company is obliged to provide extensive details of the remuneration of the individual members of the Management Board in the Notes to its individual and consolidated financial statements for financial years starting after December 31, 2005, unless a resolution to the contrary is passed by the General Meeting.

The Management of the company is a task performed jointly by all members of the Management Board. The Management and Supervisory Boards therefore believe that likewise from the viewpoint of the shareholder the decisive issue is how the joint performance of the entire Management Board influenced the development of the company during the year under review and if as a whole it is adequately rewarded. The shareholders and the public are by now and in future provided with comprehensive information on the remuneration of the Management Board as a whole. However the Management and Supervisory Boards believe that there are no good reasons for individualizing the public information on remuneration of the Management Board, which would furthermore be an intrusion into privacy of the affected members of the Management Board.

Referring to § 286 (5) and § 314 (2) sentence 2 of the German Commercial Code ("HGB") as amended by the Management Compensation Disclosure Act the Management and Supervisory Boards propose adoption of the following resolution:

Presenting the individual and consolidated financial statements of QSC AG the disclosures required § 285 sentence 1 No. 9 lit. a sentence 5 to 9 respectively § 314 (1) No. 6 lit. a sentence 5 to 9 of the German Commercial Code ("HGB") as amended by the Management Compensation Disclosure Act shall not be made. This resolution shall apply to the individual and consolidated financial statements of QSC AG for the financial years 2006 to 2010, but no longer than up to May 22, 2011.

Item 6 **Renewal of the Authorization of the Management Board to Acquire and to Sell the Company's Own Shares pursuant to §71 (1) No. 8 of the Stock Corporation Act (AktG) and to Exclude Subscription Rights**

The current authorization to acquire treasury stock in accordance with § 71 (1) No. 8 of the Stock Corporation Act, which was granted by the shareholders in General Meeting on May 19, 2005 ('existing authorization'), is limited in effect until October 31, 2006 in accordance with the provisions of law. For that reason, it is to be cancelled with effect from the end of this Shareholders' Meeting and replaced by a new authorization valid for a little less than 18 months, i.e. until October 31, 2007.

The Management and Supervisory Boards propose adoption of the following resolution:

I. The existing authorization of the Management Board to acquire the Company's own shares pursuant to the shareholders' resolution of May 19, 2005 shall be rescinded with effect from the end of the day on which this Shareholders' Meeting is held.

II. The Management Board of the Company shall be authorized with effect from the end of the day on which this Shareholders' Meeting is held to acquire the Company's own shares by October 31, 2007 through the stock exchange or based on a public acquisition offer up to a total imputed share in the capital stock of 10%. Relevant is the capital stock at the time of the General Meeting's resolution on the present authorization or – provided this is lower – the capital stock existing at the time of the execution of the present authorization. The shares procured based on this authorization, together with any other treasury stock which the Company holds or which are attributable to the company pursuant to § 71a et seqq of the Stock Corporation Act, may at no time exceed 10% of the capital stock of the Company. This acquisition may not be made for the purpose of trading in the Company's shares.

The acquisition may in the discretion of the Management Board be made through the stock exchange or based on a public acquisition offer. In the latter case the rules and regulations of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz) are to be observed as far as applicable.

In the event such shares are acquired through the stock exchange, the consideration to be paid for the acquisition per share may not be more than 5% above or below the non-weighted stock exchange price of a share in the Company as fixed in the closing action of XETRA trading respectively a comparable successor system replacing the XETRA system on the Frankfurt Stock Exchange in the five trading days preceding the acquisition. In the event of acquisition based on a public acquisition offer, the acquisition price for each share may not be more than 10% above or below the non-weighted average stock exchange price of a share in the Company as fixed in the closing action of XETRA trading respectively a comparable successor system replacing the XETRA system on the Frankfurt Stock Exchange in the five trading days before the initial public announcement of the offer. In case of a considerable changes of the relevant share price after the public announcement respectively the public offering, the offer my be adjusted. In this case the non-weighted average stock exchange price of a share in the Company as fixed in the closing action of XETRA trading respectively a comparable successor system replacing the XETRA system on the Frankfurt Stock Exchange in the five trading days preceding the public announcement of the adjustment shall be relevant. If there are too many selling offers regarding the public acquisition offer they must be accepted per quota. A privileged acceptance of smaller numbers of pieces up to 100 offered shares per shareholder may be provided for. The public acquisition offer may stipulate additional terms and conditions.

III. The Management Board shall be authorized, without an additional shareholders' resolution, to redeem in whole or in part any treasury stock acquired on the basis of the authorization pursuant to sub-clause II above.

IV. The Management Board shall furthermore be authorized to resell the treasury stock acquired on the basis of the authorization pursuant to sub-clause II subject to an exclusion of the subscription rights of shareholders in a manner other than through the stock exchange or an offer to all shareholders:

1) as consideration to third parties within the scope of corporate mergers or the acquisition of companies, parts of companies or stakes in companies.

2) provided the selling price per share, payable in cash, is not substantially below the stock exchange price, and the number of shares sold in this manner together with the number of other shares that are issued or sold during the term of this authorization in accordance with § 186 (3) 4 of the Corporation Act, subject to an exclusion of the subscription rights or may arise from exercise of subscription and/or conversion rights or discharging subscription/conversion duties based on warrant bonds and/or convertible bonds issued during the term of this authorization subject to an exclusion of the subscription rights in accordance with § 186 (3) 4 of the Corporation Act, does not exceed 10% of the capital stock. Relevant is the capital stock existing on the date of the shareholder resolution concerning this authorization or – if this amount is lower – as of the date on which the present authorization is exercised.

V. All of the above-mentioned authorizations may be utilized as a whole or in several partial amounts. The above-mentioned authorizations – with the exception of the authorization to redeem the treasury stock – may also be utilized by third parties acting on account of the Company.

VI. The Supervisory Board may determine that the Management Board may utilize the above-mentioned authorizations only with its consent.

Report by the Management Board in accordance with § 71 (1) No. 8 in association with §186 (4), Sentence 2 of the Stock Corporation Act concerning Item 6 of the Agenda for the Shareholders' Meeting of QSC AG to take place on May 23, 2006 on the reasons for authorizing the Management Board to exclude the subscription rights of shareholders when selling the Company's own shares

The Company has already been authorized, by resolution of the shareholders in General Meeting on May 19, 2005 to acquire treasury stock in accordance with § 71 (1) No. 8 of the Stock Corporation Act. This authorization expires on October 31, 2006. The proposed resolution under Item 6 of the Agenda is therefore to rescind the previous authorization and to re-authorize the Company and third parties acting on its account to acquire treasury stock. The authorization is limited to a period of a little less than 18 month.

This authorization is confined to a maximum of 10% of the capital stock. Furthermore, the total amount of treasury stock that the Company holds – i.e. including own shares acquired on a different basis – may not exceed 10% of the capital stock. Own shares may not be acquired for the purpose of trading in the Company's shares.

Own shares may only be acquired through the stock exchange or based on a public acquisition offer. The acquisition price for each share may in case of acquisition through the stock exchange not be more than 5% above or below the non-weighted five-day average stock exchange price of a share in the Company as fixed in the closing action of XETRA trading or an equivalent successor system on the Frankfurt Stock Exchange. In the case of acquisition based on a public acquisition offer, the price for each share may not be more than 10% above or below the non-weighted average stock exchange price of a share in the Company as fixed in the closing action of XETRA trading or an equivalent successor system on the Frankfurt Stock Exchange in the five trading days prior to initial public announcement of the offer. These price stipulations limit from the outset the conceivable impacts that acquiring treasury stock may have on quoted share prices. If in case of a public acquisition offer there are too many selling offers they must be accepted per quota. However pursuant to item 6 sub-clause II of this agenda a privileged acceptance of smaller numbers of pieces up to 100 offered shares per shareholder shall be allowed. This option is provided to avoid fractional amounts in determining the acquisition quota and little oddments in order to facilitate the technical handling. This does not cause any disadvantages for the shareholders.

Treasury stock may be redeemed, or resold on the stock exchange, or resold on the basis of an offer for sale targeted at all shareholders without a new resolution of the shareholders in General Meeting. In addition, there are two special cases in which the Management Board may sell treasury stock while excluding the subscription or acquisition rights of the shareholders:

First it is supposed to be possible for treasury stock to be used as consideration for third parties in connection with the acquisition of or merger with companies or for acquiring parts of or holdings in other companies. This enables the Company to use its own shares as currency for acquisitions and to exploit opportunities to acquire other companies or parts of or holdings in companies in a flexible manner at low cost, in the interest of the shareholders and the Company, as well as to bind sellers of companies or holdings in companies to the Company and to utilize their know-how for the Company over the long term if required. In valuing the shares granted in return the Management Board shall assure that the interest of the shareholders are adequately protected. In doing so it will normally align to the stock exchange price. However the suggested authorization does not provide for a schematic connection to the stock exchange price, which could call already achieved outcomes of the negotiations into question as a result of stock exchange price fluctuation during the negotiation phase. At present there are no ascertained acquisition plans to be implemented by acquiring and reselling treasury stock while excluding the subscription or acquisition rights of the shareholders.

