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3U TELECOM AG

Annual Report 2001

3U at a Glance

Result (US-GAAP)		3U TELECOM AG 2001	3U TELECOM AG 2000	3U Group 2001	3U Group 2000
Revenues	(€ in millions)	56.98	57.63	62.35	57.43
Earnings/losses before taxes and appreciation/amortization	(€ in millions)	3.65	5.39	2.68	4.17
Earnings/losses before taxes	(€ in millions)	2.89	4.81	1.50	3.52
Net income for the year	(€ in millions)	1.64	2.32	0.50	1.48
Earnings per share	(in €)	0.18	0.25	0.05	0.16
Earnings yield (earnings/losses before taxes and appreciation/amortization)	(in %)	6.41	9.36	4.30	7.23
Equity ratio	(in %)	88.42	83.37	87.77	82.71
Return on equity (earnings/losses before taxes)	(in %)	4.19	7.15	2.24	5.30

3U-Markets 2001	3U-Markets 2000
Germany	Germany
Switzerland	Switzerland
Austria	Austria
The Netherlands	
Italy	
France	

Letter to our Shareholders

Dear Shareholders,
Dear Ladies and Gentlemen,

The past fiscal year 2001 was an eventful one.
For 3U TELECOM AG it was characterised by forward-looking investments and the successful continuation of European expansion. 3U has developed into an international telephone group and today already has a presence in six European countries. Last year 3U was able to both upgrade its German telephone network and develop and put into operation a European network, creating its own long-term infrastructure by leasing networks already paid in advance (secured by bank guarantees in favour of 3U). All the investments were financed without taking on any debt capital.

A large portion of the issue proceeds earned from the Initial Public Offering is still available to the Company and may be used to pursue other strategic options.

Market conditions continue to be difficult, which has led to a number of competitors dropping out of the fixed-line network business or being forced to drop out due to financial difficulties.

In this difficult environment, 3U was able to remain in the black even in light of the investments made during the expansion phase in 2001. Indeed, in the fourth quarter of 2001 we saw a huge increase in Group results over the third quarter of 2001. Group results after taxes increased in the fourth quarter of 2001 to € 0.15 million, which represents a 42.25 % increase over the third quarter of 2001.

The Management Board
of 3U TELECOM AG:
Michael Schmidt,
Udo Graul (CEO),
Roland Thieme

Results for the year were down in comparison to 2000. 3U AG's net income for the year fell to € 1.64 million. At the Group level, it dropped to € 0.50 million. The reason for this is the high start-up costs for the international subsidiaries due to start-up losses and one-time non-recurring effects in the form of a value adjustment required on receivables.
Without taking these non-recurring effects into account, however, operating results could be increased significantly both at the level of 3U AG as well as at the Group level, which shows that, in and of itself, our business model has remained successful.

For you as shareholders, however, 2001 was a difficult year. The price of 3U stock for the year fell as a result of the generally very poor situation in the market for the telecommunications industry after an interim positive price performance. Overall, however, from the standpoint of price change, the stock performed better than 91% of all the stocks listed on the Frankfurt Stock Exchange's *Neuer Markt* segment.

We would like to thank you for the trust you have shown in us and we are convinced that the characteristics that typify our company together with the investments that have been made will have a positive effect over the mid-term and that the price will recover as a result. The basis for this has been created at both the national and international level. At a time where markets are consolidating, a process that is characterised by drastic turns of events and numerous bankruptcies for competitors, 3U remains a profitable and also very financially strong company. Conservative corporate management paid off. On the contrary, our apparent lack of imagination as it was characterised during the heyday of the *Neuer Markt* proved to be the right strategic move, a move that particularly in light of the changed set of circumstances offers us enormous opportunities. In a fixed-line network telephony market that is growing in size, we are now in a position to profit not only from our own internal growth, but from the fact that competitors are dropping out of the market.

In light of the aforementioned circumstances at play both within the company and externally, our outlook for the current fiscal year and for the future is very positive.

Eschborn, dated 15 March 2002

The Management Board *(Vorstand)*

Udo Graul
Chairman

Michael Schmidt
Management Board Member

Roland Thieme
Management Board Member

Content

Corporate Philosophy

The following elements form the basis of the 3U corporate structure and determine the course of the company:

- **Customer orientation**
- **Flexibility**
- **Entrepreneurship**
- **Profit orientation**
- **Technical competence.**

Customer orientation is an obligation on us

3U provides telephone connections world-wide at low rates. Our products, call-by-call and preselection, offer easily comprehensible price structures and the fairest possible charges based on second-by-second metering. This guarantees the highest possible quality and availability of our telephone networks.
3U dispenses with long periods of notice for altering or cancelling contracts, and with minimum sales targets. It is our aim to convince our customers, and to earn their loyalty, by means of our technical performance.
When our customers have questions or queries, we handle them unbureaucratically and without delay.

Our company structures are lean, flexible, and capable of learning

The principle of cost-leadership is a major element in the 3U business model, and the key to our success. It enables us to guarantee extremely low fixed costs, and high-quality automated processes in all areas affecting the profitability of our company. We are always striving for maximum efficiency, and constantly trying to optimise the business processes in the company. All our structures work flexibly, and are capable of learning. We are therefore able to react at once to market requirements, and to implement new measures quickly and efficiently.

We encourage our employees to think and act entrepreneurially

Our very high level of automation enables us to implement our business model with an extremely small number of employees. Our flexible and flat organisational structure enables our staff to bring their own personalities, technical competence, and creativity to bear. The area of responsibility of each of them calls for a great sense of personal responsibility, and makes considerable demands on their work. 3U utilises ultra-modern technology, to the advantage of its clients and in support of its employees.

Profit orientation is a component part of our basic philosophy

3U operates in a market characterised by tough competition and eroding prices. In an environment such as this, success can only be guaranteed so long as rising sales revenue leads to growing profits. Profit orientation is thus one of the crucial elements in our corporate policy, and represents the basis for entrepreneurial decisions.

We will not open up any fields of business in which we do not possess the relevant technical competence

Our business is fixed-line telephony. Although we are always open-minded towards new ideas, we will only initiate projects for which we possess the core competence and which fit us and our ideas. We will only move into new strategic fields of business if it is possible to integrate them sensibly into the corporate philosophy of 3U.

Supervisory Board

- **Michael Leyener**
  Chairman of the Supervisory Board, attorney at law *(Rechtsanwalt)* and notary, Marburg

- **Jürgen Roth**
  Deputy Chairman, Dipl. Betriebswirt *(university business graduate)*, Managing Director, Kirchhain

- **Dr. Michael Kußmann**
  Attorney at law and accountant, Duisburg

- **Jürgen Bockholt**
  Member of the Management Board of Baden-Württembergische Bank AG, Stuttgart

- **Bodo Rimpler**
  Member of the Management Board of Bremer Landesbank Kreditanstalt Oldenburg, Oldenburg

- **Manfred Schwarz**
  Dipl. Betriebswirt, Managing Director, Marburg

Market Situation

Prospects for growth in a difficult environment

The environment in the fixed-line network market continued to be extremely difficult in fiscal year 2001 and was characterised by a tight squeeze on margins. According to preliminary estimates, Deutsche Telekom AG's competitors' share of call connection minutes in 2001 hovered at around 25 %. The overall situation is however characterised by financial bottlenecks being experienced by many market participants who no longer operate profitably and who as a result are not able to withstand the fierce price wars. The initial sense of being off to a good start has suffered a bitter setback. As a result, the year 2001 saw a number of 3U's competitors drop out of the market.

With the exception of 3U, which had already reckoned with lower margins when it entered the market in April of 1999, hardly any company is prepared to deal with such a situation after its structural build-up over the past years.

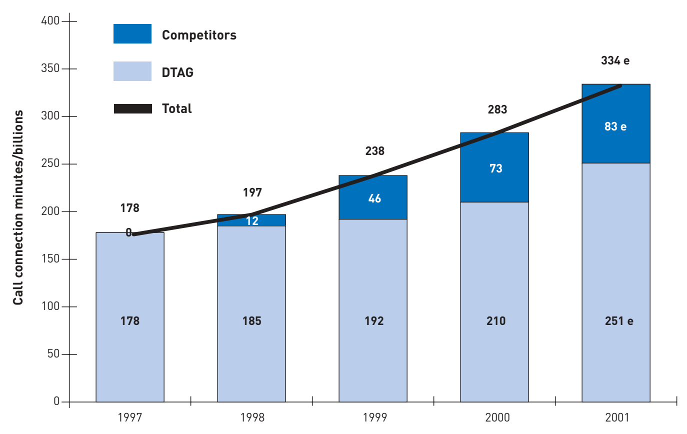
However, it seems that the minimum price threshold for efficiently operating providers has been reached. Purely from a commercial standpoint, it hardly seems feasible anymore that the market could experience another price war like the one fought in the recent past.

Particularly during this restructuring phase in the market, 3U has great opportunities for growth since the streamlined technical and staff infrastructure it has created is now paying off. An increase in market share can be realised at disproportionately lower expense. 3U's business model is also one that competitors will not be able to imitate because downsizing business divisions would already be too costly. These competitors now find themselves in the very dilemma mentioned above – that in the future they will no longer be able to correct the mistakes of the past.

The significant growth in traffic in the fixed-line network telephony business (by ca. 88 % since 1997, Regulatory Authority for Telecommunication and Post "Reg TP" 2001) was consistently over-compensated for by huge price reductions, particularly in the last three years, which resulted in an overall decline in revenue. Prices have since begun to stabilise and are even expected to increase slightly over the mid-term. The traffic volume will also continue to increase so that in the future an overall increase in revenues will once again be possible.

