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3U TELECOM AG

Annual Report 2002

Summary of Group Results

Result — 3U Group (US GAAP)		Year-to-Year Comparison 2002	2001	Quarter-to-Quarter Comparison Q4/2002	Q4/2001
Revenues	(€ in millions)	65.97	62.35	15.59	14.76
Earnings/losses before taxes and appreciation/amortisation	(€ in millions)	7.51	2.68	1.40	0.95
Earnings/losses before taxes	(€ in millions)	4.02	1.50	0.86	0.70
Net income/loss for the period	(€ in millions)	1.78	0.50	1.12	0.15
Earnings per share	(in €)	0.20	0.05	0.13	0.02
Earnings yield (earnings/losses before taxes and appreciation/amortisation)	(in %)	11.38	4.30	9.01	6.42
Equity ratio	(in %)	86.72	87.77	86.72	87.77
Return on equity (earnings/losses before taxes)	(in %)	5.84	2.24	1.25	1.05

3U-Markets 2002	3U-Markets 2001
Germany	Germany
Switzerland	Switzerland
Austria	Austria
Netherlands	Netherlands
Italy	Italy
France	France
USA	

Content

Letter to our Shareholders

Udo Graul
(Management Board Chairman)

Photo: © Gabriele Kircher, Marburg

Dear Shareholders,

3U TELECOM had a successful and promising business year.

The defining feature of 2002 was the crisis in the telecommunications market. Many of our competitors were no longer able to assert themselves in the market, and a number of them were forced to close. Today, there are hardly any companies in the fixed line network sector that still manage to generate a profit.

In this respect, 3U has been able to clearly distinguish itself. From the very beginning, we have focused on our core competencies, which involve fixed line network telephony, and have continuously generated profits.

As expected, we closed out 2002 in a financially solid position with good earnings.

To achieve this end, we exploited and then extended our cost leadership edge on the basis of our proven business model. We have committed ourselves to pursuing a corporate strategy that focuses on positive growth. Thus, in general, the objectively difficult market situation offers our company more opportunities than risks.

After having successfully executed certain projects like the acquisition of Talkline's preselection customers or the start-up of operations in the United States, we shall continue to pursue growth in 2003. Since the fixed line sector currently promises hardly any new organic growth, we would like in the future to focus primarily on external growth and are reviewing acquisition prospects both domestically and abroad. We are now present in six European countries and the United States, and such presence offers a broad basis for strategic options. This basis will be enlarged further with the planned expansion in Europe (initially in Great Britain, Belgium and Luxembourg). Additional synergies will arise.

For us, external growth does not mean revenue growth at any cost. Consistent with our corporate philosophy, earnings remain our most important objective. Thus, we will continue in the future to set very strict prerequisites on any potential acquisition targets. This is a fundamental principle underlying our successful business model. We see good growth prospects for our company. 3U TELECOM has the potential, the competence and the ambition to continue to grow profitably.

We invite you to join us in the endeavour.

Best regards

Udo Graul
Management Board Chairman

Dates and Facts

■ January

3U continues its fair, low rate policy even after the Euro launch
In converting the telephone rates into the Euro currency, the prices that had previously applied were converted very precisely to the 1/1000th Euro. There are no hidden price increases. Rates were still calculated on a per-second interval basis.

Local calls in France
Since the beginning of the year, it is now possible for alternative telephone providers to offer local calls in France as well. Accordingly, 3U France also expands its product package to include local calls.

■ February

LineCall (formerly LineTalk) acquires preselection customers from Talkline
Agreement is concluded with Talkline for transferring its preselection customers to LineCall Telecom GmbH, a wholly-owned subsidiary of 3U TELECOM AG.

■ March

3U reports profits for 2001
In 2001, 3U developed into an international telecommunications group and was already doing business in six European countries. It was able to earn profits even during the expansion phase of 2001 when big investments were being made. With an 8.6 % increase in sales to € 62.35 million, the Group was able to generate earnings before taxes, depreciation and amortisation of € 2.68 million in 2001. Annual net income was € 0.5 million. All investments were financed without the use of any debt capital. The majority of net proceeds collected through the initial public offering continue to be at the company's disposal and may be used for additional strategic options.

Local calls in Switzerland
At the end of March 2002, 3U began switching local calls in Switzerland.

■ April

Reduction of the Supervisory Board
The Supervisory Board resigned on 8 April 2002, and the resignation took effect at the conclusion of the Shareholders' Meeting. This action was taken in order to implement the plan for reducing the size of the Supervisory Board from six members to three members and for reconstituting the Supervisory Board.

■ May

Creation of authorised capital
On 17 May 2002, the shareholders approved the creation of authorised capital in the amount of € 4,560,000 and the concomitant amendments to the Articles of Association.

New Supervisory Board
The shareholders approved the decision to reduce the size of the Supervisory Board from six to three members and elected a new Supervisory Board.

3U increases its return on sales in the first quarter by over 50 %
In the first quarter of 2002, the 3U Group improved its earnings before taxes, depreciation and amortisation (in accordance with US GAAP) by 51.16 % to € 1.30 million (€ 0.86 million)* on sales of € 14.65 million (€ 14.79 million)*. This represents a return on sales of 8.87 % (5.85 %)*. The Group's earnings before taxes

*Comparative period in 2001

improved by 46.97 % from € 0.66 million in the first quarter of 2001 to € 0.97 million in the first quarter of 2002. The Group reported quarterly after-tax earnings of € 0.02 million (€ 0.38 million)*.

■ July

3U acquires an interest in carrier24

3U acquired a 15 % holding in the network carrier, carrier24 GmbH. Carrier24 had previously acquired Energis' German network, which 3U also used.

■ August

3U quintuples its pre-tax earnings
in the first half of 2002
and helps carry Austria into the profit zone

The Group's half year earnings before taxes as defined under US GAAP was € 2.64 million (€ 0.52 million)* on sales of € 31.90 million (€ 31.44 million)*. The Group's quarterly earnings before taxes improved from € –0.14 million in 2001 to € 1.67 million in the second quarter of 2002.

■ September

Start-up in the United States

On 29 September 2002, 3U launched operations simultaneously in every state of the United States.
Even in the United States, 3U offers low rates, which are billed on a second-by-second basis, thereby clearly distinguishing itself from its competitors. The standard in the US had to date been invoicing by-the-minute or higher units.

■ December

3U applies for admission into the Prime Standard

In view of the planned stock market re-segmentation, 3U filed an application to be included in the Prime Standard. In a related development, it was announced that beginning in 2003 only one designated sponsor will be required. 3U engaged the Landesbank Baden-Württemberg to act as its designated sponsor.

*Comparative period in 2001

3U Shares

Neuer Markt 2002

The price development for 3U shares was influenced in 2002 by the continued decline in all indices of the *Neuer Markt,* and the company was unable escape from being swept into the general decline in stock market prices. Since mid 2002, however, 3U has fared significantly better than the Nemax All-Share Index.

The Management Board is of the opinion that the stock price does not currently reflect the potential and growth opportunities of 3U TELECOM.

The sum of available liquid assets and short-term investments (marketable securities) is over € 57 million and is therefore significantly higher than the market capitalisation of € 35.11 million as of 31 December 2002, which is based on price per share of € 3.85*.

In fiscal year 2003, we expect an increase in the average trading volume since the percentage of freely floated shares has risen dramatically from 23.23 % to 36.59 %. This will certainly help improve the attractiveness of 3U shares and should have a favourable impact on the share price.