Secondly, it is supposed to be possible for treasury stock to be resold to all shareholders pursuant to § 186 (3) 4 of the Stock Corporation Act in return for cash payment in a private offering and without an offer for sale to all shareholders, provided the issue price is not significantly lower than the price quoted on the stock exchange and the exclusion, based on § 186(3)4 of the Stock Corporation Act, of the shareholders' subscription and acquisition rights with respect to the treasury stock, authorized capital and warrant bonds or convertible bonds relates to a maximum of 10% of the stock capital. Selling treasury stock can be a means to attract strategically important investors. The interests of shareholders in respect of their assets are adequately protected by the restrictions associated with the above authorization.

The Management Board will report on how it has utilized this authorization at the Shareholders' Meeting following such use.

Item 7 Extension of the Term of Convertible Bonds out of the "QSC-Stock Option Program 2001" by Modification of the Authorization to Issue Convertible Bonds Pursuant to the Shareholders' Resolution of May 17, 2001 Regarding Item 7 of the Agenda of such Date as well as Modification of Conditional Capital III and Corresponding Change of the Articles of Association

By resolution of May 17,2001, the General Meeting of QSC AG (then still QS Communications AG) authorized the Management Board to issue a total of up to 5,000,000 registered convertible bonds on one or more occasions at 3.5% annual interest with a par value of EUR 0.01 and a term of up to five years at the par value (issue price) by May 31, 2004 in the framework of QSC Stock Option Program 2001, each of them granting a conversion right for one registered no-par value share of QSC AG out of Conditional Capital III, which was also resolved upon by the General Meeting of May 17, 2001, in return for a conversion price as described below.

Dependent on the contingents of convertible bonds for certain categories of allottes as specified by the General Meeting the Management Board was authorized to determine the precise group of allottees and the respective amount of convertible bonds to be granted to them (allocation). The consent of the Supervisory Board was required when convertible bonds were granted to members of the Advisory Board or advisers. The Supervisory Board alone decided on allocation of convertible bonds to members of the Company's Management Board. An allocation to members of the Supervisory Board would have required a separate resolution of the shareholders in General Meeting which was never made.

Management and Supervisory Boards used this authorization as shown in the following table. The table also indicates the proportions of issued convertible bonds that were converted or forfeited in accordance with the terms of convertible bonds as of March 1, 2006:

Allottes	**Contingent**	**Allocated and subscribed for**	**Converted**	**Forfeited**	**Existing**
Management Board and management of affiliated companies	2,300,000	2,000,000	100,000	0	1,900,000
Employees of QSC AG and affiliated companies	2,500,000	2,014,716	856,675	286,832	871,209
Advisory Board and Advisers	125,000	59,000	52,500	4,500	2,000
Supervisory Board	75,000	0	0	0	0
Summe	**5,000,000**	**4,073,716**	**1,009,175**	**291,332**	**2,773,209**

After allocation the allotteees subscribed for and thereby acquired their convertible bonds at a self-chosen date between allocation and May 31, 2004. The conversion price applicable for an individual bondholder corresponds to the closing price of the QSC share in floor trading on the Frankfurt Stock Exchange on the subscription date, though at least to the minimum issue amount in the terms of § 9 (1) of the Stock Corporation Act. Accordingly different conversion prices from EUR 1.00 to EUR 5.58 apply to the still existing convertible bonds of the QSC Stock Option Program 2001.

The subscription date is also the individual beginning of the present five-year-term of the convertible bond. As of March 1, 2006, 65.83% of the still existing convertible bonds under Stock Option Program 2001 were subscribed for between June 28, 2001 and December 31, 2001. The last subscription is dated May 28, 2004.

The conversion right for 33% of the bonds simultaneously subscribed for may for the first time be exercised one year after subscription, for an additional 33% two years and for the rest three years after subscription. For 76.785% of the convertible bonds under Stock Option Program 2001 still existing on March 1, 2006 these blocking periods already expired.

With a view to the present five-year-term of the still existing convertible bonds under the QSC Stock Option Program 2001 and the share price development until March 1, 2006 the company expects the far biggest part of these convertible bonds to be converted during the period June 28, 2006 to December 31, 2006, because otherwise the conversion right would forfeit. The profit a staff-member of QSC AG realizes by conversion (difference between conversion price and actual market value of the shares created by conversion) is subject to income taxation and social insurance contribution, irrespective of whether this profit is virtually realized by immediate sale of the acquired shares or not. Therefore it may be reasonably expected that most of the bondholders will combine the conversion with an at least partial sale of the acquired shares in order to cover the expenses of income taxation and social insurance contribution.

With the extension of the term of the convertible bonds under QSC Stock Option Program 2001 Management and Supervisory Boards want to counter the sale pressure expected for the calendar year 2006 due to the end of the so far five-year-term of most of these convertible bonds in the interests of the Company and its shareholders. For the Company's shareholders this measure would not lead to a dilution in excess of the extent already approved by the General Meeting on May 17, 2001.

The Management and Supervisory Boards propose adoption of the following resolutions:

I. The term of the convertible bonds out of "QSC Stock Option Program 2001" issued pursuant to the Shareholders' Resolution of May 17, 2001 regarding item 7 of the agenda of such date and still existing on the day of this General Meeting shall be extended from five years after subscription to 10 years after subscription by the respective bondholder. The rest of the terms of such convertible bonds of the QSC Stock Option Program 2001 shall be retained unchanged.

II. The purpose of the conditional capital increase resolved upon by the shareholders in General Meeting on May 17, 2001 regarding item 7 of the agenda of such date (Conditional Capital III) shall be adjusted according to the requirements of the resolution pursuant to the preceding sub-clause I. The Conditional Capital III shall serve the purpose of granting conversion rights to holders of the convertible bonds, the issue of which by May 31, 2004 in the framework of QSC Stock Option Program 2001 was authorized by resolution of the shareholders in General Meeting on May 17, 2001 in consideration of the modifications made by resolution of the shareholders in General Meeting on May 23, 2006.

III. § 4 (5) of the Articles of Association shall be reworded as follows:

„(5) The capital stock of the Company shall be conditionally increased by up to EUR 3,435,192.00 by issue of up to 3,435,192 registered shares (Conditional Capital III). The conditional capital increase shall only be carried out to the extent that the holders of the convertible bonds the issue of which by May 31, 2004 in the framework of QSC Stock Option Program 2001 was authorized by resolution of the shareholders in General Meeting on May 17, 2001 in consideration of the modifications made by resolution of the shareholders in General Meeting on May 23, 2006 utilize the conversion right from such bond. The new shares shall entitle the holders to partake in dividends as of the start of each financial year for which no shareholders' resolution regarding the appropriation of the retained earnings exists at the time of the share issue."

Item 8 Revocation of Conditional Capital II and Adjustment of the Amount of Conditional Capital V

By resolution of April 3, 2000 the shareholders in General Meeting authorized the Management Board to issue by December 31, 2000 up to 3,338,970 registered convertible bonds each granting the owner within a maximum term of five years a conversion right for one registered no-par value share in QSC AG from Conditional Capital II, which was adopted by the shareholders in General Meeting on April 3, 2000 (QSC Stock Option Plan 2000a). During the issue period 2,474,733 convertible bonds under QSC Stock Option Plan 2000a were issued, 114,266 of which were converted until expiration of the last five-year conversion term on December 31, 2005. After the issue of the corresponding new shares and adjustment with regard to the non-issued convertible bonds by resolution of the shareholders' in General Meeting on May 27, 2004, Conditional Capital II still amounts to EUR 1,382,384.00. As due to expiration of the five-year-conversion-term for all issued bonds further conversions are no longer possible, Conditional Capital II shall now be completely revoked.

By resolution of May 16, 2002, the shareholders in General Meeting authorized the Management Board to issue by May 31, 2005 up to 2,450,000 registered convertible bonds, each granting the owner within a maximum term of five years a conversion right for one registered no-par value share in QSC AG from Conditional Capital V up to the amount of EUR 2,450,000.00, which was also adopted by the shareholders in General Meeting on May 16, 2002 (QSC Stock Option Plan 2002). During the issue period 2,047,154 convertible bonds under QSC Stock Option Plan 2002 were issued, 121,285 of which were converted until December 31, 2005. After the issue of the corresponding new shares, Conditional Capital V still amounts to EUR 2,328,715.00. As the issue of further convertible bonds under Stock Option Plan 2002 is no longer possible due to the expiration of the issue period, Conditional Capital V shall now be adjusted insofar as no conversion rights may arise due to the non-issue of 402,846 convertible bonds so that the purpose of Conditional Capital V has ceased to exist, i.e. it shall be adjusted from EUR 2,328,715.00 by EUR 402,846 to EUR 1,925,869.00.

The Management and Supervisory Boards propose adoption of the following resolutions:

I. The conditional capital increase adopted by the shareholders in General Meeting on April 3, 2000 (Conditional Capital II) shall be revoked as far as it is not yet carried out.

§ 4 (4) of the Articles of Association shall cease to exist.

II. The conditional capital adopted by the shareholders in General Meeting on May 16, 2002 (Conditional Capital V) shall be revoked insofar as no conversion rights may arise due to the non-issue of convertible bonds. After adjusting the amounts not needed to grant conversion rights, Conditional Capital V amounts to EUR 1,925,869.00.