3U will therefore do everything it can to ensure that the company participates in the lion's share of these development trends.

Fixed Line Network Call Connection Minutes 1997–2001



Strategy

Concentration on core competencies

3U's core competency lies in the fixed-line network telephony business. Over the long-term, 3U intends to establish itself as the European telephone specialist in the call-by-call and preselection business.
New strategic lines of business are only to be pursued if they fall within this area and to the extent the company feels they can be integrated into existing structures.
3U has concentrated its strategy for handling the market on its core competencies in the call-by-call and preselection business. In contrast to its competitors who compete usually with a broad range of services which they offer across the entire market, 3U was able to very effectively occupy a niche position with a small product portfolio. It did not engage in expensive cross-subsidisation of certain services in order to retain customers. An efficient and technically high-quality network was developed.

The primary goal: Keeping the focus on profits

3U has always made the focus on profit its primary goal. 3U has in fact succeeded in operating at a profit from the very first day of its existence. Amortization periods for investments were always carried very low.

Cost leadership

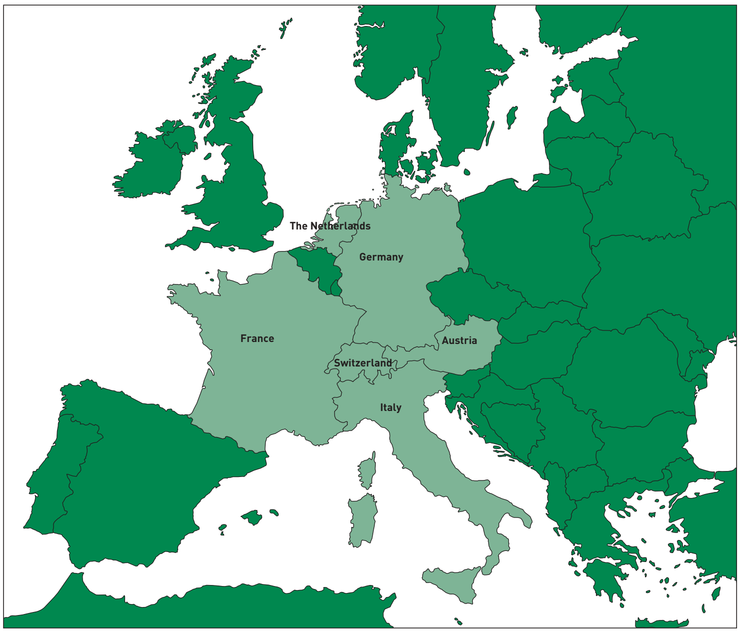
By continuing to focus on costs and sticking to its corporate philosophy, 3U has been able to achieve and defend a comprehensive cost advantage in the call-by-call and preselection business, while also always keeping other important aspects of performance such as quality and service in focus.

At 3U, cost leadership and customer focus are therefore not mutually exclusive ideas. Transparent price structures, charging by-the-second, telephone calls of the highest quality at optimal availability demonstrates the focus the Company places on its customers.

3U has what are probably the lowest costs in this segment of the market and is operating at a profit in a market situation in which competitors are not earning any net income anymore and are facing liquidity bottlenecks that threaten their very existence. At the same time, these low costs are now functioning to create very high barriers to entry for potential competitors.

The new telephone network that went into operation in Germany in the last quarter of 2001 will result in over € 4 million in cost savings for fiscal year 2002 and thus will have a sustained positive effect on results beyond 2002.

European Expansion



After the 3U Swiss and Austrian subsidiaries entered the markets at the end of 2000, operations were started up in three other countries in fiscal year 2001: in the Netherlands (16 January 2001), in Italy (18 July 2001), and in France (25 July 2001), adopting the already tried and true German business model.

In these countries, 3U introduced the heretofore unknown open call-by-call procedure (without pre-registration). Despite substantial revenues, the customers' payment behaviour turned out to be problematic and receivables were defaulted on as a result. Because of this, the open call-by-call without pre-registration was phased out internationally. Since then, 3U also requires customers to pre-register as a condition of access.

In addition to call-by-call, preselection is also offered almost across the board.

As it has domestically, 3U is also taking steps to increase its recognition level in the neighbouring European countries so that by showing low rates in price comparisons made in the Internet and in the print media, its charging by-the-second, and doing away with any minimum turnover or call connection fees, the Company can occupy the top positions. Particularly internationally, telephone companies commonly charge so-called start-up or set-up fees. 3U clearly distinguishes itself from these.

In April 2001, 3U profited from the exit from the market of another co-competitor in the fixed-line telephony sector and in the speech telephony sector was able to acquire the customers of TelePassport in Austria, the former subsidiary of Mobilcom.

Marketing

As in all the other areas, 3U is able for the most part to avoid cost-intensive marketing measures since it customers are almost exclusively attracted by 3U's prices. Price comparisons constantly being offered in magazines or in the Internet, have made already price-conscious customers even more aware of the price issue. 3U always ranks very high in these price comparisons. Taking into consideration the recording of timing units by-the-second, which is something hardly any other competitors offer, the price advantage becomes even greater.

3U's past marketing efforts, such as TV and radio spots as well as billboard and print media advertising, have shown that not enough potential customers can be reached in this manner. As a result, the company discontinued the aforementioned cost-intensive advertising measures. Since then, we have been focusing our efforts in the call-by-call area on increasing our level of recognition exclusively by using price comparisons as a marketing tool and on using canvassers in the preselection area. The strict requirements for return on investment that should have made itself evident within 6–8 months apply to 3U in this regard as well.

The experiences of competitors also demonstrate that establishing a brand name in the market segment of fixed-line network telephony has not resulted in the desired commercial success and these companies are no longer pursuing such strategies. While the marketing efforts in this regard did increase the level of recognition, they did not result in a sufficient increase in utilisation to justify the expense associated therewith.

The central Customer Care Centre has proven itself. Here, all customer inquiries Group wide as well as the call-by-call registrations and preselection applications are processed by highly motivated multi-lingual employees. This central processing done at one location and the bundling of competences associated therewith makes it possible to guarantee the highest degree of customer service and in a cost efficient manner as well.

3U is used by circa 800,000 customers Group wide.

Technology

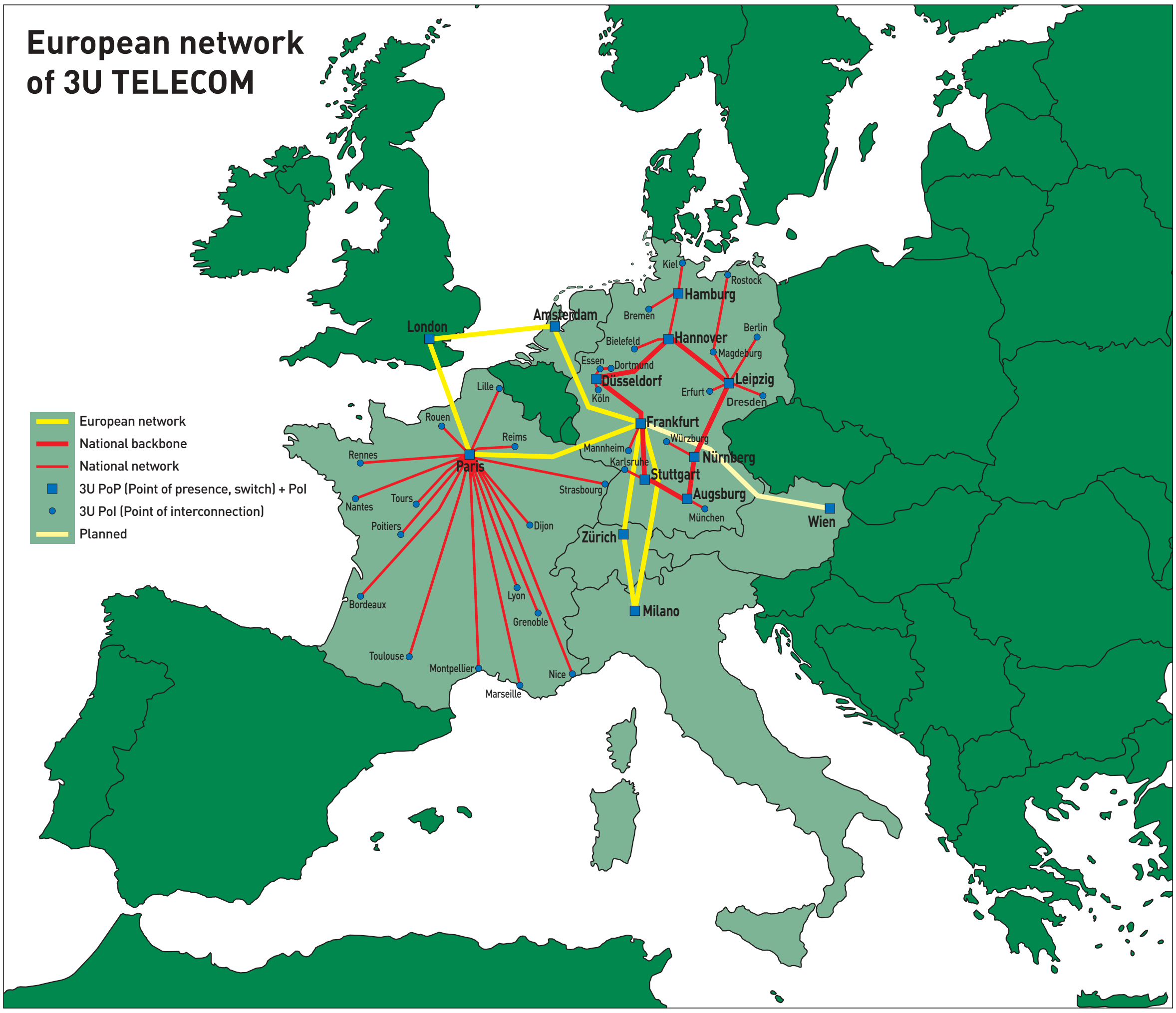
Use of state-of-the-art technology

The switching and transmission technology used by 3U is modern, inexpensive and reliable. 3U uses switching processors from the company TELES. These user-friendly systems enable efficient and cost-effective operation particularly with respect to maintenance and service.