Investor Structure

As of 31 December 2002, current members of the governing bodies have the following shares with full voting and dividend rights:

Management Board

Udo Graul (Chairman)	1,750,740 shares
Michael Schmidt	1,750,000 shares
Roland Thieme	700,000 shares

Supervisory Board

Hubertus Kestler (Chairman)	0 shares
Ralf Thoenes (Deputy Chairman)	0 shares
Gerd Simon	0 shares

Analyst Recommendations

3U is the only *Neuer Markt*-listed telephone company, in which analysts still have confidence.
(Source: the German financial newspaper, Handelsblatt, 18 October 2002, an analysis from Thomson Financial Datastream)

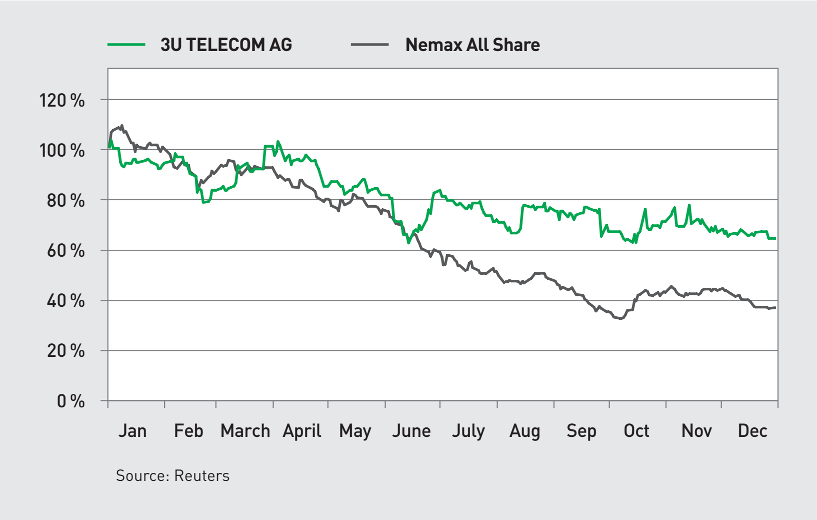
Investor Relations

The goal of our investor relations work is to present our profitable and solid enterprise to the financial world through comprehensive, transparent and continuing information and communication and to highlight our growth potential. In the recently completed fiscal year, we engaged in a variety of group and individual conferences and organised a DVFA-Analyst Conference, in order to highlight the 3U's current position, its financial performance, and its development and growth prospects. We are committed to continuing this work.

* Daily closing price Xetra

Summary of 3U shares		
Securities Identification Code		516790
International Securities Identification Number (ISIN)		DE0005167902
Stock exchange symbol		uuu
Trading segment		*Neuer Markt*
Industry key		Telecommunication
Designated Sponsors		Baden-Württembergische Bank (until 31 December 2002) SchmidtBank (until 30 November 2002) Landesbank Baden-Württemberg (beginning 1 December 2002)
Initial listing		26 November 1999
Registered share capital	(in €)	9,120,000.00
Stock exchange price at year end*	(in €)	3.85 (31 December 2002)
Highest price*	(in €)	6.20 (3 January 2002)
Lowest price*	(in €)	3.74 (14 June 2002)
Number of shares		9,120,000
Market capitalisation per year end	(in € million)	35.11
Earnings per share (basic)	(in €)	0.20

* Daily closing price Xetra



Share price trend for 3U TELECOM AG from January 2002 to December 2002 in comparison to the Nemax All Share

The Group and its Philosophy

3U is an international telecommunications company doing business in the fixed line network telephony sector. The company is committed to implementing the synergies which arise from its own European telephone network and through its international expansion. The price advantages, which yielded thereby, are passed on to our customers.

3U's goal is to position itself more strongly in the European fixed line network sector and, to this end, it focuses primarily on external growth. 3U is financially strong and profitable. The market offers a variety of strategic options, which 3U will exploit after careful review, if such action is expected to generate earnings growth and guarantee an increase in the company's value.

Pivotal determinants of 3U's development are the following corporate principles, which define the company's philosophy and, at the same time, serve as the basis for our business model:

- **Customer orientation**
- **Flexibility**
- **Entrepreneurship**
- **Profit orientation**
- **Competence**

It is our duty to be customer-oriented

3U offers global telephone services at inexpensive rates. Our products Call-by-Call and Preselection have very transparent price structures and offer second-by-second interval rates for the fairest billing. At the same time, our own European-wide telephone network guarantees the highest quality and availability. 3U does not require termination periods or an agreement on minimum turnovers. We would like to impress our customers solely through the service we provide, thereby ensuring their loyalty.
We process customer requests promptly and in a non-bureaucratic manner.

Our corporate structure is lean, flexible and adaptable

The principle of cost leadership is an important element of the 3U business model and the key to our success. The low fixed costs and high grade of automated processes in all areas thereby ensures the company's profitability. We are always seeking to maximise efficiency and to constantly optimise the business processes within the company. All structures of our company work flexibly and are adaptable. We are therefore in a position to react quickly to market requirements and to expeditiously and efficiently implement new courses of action.

We encourage entrepreneurial thinking and conduct by our employees

Because of the high degree of automation, we are able to implement our business model with relatively few employees.
Our flexible and flat organisational structure allows our employees to contribute their personality, professional competence and creativity. The area of responsibility for each employee requires a high degree of initiative and offers challenging work. 3U uses the most modern technology to benefit its customers and support its workers.

Profit orientation is a component of our basic philosophy

3U operates in a highly competitive market. In such an environment, success is guaranteed only if an enterprise continues to focus on cost efficiencies. Profit orientation is one of the key elements of our corporate policy and represents the basis for all business decisions.

We do not enter any lines of business in which we are not competent

Our business is fixed line network telephony. Although we are open to new ideas, we will approach only those projects in which we can utilise our core competencies and which are consistent with us and our ideas. We will enter into new strategic lines of business only if it is possible to sensibly integrate the new business line in accordance with 3U's corporate philosophy.

Description of Business Progress

Business Environment

The telecommunication markets continued to consolidate in 2002. The trade association, BITCOM, described 2002 as the "most difficult year in the history of the information technology and telecommunications sector (ITK)". A number of telecommunication companies have entered into a serious crisis or have had to completely capitulate. The price for Deutsche Telekom stock has since dropped into the single-digits, and Mobilcom was on the verge of bankruptcy. Lowering costs and retiring debt have become the most important tasks for most companies in the telecommunications industry. Investor confidence has reached rock bottom and must first be restored.

Business Development

3U has again proven its reliability in fiscal year 2002, closing out the year in a profitable and financially solid position.

The projects carried out in 2002 were successfully completed.

The acquisition of the Talkline preselection customers in the first half of 2002 proceeded as planned and significantly contributed to profits even before the end of 2002.

At the same time, this transaction allowed 3U to create the organisational prerequisites for continued external growth.

The high quality of our customer service is evidenced by 3U's excellent performance in a service study conducted by M&Oh Research Services on behalf of the business magazine, *Capital,* in September 2002. In an overall evaluation of the telecommunications industry, 3U obtained a first class result, sharing the top ranking together with four other enterprises. The study evaluated 4 mobile phone companies, 5 Internet providers and 16 fixed-line network providers doing business in the telecommunications sector. The survey examined the ability of companies to respond to customer enquiries using various channels (*via* e-mail, regular mail or telefax) and responses to telephone enquiries made to call centres. Moreover, the customer information available on the companies' Internet sites (web assessment) was evaluated.

In addition to customer service, an important criterion of quality for any telephone company is availability. Even the advantage of favourable rates loses its value if the customer is frequently faced with busy signals. Availability is therefore of great importance to telephone customers. Here again, 3U can report excellent results. Regular research conducted by Verivox shows that availability in the 3U networks is at times higher than even the Deutsche Telekom network.

Overall, 3U is well-equipped for further growth. Preparation for further growth also helps support continued expansion abroad. Such action allows us to establish a broad basis for strategic options, thereby increasing the potential for our company's planned external growth. At the same time, any synergies that arise may be exploited.

With the start-up in the United States, the expansion abroad was successfully continued in 2002. Operations were launched simultaneously in all States of the US at the end of September 2002.

Total investments made in 2002 were € 5 million. The focus of the investments was on acquiring customers from Talkline, software, transmission technology, office equipment and furnishings, and long-term investment securities.
All investments were funded exclusively from the company's cash reserves.