§ 4 (7) of the Articles of Association shall be reworded as follows:

"(5) The capital stock of the Company shall be conditionally increased by up to EUR 1,925,869.00 by issue of up to 1,925,869 registered shares (Conditional Capital V). The conditional capital increase shall only be carried out to the extent that the holders of the convertible bonds which may be issued within the framework of the QSC Stock Option Plan 2002 by May 31, 2005 pursuant to the resolution adopted at the Shareholders' Meeting on May 16, 2002 exercise the conversion rights from such bonds. The new shares shall entitle the holders to partake in dividends as of the start of each financial year for which no shareholders' resolution regarding the appropriation of the retained earnings exists at the time of the share issue."

Item 9 Authorization to issue Convertible Bonds and to Create Conditional Capital VII in Order to Fulfil the Respective Conversion Rights, and Modification of the Articles of Association ('QSC Stock Option Plan 2006')

The Management and Supervisory Boards propose adoption of the following resolution:

I. Issue of convertible bonds

Within the scope of the 'QSC Stock Option Plan 2006', the Management Board shall be authorized pursuant to § 221 of the Stock Corporation Act to issue a total of up to 1,500,000 registered convertible bonds on one or more occasions at 3.5% annual interest with a par value of EUR 0.01 and a term of up to eight years at the par value (issue price) by May 22, 2011 in accordance with the following basic information on the terms of convertible bonds. The holders of the convertible bonds shall receive the right to exchange each convertible bond for a registered no-par value share of QSC AG in return for an additional cash payment (conversion right).

The Supervisory Board shall decide on the allotment of convertible bonds to the Management Board.

The legal subscription right of the shareholders in accordance with § 221 (4) of the Stock Corporation Act shall be excluded.

The following basic information on the terms of convertible bonds is hereby set forth with respect to the issue of convertible bonds within the framework of the QSC Stock Option Plan 2006:

1) Allottees

The following persons may be allottees:

?? members of the top management of the foreign and domestic companies that are affiliated with QSC AG within the meaning of §§ 15 ff. of the Stock Corporation Act (referred to hereinafter as 'affiliated companies') and members of the Management Board, based on the respective decision by the Supervisory Board, may receive a total of up to 650,000 convertible bonds;

?? employees of QSC AG and employees of affiliated companies may receive a total of up to 750,000 convertible bonds;

?? advisers and suppliers of QSC AG may receive a total of up to 100,000 convertible bonds.

Future employees of QSC AG or the affiliated companies shall also count as employees, provided the respective employment contract has already been signed at the time the bonds are issued and work is to begin within one year of the subscription of the convertible bonds. This shall also apply to future members of the Management Board and future members of the top management and their employment agreements.

The Management Board shall determine the precise group of allottees and the amount of convertible bonds to be granted. The consent of the Supervisory Board shall be required in the event that convertible bonds are to be granted to advisers and suppliers, if it allots more than 50,000 convertible bonds to any individual person within one fiscal year. At variance herewith, the Supervisory Board of the Company shall alone stipulate the corresponding provisions for members of the Company's Management Board.

The convertible bonds may also be subscribed and underwritten at par value by a German credit institute, with the obligation to transfer these to the allottees at the par value at the request of QSC AG. In the latter case, too, the conversion rights may be exercised by the allottees only.

2) Conversion rights

The holders of the convertible bonds shall receive the right to exchange each convertible bond with a par value of EUR 0.01 for a registered no-par value share of QSC AG from Conditional Capital VII (proposed for resolution below) in return for an additional cash payment pursuant to the following conditions; such share shall entitle the holders to the same statutory rights as the already existing shares. The new shares shall entitle the holders to partake in dividends from the start of the financial year for which no resolution of the shareholders in general meeting regarding the appropriation of the retained earnings exists at the time of the share issue.

3) Exercise Barrier/Performance Target

The conversion right may only be exercised, if at least one of the following conditions is fulfilled:

(a) The stock exchange price of the share in the Company performed relatively better than the comparative stock index TecDAX between subscription for the convertible bond and excercise of conversion right.
(b) The stock exchange price of the share in the Company increased by at least 10% between subscription for the convertible bond and excercise of conversion right.

Relevant is as appropriate the stock exchange price of a share in the Company in the closing action of XETRA trading or an equivalent successor system on the Frankfurt Stock Exchange respectively the corresponding index value of TecDAX, as fixed at the date of receipt of the declaration of subscription (original value) at the date of receipt of the declaration of conversion (final value) by the Company. If the respective declaration is received (a) on a Saturday, on a Sunday or on an official holiday at the Company's registered office, (b) on a day on which no XETRA trading is taking place at the Frankfurt Stock Exchange, or (c) on a day the subscription respectively conversion is not permitted pursuant to the terms of convertible bonds, the following working day (Monday to Friday) on which the subscription respectively conversion is allowed and XETRA trading is taking place at the Frankfurt Stock Exchange shall be relevant.

In calculating the prices respectively the index values to be compared, capital measures regarding the share in the Company (like stock slit or capital increase) may be reproduced or neutralized in order to keep original and final value comparable.

4) Conversion price

The conversion price per share shall correspond to the last price of a QSC-share as fixed in floor trading on the Frankfurt Stock Exchange (if the floor trading there is completely discontinued, alternatively the price as fixed in the closing action of XETRA trading or an equivalent successor system) on the day of the subscription for the convertible bond, but at least the minimum issue amount within the meaning of § 9 (1) of the Stock Corporation Act. Upon exercise of the conversion rights, the portion of the conversion price exceeding the par value of the convertible bond converted for this purpose plus accrued interest must be paid in cash.

5) Protection against dilution

Ensuring compliance with § 9 (1) of the Stock Corporation Act, the conversion price shall be reduced by lowering the additional cash payment subject to a ‘dilution protection clause’ to be set forth in detail in the terms of convertible bonds to be specified by the respective bodies in charge of allocation, if – while granting a subscription right to its shareholders - the Company increases its capital stock or issues further bonds or participation rights granting conversion rights or stock options or other stock option rights during the conversion period and does either not grant any subscription rights to the holders of convertible bonds under Stock Option Plan 2006 or only grants them subscription rights to an extent which is less than the beneficiary would be entitled to upon fictitious exercise of his conversion right. Instead of a reduction of the conversion price, the exchange ratio may be adjusted as far as possible. The terms of convertible bonds may additionally provide for adjustments in case of a capital decrease, a stock split or an extra dividend.

6) Aquisition period

The subscription for convertible bonds shall not be permitted during the respective period from February 20, April 20, July 20 and October 20 of one year until publication of the results of the preceding year or preceding quarter, though such period may not exceed the publication of the provisional annual or quarterly results. If the Company’s financial year is modified and the publication dates shift as a result, the Management Board (respectively the Supervisory Board in the case of an allotment to the Management Board) shall be authorized to correspondingly adjust these periods. The Management Board shall be obligated to announce the day of the release of the annual or quarterly results in due time prior to commencement of the period and in an appropriate manner. Incorporation into a Company calendar published on the Company’s website shall suffice as an announcement.

The Management Board or the body responsible in its place for the issue (Supervisory Board in the case of an allotment to the Management Board) shall have the right, when issuing the convertible bonds, to further delimit the period in which the convertible bonds may be subscribed and issued, for example by restricting such period to one or more time windows.

7) Conversion period

After subscription of the convertible bonds, conversion rights may not be exercised until after the expiration of a blocking period. The blocking period shall end:

?? two years after the subscription for the respective convertible bonds for 66% of the conversion rights simultaneously subscribed for by an allottee;

?? three years after the subscription for the respective convertible bonds for the rest.

Exercise of the conversion rights shall not be permitted during the respective period from February 20, April 20, July 20 and October 20 of one year until publication of the results of the preceding year or the preceding quarter, though such period may not exceed the publication of the provisional annual or quarterly results. If the Company's financial year is modified and the publication dates shift as a result, the Management Board (Supervisory Board in the case of an allotment to the Management Board) is authorized to correspondingly adjust these periods. The Management Board shall be obligated to announce the day of the release of the annual or quarterly results in due time prior to commencement of the period and in an appropriate manner. Incorporation into a Company calendar published on the Company's website shall suffice as an announcement. For the rest, the limitations resulting from general statutory provisions, especially the German Securities Trading Act ("Wertpapierhandelsgesetz"), must be observed when exercising conversion rights.

As a basic rule, the allottee may freely dispose of the shares acquired through conversion and collect the purchase price in full. When disposing of his shares he has to take into account the limitations resulting from general statutory provisions, especially the German Securities Trading Act ("Wertpapierhandelsgesetz").

8) Non-transferability

As a basic rule, conversion rights may only be exercised by the allottees themselves. The convertible bonds shall not be transferable. For the case of the death of the allottee separate treatments may be provided.