3U owns its own transmission technology. This makes it possible for the Company to remain independent and flexible and to keep costs for the provision of services down. This also gives 3U an advantage over competitors who generally also lease their transmission technology.

European network creates synergies

In the 2nd quarter of 2001, 3U executed agreements to lease it own European network, which contracts were secured by Bank guarantees by network suppliers. Thus we were able to secure for 3U the use of broadband connections for a southern European ring (from



Frankfurt via Zurich to Milan and back to Frankfurt) and a northern European ring (from Frankfurt via Amsterdam to London and Paris and back to Frankfurt) for a period of 15 years. In this way we were able to connect the telephone network of the individual countries to a European-wide 3U network. This increased our routing flexibility and also created additional potential to reduce costs.

New German network with quadruple capacity results in cost savings of over EUR 4 million annually

In the 4th quarter of the reporting period, 3U put its new telephone network in Germany into operation, thus quadrupling its network capacity. The quality of the network is excellent and it is very reliable. The professional design, the use of state-of-the-art technology combined with the execution of long-term lease agreements secured by bank guarantees by network suppliers, enable network costs to be drastically reduced. As a result, for the German network alone, savings of over € 4 million annually will be fully realised after 1 January 2002. 3U operates the entire national line network at extremely low cost and in this area has a significant competitive advantage.

3U invests in the expansion of switching capacity in Germany

In order to be equipped to deal with the expected increase in switched telephone minutes, 3U doubled the capacity of its main switching centre in Frankfurt and expanded by 2.5 times the capacity of its switching centre in Düsseldorf. Thus we have sufficient capacity and are equipped for any pending acquisition as well.

Automated least-cost-routing minimises termination costs

Our European-wide, automated least-cost-routing makes it possible for 3U to always route costs via the cheapest provider.

Employees

Our cost and personnel structure is characterised by the mottos "we manage business, not people" and "structure follows strategy". Thus 3U's structures are streamlined and flexible. The high level of automation in all corporate divisions means that 3U requires comparatively few employees.

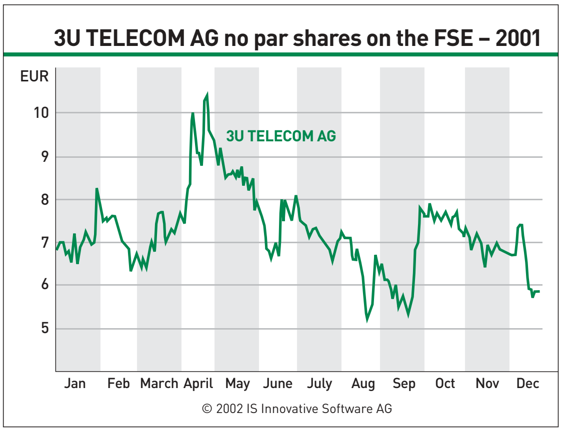
Per-employee revenue was nearly € 2.6 million for the past year. Thus, as it had already done in the prior year, 3U achieved the highest level of employee efficiency in the telecommunications industry in the past fiscal year as well. 3U TELECOM AG and its subsidiaries in Switzerland, Austria, the Netherlands, Italy and France operate the entire business as of the end of 2001 with a total of 24 employees and three Management Board members. The Management Board members are the founding members and 3U's primary shareholders.

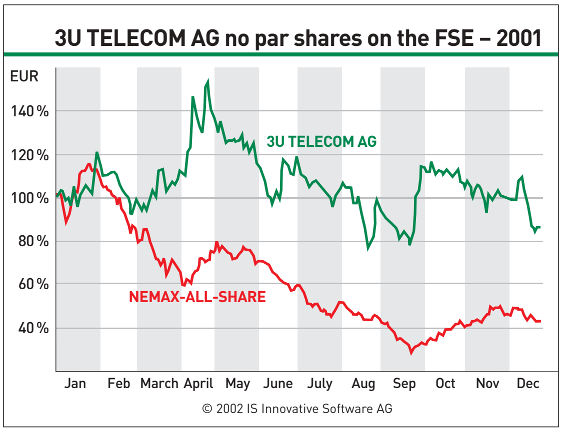
3U employees live the corporate philosophy and are leading the 3U business model toward its targeted success. In so doing, a high level of self-responsibility is a given requirement in addition to technical competency. 3U employees think in terms of the big picture, seeing the Company as a whole and not just in terms of their individual departments. They think entrepreneurially and work independently.

3U is successfully and carefully adjusting its staff to the increasing responsibilities and in so doing is maintaining organisational structures in line with its needs.

3U Stock

Price performance





As a result of a weakness in the stock markets generally and the depressed state of the telecommunications industry specifically, 3U's stock took a downward turn. After an interim increase in April to a value of € 10.40, the stock fell to an annual low in August of € 5.10. After an increase of nearly € 8 in October, the stock plateaued and then finally dropped again in value almost to the level of the annual low. Viewed overall, the course of the stock price did however move in a positive direction measured against the NEMAX-ALL-SHARE reference index: From the standpoint of price change, the stock performed better than 91 % of all the stocks listed on the Frankfurt Stock Exchange's *Neuer Markt* segment *(Source: Finanical Times Deutschland of 28. Dec 2001)*.

Valuation

The exchange price of € 5.8 as of 31 December 2001 represents a market capitalisation of € 52.90 million. Thus the market capitalisation was only slightly below the sum of existing cash funds and cash-equivalent investments in securities. 3U's existing potential is therefore not reflected in this price.

Causes and measures

We have observed that on the German and International capital markets, analysis seems to be concentrated on just a few of the major stock corporations. Exchange turnover and market capitalisation are generally the primary factors determining the level of attention a stock attracts.
For this reason, analysts seldom evaluate 3U's stock. There is no lively trading in the stock. Despite the strong yield and the enormous liquidity, analysts have thus far failed to present a description in simple terms of the growth potential which no doubt exists, which could then contribute to a sustained recovery of the stock price.

We have tried to combat this so-called "disregard effect" by conducting intensive investor relations activities. In addition, we expect an increase in our level of recognition as a result of the investments and acquisitions we have initiated. A solid company such as 3U should not have to suffer as a result of the industry's poor image and the generalisations resulting therefrom.

Shareholder structure

The shares held by current members of the Company's corporate bodies as of 31 December 2001 remain unchanged in the recording period.

Management Board

Udo Graul (Management Board Chairman)	1,750,740 shares
Michael Schmidt (Deputy Chairman since 6 December 2001)	1,750,000 shares
Roland Thieme (Management Board member since 6 December 2001)	700,000 shares
Wolfgang Lebrecht (Management Board member, departed on 12 November 2001)	0 shares

Supervisory Board

Michael Leyener (Supervisory Board Chairman)	1,700 shares
Jürgen Roth (Deputy Chairman of the Supervisory Board)	1,050,000 shares
Jürgen Bockholt	900 shares
Dr. Michael Kußmann	0 shares
Bodo Rimpler	0 shares
Manfred Schwarz	1,750,000 shares

The shares carry full voting and dividend rights.

Management Report

In fiscal year 2001, the earnings situation for 3U AG, on the one hand, deviated from the earnings situation for the Group, on the other hand. The Group parent company, 3U TELECOM AG, earned € 1.64 million in annual net income. By contrast, the annual net income at the Group level (€ 0.5 million) was lower. The reason for this deviation in earnings may be attributed to the increased start-up expenses incurred by the foreign subsidiaries, an issue to be more specifically addressed below.

Compared to the other subsidiaries, 3U AG remains the dominant enterprise within the Group, generating over 90 % of Group revenues. Despite the very difficult market environment, 3U AG enjoyed a relatively successful fiscal year. The business model was expanded and improved upon and cost savings were realized despite increased capacities. Absent the negative special impact caused by its subsidiaries, the Group would have even shown significant earnings growth based on 3U AG's actual business operations.

1 Business Developments at 3U

Earnings

In fiscal year 2001, 3U AG produced revenues of € 56.98 million. This figure represents a slight decline of € 0.65 million or 1.1 % in revenues compared to the previous year (€ 57.63 million). This difference is based primarily on the special effects that occurred in 2000, during which period 3U was able to generate extremely high revenues in the first quarter based on favourable market conditions. High revenues characterised that fiscal year.

Business actually developed favourably in fiscal year 2001. Nevertheless, the start-up losses and bad debt write-offs, which seemed the hallmark of the subsidiaries, also impacted on 3U AG's individual financial statements. Earnings before taxes and depreciation/amortization declined by € 1.74 million to € 3.65 million in 2001. Pre-tax earnings fell by € 1.92 million to € 2.89 million. The annual net income declined by € 0.68 million to € 1.64 million in 2001.

