

**3U Telekommunikation AG**

**Annual Report  
1999**

## Table of Contents

An Overview of the Telecommunications Market .....	3
The 3U Concept - "Success through Innovation" .....	4
Important Milestones in 3U's History .....	9
The Team .....	10
Growth Strategy .....	11
Management Report as at 31 December 1999 .....	12
Annual financial Statements as at 31 December 1999 .....	19
Auditors Opinion .....	47
Report of the Supervisory Board .....	48

# An Overview of the Telecommunications Market

Since the liberalisation of the telecommunications market on 1 January 1998, a great number of telephone companies have emerged in Germany.

The actual market situation is easily described – it is characterised by dynamic growth and competition.

An intense price war flared up when deregulation occurred, which resulted in a dramatic decrease in the prices for long distance calls in as early as the first year of liberalisation. In certain time and distance zones, prices fell by more than 70%. The price war and sharp decline in margins continued in 1999 and will also continue this year. Dynamic growth and fierce competition inevitably lead to falling margins.

Speed and flexibility are the factors critical to success in this hotly contested market.

The rapid development of competition was facilitated by the "call-by-call" procedure. With call-by-call, the customer can select the best value service provider for each telephone call simply by dialling a certain access code. So, (for 3U) the customer first dials 01078 and then the phone number. The call charge is collected by Telekom and appears on the Telekom bill.

The procedure is slightly different in the so-called "pre-selection" procedure. In this case, the customer registers permanently with 01078 and no longer needs to dial this prefix each time. 3U Telekommunikation AG will offer this service from March this year.

In the meantime, the number of telephone companies seems to be almost impossible to assess, and in the context of the price war, every space after the decimal point contributes to customer satisfaction.

However, complicated tariff structures often make the customer's task of selecting the best value service provider very difficult. In this respect, the price-conscious customer can find support in more and more newspapers and magazines containing up to date tariff tables, which also present "tariff traps". To this extent, the pressure placed by customers on telephone companies is also becoming greater. Customers want reasonable prices and simple, clearly structured tariffs.

In recent times, services have been grouped together and offered to customers as a value-added services package.

"Value-added services" is an issue that has developed as a result of the price war between the telephone companies, but it does not apply to a vast number of customers, particularly those who just want to be able to make telephone calls at reasonable rates. However, it should be noted that margins in the area of fixed network telephony alone are no longer attractive or are simply not adequate for most telephone companies.

## The 3U Concept – "Success through Innovation"

3U Telekommunikation has dared to enter this very hotly contested market. This requires innovative ideas and the courage to tread in uncharted territory.

3U Telekommunikation has focused solely on innovation in its short but successful history so far.

In order to attract customers with its prices, the Company's idea from the very beginning was to become the best-priced provider ("price leadership") in fixed network telephony call-by-call, made possible through its superior ability to keep costs low ("costs leadership").

This means that low prices, simple tariff structures and fair, to-the-second calls are significant requirements as far as 3U Telekommunikation AG is concerned, in order to promote customer loyalty and achieve a lasting high rate of growth.

In this respect, the Company focuses exclusively on its core area of expertise, i.e. fixed network telephony.

The fundamental requirements for ensuring low costs are: motivated employees, a lean organisational structure, the structure of the network and the deployment of highly modern technology.

3U Telekommunikation AG focuses on a maximum level of efficiency in its entire company structure. Costs leadership demands maximum efficiency.

This can only be achieved through optimising the performance of all of the important elements in the value-added chain:  
the development and operation of the network, and the costs of switching technology and personnel.

Simple and logical in its theory, this idea was later successfully transformed into reality.

3U Telekommunikation AG (GmbH) operated profitably from the very first day of its operations on 1 April 1999.

In this respect, the Company has assumed an excellent market position in the hotly contested call-by-call market. Despite its price leadership with its precise, to-the-second invoicing, the Company has succeeded, and continues to succeed, in attaining profits where other companies make none, or even incur losses.

This is only possible if the Company's costs leadership is so distinct, that it generates a genuine competitive advantage. The 14% return on sales made by 3U Telekommunikation AG from fixed network telephony in 1999, a figure that is unusual for the telecommunications market, illustrates the Company's distinct lead in terms of efficiency.

A long distance carrier's return on sales is largely determined by the costs of the line network. This is the biggest "block" of fixed costs. Even slight differences here can lead to a clear competitive advantage. In addition, the amount of interconnection fees payable to Deutsche Telekom depends on the network structure.

Network costs consist of the costs of the line network, fees for interconnections and the costs of switching technology.

3U Telekommunikation has leased the entire line network under comparatively reasonable conditions. The employment of its own transmission technology has further reduced the cost of leased lines, as the furnishing and delivery costs were lower than those borne by its fellow competitors, who have leased networks as well as transmission technology. The Company only leased bandwidth cable, not transmission technology.

Having its own transmission technology means that 3U Telekommunikation AG can enjoy a high degree of independence and flexibility with regard to the use of a variety of different transmission technologies (e.g. WDM technology).

3U Telekommunikation AG plans to lease complete fibre optic cables in the future, in order to be in a position to operate the "backbone" itself, and hence save itself further costs.