9) Forfeitability

Subject to a priority special provision in the event of the death of an allottee, the conversion right shall lapse:

?? if the holder of the convertible bonds was entitled to be an allottee on the basis of a future employment relationship, and his or her activity does not begin by the time agreed in the allotment, unless the start of work is delayed solely due to illness or was delayed by not more than three months by mutual consent;

?? if a limited legal relationship, on the basis of which the holder of the convertible bonds was entitled to be an allottee, ends prior to the expiration of the time limit of the legal relationship in existence at the time of the subscription for the convertible bonds, unless at that time two years have gone by since the subscription; or

?? for 100% of convertible bonds simultaneously subscribed by an allottee, if an unlimited legal relationship, based on which the holder of the convertible bonds was entitled to be an allottee, ends within the first two years after subscription for the convertible bonds and no other legal relationship immediately ensues in its place entitling him or her to be an allottee; if the legal relationship ends within the third year following the subscription of the convertible bonds, without any appropriate follow-up relationship, the conversion right expires only for 34% of convertible bonds simultaneously subscribed by an allottee, to be rounded to a full number.

The above provisions shall apply to members of the Management Board and the top management of affiliated companies, subject to the condition that forfeiture shall only occur if both the employment contract and the position as member of the Management Board each end at the relevant point in time.

If the legal relationship decisive for entitlement to be an allottee ends due to the occupational disability or retirement of an allottee, the conversion rights shall remain unchanged at variance with the above provision.

In the event of the termination of the legal relationship entitling a person to be an allottee, whether by mutual agreement or initiated by QSC AG for reasons for which the allottee is not responsible, and as an exception also in other cases of termination of the legal relationship entitling a person to be an allottee, provided such represent cases of hardship or specific performances of the beneficiary, special provisions may be made in the terms of convertible bonds, or individually by the respective bodies responsible for granting the convertible bonds upon allotment or subsequently.

10) Representation of bonds by certificates

Holders shall have no claim to delivery of individual certificates for the subscribed convertible bonds for the entire term.

11) Additional provisions

The Management Board (Supervisory Board in the case of an allotment to the Management Board) shall be authorized to stipulate further details of the QSC Stock Option Plan 2006.

II. Conditional Capital VII

The capital stock of the Company shall be conditionally increased by up to EUR 1,500,000.00 by issue of up to 1,500,000 registered no-par-value shares (Conditional Capital VII). The new shares shall entitle the holders to partake in dividends as of the start of the financial year for which no resolution of the shareholders in general meeting regarding the appropriation of the retained earnings exists at the time of the share issue. The conditional capital increase shall be adopted for the purpose of granting conversion rights to holders of the convertible bonds to be issued pursuant to sub-clause I of this resolution. The issue of the shares shall take place at the conversion price determined in sub-clause I of this resolution. The contingent capital increase shall only be carried out to the extent that the holders of the convertible bonds exercise their conversion rights.

III. Change of Articles of Association

§ 4 of the Articles of Association (amount and division of the capital stock) shall be amended by the following new Paragraph 9:

"(9) *The capital stock of the Company shall be conditionally increased by up to EUR 1,500,000.00 by issue of up to 1,500,000 registered shares (Conditional Capital VII). The conditional capital increase shall only be carried out to the extent that the holders of the convertible bonds which may be issued within the framework of the QSC Stock Option Plan 2006 by May 22, 2011 pursuant to the resolution adopted by the shareholders in the general meeting on May 23, 2006 exercise the conversion rights from such bonds. The new shares shall entitle the holders to partake in dividends as of the start of each financial year for which no shareholders' resolution regarding the appropriation of the retained earnings exists at the time of the share issue."*

Report by the Management Board, pursuant to § 221 (4), Sentence 2 in association with § 186 (4), Sentence 2 of the Stock Corporation Act, concerning Item 9 of the Agenda for the Shareholders' Meeting of QSC AG to take place on May 23, 2006 on the reasons for authorizing the Management Board to exclude the subscription rights of shareholders when issuing convertible bonds under the QSC Stock Option Plan 2006

A motion to adopt the 'QSC Stock Option Plan 2006' is proposed under Item 9 of the Agenda. This Plan represents a scheme for allowing members of the Management Board, employees and other persons and organizations contributing to the business success of QSC AG and its affiliated companies to participate in the capital and hence in the success achieved by the Company.

Like the previous participation plans offered by the Company, the model is based on convertible bonds. This means that the beneficiaries grant the Company a small loan, in return for which they are granted the right to exchange their loan repayment claim for a certain number of QSC shares which will be newly created from conditional capital in return for an additional cash payment (conversion right). Restrictions on the periods for acquiring and converting bonds limit the risk of exploitation of insider knowledge with regard to subscription or conversion by the beneficiaries of the plan. The limitations on insider trading pursuant to general statutory provisions, especially the German Securities Trading Act ("Wertpapierhandelsgesetz") naturally apply in addition. The further terms and conditions of the QSC Stock Option Plan 2006 are evident in the text of the shareholder resolution.

The subscription rights of shareholders stipulated by law to the convertible bonds issued under this Plan are to be excluded in accordance with § 221 (4), Sentence 2 in association with § 186 of the Stock Corporation Act.

The aim of the Plan is to motivate and bind to the Company all those who contribute to its success and performance, as the conversion rights usually lapse when the holder's legal relationship to QSC AG terminates at short notice. Those contributing to the Company's success and performance include not only the managers, but essentially also every employee working for the Company. This is because QSC AG is an up-to-date company with even hierarchies and lean personnel resources. It is essential for the Company that every employee identifies with and is correspondingly committed to the aims of the Company with dedication and enthusiasm in his day-to-day work. This leads to long-term Company value enhancement to the benefit of all shareholders. In allocation [bonds] Management and Supervisory Boards will exclusively focus on individual performance and achievements of the beneficiaries with regard to the long-term enhancement of the Company's value; as far as allocation to members of the Management Board is concerned, the Supervisory Board will also observe the provisions in § 87 of the Stock Corporation Act. Finally QSC AG is dependent on the competence and dedication of advisers and suppliers. The latter persons should therefore be included in the convertible bond plan as potential allottees. The Management and Supervisory Boards, whose consent is required, if appropriate, to allocate convertible bonds to advisers and suppliers, shall ensure that such allotments are made only in exceptional cases where special performance, relevant for the value of the Company and hence the advantage of the shareholders, justifies such measure and the respective exclusion of the shareholders' subscription rights.

The issue period for convertible bonds from older stock option plans of QSC AG are essentially expired. Only contingets of convertible bonds from the Stock Option Plan 2004 ("SOP 2004") to be issued by May 31, 2007 exist as of March 1, 2006:

Allottes	**original contingent SOP 2004**	**remaining contingent SOP 2004**	**suggested new contingent SOP 2006**
Management Board and management of affiliated companies	700,000	700,000	650,000
Employees and employees of affiliated companies	750,000	180,750	750,000
Advisers/Suppliers	50,000	30,000	100,000
Summe	1,500,000	910,750	1,500,000

With regard to a shortly intended mayor allocation of convertible bonds to employees of celox GmbH despite the still existent remaining contingents under SOP 2004 a need for further convertible bonds may emerge in connection with the employment of new qualified personnel during the fiscal year 2006.

The Management Board has examined the advantages and disadvantages of issuing isolated options and convertible bonds. The existing, company-specific need to enhance motivation and ties with the Company by means of participation rights for all those persons who contribute to the success of QSC AG, could not be adequately met with isolated options under the provisions of the Stock Corporation Act, because such rights may only be issued to employees and managers of the company.

In accordance with § 221 (4) in association with § 186 of the Stock Corporation Act, and in the conviction of the Management and Supervisory Boards, the issue of the convertible bonds and exclusion of subscription rights are objectively justified.

Item 10 Revocation of the Existing Authorized Capital insofar as it has not yet been Utilized and Creation of New Authorized Capital and Corresponding Modification of § 4(3) of the Articles of Association

The Management and Supervisory Boards propose adoption of the following resolution:

I. The authorization of the Management Board to increase the capital stock of the Company with consent of the Supervisory Board by May 26, 2009 pursuant to the Shareholders' Resolution of May 27, 2004 regarding item 7 of the agenda of such date insofar as the Management Board has not yet decided on its utilization is revoked with effect as of the entry of the new, subsequently defined authorized capital in the Company's commercial register.

II. The Management Board shall be authorized until May 22, 2011 to increase the capital stock with the consent of the Supervisory Board in return for cash or non-cash contributions by issue of new registered no-par-value shares on one or more occasions up to a total of EUR 57,500,000.00 (Authorized Capital) and to determine the content of shareholder rights, the additional details of the capital increase as well as the conditions of the share issue, especially the issue price. The shareholders shall be granted a subscription right. The new shares may also be subscribed and underwritten by a bank or banking syndicate appointed by the Management Board subject t the obligation that such shares are to be offered to the shareholders (indirect subscription right). The Management Board shall, however, be authorized to exclude the subscription right of the shareholders with the consent of the Supervisory Board:

1) for clearing fractional amounts;

2) if the new shares are subscribed and underwritten by a bank or a banking syndicate subject the condition that such shares are to be placed on a foreign stock exchange in which the shares of the Company were not previously admitted to trading or are to cover over-allotment options within the framework of such placements. The sale price is to be determined in advance with the consent of the Supervisory Board. The additional proceeds above the issue amount must be transferred to the Company after deducting the costs incurred;

3) if the new shares are issued in return for non-cash contributions, particularly if the shares are issued to third parties in connection with corporate mergers or the acquisition of companies or parts thereof or stakes therein;

4) if the shares are issued in return for cash contributions, and the issue price is not significantly lower than the price quoted on the stock exchange, and the number of shares issued in this manner together with the number of other shares that are issued or sold during the term of this authorization subject to an exclusion of the subscription rights in accordance with § 186 (3) 4 of the Stock Corporation Act, or may arise from exercise of subscription and/or conversion rights or discharging subscription/conversion duties based on warrant bonds and/or convertible loans or convertible bonds issued during the term of this authorization subject to an exclusion of the subscription rights in accordance with §186 (3) 4 of the Corporation Act, does not exceed 10% of the capital stock, neither as of the date this shareholder resolution becomes effective nor as of the date the shares are issued.