At the Group level, revenues in fiscal year 2001 reached € 62.35 million. Revenues increased by 8.6 % or € 4.92, from € 57.43 million in 2000 to € 62.35 million in 2001. This increase is related to the start-up of the Italian, French and Dutch operations, which for the first time, were contributing to Group sales. Earnings before taxes and depreciation/amortization declined by € 1.49 million to € 2.68 million. Pre-tax earnings were € 1.5 million.

As mentioned in the introduction to this section, the business development of the subsidiaries was, however, impacted by special effects, which were extraordinary or one-off in nature. No only did start-up losses have to be tolerated, but a need also arose to write-off bad debts. These developments caused significantly lower annual net income (€ 0.5 million) compared to the previous year and to AG.

Although the aforementioned effects produced a significant drag on earnings in fiscal year 2001, we are assuming that no such similar adverse effects will arise again for the current year and the immediate future.

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Earnings yield (earnings/losses before taxes and appreciation/amortization)	(in %)	6.41	9.36	4.30	7.23
Equity ratio	(in %)	88.42	83.37	87.77	82.71
Return on equity (earnings/losses before taxes)	(in %)	4.19	7.15	2.24	5.30

Statement of financial condition

The **balance sheet sums** of 3U AG were € 77.95 million and was therefore € 2.76 million or 3.4 % lower than the € 80.71 million of the previous year. At the Group level, the balance sheet sum in 2001 was € 76.28 million, compared to € 80.34 million in 2000: a decline of € 4.06 million or 5.1 %.

The fixed assets item represents 39.6 % of the balance sheet sums at AG and 32.8 % at the Group level. The percentage increased both at the AG and at the Group level because of investments made in switching and transmission technology and the purchase of floors of office space.

Current assets represented 59.4 % of the balance sheet total at AG and 65.0 % at the Group level. Thus, both at the AG and the Group levels, current assets as a percentage of total assets generally declined.

The AG's **equity capital** rose by € 1,64 million (or 2.4 %) to € 68.92 million in 2001 as a result of the annual net income generated in the fiscal year. The equity-to-debt ratio at AG has therefore increased again and is currently 88.4 %. At the Group level, the annual net income earned inflated the equity capital slightly by € 0.5 million or 0.8 % to € 66.95 million. A contemporaneous decline in the balance sheet sums thereby increased the equity-to-debt ratio to 87.8 %.

Debt capital as a percentage of the balance sheet sums fell to 11.6 % at 3U AG and to 12.2 % at the Group level.

Throughout the Group, there are no **debts owed to any financial institutions**. Any such debt was completely repaid in fiscal year 2001.

Thus, 3U enjoys a very solid capital structure. In addition to the fixed assets, the high, business-specific receivables may also be used to finance the current assets.

No capital increases or similar transactions were carried out in fiscal year 2001.

Investments

Total investments for the entire Group were € 2.91 million in fiscal year 2001. The key investments were in upgrading the German network, constructing the European network and expanding the Customer Care Centre. In connection with the expansion of the Customer Care Centre, two floors in an office building were purchased and equipped with the relevant technical infrastructure.

In Austria, the Voice Telephony Division of the former Mobilcom subsidiary, TelePassport, was acquired in early April 2001. With a relatively low investment, the customer base was considerably enhanced, which allowed business there to experience a real spurt in growth. The switched call minutes were increased fourfold.

These investments for the European expansion created important groundwork for the future and helped pave the way for continued growth and expansion.

All investments were financed exclusively from the Company's cash flow.
Prior experience has shown that the streamlined 3U enterprise structure can be retained with respect to future investments and that at most, relatively low technical and personnel adjustments would need to be made. This will only slightly influence the fixed costs structure.

Liquidity

3U's liquidity continues to be very good.
This fact is not, however, necessarily apparent upon reviewing the information contained in the cash flow statement alone. AG's cash position of € 1.96 million and the Group's cash position of € 3.57 million do not adequately describe the liquidity situation since investments in fiscal year 2000 were made in short term and long term securities, which may be classified as cash-equivalent forms of investments. Thus, such investment would not have actually produced any cash outflow. The value of these cash-equivalent investments totalled approximately € 45 million.

The decrease in the cash position both at AG and the Group may be attributed to the investments made; investments that were financed entirely without borrowing from third parties. Moreover, a number of advance payments have been made to network carriers under long-term lease agreements. Thus, 3U should not experience any cash outflow in the future.

AG's cash position declined from € 15.47 million in 2000 to € 1.96 million in 2001. At the Group level, the cash position fell from € 17.06 million 2000 to € 3.57 million in 2001.

The Company continues for the most part to have at its disposal the proceeds from the initial public offering since it has continuously earned profits and pursued a very calculated investment and acquisition policy.

2 Foreign Subsidiaries

Business model still intact – foreign business activities, however, reveal unexpectedly large difficulties with respect to the collection of accounts receivable

In fiscal year 2001, the business operations of the foreign subsidiaries in the Netherlands, Italy and France were launched. Moreover, for the first time the operating business of the subsidiaries in Austria and Switzerland, which had been interconnected with the network at the end of fiscal year 2000, also contributed more strongly to overall business results.

Nevertheless, the business development among the foreign subsidiaries has until now remained significantly below expectations.

The ambitious goal – to reach break even within one year – has not been reached. This ambitious schedule should be reconsidered even for the future, at least with respect to the foreign investments.

While the business model itself has been easily implemented abroad, 3U had not factored in the prob-

lems it would face with collections. Uncollectible bad debts were particularly high in Italy and the Netherlands. With respect to the so-called "open call-by-call procedure", which had heretofore been unknown before 3U's market entry, these countries increasingly experienced unexpected abusive practices and even fraud.
A number of technical counter-measures were immediately implemented to limit the extent of abusive conduct. The Controlling Department routinely monitored the payment transactions. Collections became automated, and collection agencies were sometimes retained. The open call-by-call procedure (without registration) was suspended outside of Germany. A pre-registration is now required for gaining access.

Only after the first two quarters of 2002 will it be possible to know exactly how quickly the implemented measures will take effect.

The equity capital structure of the foreign subsidiaries should be generally increased. Until now, the foreign subsidiaries were relatively thinly capitalised. Any required investments were initially funded, in part, by the parent company and booked to the subsidiaries in the form of a loan. The start-up losses incurred and the sometimes high volume of bad debt write-offs on receivables showed, however, that the equity capital was very quickly drained from such a capital structure.

For any companies whose equity capital has been drained, a capital increase will be carried out in the current fiscal year.

The following is an overview of each individual Company:

3U TELECOM GmbH, Austria

Revenues and earnings in Austria were good. 3U was able to establish itself on the local telecommunications market and could profit from the first competitors dropping out of the market. The integration of the acquired TelePassport customers went successfully, and the revenues generated were approximately € 3.5 million. Whereas losses were still sustained in 2001, a slight profit should be generated in the current fiscal year. The Company expects both organic and external growth.

3U TELECOM AG, Switzerland

Until now, only limited revenues have been achieved in Switzerland since the Company has not yet begun to intensify its market presence through price reductions. Moreover, the telecommunications market in Switzerland has proven so far not to be very dynamic (in relative terms). Contrary to Germany where numerous rate comparison studies have been published in various media (thereby igniting acute price wars), Switzerland has thus far experienced relatively low competition and Swiss customers have been less price sensitive.

The Company forecasts sustained business development with stable margins in the future.

Bad debt losses are low. With relatively low revenues, the start-up losses also produced an annual net loss in fiscal year 2001.

3U TELECOM B. V., The Netherlands

Given the customers' unwillingness to pay and based on fraud cases, the experiences in the Netherlands have been the most negative. In connection with the relatively high level of revenues produced in the first quarter of 2001, only a very small volume of payments was received. Consequently, most of the accumulated receivables had to be written down. Any delinquent customers were denied service. After delinquent customers were denied service and the revenues declined as a result thereof, business development has since shown signs of improvement again.

3U TELECOM S. R. L., Italy

Despite the customers' pre-registration duties, initially receivables also proved difficult to collect in Italy. Here again there was some abuse of the network. As in the Netherlands, the Company took actions to deny service to delinquent customers and such actions lead to temporary yet significant declines in revenues. Business growth has since stabilised again. The actions initiated are expected to strongly reduce the default rate. One should also generally keep in mind that compared with Germany, usually Italy has longer payment periods.

By virtue of the start-up losses and the bad debt losses described above, the Italian operations suffered an annual net loss in fiscal year 2001.

3U believes that Italy shows good prospects for revenues and earnings since the market has relatively high competitive and high usage intensity.

3U TELECOM SARL, France

After only a short period of time, 3U was able to establish itself on the French telecommunications market. Sales and traffic volume are continually growing. In order to commence operations in France, relatively high infrastructure demands had to be met. This need led to relatively high initial investments.

The high start-up losses therefore also caused the annual net loss. Bad debt losses are low.
The company projects sustained business development in the future.

3 Risks

3U's group-wide risk management programme includes detailed documentation of all potential risks and the organisational management of such risks. The program furnishes the enterprise with a platform for accurately estimating and managing in a controlled manner the risks arising from business operations.
The Management Board recognised the cash-draining effects, which any delay in the completion of the billing system to LineTalk would have, and therefore launched an aggressive project management programme.
Thus, the Group is not subject to any risk that could threaten its very existence.

Bad debt losses

In an industry with relatively low margins, any bad debt losses (i. e., receivables not paid) represents a general risk. The problems related hereto at the various European subsidiaries are discussed in detail in the section above.