In its first phase of expansion, 3U Telekommunikation had at its disposal a switching centre and 8 points of interconnection, so that during this time the interconnection fees payable were still relatively high. This situation improved with the second expansion phase, which saw the number of switching centres and points of interconnection increase to 8 and 23 respectively. Since the end of 1999, the improvements from this expansion phase have been almost completely operational, and they provide a good basis for further rounds of price reductions. The capacity bottlenecks that appeared in part during the initial phase were able to be remedied during this (latest) expansion phase.

Further network expansion is planned, involving an increase in the number of points of interconnection to 51 by the end of the Year 2000. The interconnection fees that must be paid to Telekom will thereby be further reduced.

3U Telekommunikation AG employs the most modern switching technology. The Company, and hence also its customers, profit from the newest technological developments.

The use of so-called mainstream technology is new in the area of telecommunications and offers innovative potential. It signifies great change in telecommunications technology, the dimensions of which can be best illustrated by an historical analogy.

The technological generation change, which took place years ago in the area of data processing, is a comparable phenomenon. Enormous computers that were central and proprietary (closed) in nature were to a large extent made obsolete by networks of decentralised, public and small client-server systems.

The new switching technology employed at 3U Telekommunikation AG is good value, robust and easy to maintain. The software for remote (long distance) maintenance is based largely on standard programmes, and can be operated quickly and easily from any location by one 3U employee.

The employees are also the founders of the Company, and they own shares in the stock corporation (the "AG").

The personnel structure at 3U Telekommunikation AG is most certainly unique for the entire telecommunications market.

On the reporting date, 31 December 1999, 3U Telekommunikation AG counted four employees. These four employees were also responsible for setting up the Company, including the national telephone network.

They themselves carried the risks associated with setting up the Company. The project was completely financed by their private means. In part, they worked towards setting up the Company for two years without pay.

It goes without saying that each employee thinks and acts along entrepreneurial lines, as well as being professionally competent, motivated and enthusiastic.

This year, in the context of expansion in European countries outside of Germany, the team will grow with the addition of some highly qualified professional and executive staff.

In 1999, personnel costs were exceptionally low compared to those of 3U's competitors in the telecommunications market, which represents an important milestone on the road to costs leadership. A comparison with the published financial figures of other telephone companies reveals that in some places, 3U Telekommunikation AG's entire personnel costs would not come close to covering the salary of an individual member of the Management Board (the salaries for some Management Boards would not even be covered by 3U's entire costs block).

3U Telekommunikation AG's employees did not perform all tasks, certain tasks were outsourced, e.g. software development and accountancy, and also office services.

Even with all the professional competence and employee motivation, 3U's concept can, of course, only become reality if all of the business processes within the Company are designed to be inherently efficient and to run automatically as well. This applies to the area of technical network assistance, just as it does to the areas of complaints processing and customer enquiries. All business transactions are processed quickly and comprehensively with optimal technical support – in this regard, the Company's efforts revolve around the customer at all times.

Without advertising, the 01078 prefix has become well known only through publication of the Company's tariffs on the World Wide Web, and by comparing favourably with other tariffs.

It is new and very unusual for a telecommunications company to forego advertising and sales.

3U Telekommunikation AG's reputation spread solely by virtue of its good results (taking first place) in Internet tariff comparisons, and through newspapers and magazines.

As at 1 April 1999, 3U Telekommunikation AG's rate for nationwide fixed network telephone calls was 13.9 pfennigs, with to-the-second invoicing, which placed it right at the top of the price table. 3U Telekommunikation AG also offered the cheapest rate for most overseas destinations right from the beginning.

There was another drastic decrease in price at the end of October 1999, following the second expansion phase.

3U Telekommunikation AG has become the absolute favourite for telephone calls throughout the entire world. The tariff comparison contained in the December 1999 edition of "Billiger Telefonieren" ("Making cheaper telephone calls") clearly highlighted this.

In a tariff comparison between 122 countries, 3U Telekommunikation provided the cheapest service in 115 locations.

Fair pricing policies form part of the Company's strategy.

To-the-second invoicing represents an additional price advantage for customers, which is not offered by most of 3U's competitors. 3U Telekommunikation AG, however, offers the cheapest rates with to-the-second invoicing, which means that the customer always pays for the actual time of the telephone call only.

Compared to call charges per minute, to-the-second invoicing improves the price of a telephone call for the customer by between 20 and 30% on average.

By dialling the prefix 01078, the customer can take advantage of 3U Telekommunikation AG's offer, without having to pre-register (open call-by-call without registration).

High voice quality and accessibility are guaranteed. The capacity bottlenecks experienced at peak times during the initial phase were able to be rectified once and for all following the second network expansion phase, which has been almost fully operational since the end of 1999.

3U Telekommunikation AG 's quick and successful listing on the stock exchange in November 1999, only 8 months after it commenced business, shows how extraordinary the Company's growth has been, and proves how price conscious customers are.

## Important Milestones in 3U's History

On 26 August 1997, 3U Telekommunikation GmbH is founded, having the corporate purpose of "long distance carrier".