III. § 4 (3) of the Articles of Association shall thus be revised as follows:

"(3) The Management Board is authorized until May 22, 2011 to increase the capital stock with the consent of the Supervisory Board in return for cash or non-cash contributions by issue of new registered no-par-value shares on one or more occasions up to a total of EUR 57,500,000.00 (Authorized Capital) and to determine the content of shareholder rights, the additional details of the capital increase as well as the conditions of the share issue, especially the issue price. The shareholders shall be granted a subscription right. The new shares may also be subscribed and underwritten by a bank or banking syndicate appointed by the Management Board subject the obligation that such shares are to be offered to the shareholders (indirect subscription right). The Management Board shall, however, be authorized to exclude the subscription right of the shareholders with the consent of the Supervisory Board:

1) for clearing fractional amounts;

2) if the new shares are subscribed and underwritten by a bank or a banking syndicate subject the condition that such shares are to be placed on a foreign stock exchange in which the shares of the Company were not previously admitted to trading or are to cover over-allotment options within the framework of such placements. The sale price is to be determined in advance with the consent of the Supervisory Board.

The additional proceeds above the issue amount must be transferred to the Company after deducting the costs incurred;

3) if the new shares are issued in return for non-cash contributions, particularly if the shares are issued to third parties in connection with corporate mergers or the acquisition of companies or parts thereof or stakes therein;

4) if the shares are issued in return for cash contributions, and the issue price is not significantly lower than the price quoted on the stock exchange and the number of shares issued in this manner together with the number of other shares that are issued or sold during the term of this authorization subject to an exclusion of the subscription rights in accordance with § 186 (3) 4 of the Stock Corporation Act, or may arise from exercise of subscription and/or conversion rights or discharging subscription/conversion duties based on warrant bonds and/or convertible loans or convertible bonds issued during the term of this authorization subject to an exclusion of the subscription rights in accordance with § 186 (3) 4 of the Stock Corporation Act, does not exceed 10% of the capital stock, neither as of the date this shareholder resolution becomes effective nor as of the date the shares are issued."

Report of the Management Board pursuant to § 203 (2), Sentence 2 and § 186 (4), Sentence 2 of the Stock Corporation Act regarding Item 10 of the Agenda of the general meeting of QSC AG to take place on May 23, 2006 concerning the reasons for the authorization of the Management Board to exclude the subscription rights of shareholders with respect to capital increases from authorized capital

Item 10 of the Agenda provides for the authorization of the Management Board with the consent of the Supervisory Board to increase the capital stock in return for cash or non-cash contributions on one or more occasions up to a total of EUR 57,500,000.00. The authorization is limited until May 22, 2011. The Management Board is responsible for determining further details. The Authorized Capital is to enable the Company to quickly and flexibly procure equity capital when needed at favorable conditions. Shareholders will in principle be granted subscription rights when using the authorized capital.

However, the subscription rights may be excluded by the Management Board with the consent of the Supervisory Board when using the authorized capital:

1) for clearing fractional amounts;
2) if the new shares are to be placed on a foreign stock exchange;

3) if the new shares are issued in return for non-cash contributions, particularly within the framework of the acquisition or merger with companies or the acquisition of parts of or stakes in companies;
4) if the shares are issued in return for cash contributions and the issue price per share is not substantially below the stock exchange price. In the latter case the exclusion of subscription and acquisition rights of the shareholders justified on the basis of § 186 (3) 4 of the Stock Corporation Act during the term of this authorization in connection with treasury stock, Authorized Capital, and warrant bonds and/or convertible loans or convertible bonds may at maximum refer to 10% of the capital stock.

The authorization to exclude the subscription rights with respect to fractional amounts allows rounding of subscription ratios in the framework of a capital increase basically granting shareholder subscription rights. This simplifies the allocation of subscription rights and the exercise thereof.

The authorization to exclude subscription rights to allow the introduction of shares to a new stock exchange on which the shares had not previously been listed will naturally only be used if and insofar as the Company has a material interest in the new listing which outweighs the interest of the shareholders in being granted a subscription right and the necessary number of shares cannot be provided in any other way. No further listing is currently planned. The authorization serves to grant the Management Board flexibility over the long term to further develop the capital market.

The further provided possibility to issue new shares in return for an increase in non-cash contributions while excluding subscription rights, shall enable the Management Board to acquire with the consent of the Supervisory Board and in the Company's interest other companies and parts of or stakes in companies in return for shares in QSC AG or to merge with other companies on well-suited specific occasions. Thereby the Company shall be enabled to quickly and successfully react to attractive offers or other acquisition options on national and international markets. A necessity to provide shares instead of cash as consideration often arises during negotiations. In order to be able to make acquisitions in such cases, the Company must be able to increase its capital in return for non-cash contributions subject to an exclusion of subscription rights if necessary. The issue price of the new shares would in such cases be determined by the Management Board with the consent of the Supervisory Board with due attention to the interests of the Company and the shareholders. At present there are no ascertained acquisition plans to be implemented by increasing the share capital while excluding the subscription or acquisition rights of the shareholders.

Finally the proposed resolution on item 10 of the Agenda provides for the authorization to exclude subscription rights in accordance with § 186 (3) 4 of the Stock Corporation Act with the issue of new shares in return for cash contributions. This authorization does not relate to the total amount of the Authorized Capital but to a maximum of 10% of the capital stock. The 10% limit pursuant to § 186 (3) 4 of the Stock Corporation Act may as a whole only be used one time. This means that if and insofar as the Company during the term of the authorization pursuant to item 10 of the agenda excludes subscription rights pursuant to § 186 (3) 4 of the Stock

Corporation Act in connection with treasury stock, warrant or convertible bonds or convertible loans, the number of shares which could be issued from Authorized Capital while excluding of subscription rights in accordance with § 186 (3) 4 of the Stock Corporation Act would decrease accordingly. Moreover the law only permits an exclusion of subscription rights pursuant § 186 (3) 4 of the Stock Corporation Act provided that the issue amount is not significantly below the stock exchange price. When using the authorization, the Management Board will calculate the discount on the stock exchange price as low as possible in accordance with the market conditions prevailing at the time of the placement. The Management and Supervisory Boards regard the authorization to exclude subscription rights in accordance with § 186 (3) 4 of the Stock Corporation Act as useful in order to be ready to quickly and flexibly take advantage of future opportunities presenting themselves on the capital market, without having to observe the formalities and respites related to a capital increase with subscription rights, which could ruin some opportunities. By issuing the shares close to the stock exchange price, the interests of the shareholders are adequately protected. Shareholders need not fear any notable price losses and can make the share purchases necessary to preserve their shareholding percentages via the stock exchange at comparable prices.

The Management Board will report the exercising of the authorization during the General Meeting following any issue of company shares from authorized capital under exclusion of subscription rights of shareholders.

Item 11 Approval of the Spin-Off and Transfer Agreement between QSC AG and Q-DSL home GmbH Regarding the Spin-Off of the DSL-Residential-Customer-Business from QSC AG to Q-DSL home GmbH pursuant to the German UmwG (law regulating the transformation of companies)

On April 6, 2006, the Management Board of QSC AG and the Management of Kristall 40. GmbH (forthcoming "Q-DSL home GmbH" and hereinafter referred to accordingly) drafted a Spin-Off and Transfer Agreement and submitted it to the commercial register and the works council of QSC AG. Thereby the Company spins off all contracts with residential customers regarding the classic residential customer products "Q-DSL home" and "Q-DSL home 2300" as a whole with all rights and duties to Q-DSL home GmbH (Ausgliederung zur Aufnahme, pursuant to § 123 (3) No. 1 UmwG). The spin off is carried out with retroactive commercial effect as at January 1, 2006, 0.00 Uhr.

The Spin-Off and Transfer Agreement has the following material content:

SPIN-OFF and TRANSFER AGREEMENT

between
QSC AG
with registered office in Cologne,
registered in the Commercial Register of the Local Court in Cologne, number HR B 28281
– hereinafter referred to as "QSC" –

and

Kristall 40. GmbH
(forthcoming "Q-DSL home GmbH")
with registered office in Cologne,
registered in the Commercial Register of the Local Court in Cologne, number HR B 56880,
– hereinafter referred to as "home GmbH" –

I. Preface

QSC is a Germany wide telecommunications provider offering both companies and demanding residential customers various voice and broadband data communication services based on its proprietary DSL network and the voice network operated by its subsidiary Ventelo GmbH.

QSC holds the sole business share in home GmbH with a nominal capital of Euro 25,000.00. home GmbH has not yet been commercially active.

The purpose of this Spin-off and Transfer Agreement ist the transfer of QSC's DSL Residential Customer Business, i.e. the residential customers contracts for classic DSL residential customer products allocated to this business branch, to the home GmbH, by way of spin off by absorption [Ausgliederung zur Aufnahme] pursuant to UmwG.