Discontinuance of Deutsche Telekom's collection proceedings

In connection with a decision handed down by the Regulatory Authority, the collection proceedings in Germany, which had previously been conducted by Deutsche Telekom, will during the course of the year be assumed by the individual telecommunications companies themselves. Deutsche Telekom AG will continue to invoice the customers, but it will no longer be responsible for sending out payment reminders and collecting unpaid bills; that task will then fall to the competitors.

3U's own collection system has already prepared for this new development. The Company is confident that the bad debt loss rate will continue to be low as it looks to cooperate closely with an outside collection agency.

Insolvency of network operators/carriers

The generally tense market situation in the telecommunications industry has led many network operators or carriers recently to face financial difficulties or even to file for bankruptcy. This development poses a general potential risk for 3U, yet the given market and contract structures may strongly relativise the situation. 3U was able to recognise the potential risk of default early on and created alternatives through interconnecting with various other carriers. Thus, for example, if lines are no longer available from certain carriers, then the Company can continue to offer full telephone services through the lines furnished by alternative business partners. The customers will suffer no disruptions.
Moreover, worldwide overcapacity in the fibre optic sector is estimated at circa 95 %. In 3U's view, this level of overcapacity minimises the risk of price increases, despite the market restructuring among network operators and carriers. Thus, for the foreseeable future, comparatively favourable terms and conditions can be negotiated with any alternative providers, thereby furnishing some security back-up for the Company.

4 Particulars

On 3 May 2001, the Supervisory Board elected Jürgen Roth to serve as its Deputy Chairman. He has therefore replaced Dr. Michael Kußmann as Deputy Chairman of the Supervisory Board.

On 12 November 2001, Wolfgang Lebrecht resigned his position as a member of the Management Board of 3U TELECOM AG, citing personal reasons, and decided instead to devote himself exclusively to his family business. In order to ensure that the Company enjoys continuity in its business affairs, a founding shareholder, Manfred Schwarz, temporarily joined, effective 12 November 2001, the Management Board as Deputy Chairman, a position which he had held previously. During his tenure on the Management Board, he did not serve as an active Supervisory Board member. Effective 6 December 2001, he took up his active membership on the Supervisory Board again.

As part of continuing the European expansion, the enterprise structures were reorganised to accord with the business development. The Network and Technical Service Divisions were made the responsibility of a specific Management Board member. The responsible Division Heads, Michael Schmidt and Roland Thieme, were appointed to the Management Board on 6 December 2001. The Chairman of the Management Board, Udo Graul, is responsible for the following Divisions: Strategic Planning, Technology, Finance, Personnel, Purchasing, Sales and Marketing. Thus, three founding members of the enterprise are now serving as Management Board members.

5 Summary of the Key Events during the Fiscal Year

For 3U AG the following key events occurred in fiscal year 2001:

- January:
  3U TELECOM B. V. commences operations in the Netherlands
- April:
  Takeover of TelePassport customers in Austria
- May:
  Company renamed 3U TELECOM AG. In view of the Company's foreign expansion plans, 3U shareholders in a meeting held in Frankfurt approved a resolution on 3 May 2001 to change the name of the Company to "3U TELECOM AG". Thus, the German parent company now has the same name as its foreign subsidiaries: 3U TELECOM.
- June:
  Operational launch of the European network
- July:
  3U TELECOM S. R. L. commences operations in Italy and
  3U TELECOM SARL commences operations in France
- August:
  Real estate purchase for the Customer Care Centre
- October:
  Completion of the German network upgrade
- December:
  Expansion of the Management Board from two to three members

6 Key Events following the Close of the Fiscal Year

The optimal organisation of the 3U German network and the new interconnection fee structure will provide significant cost savings potential

The Regulatory Authority for Post and Telecommunications promulgated a new interconnection fee structure, which entered into force on 1 January 2002. As part of this so-called "element based charging system", calls will be priced according to how many switching facilities (of Deutsche Telekom AG) will be typically utilised as part of the network interconnection switching. In other words, the issue is how much "switching technology" will be used for the connection; the actual distance will become irrelevant. This system will generally ensure greater cost fairness.
The German network of 3U, with its 23 POI and its 8 switching stations, is optimally equipped for the system required by the Regulatory Authority.
By having invested the right amount in its own infrastructure, 3U TELECOM AG is in a position to utilise inexpensive connections to a much larger degree than the competitors who invested either too little or too much in their own telecommunications network.

For 3U, the new fee structure will produce more than a 22 % savings over the previous rate system period.

3U TELECOM AG concludes an agreement for transferring Talkline GmbH & Co. KG's preselection customers to the new 3U subsidiary LineTalk Telecom GmbH

At the beginning of the current fiscal year, 3U entered into an agreement with Talkline to transfer the latter's "Preselection" business division customers to 3U's own subsidiary, newly formed for this function, LineTalk Telecom GmbH. 3U expects that the contract will generate a considerable increase in revenues and earnings for the current fiscal year.

Formation CityDial

The formation of CityDial GmbH in January 2002 provides 3U with the vehicle in the current year to expand its business into local traffic market throughout Germany. CityDial GmbH – of which 3U AG is a founding shareholder – will in the future route local calls in Germany through 3U's network. This activity will produce an increase in revenues and earnings.

3U France also offers local calls

Since the beginning of the current year, alternative telephone providers have been able to offer local call services in France. Accordingly, 3U TELECOM SARL has been able to expand its product range to include local calls and therefore also expects to see a rise in revenues and earnings in this sector.

7 Outlook

As described in the previous section, a number of key decisions for the future were reached during the first few weeks of the new fiscal year. 3U is well positioned, both nationally and internationally, and sees its investments as the launching pad for further growth. With projected sustained growth in traffic in the fixed line telephony sector and a pricing structure that has since stabilised, 3U will generally have enormous opportunities for revenue and earnings growth.

Furthermore, one hopes that following some initial start-up difficulties, the foreign subsidiaries will be able to tap into the certain growth potential without causing any adverse effects. Subsidiaries are expected to contribute their first positive earnings as early as the current fiscal year.

In contrast the situation among competitors, the market's restructuring should continue to provide enormous growth opportunities.

European expansion is continuing: the Group plans to launch operations in Great Britain and Belgium. The experiences, which have already been gleaned in Continental Europe, could be exploited here.
Moreover, the services will be expanded in various countries. At the end of March 2002, 3U will also offer local calling in Switzerland.

Balance Sheet (US-GAAP) as of December 31, 2001

Assets	3U Group		3U TELECOM AG	
	31 Dec 2001 in T€	31 Dec 2000 in T€	31 Dec 2001 in T€	31 Dec 2000 in T€
Current assets				
Cash and cash equivalents	3,565	17,061	1,961	15,469
Short-term investments/marketable securities	25,514	0	25,514	0
Trade accounts receivable	10,203	7,491	7,943	7,466
Accounts receivable due from related parties	0	0	1,967	1,902
Inventories	23	0	23	0
Prepaid expenses and other current assets	10,247	31,784	8,917	31,269
Total current assets	**49,552**	**56,336**	**46,325**	**56,106**
Non current assets				
Property, plant and equipment	3,894	2,389	3,054	1,825
Intangible assets	2,051	2,028	1,577	1,626
Investments	19,097	19,097	26,209	21,117
Goodwill	195	0	0	0
Deferred taxes	1,492	495	780	36
Total non current assets	**26,729**	**24,009**	**31,620**	**24,604**
Total assets	**76,281**	**80,345**	**77,945**	**80,710**

Balance Sheet (US-GAAP) as of December 31, 2001

Liabilities and shareholders' equity	3U Group		3U TELECOM AG	
	31 Dec 2001 in T€	31 Dec 2000 in T€	31 Dec 2001 in T€	31 Dec 2000 in T€
Current liabilities				
Trade accounts payable	6,948	7,425	7,533	7,026
Accrued expenses	1,986	4,227	1,130	4,189
Other current liabilities	397	2,242	361	2,211
Total current liabilities	**9,331**	**13,894**	**9,024**	**13,426**
Minority interest	– 4	– 1		
Shareholders' equity				
Share capital	9,120	9,120	9,120	9,120
Additional paid-in capital	55,680	55,680	55,680	55,680
Retained earnings/accumulated deficit	2,154	1,652	4,121	2,484
Total shareholders' equity	**66,954**	**66,452**	**68,921**	**67,284**
Total liabilities and shareholders' equity	**76,281**	**80,345**	**77,945**	**80,710**

Income Statement (US-GAAP)

Income statement	3U Group		3U TELECOM AG	
	1 Jan 2001– 31 Dec 2001 in T€	1 Jan 2000– 31 Dec 2000 in T€	1 Jan 2001– 31 Dec 2001 in T€	1 Jan 2000– 31 Dec 2000 in T€
Revenues	62,350	57,431	56,979	57,631
Cost of revenues	–52,447	–48,206	–46,650	–48,043
Gross profit/loss	**9,903**	**9,225**	**10,329**	**9,588**
Selling and marketing expenses	–578	–2,073	–421	–2,073
General and administrative expenses	–5,995	–4,481	–5,243	–4,136
Other operating income	228	167	1,280	734
Other operating expenses	–3,754	–1,749	–2,036	–1,748
Amortization and impairment of goodwill	–139	0	0	0
Operating income/loss	**–335**	**1,089**	**3,909**	**2,365**
Interest income and expenses	1,673	2,434	1,974	2,449
Other income/expense	156	0	–2,993	0
Result before income taxes (and minority interests)	**1,494**	**3,523**	**2,890**	**4,814**
Income tax	–1,001	–2,040	–1,253	–2,498
Result before minority interest	**493**	**1,483**	**1,637**	**2,316**
Minority interest	–8	–1		
Net income/loss	**501**	**1,484**	**1,637**	**2,316**
Depreciation and amortization	1,037	643	764	580
Net income per share (basic)	0.05	0.16	0.18	0.25
Weighted average shares outstanding (basic)	9,120	9,120	9,120	9,120