In European countries outside of Germany, expansion will continue. Operations are scheduled to be launched in Great Britain, Belgium and Luxembourg in the first half of 2003.

In France, Switzerland and Germany, 3U expanded its product range in fiscal year 2002 to include local calls. Since in Germany – unlike the other two countries – local telephone service has generally not yet been approved for alternative telephone providers, a special solution had to be reached. For this purpose, 3U formed a subsidiary (CityDial GmbH) together with Gerdes AG. 3U owns 50 % of CityDial GmbH. Using a patented technology, CityDial GmbH switches local telephone calls through a 3U network. The service requires the use of a certain router – a so-called "CityDial-Telescout" – which must be installed at the customer's home or place of business.

In Austria, 3U profited from the departure of a competitor from the market and acquired the customer base of former Mobilcom subsidiary, TelePassport, which does business in the voice telephony sector.

3U participated in a service test in Austria and came away with very good results.
In 2002, TÜV Austria (the Austrian Technical Inspection Institute), together with the firm known as digicom, tested the technical level regarding availability and connection times of 14 different fixed-line carriers over a three-month period. 3U achieved a ranking of fourth, even ahead of Telekom Austria.

Organisation and Corporate Structure

3U is a telecommunications company doing business in the fixed-line network telephony sector and focuses on the business lines known as call-by-call and preselection for private and business customers. Using 3U, customers are able to make inexpensive telephone calls in Germany, into foreign countries and into mobile telephone networks. This inexpensive telephone service can be used by deploying the call-by-call process, which involves dialling the 3U access code (in Germany 01078), or by pre-programming the 3U access code under the preselection process.

3U sees its core competency in the fixed-line network business. This business forms the basis for the company's organisation and corporate structure.

The use of modern technology and optimised and largely automated business processes is the foundation for a lean and flexible organisation. Our business model necessitates continuous monitoring and the improvement of all corporate processes as well as a resolute implementation of any synergies arising in connection with the expansion.

To this end, the staff is carefully and gradually matched with the requisite responsibilities. This strategy creates a needs-based organisational structure and, at the same time, guarantees a high degree of efficiency.

An example of this structure is our central multi-lingual customer care centre, where all customer enquiries from every European country are answered and preselection orders are processed. This structure is much more economical than creating a series of decentralised organisational units in various countries and, by concentrating competency and experience in one place, guarantees good customer service. Competent and motivated employees are the basis for a company's success. In addition to professional competency, we expect our employees to have a high degree of initiative and to engage in "outside-the-box" thinking.

Employees

A glance at the customer care center

The employee efficiency factor in our enterprise is very high and is probably the highest in the telecommunications industry, having generated € 1.69 million in revenues per employee in the recently completed fiscal year.

As of 31 December 2002, the 3U Group on the basis of full-time equivalency (part-time positions are rounded up to create full-time positions) employed 39 workers (24)*, of which 2 (1)* are employed abroad and 3 (3)* are Management Board members.

Management Board

Photo: © Gabriele Kircher, Marburg

Michael Schmidt, Udo Graul, Roland Thieme (from left to right)

The 3U Management Board members, who were also founders of the company, are the main shareholders of the company.

Udo Graul (Chairman): his areas of responsibility include strategic corporate planning, finance, personnel, marketing and sales.

Michael Schmidt is responsible for planning and developing the 3U telecommunications network.

Roland Thieme is responsible for technical operations, network support and IT.

Supervisory Board

The shareholders resolved on 17 May 2002 to reduce the size of the Supervisory Board from six to three members and elected the following persons to the Supervisory Board:

Hubertus Kestler (Chairman),
Attorney-at-law and Notary

Ralf Thoenes (Deputy Chairman), Attorney-at-law

Gerd Simon, Industrial Engineer

*Comparative figure for 2001

Group Financial Report

Group's Net Worth and Financial Condition

The **balance sheet totals** for the 3U Group in the recently completed fiscal year were € 79.26 million and increased by 3.90 % or € 2.98 million from 2001 to 2002.

Fixed assets accounted for € 26.21 million of the balance sheet total.

Current assets increased to € 52.90 million (€ 49.55 million)* of the balance sheet total.

Equity capital rose slightly from € 66.95 million in 2001 to € 68.73 million in fiscal year 2002. With a balance sheet total of € 79.26 million, 3U at the Group level has an equity ratio of 86.72 %.

The **debt** as a **ratio** of the balance sheet total increased to 13.28 %.

There is no **debt owed to any financial institutions** within the Group.

Overall, 3U has a very solid capital structure.

On 17 May 2002, the shareholders resolved to create authorised capital in the amount of € 4,560,000 and approved the requisite amendment to the Articles of Association.

3U's liquidity position is very good. The sum of all available liquid assets and short-term investment securities is € 57.49 million, whereby **liquid assets** increased from € 3.57 million in 2001 to € 16.28 million in 2002.

As a result of its regularly earned net income and its stringent investment and acquisition policy, the company still has at its disposal a large proportion of the net proceeds generated from the initial public offering.

Earnings

In the recently completed fiscal year, the Group's annual earnings increased by 256 % to € 1.78 million compared to 2001 (€ 0.5 million)*. In 2002, the Group reported € 65.97 million (€ 62.35 million)* in revenues, which represents an increase of 5.81 % from 2001.

The Group's annual net income was reduced as a result of a € 1.5 million partial write-off in the third quarter of 2002 relating to the voice telephony licence in Germany. The background to this write-off is as follows: Based on an amendment to the Telecommunications Fee Ordinance, the fee for a national Class 4 Licence was reduced to € 4,000. 3U had purchased such a licence in 1999 for € 1.53 million. Since the value of such licences is now only € 4,000, the difference of € 1.5 million had to be written off in the third quarter. The earnings were further negatively affected by the € 0.22 million partial write-off on the infrastructure licence in France, which became necessary as a result of the technical reconfiguration of the network. There were also unforeseeable losses (defaults) on accounts receivable in the wholesale sector.

Earnings before taxes, depreciation and amortisation in 2002 were € 7.51 million (€ 2.68 million)*. Pre-tax earnings rose by 168 % to € 4.02 million (€ 1.50 million)*.

Earnings per share rose by 300 % to € 0.20 in 2002 (€ 0.05)*.

*Comparative figure for 2001

Risk Report

Risk Management

Every form of business activity is subject to risk. It is not possible to earn profits over a longer period of time without knowingly assuming risks. Thus, risks not only constitute dangers, but also represent a necessary requirement for entrepreneurial success.
Risk policy and the risk culture of a company establish the relationship between opportunity and risk and define the manner with which risk is handled.
The basis for a company's risk culture is the company's philosophy, which also influences its culture.
The following corporate principles are a crucial determining factor in the company's future direction, also with respect to the risk policies.

Thus, the principle:

- "We do not enter into on any line of business in which we are not competent",

dictates not only to a very significant extent the direction of the company, but also its risk policy. The long-term foundation of 3U's success has been its focus on the core competencies.

- "We will enter into new strategic lines of business only if it is possible to sensibly integrate the new business line in accordance with 3U's corporate philosophy".

Under this policy, a number of risks, which could arise based on a strategic orientation of the company, are avoided from the very outset.
On the other hand, a number of risks arise precisely because we focus on specific business sectors.
The assessment and weighting of market opportunities and market risks have a significant influence on how 3U competes in the business sectors and handles the risks.

The principle of cost leadership – as well as flexibility and competence – plays an important role here.

Another element, which distinguishes 3U's risk policy, is the principle:

- "Profit orientation is a component of our basic philosophy"

and

- "Profit orientation is one of the key elements of our corporate policy and represents the basis for all business decisions."

Although the stringent focus on the implementation of the 3U business model and the definition of specific and achievable goals lower risks, it also does not leave much room for creativity and fantasy.