This said, QSC and home GmbH agree as follows:

II. Spin-off, Spin-off Due Date, and Closing Balance

§ 1 Participating Entity

1.1. The company name of the transferring entity is "QSC AG". The registered office of QSC is in Cologne.
1.2. The company name of the receiving entity is "Kristall 40. GmbH" (forthcoming "Q-DSL home GmbH"). The registered office of home GmbH is in Cologne.
1.3. QSC and home GmbH are hereinafter also referred to together as "Participating Entities", and individually as the "Participating Entity".

§ 2 Spin-off / Assignment of Assets

2.1. QSC transfers its DSL Residential Customer Business, i.e. its contracts with residential customers as specified in § 5.1, § 5.3 and § 5.4 hereunder, including all rights and duties deriving thereof ("DSL Residential Customer Business"), pursuant to § 123 paragraph 3 No. 1 of UmwG, as a whole, to home GmbH in its capacity as receiving entity, namely against granting an additional share of home GmbH to QSC (Ausgliederung zur Aufnahme).

2.2. *Any items of QSC's assets and liabilities, particularly contracts and other of QSC's rights and duties, not allocatable hereunder to the DSL Residential Customer Business, or explicitly excluded from the transfer pursuant to this contract, shall not be transferred to home GmbH.*

§ 3 Spin-off Due Date/Change of Due Date

3.1. *The transfer of the DSL Residential Customer Business is conducted in the framework of the internal relationship between the Participating Entities, with effect as at the end of December 31, 2005, 24.00 Uhr. As at January 1, 2006, 0.00 Uhr, ("**Spin-off Due Date**"), all activities conducted by QSC for the DSL Residential Customer Business, within the meaning of § 2.1, shall be considered as conducted on account of home GmbH.*

3.2. *In the event that the spin-off is not registered by December 31, 2006, at the Commercial Register of QSC's registered office, the beginning of January 1, 2007, 0.00 Uhr, shall be regarded as Spin-off Due Date, at variance with § 3.1. With any other at delay of the registration beyond December 31 of the following year, the spin-off shall be postponed by one year respectively.*

§ 4 Closing Balance

4.1. *The spin-off shall be based upon QSC's balance ("**Closing Balance"**) as at December 31, 2005, with an unrestricted confirmation note by the auditors, Ernst & Young AG Wirtschaftsprüfungsgesellschaft, Eschborn/Frankfurt am Main.*

4.2. *In the event that the spin-off ist not registered by December 31, 2006, at the Commercial Register of QSC's registered office, the Spin-off will be based, at variance with § 4.1, upon QSC's balance as at December 31, 2006, as Closing Balance. In the event of an additional delay of the registration beyond December 31 of the following year, the spin-off will be based upon QSC's balance for the end of the respective previous fiscal year.*

4.3. *home GmbH shall assume the transferred assets and liabilities in its accounting at market values.*

III. Subject matter of the Spin-off

§ 5 Transfer of contracts for the residential customer products "Q-DSL home" and "Q-DSL home 2300" including all of the accounts receivable and liabilities allocated to these contracts.

5.1. *QSC transfers to home GmbH all contracts specified in **Annex 5.1** relating to the residential customer products "Q-DSL home" and "Q-DSL home 2300", implemented in the proprietary QSC network, with all rights and duties allocated to these contracts within the relationship between QSC and the respective contractual partner, including any additional appurtenant contracts, maintained under the same customer account number, for add-on products such as "IPfonie privat", and any respective contract offers, to the extent to which this contract does not stipulate otherwise ("**Contracts for Spin-off**").*

5.2. *The following are excluded from the transfer pursuant to § 5.1:*

5.2.1. *Contracts with residential customers regarding any issue other than the products specified in § 5.1 hereunder, particularly for*

- *residential customer products that are not realized on the QSC's proprietary QSC broadband network(e.g. "Q-DSL tengo");*
- *small home office products such as "Q-DSL home 2300 pro" or "Q-DSL office";*
- *"IPfonie privat", if and to the extent to which the customer does not receive this add-on product as an add-on service to either "Q-DSL home" or "Q-DSL home 2300", but instead combines it with another QSC product, or with a DSL connection from another provider;*

5.2.2. *Contracts with business customers in the framework of more complex projects, for the residential customer products "Q-DSL home" and "Q-DSL home 2300", which underwent customer specific customization of their scope of performance;*

5.2.3. *Contracts for the residential customer products "Q-DSL home" and "Q-DSL home 2300", arranged by QSC salespeople, and handled internally by the department "indirect distribution/partner distribution";*

5.2.4. *Contracts for the residential customer products "Q-DSL home" and "Q-DSL home 2300" concluded with wholesale partners who, in their turn, purchase the prodcuts from QSC, in order to resell them to their own end customers. Thereby, QSC does not deal directly with the end customer, but is merely the wholesale partner's contractual partner;*

5.2.5. *Contracts for the residential customer products "Q-DSL home" and "Q-DSL home 2300" concluded with QSC employees or with employees of its affiliated companies, who receive said products at special conditions;*

5.2.6. *Contracts for the residential customer products "Q-DSL home" and "Q-DSL home 2300" with other VIP customers.*

5.3. *QSC transfers to home GmbH all accounts receivables and legal positions allocatable to the contracts bound for spin-off, particularly accounts receivables from deliveries and services. To the extent to which contracts bound for spin-off, or performances to be provided in the framework of said contracts, become subject matter of legal disputes, in court or arbitration, such procedural legal relationships are also transferred.*

5.4. *QSC transfers to home GmbH all current and future, known and unknown liabilities resulting directly or indirectly from the contracts bound for spin-off, regardless of whether said liabilities must appear in the balance, may appear in the balance, or actually appear in the balance.*

5.5. *Liabilities excluded from transfer are such, which QSC has incurred towards fulfilment of obligations towards suppliers and service providers, resulting from contracts bound for spin-off.*

5.6. *Terminations of contracts bound for spin-off, and conclusion of new contracts bound for spin-off, in the time between the spin-off due date and the performance due date (§ 14), as well as additions or removals of any other rights and duties in the context with contracts bound for spin-off, shall be taken into consideration in the transfer as follows: QSC shall transfer to home GmbH any such contracts and rights and duties that were newly concluded or created in the time between the due spin-off due date and the performance due date, and which, by origin and purpose, are to be allocated to the contracts bound for spin-off. Such contracts and rights and duties, which, by origin and purpose, are to be allocated to the contracts bound for spin-off, and which were sold or otherwise transferred in the time between the spin-off due date and the performance due date, or that are no more valid on the performance due date, shall not be transferred to GmbH transfer.*

§ 6 No Transfer of other Contracts

6.1. *No other contracts shall be subject matter of the spin-off hereunder. Particularly, no contracts with suppliers and service providers pertaining to the Residential Customer Business, shall be transferred to home GmbH.*

6.2. *Insurance policies shall also not be subject matter of the spin-off hereunder. The Participating Entities shall come to a mutual agreement with the insurance company regarding the extension of insurance coverage to home GmbH, under the existing company clauses.*

§ 7 Commercial Protective Rights

7.1. *QSC's domestic and foreign trade marks and filings of trade mark registrations shall not be transferred to home GmbH, subject to the provision in § 7.2.*

7.2. *On the performance due date, QSC shall grant home GmbH, for the area of the Federal Republic of Germany, and for a transitional period of two years beginning with the performance due date (§ 14), the non-exclusive right, transferrable only upon consent of QSC, and limited to the area of Residential Customers Business with DSL products, to the joint use of its proprietory word mark "Q-DSL", which is registered as community trademark for classes 37, 38, and 42 under registration number 002 173*

284. After expiration of said period, the right of joint usage shall terminate without requiring any respective notification by any of the Participating Entities. The right of joint usage shall terminate prematurely, if and when home GmbH shall cease to be a full QSC subsidiary or sub-subsidiary. Following the premature termination of the right of joint usage, home GmbH shall discontinue the use of the "Q-DSL" word mark within a grace period of two months.

7.3. home GmbH shall be granted, for a period of two years as of the performance due date, the right to operate its web contents under the domain "q-dsl-home.de", maintained by QSC. This right shall be transferrable only with QSC's consent. The right of usage shall terminate prematurely, if and when home GmbH shall cease to be a full QSC subsidiary or sub-subsidiary. Following the premature termination of the right of use, home GmbH shall be entitled, for a period of one additional year, to place a hyperlink on the http://www.q-dsl-home.de website, pointing to a new home GmbH website. The Participating Entities shall agree on the precise position of the hyperlink.

§ 8 Software

8.1. home GmbH shall be granted access to central QSC customer databases, to the extent to which such access is required for the takeofer and administration of the DSL Residential Customer Business.

8.2. For the rest, QSC shall not transfer to home GmbH any rights to the software or to any continued development of the software.

§ 9 Permits and Authorizations under Public Law

9.1. QSC shall not transfer to home GmbH any rights and duties deriving from permits, permissions, and similar authorizations granted under public law (hereafter together "Authorizations").

9.2. To the extent to which home GmbH requires such authorizations towards the takeover of the DSL Residential Customer Business, QSC shall help support GmbH in obtaining such authorizations.