Cash Flow Statement (US-GAAP)

Cash flow statement	3U Group		3U TELECOM AG	
	1 Jan 2001– 31 Dec 2001 in T€	1 Jan 2000– 31 Dec 2000 in T€	1 Jan 2001– 31 Dec 2001 in T€	1 Jan 2000– 31 Dec 2000 in T€
Cash flows from operating activities				
Net profit/loss	501	1,483	1,637	2,316
Adjustments for:				
Minority interests	– 4	– 1		
Depreciation and amortization	1,176	643	764	580
Increase/decrease in provisions and accruals	– 2,240	1,177	– 2,928	4,002
Change in net working capital	– 10,031	– 27,778	– 5,812	– 31,976
Net cash provided by/used in operating income	**– 10,598**	**– 24,476**	**– 6,339**	**– 25,078**
Cash flows from investing activities				
Purchase of property, plant and equipment	– 2,913	– 20,797	– 7,184	– 21,787
Proceeds from sale of equipment	15	7,500	15	7,500
Net cash used in investing activities	**– 2,898**	**– 13,297**	**– 7,169**	**– 14,287**
Cash flows from financing activities				
Other	0	– 91	0	– 91
Net Cash provided by/used in financing activities	**0**	**– 91**	**0**	**– 91**
Net increase/decrease in cash and cash equivalents	**– 13,496**	**– 37,864**	**– 13,508**	**– 39,456**
Cash and cash equivalents at beginning of period	17,061	54,925	15,469	54,925
Cash and cash equivalents at end of period	**3,565**	**17,061**	**1,961**	**15,469**

Notes to the Consolidated Financial Statements per 31 December 2001 according to US-GAAP

1 General Principles for the Preparation of the Consolidated Financial Statements

The consolidated financial statements for 3U TELECOM AG, Eschborn, per 31 December 2001 were prepared in accordance with US Generally Accepted Accounting Principles (US-GAAP). The cost of sales method was chosen for the consolidated income statement.

2 Consolidated Group, Consolidation Method

3U TELECOM AG and the following subsidiaries are included in the consolidated financial statements:

Registered Office	**Milan** (Italy)	**Zurich** (Switzerland)	**Paris** (France)	**Vienna** (Austria)	**Hilversum** (Netherlands)
Company name	**3U TELECOM S. R. L.**	**3U TELECOM AG**	**3U TELECOM SARL**	**3U TELECOM GmbH**	**3U TELECOM B. V.**
Subscribed equity capital	**€ 300,000**	**CHF 500,000**	**€ 1,000,000**	**€ 250,000**	**€ 100,000**
Interest held by 3U AG	(99.0 %)	(99.996 %)	(100 %)	(99.97 %)	(100 %)
Facts mandating the companies' inclusion in the consolidation	Controlling influence	Controlling influence	Controlling influence	Controlling influence	Controlling influence

Consolidated financial statements were prepared for 3U TELECOM AG and its subsidiaries for the first time as per 31 December 2000. Capital consolidation was done in accordance with the purchase method *(Erwerbsmethode)*. The capital consolidation in the previous year did not result in the reversal of hidden reserves, so no adjustments in the following years need to be made. Any goodwill, which was generated from the previous year and which was set off against consolidated reserves, remains unchanged.

With respect to the capital increase carried out at the Italian subsidiary during the fiscal year and the payment into the capital reserve accounts in lieu of a cash capital contribution, the amount of the capital increase equalled the acquisition costs of the parent company's shares. Thus, the hidden reserves did not need to be reversed. As per 31 December 2001, the equity capital proportion was set off against the book value of the equity investment, and such set off had no effect on operating results.

Any intra-Group loans and other receivables, payables, revenues, expenses and income have been eliminated. No intra-Group profits arose since goods and services supplied within the Group were set off against one another at cost price. Since accounts receivable held against affiliated enterprises were written down to the lower ascribed value in the parent company's individual balance sheet, accounts receivable did not match up with accounts payable. Debts were consolidated, and the resulting differences recorded as income or expenses. The amount was set off against the item shown in the individual balance sheet and labelled "other income/expenses".

The record date for the Group financial statements as well as those of all enterprises included in the Group is 31 December 2001.

3 Information concerning the Consolidated Balance Sheet and Consolidated Income Statement

3.1 Accounting and Valuation Methods

The annual financial statements of the consolidated enterprises are prepared in accordance with standard accounting and valuation principles or are adjusted accordingly as part of the consolidation.

3.2 Currency Translation

The currency translation for the annual financial statements of the Swiss subsidiary was carried out according to the temporal method. Long term items (fixed assets and equity capital) were converted at the historical rates as of the date of acquisition, and short term items (cash and cash equivalents, receivables, other assets, short term liabilities and provisions) were converted as of the balance sheet date. Items on the income statement were converted at the average exchange rate for the year. The differences resulting from the currency translation were recorded either as an expense or as income in the income statement.

3.3 Cash and Cash Equivalents

The cash and cash equivalents item of the parent company and its non-German European subsidiaries consists primarily of the current account and time deposit accounts held at Baden-Württembergische Bank AG.

These items were booked at their face value.

The item consists of the following:

	31 Dec 2001 in €
Baden-Württembergische Bank AG	
Current account	427,611.31
Time deposit account	1,533,875.64
ABN Amro Bank, The Netherlands	
Current account	119,505.08
Time deposit account	7,646.44
Caisse d'Épargne, France	49.52
Bank Cial, France	
Current account	115,061.30
Time deposit account	64,376.12
Südtiroler Volksbank	310,213.23
Poste Italiane SPA	782.95
Banca Commerciale Italiana	393.34
UBS Bank, Switzerland	79,818.99
Bank Austria	611,532.01
Bank Austria	294,301.72
	3,565,167.65

The current accounts may be closed on a daily basis. At the time of purchase, the time deposit accounts had a time to maturity of no more than one month.

3.4 Short-Term Securities

This item includes the FLR notes issued by BW Bank Ireland (€ 25,513,000), which were booked at their lower ascribed value.

3.5 Trade Receivables

Trade receivables were recorded at their face value, unless write-offs were necessary. The trade receivables had a book value totalling € 10,203,000 and consisted primarily of claims that the German parent company had against Deutsche Telekom AG (€ 7,956,000), claims held against other carriers (€ 50,000), and customer claims held by the subsidiaries in Switzerland (€ 60,000), Austria (€ 982,000), Italy (€ 899,000), France (€ 108,000) and the Netherlands (€ 1,948,000). The subsidiaries wrote off bad debts on trade receivables totalling € 1,737,000, and the parent company wrote off € 64,000.

3.6 Prepaid Expenses and Other Short-Term Assets

The item "other assets" consists of interest claims (€ 70,000), Value Added Tax claims against the German Government (€ 1,118,000), Value Added Tax claims against foreign governments (€ 846,000), miscellaneous claims (€ 13,000) and pre-paid expense items (€ 8,200,000). The pre-paid expenses consist primarily of access fees for interconnection lines and leases for network sections. The accrual is in an amount that accords with the minimum contract term.

Receivables and other assets have a term to maturity of up to one year.

3.7 Tangible Assets

The tangible assets were depreciated on a straight-line basis.

The depreciation is based on the following useful life periods:

Office buildings	33 years
Plant equipment	4 years
Office equipment	4–8 years
Switching equipment	5 years
Transmission equipment	5 years

The development of the tangible assets is set forth in the asset movement schedule appended hereto as an Annex.

3.8 Intangible Assets

Intangible assets were valued at their cost of acquisition, less scheduled amortization based on a straight-line method.

The German telecommunications licences (licence classes 3 and 4), which were acquired during fiscal year 1999, were granted for an indefinite period of time and amortised as intangible asset over an indefinite useful life (but no more than 40 years). The asset is amortised in the year of receipt on a pro rata temporis basis.

The telecommunication licences in Switzerland, Italy, the Netherlands, France and Austria were acquired in fiscal year 2000. The accumulated costs of acquisition here for are € 491,000. The Swiss licence has been granted for a useful life of 10 years, and the French licence for a useful life of 15 years. The licences are amortised on a pro rata temporis basis according to their useful life. In Italy, the Netherlands, and Austria the assets will be amortised over a 40-year period in accordance with APB (Accounting Principles Board Opinion 17) since the licences have been granted for an indefinite period and no economic deterioration is likely to occur.

The development of the intangible assets is set forth in the asset movement schedule, which is appended hereto as an Annex.

3.9 Financial Assets

Financial assets were recorded on the balance sheet at their cost of acquisition. As of the balance sheet date, there was no need to make adjustments to this value. The units held in the JB-Otto fund were entered under the balance sheet item “long-term securities”. These securities are part of a special fund offered by Julius Bär Kapitalanlagegesellschaft. The units were valued at the lower cost of acquisition (€ 19,097,000). As of the date of the financial statements, the listed value was € 19,392,000.

3.10 Goodwill

The customer base of TelePassport in Austria, which was purchased by 3U TELECOM GmbH (Vienna) during the fiscal year, was recorded as goodwill. The acquisition costs of € 334,000 are subject to amortization in the amount of € 139,000. A useful life of two years was the basis for the amortization.