3U operates on a market which has since become relatively unattractive for most competitors. Hardly any enterprise today can operate profitably in the fixed line network segment. On the surface then, 3U seems to be willing to accept a high degree of risk.
Upon closer examination, however, it becomes rapidly clear that 3U's successful business model has a more restrictive effect on willingness to accept risk and place greater value on such things as profits and competence.

Efficient risk management is a pre-condition for ensuring business success in the long term. The risk management procedures of 3U TELECOM AG and its subsidiaries have been documented in 3U's risk handbook. The risk management system is an integrated component of corporate management.

The risk handbook of 3U contains an analysis and evaluation of any risks, which could affect the development of business and the company's financial condition and earnings. By adjusting the risk control systems, the risks can then be managed.

The following are simply examples of some of the important areas of risk.

Regulatory Risks

The regulation of the telecommunications markets is done primarily at the national level and is therefore quite different both within Europe and throughout the world. The future development of the market will be greatly influenced by regulatory decisions made at the national and international levels. In Europe, these laws and regulations are expected to be harmonised as a result of EU legislation and decisions issued by the EU Commission. For example, amendments to the German Telecommunications Act are expected to be made in 2003. By 24 July 2003, various EU directives must be implemented into German law.
Regulatory risks are political risks. Individual enterprises do not have any influence on such risks. Therefore, one cannot reduce or limit such risks. One can only accept them. On the other hand, one should not overestimate such political risks. The liberalisation of the telecom markets has since developed to such an extent that the goal of promoting competition remains prominent and therefore any restrictions thereon are probably unlikely.

Market and Competition Risks

The strategic market objectives of 3U are geared towards long-term stability, growing revenues and earnings, the acquisition of new clients and an increase in its market recognition. The market risks to which 3U is exposed relate to the segment of fixed line network telephony. According to the 2002 annual report issued by the Regulatory Authority for Telecommunications and Post (RegTP), the volume of traffic in fixed line network connections (excluding DSL) as a whole declined slightly for the first time in 2002, but the share of alternative providers nevertheless continued to increase in this sector during that time period. Certainly the rise in mobile phone use has generally contributed to this slight decline in fixed line network traffic. One may nevertheless assume, however, that in the future the fixed line network will continue to enjoy a high degree of importance among voice telephony services. A market risk based on a pivotal change in customer behaviour will certainly not occur.

Competition is not expected to increase, but rather the market is currently in the midst of a consolidation phase. Since 3U is well-conditioned for a hardened competitive environment and because it has proven that it can generate sound profits even under the most difficult market conditions, the risks which 3U faces are lower than the opportunities which arise from such rigorous competition.

Infrastructure Risks

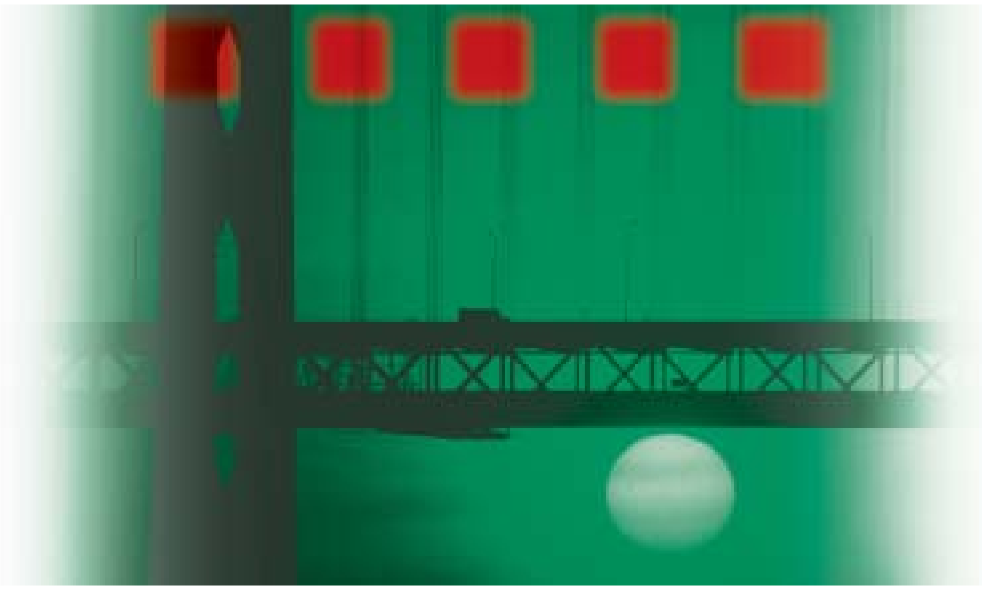
3U has a modern, high-performance network structure. The production processes are highly automated and will be protected by a number of technical security measures. These include, for example, network security and site-based emergency strategies. All risks and corresponding security measures for the line networks, switching and data technology have been described in a special security strategy report prepared by 3U TELECOM and filed with the RegTP.

Personnel Risks

A key part of 3U's success is based on the performance of its employees. 3U attaches a high degree of importance to its human capital as a valuable resource for effectively managing risk and therefore firmly believes in improving the qualifications of its employees. By providing an attractive compensation programme and an interesting and challenging work environment, 3U has managed to recruit and hold qualified employees for long periods of time.
To this, add 3U's solid financial basis and business development.

Co-operation and Investment Risks

In connection with its planned external growth, 3U will be faced with new opportunities and new risks. As a rule, the key to any successful acquisition is an expeditious integration and the exploitation of potential synergies. The risks that arise in this context are limited at 3U because of the company's corporate principle of focusing on earnings and its core competencies. This yields very stringent requirements for our acquisition targets. Our corporate structure offers the necessary organisational prerequisites for continued healthy growth.



Key Events during the Fiscal Year

The following events in fiscal year 2002 were significant for 3U:

- Agreement to acquire the preselection customers of Talkline in Germany.
  (February)

- As a result of Carrier1's bankruptcy, 3U suddenly lost one of its key suppliers. The risk management and risk control programmes, which were in place at 3U for precisely such a scenario, functioned as planned. No bottlenecks occurred, and the availability of 3U at no point in time became critical. With COLT Telecom, 3U was also able to find a substitute supplier very quickly and without any problems.
  (February)

- Creation of € 4,560,000 in authorised capital and a reduction in the size of Supervisory Board from six to three members, together with an election of a completely new Supervisory Board.
  (May)

- Purchase of a 15 % equity interest in the network carrier, carrier24 GmbH. In connection with the bankruptcy of network carrier Energis-Ision, carrier24 acquired the German network of Energis. 3U had leased the Energis' German network for 10 years and had paid in advance. In accordance with its internal corporate risk management principles, 3U had secured its advance payment through a performance guarantee so that the bankruptcy of Energis could not cause 3U any financial damages. The payments under the guarantee led to an increase in 3U's cash position. The equity investment in carrier24 was made because of its strong technical performance and in order to secure network access.
  (July)

- Operational start-up of 3U TELECOM INC. in the United States.
  (September)

Important Events following the Conclusion of the Fiscal Year

In the course of the stock market's new segmentation, 3U TELECOM AG was admitted into the Prime Standard. Its Designated Sponsor is Landesbank Baden-Württemberg.

Outlook

After the trade association BITKOM assessed 2002 as the "most difficult year in the history of the ITK sector", experts are now looking into the future with cautious optimism. In the telecommunications industry, cost optimisation and consolidation remain the single most important business challenge in 2003. This is the conclusion reached by the current TELCO-Trend of Mummert Consulting AG, a survey of 130 professionals and executives in the telecommunications industry. Last year, one-half of all respondents singled out cost optimisation as the most important business goal, while this year two-thirds of the respondents expressed this view.

The consolidation process will continue in 2003. 3U was nevertheless able to increase revenues and earnings in 2002, the "most difficult year in the history of the ITK industry".

Thus, additional market adjustments do not pose any risks for 3U. Contrary to the situation faced by competitors, these changes represent new growth opportunities for us.