§ 10 Transfer of items of Tangible Fixed Assets

10.1. QSC shall not transfer any items of tangible fixed assets.

10.2. In particular, no technical appliances or facilities shall be transferred towards fulfilment of the contracts bound for spin-off. This applies especially to the end customer devices provided to customers (Customer Premises Equipment, "CPE") affected by the spin-off. Such devices remain QSC's property and are provided to the end customer on a loan basis only.

§ 11 Transfer of Items of Financial Assets

QSC shall not transfer to home GmbH any items of financial assets.

§ 12 Transfer of Items of Liquid Assets

QSC shall not transfer to home GmbH any items of liquid assets, with the exception of accounts receivables for deliveries and services, and other accounts receivables and legal positions.

§ 13 Taxes

Claims for tax returns and obligations for additional tax payments pertaining to the DSL Residential Customer Business, shall remain with QSC, to the extent to which they pertain to the time until the spin-off due date. Additional or reduced taxes, including supplementary tax payments resulting from the findings of tax audits, for periods until the spin-off due date, shall be paid by and/or to the benefit of QSC. To the extent to which said tax audits findings result in reduced taxes, including supplementary tax payments, for home GmbH, during the time after the spin-off due date, and through a reversing effect, home GmbH shall reimburse

QSC the cash value of the reducing effect (plus 6% interest as of the due date of the tax reduction). home GmbH shall notify QSC of any issue of such aforesaid notices of assessment. Upon QSC's request, home GmbH shall be obligated to file appeals against such notices of assessment, at the expense of QSC.

IV. Modalities of Transfer

§ 14 Performance Due Date

*The transfer of the DSL Residential Customer Business shall be concluded with effect in rem at the time of registration of the spin-off in the Commercial Register at the place of QSC's registered office ("**Performance Due Date**").*

§ 15 Backup Stipulation

15.1. To the extent to which certain contracts or rights and duties, particularly those resulting from relationships within legal procedures, which, hereunder, are to be transferred to home GmbH, are not statutorily transferred to home GmbH upon registration of the spin-off to home GmbH, QSC shall tranfser to home GmbH any such contracts, and rights and duties. In the event that the transfer to home GmbH vis-a-vis third parties is not possible, or only possible with disproportionately high efforts, or if it is impractical, the Participating Entities shall act internally, as if the transfer has also taken place externally on the spin-off due date.

15.2. To the extent to which the entry into contracts or the transfer of specific other rights and duties requires the consent of a third party or a permit under public law, QSC and home GmbH shall attempt to obtain such consent or permission. In the event that such consent or permit cannot be obtained, or can be obtained only with disproportionately high efforts, the provision pursuant to § 15.1 sentence 2 above shall apply accordingly within the relationship of the Participating Entities. In this case, QSC shall remain the contract partner and debtor vis-a-vis the respective other contract party. In the internal relationship, QSC shall be active, without charge, on account and instruction of home GmbH. home GmbH undertakes to take any necessary measures in order to allow QSC to fulfill its contractual external obligations. The same applies, in the event that consent is granted later, also to the time until such consent is granted.

15.3. To the extent to which certain contracts or rights and duties, particularly those resulting from relationships within legal procedures, that are not to be transerred hereunder, but are transferred for statutory reasons, home GmbH shall be obligated to re-transfer such rights or, if applicable, relief QSC, and QSC shall be obligated to agree to such re-transfer of duties, or, if applicable relief home GmbH accordingly. In this context, the Participating Entities shall introduce all required or appropriate measures and take part in all required or appropriate legal activities towards the re-transfer of rights and duties to QSC. Internally, the Participating Entities shall act as if the legal relationships specified in § 15.3 sentence 1 had not been transferred.

§ 16 Duties of Co-operation

16.1. QSC and home GmbH shall make any declarations, issue any certificates, and perform any other actions, required or appropriate in the context of the transfer of the DSL Residential Customer Business.

16.2. home GmbH shall receive, on the performance due date, all and any business documents allocated or connected to the DSL Residential Customer Business. home GmbH shall also receive all and any certificates required for the assertion of the rights transferred to it. home GmbH shall store and secure the ledgers and other records within the statutory retention period on behalf of QSC, and it shall ensure that QSC can review and prepare photocopies of said business documents. Business and trade secrets shall be treated confidentially.

16.3. The Participating Entities shall support each other in the official procedures, particularly external tax audits, and tax related and other legal disputes pertaining to DSL Residential Customer Business, until final and absolute assessment of QSC for the taxation periods until spin-off enters into force. They will particularly provide each *other mutually with all and any information and documents required or appropriate towards fulfilment of tax related or other administrative requirements, or towards provision of proofs vis-a-vis the tax authorities or other authorities or courts, and they will work towards appropriate mutual support by their employees.*

§ 17 Protection of Creditors and Internal Balancing

To the extent to which no other distribution of burdens and liabilities, resulting from, or in connection with the DSL Residential Customer Business, arise from this contract, the following provisions shall apply:

17.1. *If and to the extent to which QSC, based on the provisions of § 133 UmwG, or other provisions, will be held liable by creditors for duties that, pursuant to the provisions hereunder, are transferred to home GmbH; or if QSC will be held liable for future statutory duties created in connection with ongoing or future business activities in connection with the DSL Residential Customer Business, home GmbH shall relief QSC of the respective duty upon first request. The same applies if QSC is made liable by such creditors for the provision of security.*

17.2. *If and to the extent to which home GmbH, on the other hand, based on the provisions of § 133 UmwG, or other provisions, will be held liable by creditors for duties that, pursuant to the provisions hereunder, are not transferred to home GmbH; or if home GmbH will be held liable for future statutory duties created in connection with ongoing or future business activities in QSC business sectors other than the DSL Residential Customer Business, QSC shall relief home GmbH of the respective duty upon first request. The same applies if home GmbH is made liable by such creditors for the provision of security.*

17.3. *To the extent to which home GmbH shall be made liable by creditors for duties transferred hereunder, and said duties are covered by QSC's company insurance, QSC shall pass on to home GmbH all and any insurance payments received for said duties.*

§ 18 Exclusion of Claims

Any claims and rights by home GmbH against QSC resulting from the state and inventory of the items of assets and liabilities to be transferred by QSC hereunder, as well as the totality of assets bound for spin-off, regardless of their nature, and regardless of the legal ground, are hereby explicitly excluded. This applies particularly also to claims arising from violations of pre-contractual or contractual duties, and from the violation of statutory duties. Any claims by home GmbH arising from § 9 GmbHG remain unaffected.

V. Consideration and Capital Measures

§ 19 Granting of a Share

19.1. *QSC, in its capacity as sole shareholder of home GmbH, shall receive, as consideration for the spin-off of the DSL Residential Customer Business to home GmbH, an additional share in home GmbH, in the nominal amount of Euro 25,000.00.*

19.2. *Towards execution of the spin-off, home GmbH shall increase its nominal capital of Euro 25,000.00 by Euro 25,000.00 by creating an additional share of a nominal amount of Euro 25,000.00.*

19.3. *The new share shall be granted with entitlement to profits as at January 1, 2006. A postponement of the spin-off due date pursuant to § 3.2 will lead to an appropriate postponement of the launch date of the entitlement to profits from the share.*

19.4. *The total value, at which the contribution in kind provided by QSC will be taken over by home GmbH, corresponds to the market value of the transferred net assets on the spin-off due date. To the extent to which this value exceeds the nominal amount granted in consideration, the differential amount shall be allocated to the capital reserves of home GmbH, pursuant to § 272 paragraph 2 No. 1of HGB.*

19.5. *In the event that the value of the contribution in kind prior to performance due date, or the book value of the transferred net assets prior to the spin-off due date, will be lower than the amount of the initial contribution that was taken over in consideration, QSC shall be obligated to provide to home GmbH, in cash, any differential amount* *required to adjust the value of the contribution in kind on the performance due date, or the book value of the transferred net assets on the spin-off due date, to the amount of the initial contribution that was taken over in consideration thereof. QSC's duty cannot be asserted after registration of the spin-off in QSC's Commercial Register.*

§ 20 Special Rights and Benefits

20.1. No rights or measures will be granted to individual shareholders, or to owners of special rights in the meaning of § 126 par. 1 No. 7 UmwG.

20.2. No special benefits in the meaning of § 126 par. 1 No. 8 UmwG shall be granted to any member of a representative or a supervisory body of the Participating Entities, or to any auditor of the Participating Entities.

VI. Consequences of the Spin-off for Employees and their Representations

§ 21 No transfer of Employment Contracts

This contract provides for home GmbH to take over the end customer contracts for the classical DSL residential customer products "Q-DSL home" and "Q-DSL home 2300". However, no employment contracts shall be transferred. Instead, following the Spin-off, QSC shall provide home GmbH, in the framework of service agreements, with order processing, accounting and controlling, invoicing and debt collection, operation of the website with the option of online ordering, and, if applicable, other assignments in the field of customer acquisition. Further, home GmbH shall purchase from QSC the products "Q-DSL home" and "Q-DSL home 2300" for resale to the transferred customers at customary market conditions. In the final analysis, there will be almost no changes at QSC on the operational level, since the employees occupied hereto with the DSL Residential Customer Business will be required for comparable activities in the context with services to be provided for home GmbH. Therefore the Participating Entities wish and are convinced that no employment contracts shall be transferred to home GmbH, either hereunder, nor according to § 613 BGB (Civil Code of Law). As a precautionary measure, all potentially affected QSC employees have opposed the transfer of their employment contracts to home GmbH.