3.11 Deferred Taxes

A reserve for deferred tax assets was established for the differential that resulted from the additional amortization of the telecommunication licences (€ 7,000, cumulative € 43,000). For purpose of trade tax and corporate income tax, a tax rate of 48 % was assumed. In addition, a deferred tax asset reserve was created for the tax loss carry forwards held by the consolidated subsidiaries. The amount entered in this reserve reflected the corporate income tax rate applicable to those subsidiaries. With respect to the subsidiaries domiciled in Switzerland and the Netherlands, the asset items created were written down to € 0 since it is likely that the losses will not be used up in the foreseeable future. With respect to the subsidiaries in France and Italy, the asset items established were discounted. The subsidiary in Austria is expected to use up its tax loss carry forwards as early as the next fiscal year.

3.12 Accounts Payable

Accounts payable were posted according to the amount at which they were to be repaid. They have the following terms to maturity:

(in T€)	Total	Up to one year
Trade payables	6,948	6,948
Other accounts payable	397	397
	7,345	**7,345**

3.13 Provisions

The provisions constitute obligations that will arise with relatively great certainty (i. e., probable) and must therefore be accounted for on the balance sheet. The provision is entered on the balance sheet based on the amount for which a claim is expected to be enforced.

The tax provisions consist of trade tax and corporate income tax, including the solidarity surcharge (€ 836,000). This item was calculated in light of the parent company's recommendation for profit distribution dated 1 March 2002.

The development of the other provisions is set forth below:

(in T€)	Status 1 Jan 2001	Use	Addition	Reversal	Status 31 Dec 2001
Connection services	1,902	1,902	500	0	500
Preparation and review of the annual financial statements	48	48	185	0	185
Royalties	32	32	160	0	160
Vacation accruals	87	87	85	0	85
Invoicing costs	0	0	73	0	73
Network lease payments	36	36	63	0	63
Customer promotion	13	13	50	0	50
Supervisory Board	20	20	16	0	16
Travel costs	29	29	0	0	0
Salaries including bonus	205	41	0	164	0
Rent	4	4	0	0	0
Miscellaneous	27	27	17	0	17
Total	**2,403**	**2,239**	**1,149**	**164**	**1,149**

3.14 Changes in Equity Capital

(in T€)	Status 1 Jan 2001	Additions/ disposal	Status 31 Dec 2001
Subscribed capital	9,120	0	9,120
Capital reserves	55,680	0	55,680
Earnings reserves	0	0	0
Balance sheet profit	1,652	501	2,153
Total	**66,452**	**501**	**66,953**

The Company's registered share capital is € 9,120,000.00. The registered share capital consists of 9,120,000 registered no par value shares with a theoretical value of € 1.

The capital reserves account equalling € 55,680,000.00 was created by virtue of the premium paid in connection with the initial public offering and represents the difference between the € 30 per share issue price and theoretical value of € 1 per no par share.

No earnings reserves were set aside in 2001.

No dividends are expected to be paid to the shareholders for fiscal year 2001. The annual net income of € 1,637,000 (of the parent company) will be brought forward.

3.15 Revenues

Revenues are recorded when they are recognised. Revenues are recognised when the services are rendered. Revenues are generated exclusively from the Company's business activity as a network carrier.

3.16 Costs of Production for the Services rendered to generate Revenues

The item, "Production costs of the services rendered to generate revenues", contains primarily expenses for the connection services, the access fees for interconnections and leased lines, changes in inventory based on telecommunication systems and accessories sold, pro rata personnel costs, amortization of telecommunication licences, switching and transmission equipment, computer and operating equipment supporting the sales process, amortization of licences, proportionate vehicle and travel costs, rent and lease-related expenses for the business sites, telephone expenses, expenditures for maintenance and other costs. Contrary to the previous year, invoicing and collection expenses are no longer entered under the item "sales costs", but rather recorded under "administrative costs" in order to improve transparency and presentation.

3.17 Interest Income and Expenses

The interest from the step-up loan granted by Baden-Württembergische Bank AG and the FLR notes of BW Bank Ireland as well as the interest on the current and time deposit accounts have been shown under this item.

3.18 Income Taxes

This item consists primarily of the German corporate income tax, including the solidarity surcharge, and the parent company's trade tax. The loss carry forwards held by the consolidated subsidiaries reduce this figure.

4 Segment Reporting

Of the € 62,350,000 in revenues generated, the German parent company generated € 56,979,000. Both the parent company and the subsidiaries earned their revenues exclusively from their business as network carriers. Thus, no detailed segment reporting will be provided.

5 Financial Obligations as of 31 December 2001

(in T€)	2002	2003–2006	Beginning 2007
Leased office space	95	209	61
Vehicle leasing	146	177	0
Leased lines	141	364	155
Consulting agreements	22	0	0
Insurance	23	0	0

6 Miscellaneous Information

6.1 Management

In the fiscal year, the Management Board consisted of the following members:

Udo Graul, Marburg (Chairman), from 1 January – 31 December 2001;
Michael Schmidt, Lahntal, beginning 6 December 2001 (Deputy Chairman);
Roland Thieme, Lahntal, beginning 6 December 2001;
Manfred Schwarz, Marburg, from 12 November – 6 December 2001;
Wolfgang Lebrecht, St. Peter-Ording, from 1 January – 12 November 2001.

Total Management Board remuneration in the fiscal year was € 457,000.

6.2 Supervisory Board

The Supervisory Board consisted of the following members during the fiscal year:

Michael Leyener, attorney at law and notary, Marburg (Chairman);
Dr. Michael Kußmann, attorney at law, Duisburg (Deputy Chairman until 3 May 2001);
Jürgen Roth, university business graduate, Managing Director, Kirchhain (Deputy Chairman beginning 3 May 2001);
Bodo Rimpler, Bank Management Board member, Oldenburg;
Manfred Schwarz, university business graduate, Managing Director, Marburg;
Jürgen Bockholt, Bank Management Board member, Stuttgart.

Mr Schwarz did not actively serve on the Supervisory Board during his tenure as a Management Board member.

The members of the Management Board also serve on the following other Management Boards:

Michael Leyener:
Supervisory Board Chairman of MSB Bau- und Grundstücksverwaltungs GmbH, Marburg;
Marburger Spar- und Bauverein EG, Marburg.

Jürgen Bockholt:
Supervisory Board Chairman of BW-Immobilien GmbH, Stuttgart;
Supervisory Board Chairman of BW-Vermögensanlage GmbH, Stuttgart;
Supervisory Board member of Baden-Württembergische Kapitalanlagegesellschaft mbH, Stuttgart;
President of the Administrative Board of BW Vermögens-Management AG, Zürich (Switzerland); and
Deputy Chairman of the Administrative Board of WKV Bank GmbH, Stuttgart.

The remuneration for the Supervisroy Board members for fiscal year 2001 was € 139,000.

6.3 Employees

The average number of employees working for the enterprise during the year was 21.

6.4 Total Number of Shares held by Members of the Management and Supervisory Bodies

Management Board	4,200,740 shares
Supervisory Board	3,257,600 shares

6.5 Earnings per Share

The following table shows the earnings per share:

Numerator:	Annual net income (in €)	501,430.49
Denominator:	Shares (individual shares)	9,120,000
Earnings per share (in €)		0.05

3U TELECOM AG

Eschborn, 1 March 2002

The Management Board

Udo Graul Chairman	Michael Schmidt Management Board Member	Roland Thieme Management Board Member

Statement of Changes in Equity (US-GAAP) as of December 31, 2001

Statement of changes in equity	3U Group			3U TELECOM AG		
	Per 1 Jan 2001 in T€	Addition/ Decrease in T€	Per 31 Dec 2001 in T€	Per 1 Jan 2001 in T€	Addition/ Decrease in T€	Per 31 Dec 2001 in T€
Share capital	9,120	0	9,120	9,120	0	9,120
Additional paid in capital	55,680	0	55,680	55,680	0	55,680
Earnings reserves	0	0	0	0	0	0
Retained earnings	1,652	501	2,153	2,484	1,637	4,121
Total	**66,452**	**501**	**66,953**	**67,284**	**1,637**	**68,921**

Consolidated Analysis of Fixed Assets of the 3U Group

Consolidated analysis of fixed assets of the 3U Group (in T €)	Acquisition and production cost				
	Status 1 Jan 2001	Additions	Disposals	Re-bookings	Status 31. Dec 2001
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets and licences to such rights and assets					
Software	91	111	0	0	202
Telekommunication licenses	2,043	23			2,066
Total	**2,134**	**134**	**0**	**0**	**2,268**
2. Goodwill	0	334	0	0	334
Total intangible assets	**2,134**	**468**	**0**	**0**	**2,602**
II. Tangible assets					
1. Land, land rights and buildings including buildings on third party land	0	906	0	0	906
2. Technical equipment and machines					
Switching technology	1,802	574	0	0	2,376
Transmission technology	1,259	830	8	0	2,081
Total	**3,061**	**1,404**	**8**	**0**	**4,457**
3. Plant and office equipment					
Plant equipment	67	7	3	0	71
Office equipment	128	119	8	0	239
Low value items	0	9	9	0	0
Total	**195**	**135**	**20**	**0**	**310**
Total tangible assets	**3,256**	**2,445**	**28**	**0**	**5,673**
III. Financial assets					
1. Long term investments	19,097	0	0	0	19,097
Total financial assets	**19,097**	**0**	**0**	**0**	**19,097**
Total fixed assets	**24,487**	**2,913**	**28**	**0**	**27,372**