Our solid financial condition, the profitability of our enterprise, and our presence in Europe and the United States provide a good foundation for seeking out acquisition opportunities. As a result of the planned expansion into Great Britain, Belgium and Luxembourg in the first half of 2003, we will indeed increase our strategic basis.

Balance Sheet (US GAAP) as of 31 December 2002

Assets — 3U Group (in T€)	31 Dec 2002	31 Dec 2001
Current assets		
Cash and cash equivalents	16,279	3,565
Short-term investments/marketable securities	21,543	25,514
Trade accounts receivable	9,203	10,203
Accounts receivable due from related parties	0	0
Inventories	23	23
Prepaid expenses and other current assets	5,854	10,247
Total current assets	**52,902**	**49,552**
Non current assets		
Property, plant and equipment	3,267	3,894
Intangible assets	3,253	2,051
Investments	19,666	19,097
Goodwill	28	195
Deferred taxes	142	1,492
Total non current assets	**26,356**	**26,729**
Total assets	**79,258**	**76,281**

Balance Sheet (US GAAP) as of 31 December 2002

Liabilities and shareholders' equity — 3U Group (in T€)	31 Dec 2002	31 Dec 2001
Current liabilities		
Trade accounts payable	5,914	6,948
Accrued expenses	4,327	1,986
Other current liabilities	319	397
Total current liabilities	**10,560**	**9,331**
Minority interest	–36	–4
Shareholders' equity		
Share capital	9,120	9,120
Additional paid-in capital	55,680	55,680
Retained earnings/accumulated deficit	3,934	2,154
Total shareholders' equity	**68,734**	**66,954**
Total liabilities and shareholders' equity	**79,258**	**76,281**

Income Statement (US GAAP)

Income statement 3U Group (in T€)	12-month report 1 Jan 2002– 31 Dec 2002	12-month report 1 Jan 2001– 31 Dec 2001	4th quarter 1 Oct 2002– 31 Dec 2002	4th quarter 1 Oct 2001– 31 Dec 2001
Revenues	65,967	62,350	15,594	14,761
Cost of revenues	–48,404	–52,586	–11,318	–11,268
Gross profit/loss	**17,563**	**9,764**	**4,276**	**3,493**
Selling and marketing expenses	–842	–578	–277	–198
General and administrative expenses	–6,968	–5,995	–2,249	–1,783
Other operating income	0	228	–315	–32
Other operating expenses	–6,332	–3,754	–845	–1,362
Operating income/loss	**3,421**	**–335**	**590**	**118**
Interest income and expenses	964	1,673	225	308
Other income/expense	–414	156	31	272
Result before income taxes (and minority interests)	**3,971**	**1,494**	**846**	**698**
Income tax	–2,235	–1,001	262	–553
Result before minority interest	**1,736**	**493**	**1,108**	**145**
Minority interest	–45	–8	–11	–5
Net income/loss	**1,781**	**501**	**1,119**	**150**
Depreciation and amortisation	3,492	1,037	548	245
Net income per share (basic) (in €)	0.20	0.05	0.13	0.02
Weighted average shares outstanding (basic) (per item)	9,120,000	9,120,000	9,120,000	9,120,000

Cash Flow Statement (US GAAP)

Cash flow statement — 3U Group (in T€)	1 Jan 2002– 31 Dec 2002	1 Jan 2001– 31 Dec 2001
Cash flows from operating activities		
Net profit/loss	1,781	501
Adjustments for:		
Minority interests	– 45	– 4
Depreciation and amortisation	3,492	1,176
Increase/decrease in provisions and accruals	2,341	– 2,240
Losses/gains on the disposal of fixed assets	302	0
Other	20	0
Change in net working capital	9,601	– 10,031
Net cash provided by/used in operating income	**17,492**	**– 10,598**
Cash flows from investing activities		
Purchase of property, plant and equipment	– 4,778	– 2,913
Proceeds from sale of equipment	0	15
Net cash used in investing activities	**– 4,778**	**– 2,898**
Cash flows from financing activities		
Net Cash provided by/used in financing activities	**0**	**0**
Net increase/decrease in cash and cash equivalents	**12,714**	**– 13,496**
Cash and cash equivalents at beginning of period	3,565	17,061
Cash and cash equivalents at end of period	**16,279**	**3,565**

Notes to the Consolidated Financial Statements as of 31 December 2002 in accordance with US GAAP

1 General Principles of Preparation

The consolidated financial statements of 3U TELECOM AG, Eschborn, for the fiscal year ending 31 December 2002, were prepared in accordance with the US Generally Accepted Accounting Principles (US GAAP). The consolidated income statement was organised in the cost of sales format *(Umsatzkostenverfahren)*.

2 Group of Consolidated Companies, Method of Consolidation

The consolidated financial statements include 3U TELECOM AG and the following companies as subsidiaries:

Subsidiaries of 3U TELECOM AG

Registered Office	Country	Company	Subscribed Share Capital	Share held by 3U TELECOM AG	Facts supporting consolidation
Milan	Italy	3U TELECOM S.R.L.	EUR 1,000,000	99 %	Controlling influence
Zurich	Switzerland	3U TELECOM AG	CHF 500,000	99.996 %	Controlling influence
Paris	France	3U TELECOM SARL	EUR 1,000,000	100 %	Controlling influence
Vienna	Austria	3U TELECOM GmbH	EUR 250,000	99.97 %	Controlling influence
Hilversum	Netherlands	3U TELECOM B.V.	EUR 100,000	100 %	Controlling influence
Brussels	Belgium	3U TELECOM S.P.R.L.	EUR 150,000	99.9 %	Controlling influence
Henderson (Nevada)	USA	3U TELECOM INC.	USD 0	70 %	Controlling influence
Luxembourg	Luxembourg	3U TELECOM SARL	EUR 15,000	100 %	Controlling influence
Eschborn	Germany	LineCall Telecom GmbH	EUR 50,000	100 %	Controlling influence
Meckenheim	Germany	CityDial GmbH	EUR 150,000	50 %	Significant influence

3U TELECOM S.P.R.L. (Belgium), 3U TELECOM INC. (USA), 3U TELECOM SARL (Luxembourg) and LineCall Telecom GmbH (Eschborn) were included in the consolidated financial statements of 3U TELECOM AG for the first time as fully consolidated enterprises. Capital consolidation was conducted in accordance with the acquisition method. CityDial GmbH was included as an associated enterprise under the equity method. The proportionate consolidation method was not used. These enterprises were newly formed in 2002.

With respect to the capital increase carried out at the subsidiary in Italy during the fiscal year and the cash capital contribution payment into the capital reserve account, the proportion of the capital increase equalled the acquisition price of the shares of the parent company. Hidden reserves therefore did not need to be reversed. As of 31 December 2002, the equity capital share was reconciled with the book value of the holding and the difference was not recorded as a gain or loss.

Any intra-Group loans and other receivables, payables, revenues, expenditures and income were eliminated. No intra-Group interim profits were booked since goods and services within the Group were invoiced at cost. Since the claims held against affiliated enterprises were written down to the documented value on the parent company's individual financial statements, accounts receivables did not match accounts payable. The debts were consolidated and the differences yielded therefrom recognised as a gain or loss. The gain was then booked to the item shown in the individual financial statements known as "Other Income/expenses".

The record date on the financial statements of the Group and all consolidated enterprises is 31 December 2002.

3 Notes concerning the Consolidated Balance Sheet and Consolidated Income Statement

3.1 Accounting and valuation methods

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

3.2 Currency translation

The currency translation in the annual financial statements of the Swiss and American subsidiaries was conducted in accordance with the temporal method *(Zeitbezugsmethode)*. Long-term items (fixed assets and share capital) were converted at the historical rates as per the date of acquisition, while short-term items (liquid assets, receivables, other assets, short term liabilities and provisions) were converted as per the record date of the financial statements. Items in the income statement were converted at the annual average exchange rate. The reconciliation of currency differentials was carried out and recorded as a gain or loss on the income statement.