§ 22 Employees' Representation in the Framework of the Code of Industrial Relations

The spin-off shall have no implications on the works committee at QSC. No works committee has been established, or will be required, at home GmbH, following the spin-off.

§ 23 Supervisory Board

The spin-off has no implications on the existence, composition, and tenure of QSC's Supervisory Board.

VII. Miscellaneous

§ 24 Costs and Taxes

QSC shall bear the costs and taxes accrued for the authentication and execution hereof. Each Participating Entity shall bear its own expenses for the respective General and/or Shareholders' Meeting, and for the application and registration in the Commercial Register.

§ 25 Delivery and Service Agreements

25.1. QSC is prepared to provide home GmbH, with retroactive economic effect beginning with the spin-off due date, and at customary market conditions, with the deliveries and services that QSC, or its affiliated companies, have hitherto provided in the *context with the DSL Residential Customer Business. Such services may also be provided by companies affiliated with QSC.*

25.2. home GmbH undertakes to paricularly purchase from QSC the products "Q-DSL home" and "Q-DSL home 2300" at customary market conditions.

25.3. Furthermore, QSC shall assume for home GmbH particularly the following functionalities at customary market conditions:

- *Order Processing*
- *Accounting and Controlling*
- *Invoicing and Debt Collection*
- *Operation of the Website with the Option of Online Ordering.*

§ 26 Effective Date

To become effective, this contract requires the consent of the general shareholders' meeting of QSC and the shareholders' meeting of home GmbH. The spin-off shall become effective upon its registration in the Commercial Register at QSC's registered office, after it has previously been registered in the Commercial Register of the registered office of home GmbH.

§ 27 Concluding Provisions

27.1. The legal venue for any dispute arising from this contract is Cologne.

27.2. Any modifications and amendments of this contract, including the cancellation of this provision, shall require the written form, to the extent to which no more far-reaching formal requirements need to be fulfilled.

27.3. In the event that one or more provisions hereunder are or become null and void, invalid or impracticable, whole or in part, this shall not affect the effectiveness of this contract and its remaining provisions. Any void, invalid or impracticable provisions shall be replaced by a provision resembling as closely as possible the form, contents, time, measure, and scope, desired by the parties in accordance with the economic meaning and purpose of the void, invalid, or impracticable provision. The same applies to any gaps hereunder.

Annex 5.1 mentioned in the Spin-Off and Transfer Agreement has the following respective material content:

Annex 5.1 describes how the contracts bound for Spin-off relating to the residential customer products "Q-DSL home" and "Q-DSL home 2300", may be established in respect to the due date of January 1, 2006, applying the customer administration system "Remedy", in use at QSC AG, and the appropriate data bases, applying the "Product Name" search criterium. In addition, it describes how appropriate search allows the filtering of contracts that are excluded from the Spin-off, pursuant to § 5.2.1 to § 5.2.6.

The Board of Directors of QSC AG and the Management of Kristall 40. GmbH (forthcoming "Q-DSL home GmbH") explained the planned spin-off and the draft of the spin-off and Transfer Agreement and gave reasons for it in a joined written report. The spin-off is not audited in accordance with § 125 sentence 2 UmwG.

The Management and Supervisory Boards propose to approve the draft of the Spin-Off and Transfer Agreement between the Company and Kristall 40. GmbH (forthcoming "Q-DSL home GmbH"), registered at the Commercial Register of the Local Court of Cologne under no. HR B 56880.

Entitlement to participate at the Shareholders' Meeting and to exercise voting rights

Pursuant to § 18 of the Articles of Association in association with § 67(2) of the Stock Corporation Act, those shareholders who are entered in the share register and registered for the meeting in writing, by fax or by means of electronic media as specified below with the Management Board at the company's registered office or at the office otherwise specified below no later than **May 16, 2006** (the date of receipt of the registration is authoritative) shall be entitled to participate in the general shareholders' meeting and to exercise voting rights. Entries in the share register may be affected through the respective depositary banks.

Within the next few days, all shareholders entered in the share register will receive by mail a personal invitation from the Company, including a registration form with a postage-free, self-addressed envelope. Please use these documents and send your registration to

QSC AG
Aktionaersservice
Postfach 94 00 05
69940 Mannheim

Registrations may also be made by fax to +49(0)180 500 18 53 or by e-mail to hv@rsgmbh.com. However, you will simplify the processing of your registration for us if you send it by post, as feasible.

Timely invitation can no longer be assured by this means for shareholders who are entered in the share register later than two weeks before the day of the Shareholders' Meeting. Such shareholders have the option of writing their own registration and ticket order and sending it in writing, by fax or by email to QSC AG, Aktionaersservice, Postfach 94 00 05, 69940 Mannheim, fax number +49 (0)180 500 18 53, e-mail hv@rsgmbh.com.

In all cases, please specify your complete name, address and shareholder number.

The registered shareholders entered in the share register may have their voting rights exercised at the Shareholders' Meeting by a proxy, e.g., the bank managing their securities deposits, an association of shareholders or any other person of their choice. If the voting right is not exercised by the shareholder him- or herself, by a credit institute, an association of shareholders or one of the other persons indicated in § 135 of the German Stock Corporation Act, powers of attorney must be submitted in writing or by fax pursuant to § 134 (3) of the German Stock Corporation Act read in conjunction with § 21 of the Articles of Association.

If a credit institute is entered in the share register, such credit institute may only exercise the voting rights for the shares it does not own on condition that it has due authorization to do so.

As a special service for our shareholders, we provide the option of appointing a member of the Company to act as proxy at the Shareholders' Meeting and to exercise voting rights in accordance with the shareholder's power of attorney issued in writing or by fax. A pre-printed form for authorizing a proxy and providing instructions, as well as further details on this procedure, are included in the materials to be sent to shareholders.

Please note that the general shareholders' meeting will be conducted in German.

From the convocation of the Shareholders' Meeting, the following documents will be available for inspection by the shareholders at the business premises of QSC AG, Mathias-Brueggen Straße 55, 50829 Cologne:

- annual financial statements of QSC AG as at December 31, 2005, prepared in accordance with the German Commercial Code together with the Management Report,
- the consolidated financial statements as at December 31, 2005 prepared in accordance with IFRS together with the Consolidated Management Report
- the Report of the Supervisory Board for the 2005 Financial Year Regarding the Company and the Group
- the reports of the Management Board reproduced above concerning the reasons for the exclusion of subscription or acquisition rights pursuant to § 186(4) of the Stock Corporation Act with respect to item 6, item 9 and item 10 of the Agenda
- the draft of the Spin-Off and Transfer Agreement between the Company and Kristall 40. GmbH (forthcoming "Q-DSL home GmbH") regarding the Spin-off of the DSL Residential Customer Business,
- the corresponding joint spin-off report of the Management Board of QSC AG and the Management of Kristall 40. GmbH (forthcoming "Q-DSL home GmbH")
- annual financial statements and consolidated financial statements as well as the Management Reports and consolidated management reports of QSC AG for the fiscal years 2005, 2004, and 2003
- Opening accounts of Kristall 40. GmbH, and the balance of Kristall 40. GmbH as at December 31, 2005, (Since Kristall 40. GmbH was only established on December 21, 2005, and has not been commercially active yet, no further Financial Statements exist. Kristall 40. GmbH, being a limited liability company in the meaning of § 267 paragraph 1 of HGB, has not issued any Status Report yet.)

Upon request, copies of the above-mentioned documents will be sent immediately to any shareholder free of charge. The documents will also be placed out for inspection at the Annual Shareholders' Meeting of QSC AG and published on the Internet at: http://www.qsc.de/de/investor_relations/hauptversammlung from the convocation date of the Shareholders' Meeting.

Countermotions to the agenda should be sent to QSC AG, Investor Relations, Mathias-Brueggen-Straße 55, 50829 Cologne or via fax to +49(0)221/ 6698-009 or by e-mail to invest@qsc.de. Differently addressed countermotions and nominations will not be considered. QSC AG shall publish countermotions to the agenda and nominations by shareholders duly received two weeks prior to the date of the Shareholders' Meeting at the latest including the name of the shareholder, an explanatory statement and a possible statement of the Board on the Internet at:
http://www.qsc.de/de/investor_relations/hauptversammlung.

Cologne, April 2006
QSC AG
The Management Board

Publication of the Invitation

This invitation was published in the electronic Bundesanzeiger (Official Gazette of the Federal Republic of Germany) on April 7, 2006

Information pursuant to § 128 (2) of the Stock Corporation Act

Management Board members and employees of credit institutes on the Company's Supervisory Board:

Norbert Quinkert, Member of the Supervisory Board, is Member of the Advisory Board of Dresdner Bank in Germany.

Credit institutes pertaining to a syndicate which has underwritten the Company's last securities issue within the last five years:

Sal. Oppenheim jr. & Cie. Kommanditgesellschaft auf Aktien

WestLB AG, Duesseldorf
(acting in connection with the application for admission of the conditional capital to trading on the Regulated Market)