	Accumulated depreciation				Book Values	
	Status 1 Jan 2001	Additions*	Disposals	Status 31. Dec 2001	Status 31. Dec 2001	Status 31. Dec 2000
	17	44	0	61	141	74
	89	67	0	156	1,910	1,955
	106	**111**	**0**	**217**	**2,051**	**2,029**
	0	139	0	139	195	0
	106	**250**	**0**	**356**	**2,246**	**2,029**
	0	6	0	6	900	0
	461	428	0	889	1,487	1,341
	350	409	2	757	1,324	909
	811	**837**	**2**	**1,646**	**2,811**	**2,250**
	19	17	1	35	35	48
	38	56	1	93	147	90
	0	10	9	0	0	0
	57	**83**	**11**	**128**	**182**	**138**
	868	**925**	**13**	**1,780**	**3,893**	**2,388**
	0	0	0	0	19,097	19,097
	0	**0**	**0**	**0**	**19,097**	**19,097**
	973	**1,175**	**13**	**2,136**	**25,236**	**23,514**

* = Depreciation for the period

Auditor's Opinion

We have audited the consolidated financial statements and the group management report prepared by 3U TELECOM AG for the fiscal year of 1 January 2001 – 31 December 2001. The preparation of the consolidated financial statements and group management report in accordance with the US Generally Accepted Accounting Principles (US-GAAP) and supplemental provisions in the Articles of Association is the responsibility of the Company's statutory representatives. Our duty is to issue an opinion on the consolidated financial statements and group management report based on our audit.

We have conducted our audit of the consolidated financial statements in accordance with German provisions for conducting audits and in compliance with the generally accepted principles of auditing as stipulated by the German Institute of Auditors ("IDW"). According to these principles, the audit must be planned and executed in a manner such that any material misstatements affecting the net worth, financial and earnings position presented by the consolidated financial statements in compliance with generally accepted accounting principles and by the group management report can be identified with sufficient certainty. In determining the scope of the audit, our information on the business and the economic and legal environment of the Company as well as expectations with respect to possible errors are taken into account. In connection with the audit, the validity of the internal control system and the evidence supporting the information stated in the consolidated financial statements and the group management report are assessed on the basis of random sampling. The audit includes an evaluation of the annual financial statements of the companies included in the consolidated financial statements, the definition of the consolidated group, the accounting and consolidation principles applied, material estimates made by the statutory representatives, as well as an analysis of the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides an adequately secure basis upon which to issue our opinion.

Our audit did not result in any objections.

In our opinion, the consolidated financial statements present in all material respects an accurate reflection of the Group's net worth, financial and earnings position in compliance with generally accepted accounting principles. The group management report presents an accurate reflection of the Group's overall position and correctly reflects the risks associated with its future development.

Kirchhain, 14 March 2002

B. Weber GmbH
Wirtschaftsprüfungsgesellschaft

Weber
Wirtschaftsprüferin (Auditor)

Report of the Supervisory Board of 3U TELECOM AG

(1) The Management Board has kept the Supervisory Board informed of current business developments and the Company's position as well as of material transactions and events, specifically at the Supervisory Board meeting held on 19 December 2001.

The Supervisory Board has used this information to monitor the activities of the Management Board and has verified that the business has been duly and properly managed. The "Finances" committee, which met three times in 2001 and the "Technology and Market and Management Board Questions" committee, which met once, supplemented and assisted the Supervisory Board in its activities. Any instances in which the Management Board had requested the Supervisory Board's consent for acts requiring such consent were as a rule dealt with by circular memorandum.

As a result of the activities of the international subsidiaries, the Management Board was increased in November 2001 from two to three members.

In April 2001, the Management Board submitted a risk handbook (documentation of the risk management and risk anticipation system). Pursuant to audit of the annual and consolidated financial statements, the Supervisory Board also commissioned the accounting firm to audit the risk anticipation system. In addition, the Supervisory Board also commissioned the accounting firm to audit the Company's internal control system.

(2) In 2001, the Supervisory Board met a total of six times: on 9 March, 3 May, 8 August, 29 September, 12 November, and 19 December 2001.

(3) The annual financial statements submitted by the Management Board for 3U TELECOM AG per 31 December 2001, the management report for fiscal year 2001, the consolidated financial statements per 31 December 2001, and the group management report for fiscal year 2001 were audited and granted an unqualified audit opinion by the accounting firm Wirtschaftsprüfergesellschaft B. Weber GmbH, Kirchhain, which was appointed as the financial statement auditor. There were no objections to the results of the audit.

(4) Taking into account the audit report prepared by the accounting firm, the Supervisory Board reviewed the annual financial statements, the consolidated annual financial statements per 31 December 2001, the management report and the group management report, as well as the proposal for the use of balance sheet profit (according to which € 3,455,685.55 is to be carried forward as profit). There were no objections.

On 11 March 2002, the Supervisory Board held a meeting, which was attended by the management board member and Managing Director of the accounting firm in addition to all the Supervisory Board members. The financial statement auditor reported on the material results of the audit and provided supplemental information.

The Supervisory Board unanimously approved the annual financial statements per 31 December 2001 prepared by the Management Board. The financial statements are thereby adopted.

The reports of the accounting firm prepared in connection with the supplemental audits (item 1, paragraph 4) were discussed in the meeting on 11 March 2002. The Management Board issued an opinion on the results. The Management Board will implement the auditor's recommendations for possible improvements in the systems, particularly in the areas involving payment reminders and debtor accounting.

(5) The Supervisory Board thanks the Management Board and the employees for their work during the reporting year.

Marburg, dated 11 March 2002

The Supervisory Board

Michael Leyener
Chairman

Glossary of Telecommunications Terms

Backbone
The long-distance telecommunications network which links the connection points together.

Bandwidth
The transmission capacity of a wired network.

Call-by-call
"Real" or "open" call-by-call enables the customer to choose one out of a number of telephone companies, from one telephone conversation to the next. This is done by dialling a 5-digit or 6-digit code before dialling the area code and the number. In Germany, this additional network code always starts with 010.
In the case of "call-by-call with preregistration", the customer must first be registered with the selected telephone company, but for "real" call-by-call no preregistration is necessary.

Element base charging
This is the basic accounting model used by Deutsche Telekom AG for passing on connections for other telephone companies on the basis of the network elements (connection points) actually used.

Switching in
When the customer has registered for "call-by-call with registration", his or her telephone line is switched in so that the telephone company's services can be used.

Call-connection charges ("start" charges)
Fixed amount payable for establishing each telephone connection, regardless of the length of the call.

Glass-fibre network
A glass-fibre network consists of cables containing thousands of tiny glass-fibre bundles (light-wave guides). These cables permit a far higher rate of transmission that conventional copper cable.

Interconnection fees
Fees charged by Deutsche Telekom AG for passing on connections for other telephone companies.

Least-cost routing (LCR)
Process by which a connection is initiated via whichever supplier is available and has the lowest cost at that moment. This varies by the time of day, etc.

Licences
The Regulatory Authority for Telecommunications and Post (RegTP) issues the necessary licences in Germany for the operation of transmission systems or providing speech telephony services. The various forms of authorisation are defined as Licence Classes 1 to 4.

Mainstream technology
Technology based on well known standard components in widespread use.

Preselection
Unlike call-by-call, preselection does not require a selection code to be dialled first. The choice of preferred provider is permanently programmed into the Deutsche Telekom AG exchange computer. In Germany, all connections other than local calls are then automatically routed via this other network. This requires preregistration, but it is still possible to use other providers on a call-by-call basis.

Point of interconnection
This is the place where the connection is technically produced. The detailed conditions affecting the Point of Interconnection such as interfaces, protocols, network management, billing management, and so on are covered by an "Interconnection Agreement" between the network operators involved.

Transmission technology
Technical equipment for converting electrical into optical signals, e. g. from copper to glass fibre.

Connection network operator
Also known as "VNB" in German, or Long Distance Carrier. All telephone networks for voice telephony carried via the local network are described as long-distance. "Pure" long distance carriers therefore do not install any subscriber connections, but offer telecommunications services via the long distance network via their own or rented telecommunications infrastructures.

Long distance carrier identification number
This is the identification number, such as 01078, which the telephone customer can dial before dialling the area code and the number, in order to establish the connection via the required telephone company (call-by-call). The usual English term is "carrier code".

Exchange technology
Equipment for establishing the connection between telephone connections.

Glossary of Financial Terms

Break-even
The point (in time, usually, or else in business volume or revenue) at which cumulative income meets cumulative expenditure.

Cash flow
Figure showing the financial or profit strength of a company. The cash flow is calculated from the inflow and outflow of payments (cash or equivalent) from on-going business activities.

Return on equity (RoE)
Basically: a figure showing the profitability of a company by relating the earnings (annual profit) to the amount of equity capital in use.

Market capitalisation
Current price of a company's shares multiplied by the total number of that company's shares.

Earnings per share (EPS)
The EPS is an important indicator of the profitability of a company, and shows how much of the company's total profit is attributable to each share.

Return on sales
Financial indicator – it shows the relationship between pre-tax earnings in a company/group and the total sales revenue.

Return on investment
The "cash flow return on investment" (CFROI) is a control figure for investment decisions. It takes into account both the acquisition value and the returns to be expected in the future from the acquisition.

US-GAAP
The "Generally Accepted Accounting Principles" in use in the USA.

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