3.3 Cash and cash equivalents

Cash and cash equivalents for the parent company are the current accounts held at Baden-Württembergische Bank AG and Postbank Frankfurt, and for the subsidiaries, they are the current accounts held domestically and abroad.

These assets are recorded at their nominal (face) value.

The items consist of the following (in €):

3U TELECOM AG	(Eschborn)	11,226,962.86
3U TELECOM GmbH	(Austria)	903,583.78
3U TELECOM AG	(Switzerland)	422,611.03
3U TELECOM S.R.L.	(Italy)	553,014.82
3U TELECOM SARL	(France)	375,707.09
3U TELECOM B.V.	(Netherlands)	185,912.30
3U TELECOM S.P.R.L.	(Belgium)	93,190.21
3U TELECOM INC.	(USA)	23,120.04
3U TELECOM SARL	(Luxembourg)	15,003.40
LineCall Telecom GmbH	(Eschborn)	2,479,803.02
		16,278,908.55

The current accounts may be terminated daily.

3.4 Short-term investments/Marketable securities

This item consists of the BW-Bank Ireland money market floater (T€ 21,543), which was recorded at its lower documented value.

3.5 Trade receivables

Trade receivables were booked at their nominal value, unless bad debt allowances or write-offs were required. The total book value of the trade receivables is T€ 9,203 and consists primarily of claims held by the German parent company against Deutsche Telekom AG (T€ 5,502), claims held against CityDial (T€ 62) and other carriers (T€ 305), as well as claims that the subsidiaries in Switzerland (T€ 92), Austria (T€ 813), Italy (T€ 168), France (T€ 449), the Netherlands (T€ 285) and LineCall Telecom GmbH (T€ 2,654) have against their own customers. The subsidiaries recorded a bad debt charge of T€ 937 on trade receivables, while the parent company wrote down T€ 191 in trade receivables.

During the fiscal year, T€ 876 was written off in Italy and T€ 1,739 was written off in the Netherlands. Defaults on receivables held by the German parent company were T€ 4,576.

3.6 Prepaid expenses and other short-term assets

Other assets consist of (in €):

Value added tax refund claim	894,753.26
Other assets	39,579.60
Claims against employees	18,140.66
Security deposits	27,537.25
Claims against carrier24	88,892.83
Tax claims	1,326,647.55
Claims of subsidiaries (primarily value added tax refund claims)	133,853.33
	2,529,404.48

The prepaid expenses items (T€ 3,324) consist primarily of availability fees for interconnection links and lease payments for network segments. Assets were allocated between accounting periods based on the minimum contract term.

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

3.7 Tangible assets

Moveable tangible assets are depreciated on a straight-line basis.

Assets were depreciation according to the following useful life periods:

Buildings and installations	33 years
Plant equipment	4 years
Office equipment	3–8 years
Switching technology	5 years
Transmission technology	5 years

The development of the tangible assets is shown in the asset movement schedule (development of Group fixed assets).

3.8 Intangible assets

The value of the intangible assets was recorded at their costs of acquisition, less any scheduled amortisation based on the straight-line method.

Most of the German telecommunication licences (licence classes 3 and 4), which were acquired in fiscal year 1999, were granted for an indefinite period of time and must be amortised as an intangible asset over an indefinite useful life, not exceeding a period of 40 years. In the year the asset is acquired, it is amortised on a *pro rata temporis* basis. In 2002, these assets were amortised on a non-scheduled basis because the replacement costs of the licences had dropped to T€ 4 per licence.

The telecommunication licences for Switzerland, Italy, the Netherlands, France and Austria were acquired in fiscal year 2000. The accumulated acquisition costs for these licences amount to T€ 491. The Swiss licence was granted for a 10-year period of use and the French licence for a 15-year period of use. The licences are amortised on a *pro rata temporis* basis in accordance their useful life. The Italian, Dutch and Austrian licences are amortised over 40 years in accordance with APB (Accounting Principles Board Opinion 17) since the licences were granted for an unlimited period time and there has been no economic depreciation.

Some of the telecommunication licences in France were returned, a transaction which was entered as a disposal of assets (residual book value) in the amount of T€ 221.

Furthermore, in 2002, LineCall Telecom GmbH acquired the fixed line customers of Talkline GmbH & Co. KG at a cost of acquisition equalling T€ 3,265. The amortisation will be based on a useful life of four years.

The asset movement schedule (development of Group fixed assets) shows the development of the intangible assets.

3.9 Financial assets

Financial assets were recorded on the balance sheet at either their cost of acquisition or their lower market value.

The units of the JB Otto Fonds were booked as long-term investment securities. This fund is a special fund of Julius Bär Kapitalanlagegesellschaft. The units were valued at the lower cost of acquisition (T€ 19,097). The market value as of the balance sheet date was T€ 19,872. Also shown are the securities of DaimlerChrysler UK Holding. They are recorded at the lower market value (T€ 500) (cost of acquisition T€ 501).

3.10 Goodwill

The customer base of TelePassport in Austria, which was acquired by 3U TELECOM GmbH, Vienna, was included under goodwill. The acquisition costs of T€ 334 are subject to T€ 306 in amortisation. The amortisation will be based on a useful life of two years.

3.11 Deferred taxes

The deferred tax assets were created with respect to the differential yielded from the additional amortisation of the telecommunication licences. The assumed tax rate was 38 % for corporate income and trade tax. Moreover, the deferred tax assets also consist of the tax loss carried forward, which were held by the consolidated subsidiaries and which were ascribed a corporate income tax rate applicable to these subsidiaries. For the subsidiaries domiciled in the Netherlands and Italy, the asset items that had been created were written down to zero since in the foreseeable future, it is not expected that the losses will be depleted. It is expected that the Austrian subsidiary will use its tax loss carry forward as from the upcoming fiscal year already.

3.12 Liabilities

The liabilities were recorded on the basis of their repayment amounts. They have the following terms to maturity:

(In T€)	Total	One year or less
Trade payables	5,914	5,914
Other liabilities	319	319
Total	**6,233**	**6,233**

The item, other liabilities, includes foreign value added tax (T€ 135), liabilities for social security expenses (T€ 33), wage and church tax (T€ 53), wages and salaries (T€ 96) and miscellaneous (T€ 2).

3.13 Provisions

Provisions consist of obligations that will arise with a relatively high degree of certainty (i. e., are probable) and must therefore be recorded in the balance sheet. The figure that is recorded equals the amount, which is expected to be claimed.

Tax provisions were created for corporate income and trade tax owed by the German parent company and LineCall Telecom GmbH respectively.

The following overview illustrates the development of the other provisions (in T€):

(In T€)	As per 1 Jan 2002	Depletion	Addition	Write-back	As per 31 Dec 2002
Connection services	500	500	2,737	0	2,737
Preparation and audit of the annual financial statements, other legal and consulting costs	185	185	236	0	236
Royalties/licence fees	160	160	0	0	0
Vacation accruals	85	85	132	0	132
Invoicing costs	73	73	203	0	203
Network lease payments	63	63	8	0	8
Customer advertising	50	50	9	0	9
Supervisory Board	16	16	19	0	19
Telephone	0	0	12	0	12
Third party services	0	0	87	0	87
Miscellaneous	17	17	34	0	34
Total	**1,149**	**1,149**	**3,477**	**0**	**3,477**

3.14 Statement of changes in equity capital

(In T€)	As per 1 Jan 2002	Additions/ disposals	As per 31 Dec 2002
Share capital	9,120	0	9,120
Additional paid-in capital	55,680	0	55,680
Earnings reserves	0	0	0
Retained earnings	2,153	1,781	3,934
Total	**66,953**	**1,781**	**68,734**

The company's registered share capital is € 9,120,000.00. The registered share capital consists of 9,120,000 no par bearer shares with a notional value of € 1 per share.

The capital reserves of € 55,680,000.00 was created from the premium paid in connection with the initial public offering and represented the difference between the issue price of € 30 per no par share and the notional value of € 1 per no par share.

In 2002, there were no transfers to the earnings reserve.

The company does not expect to pay a dividend to its shareholders for fiscal year 2002. The annual net income of T€ 397 (of the parent company) will be brought forward and booked to a new account.

3.15 Revenues

Revenues are recorded when they are recognised. This will be the case when the service or goods have been supplied. Revenues result exclusively from the company's work as a network carrier.

3.16 Cost of sales

The item, cost of sales, includes mostly expenses for connection services, availability fees for interconnection links and leased line payments, pro rata personnel costs, amortisation of telecommunications licences, switching and transmission technology, computer equipment and office equipment used in generating sales, amortisation of licences, pro rata vehicle and travel costs, rent and rent-related costs for sites, telephone expenses and expenditures for maintenance and other costs.

3.17 Interest income/interest expenses

This item includes the interest on BW Bank Ireland money market floaters and the interest accrued from current account credit balances.

3.18 Income taxes

The item consists primarily of corporate income tax and trade tax owed by the parent company and LineCall Telecom GmbH as well as deferred taxes on the loss carry forwards of the consolidated subsidiaries.

4 Segment Reporting

The German parent company generated T€ 56,884 of the T€ 65,967 in revenues. Both the parent company and subsidiaries generated their income exclusively from their work as network carriers. Accordingly, no detailed segment reporting is required.

5 Financial Obligations as of 31 December 2002

(In T€)	2003	2004–2007	Beginning 2008
Rent and cleaning	186	322	48
Leasing vehicles	137	101	0
Leased lines	367	864	0
Consulting contracts	68	0	0
Insurance policies	26	0	0

6 Other Information

6.1 Management

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

Udo Graul (Chairman), Marburg, 1 Jan 2002–31 Dec 2002;
Michael Schmidt, Lahntal, 1 Jan 2002–31 Dec. 2002;
Roland Thieme, Lahntal, 1 Jan 2002–31 Dec 2002.

Total remuneration and benefits paid to the Management Board in the fiscal year were T€ 648.

6.2 Supervisory Board

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

Michael Leyener (Chairman), Attorney-at-law and Notary, Marburg, 1 Jan 2002–17 May 2002;
Dr. Michael Kußmann, Attorney-at-law, Duisburg, 1 Jan 2002–17 May 2002;
Bodo Rimpler, Bank Manager, Kronberg, 1 Jan 2002–17 May 2002;
Manfred Schwarz, *Diplombetriebswirt* (Graduate in Commerce), Managing Director, Marburg, 1 Jan 2002–17 May 2002;
Jürgen Roth (Deputy Chairman), *Diplombetriebswirt,* Managing Director, Kirchhain, 1 Jan 2002–17 May 2002;
Jürgen Bockholt, Bank Management Board, Stuttgart, 1 Jan 2002–17 May 2002;
Hubertus Kestler (Chairman), Attorney-at-law and Notary, Frankfurt am Main, 17 May 2002–31 Dec 2002;
Gerd Simon, Industrial Engineer, Bad Homburg, 17 May 2002–31 Dec 2002;
Ralf Thoenes (Deputy Chairman), Attorney-at-law, Düsseldorf, 17 May 2002–31 Dec 2002.

The Supervisory Board members also held the following other Supervisory Board positions:

Hubertus Kestler:
Supervisory Board member of Kling Jelko Wertpapierhandelsbank AG through 2 Dec 2002.

Gerd Simon:
Supervisory Board member of E:labs AG, Frankfurt am Main.

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 Supervisory Board of BW Vermögens-Management AG, Zürich (Switzerland); and
Deputy Chairman of the Administrative Board of WKV Bank GmbH, Stuttgart.

Compensation paid to the Supervisory Board members in fiscal year 2002 totalled T€ 81.

6.3 Employees

The average number of employees in the company for the year was thirty-nine (39).

Personnel costs in the fiscal year were T€ 2,024 in wages and salaries, plus T€ 201 in social security expenses.

6.4 Total number of shares held by members of the management and supervisory bodies as of 31 Dec 2002

Management Board .... 4,200,740 shares
Supervisory Board .... 0 shares

6.5 Earnings per share

The following table shows the earnings per share:

Nominator:	Annual net income	(in €)	1,780,790.55
Denominator:	Shares	(number)	9,120,000
Earnings per share		(in €)	0.20

6.6 Information in accordance with § 314 (1) no. 8 of the German Commercial Code (HGB)

The statements required under § 161 of the German Stock Corporation Act (AktG) relate to the past and should also be applied as such in the future. They were made available to the shareholders.

6.7 Derogations from group accounting under HGB

The accounting and consolidation methods were consistently applied under German law. Derogations occurred only with respect to the following valuation methods:

The capitalised telecommunication licences, which were granted for an unlimited period of time and which, absent evidence of economic depreciation, were not amortised pursuant to German law, will be amortised over a 40-year period for US GAAP accounting purposes. The deferred taxes resulting therefrom will be included at a rate of 38 %, which corresponds to the current corporate income and trade tax rate.

Any loss carried forwards held by subsidiaries will be set aside under US GAAP provisions as deferred tax assets and, if necessary, amortised to the extent they lose their value.

The following table shows the effects on the annual net income and equity capital:

Annual net income under US GAAP	1,781
Minority interests	–45
Annual net income	1,736
Adjustments pursuant to HGB:	
Fixed assets	–105
Deferred tax assets, 38 % adjusted into fixed assets	40
Deferred tax assets into loss carried forward/losses of consolidated subsidiaries	1,311
Annual net income under HGB	2,982

6.8 Equity capital under HGB

Equity (share) capital under US GAAP	68,734
Minority interests	–36
Equity capital	68,698
Adjustments pursuant to HGB:	
Fixed assets	9
Deferred tax assets, 38 % adjusted into fixed assets	–3
Deferred tax assets on loss carried forward/losses of consolidated subsidiaries	–136
Equity capital under HGB	68,568

3U TELECOM AG

Eschborn, 10 March 2003

The Management Board

Udo Graul

Michael Schmidt

Roland Thieme

Consolidated Analysis of Fixed Assets of the 3U Group (US GAAP)

Consolidated analysis of fixed assets of the 3U Group (in T€)	Acquisition and production cost				
	As per 1 Jan 2002	Additions	Disposals	Re-bookings	As per 31 Dec 2002
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets and licences to such rights and assets					
Software	202	424	0	0	626
Telecommunication licences	2,066	0	267	0	1,799
Customer list	0	3,265	0	0	3,265
Total	**2,268**	**3,689**	**267**	**0**	**5,690**
2. Goodwill	334	0	0	0	334
Total intangible assets	2,602	3,689	267	0	6,024
II. Tangible assets					
1. Land, land rights and buildings including buildings on third party land	906	46	0	0	952
2. Technical equipment and machines					
Switching technology	2,376	0	33	0	2,343
Transmission technology	2,081	244	48	0	2,277
Total	**4,457**	**244**	**81**	**0**	**4,620**
3. Plant and office equipment					
Plant equipment	71	55	0	0	126
Office equipment	239	148	0	0	387
Low value items	0	21	0	0	21
Total	**310**	**224**	**0**	**0**	**534**
Total tangible assets	5,673	514	81	0	6,106
III. Financial assets					
1. Long term investments	19,097	580	0	0	19,676
Total financial assets	19,097	580	0	0	19,676
Total fixed assets	**27,372**	**4,782**	**348**	**0**	**31,806**

	Accumulated depreciation				Book values	
	As per 1 Jan 2002	Additions*	Disposals	As per 31 Dec 2002	As per 31 Dec 2002	As per 31 Dec 2001
	61	98	0	159	467	141
	156	1,488	46	1,598	201	1,910
	0	680	0	680	2,585	0
	217	**2,266**	**46**	**2,437**	**3,253**	**2,051**
	139	167	0	306	28	195
	356	**2,433**	**46**	**2,743**	**3,281**	**2,246**
	6	27	0	33	919	900
	889	466	0	1,355	988	1,487
	757	452	0	1,209	1,068	1,324
	1,646	**918**	**0**	**2,564**	**2,056**	**2,811**
	35	23	0	58	68	35
	93	70	0	163	224	147
	0	21	0	21	0	0
	128	**114**	**0**	**242**	**292**	**182**
	1,780	**1,059**	**0**	**2,839**	**3,267**	**3,893**
	0	10	0	10	19,666	19,097
	0	**10**	**0**	**10**	**19,666**	**19,097**
	2,136	**3,502**	**46**	**5,592**	**26,214**	**25,236**

* = Depreciation for the period

Statement of Changes in Equity (US GAAP) as of 31 December 2002

Statement of changes in equity 3U Group (in T€)	Reporting period 2002			Reporting period 2001		
	As per 1 Jan 2002	Additions/ disposals	As per 31 Dec 2002	As per 1 Jan 2001	Additions/ disposals	As per 31 Dec 2001
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	2,153	1,781	3,934	1,652	501	2,153
Total	**66,953**	**1,781**	**68,734**	**66,452**	**501**	**66,953**

Auditor's Opinion

We have audited the consolidated financial statements – consisting of the balance sheet, income statement, statement of changes in equity capital, the cash flow statement and notes together with the Group management report – which were prepared by 3U TELECOM AG for the fiscal year of 1 January 2002 through 31 December 2002. The Company's Management Board was responsible for the preparation and content of the consolidated financial statements. Our responsibility has been to issue, on the basis of the audit conducted by us, an assessment as to whether the consolidated financial statements conform to the United States Generally Accepted Accounting Principles (US GAAP).

We conducted our audit of the consolidated financial statements in accordance with the German auditing principles and the generally accepted principles of auditing as stipulated by the German Institute of Auditors (*Institut der Wirtschaftsprüfer* or "IDW"). According to these principles, the audit is to be planned and carried out such that with sufficient certainty, a judgment may be made as to whether or not the consolidated financial statements contain any material misstatements. In establishing the audit procedures, any information concerning the business activities and the economic and legal environment in which the Group operates as well as any expectations about possible errors have been taken into account. In connection with the audit, the evidence supporting the valuations and information stated in the consolidated financial statements are assessed on the basis of random sampling. The audit includes an evaluation of the accounting principles applied, the significant projections made by the statutory representatives, and an analysis of the overall presentation of the consolidated financial statements. We believe that our audit provides an adequately secure basis upon which to issue our opinion. We are of the opinion that the consolidated financial statements are a fair and reasonable reflection of the Group's net worth, financial position, results of operations and cash flow for the fiscal year in accordance with US GAAP.

Our audit, which also covered the Group management report prepared by the Management Board for the fiscal year from 1 January 2002 through 31 December 2002, did not give rise to any objections. We believe that the Group management report provides an overall true and correct presentation of the Group's condition and accurately describes the risks of future development. Moreover, we confirm that the consolidated financial statements and Group management report for the fiscal year from 1 January 2002 through 31 December 2002 meet the requirements for exempting the Company from having to prepare consolidated financial statements and a Group management report pursuant to German law.

Kirchhain, 11 March 2003

B. Weber GmbH
Wirtschaftsprüfungsgesellschaft

Weber
Wirtschaftsprüferin
(Auditor)

Report of the Supervisory Board

Dear Shareholders,

Given the difficult economic environment and specifically the problems in the telecommunications sector, fiscal year 2002 was a year of great challenge for 3U TELECOM AG. Even during this arduous year, the Company's management was able to continue running the enterprise profitably and in a sustainable manner. The Company's Supervisory and Management Boards have discussed in detail the necessary strategic, structural and operating issues and adopted courses of action to ensure the Company's growth well into the future. The focus will continue to be on efficiently utilising opportunities to lower costs, on stabilising and expanding earnings and on exploiting new customer potential.

At the conclusion of the shareholders' meeting held on 17 May 2002, the former Supervisory Board members – Michael Leyener, Jürgen Roth, Dr. Michael Kußmann, Jürgen Bockholt, Bodo Rimpler and Manfred Schwarz – resigned from the Supervisory Board. The size of the Supervisory Board was reduced from six to three members, and new members were then appointed.

In fiscal year 2002, the Supervisory Board carefully monitored the Company's management and discharged the duties to which it was subject under the laws and the Company's Articles of Association. In the reporting period, the Management Board informed the Supervisory Board about the Company's development and its significant business transactions in a total of five scheduled meetings (three of which had been held since 17 May 2002). During these meetings, oral and written reports by the Management Board were accepted and discussed. The subject matter of the reports, review and consultation involved important business policy issues, the Company's expense and income situation, the development of European business operations and the Company's start-up in the United States market. To the extent required by law or the Company's Articles of Association, the Supervisory Board approved the proposed transactions.

In addition, the Supervisory and Management Boards discussed fundamental issues of Corporate Governance. 3U TELECOM AG welcomed the enactment of the German Corporate Governance Code as an important step towards further developing the practice of corporate management and supervision. Accordingly, the Company enacted and then published a compliance statement concerning corporate governance. The main systems and structures for co-operation between the Company's governing bodies will be reviewed at regular intervals and, if necessary, modified accordingly.

Even outside the Supervisory Board meetings, the Management and Supervisory Boards conferred closely on the significant Company and Group decisions and projects. Above all, the Chairman of the Supervisory Board was informed by the Chairman of the Management Board on the current development of business and on significant business events and transactions. At the forefront of their discussions were the development prospects of the enterprise, its strategic position, the market situation as well as the development of the Company's financial condition and earnings. In addition, the Management Board informed the Supervisory Board, as needed, about current topics and problems, including personnel issues.

The accounting firm of B. Weber GmbH, Kirchhain, which was appointed as auditor, reviewed the annual financial statements of 3U TELECOM AG (including the bookkeeping on which it was based) and the consolidated financial statements for the fiscal year ending 31 December 2002 as well as the summarised management report of 3U TELECOM AG and the Group, and certified them with an unqualified auditor's opinion. The documents subject to the audit and the audit reports contained in the financial statement reports were furnished to each member of the Supervisory Board. The consolidated financial statements were prepared in accordance with the Generally Accepted Accounting Principles of the United States (US GAAP). The auditor has confirmed that the consolidated financial statements prepared in accordance with US GAAP do not have to be prepared as consolidated financial statements pursuant to § 292 a of the German Commercial Code.

All documents supporting the financial statements, the dividend recommendation of the Management Board and the audit reports of the auditor have been submitted to the Supervisory Board. These materials were discussed in detail by the Supervisory Board during a meeting concerning the Company accounts, which was held on 14 March 2003 and was attended by the auditor's representative, Ms. Beate Weber, who was able to report on all significant results of the audit. During this meeting, the Management Board explained the financial statements of 3U TELECOM AG and the Group. The Supervisory Board supported the audit results reached by the auditor and concluded during the course of its own review that no objections should be made. The Supervisory Board approved the financial statements and consented to the Management Board's recommendation on the allocation of profits. The annual financial statements of 3U TELECOM AG were thereby approved.

During the course of the audit, the auditor also concluded that the risks described in the management report were accurate and that the actions taken by the Management Board in accordance with § 91 (2) of the German Stock Corporation Act were suitable for purposes of recognising, at an early enough stage, developments that could endanger the existence of the Company. In accordance with the requirements under the law, the Company has improved the existing risk management system in order to conform to the changed structures.

The Supervisory Board thanked the Management Board and every employee for their great and successful dedication and commitment in the recently completed fiscal year. The Supervisory Board also thanked the retiring members of the Supervisory Board for all their work.

Frankfurt am Main, March 2003

The Supervisory Board

Hubertus Kestler
Chairman

Glossary

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.

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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