On 24 March 1998, 3U obtains licences for voice telephony (class 4) and for operating transmission routes (class 3).

On 4 February 1999, 3U's voice telephony licence is extended to apply to the whole of Germany.

On 26 February 1999, the Interconnection Agreement with Deutsche Telekom is entered into.

On 1 April 1999, 3U commences business as a nationwide long distance carrier.

On 21 July 1999, the resolution is adopted to restructure 3U Telekommunikation GmbH into a stock corporation.

On 10 September 1999, 3U Telekommunikation is entered in the Commercial Register as a stock corporation.

On 20 October 1999, the registered share capital was increased to EUR 7.2 million.

On 24 November 1999, a further increase in the registered share capital to EUR 9,120,000 took place.

Since 25 November 1999, the shares of 3U Telekommunikation AG have been listed on the *Neuer Markt* of the Frankfurt Stock Exchange under the securities identification code ("WPKN") 516 790.

## The Team

### **Udo Graul**

is the Chairman of the Management Board of 3U Telekommunikation AG. He is responsible for the areas of Strategic Planning, Technology and Personnel.

Even before 3U was formed, Udo Graul was a successful independent entrepreneur in the IT sector, such that he could contribute entrepreneurial thinking and a financial basis for entry into the telecommunications market.

His special knowledge and experience in relation to technical realisation possibilities helped to mould the concept of a nationwide 3U network.

### **Manfred Schwarz**

is responsible for the areas of Marketing, Purchasing, Finance and Investor Relations.

Mr Schwarz, also, was a successful independent entrepreneur before 3U Telekommunikation AG was formed. He contributed financially to enable entry into the telecommunications market.

## The Employees

3U Telekommunikation AG has an extremely lean organisational structure, and therefore has a very small number of employees.

**Michael Schmidt** and **Roland Thieme** work in Technical Planning and Service.

The work of other departments is outsourced, e.g. software development and accountancy.

## The Supervisory Board

### **Michael Leyener**

Chairman of the Supervisory Board, Attorney and Notary, Marburg.

### **Dr. Michael Kußmann**

Vice-chairman, Auditor.

### **Bodo Rimpler**

Commerzbank, Bremen

# Growth Strategy

With its uninterrupted dynamic growth, the telecommunications market offers terrific opportunities for 3U Telekommunikation AG. However, with its fierce competition, it also involves risks that one should be prepared for.

In the medium term, the effect of the increasing margin decline will only be withstood by companies with very lean cost structures that can trade quickly and flexibly. 3U Telekommunikation AG is well equipped in this regard and will be able to compete actively and successfully.

3U Telekommunikation AG's product range is being expanded.

From the middle of March 2000, 3U Telekommunikation AG will also offer pre-selection along with open call-by-call. Here, the customer registers with 3U Telekommunikation AG, and the prefix 01078 is programmed into the customer's telephone line. Invoicing is then effected through 3U Telekommunikation AG. In this way, the customer is tightly bound to 3U Telekommunikation AG for his or her telephone service, with the exception of telephone calls to locations that are still controlled by the former (Deutsche Telekom) monopoly.

3U Telekommunikation AG wants to move up to the top of the private telephone service providers in terms of the number of call minutes it connects for domestic calls.

The biggest area of growth will be the planned expansion in European countries outside of Germany.

The aim here will be to transfer the successful 3U business model to other European countries, and then ultimately to connect the respective national networks to a Europe-wide 3U network.

In Europe, the development of competition has only just begun. There are good market opportunities here, particularly if costs leadership can be achieved abroad as well. The earlier 3U can enter into the market, the higher the margins still able to be siphoned off.

Planning for activities relating to expansion in Europe is in a well advanced stage.

A subsidiary of 3U Telekommunikation AG has already been formed – 3U TELECOM SARL, with its registered office close to Paris.

The plan is still for a nationwide 3U network in France to be operational in the year 2000.

# Management Report as at 31 December 1999

## Business Development

### *Industry Development and General Economic Conditions*

3U Telekommunikation AG (hereinafter "3U") is a nationwide telecommunications service provider. Via the direct dialling access code 01078, 3U offers its customers long distance and international telephone calls and calls within mobile telephone networks using the so-called call-by-call procedure. 3U has a nationwide telecommunications network with 8 switching centres and 20 network transfer points.

This development was made possible by the deregulation of fixed network telephony in Germany since 1 January 1998. Liberalisation of the telephone market has resulted in the formation of numerous telephone companies and a dramatic reduction in rates in the midst of a fierce price war. Market development in the telecommunications sector continues unabated, meaning that high growth was also recorded in 1999.

This rapid development in competition was facilitated by the call-by-call procedure. Using this procedure, the customer may dial a certain access code (prefix) for each telephone call in order to select the least expensive provider.

The respective providers can be distinguished on the basis of their pricing policy, service quality (availability and voice quality), and their connection method (call-by-call with or without prior registration).

### ***3U's Strategy***

3U decided on the most customer friendly call-by-call offer. In addition to a very reasonable rate structure – particularly between 9 am and 9 pm – and high level voice quality and availability, to-the-second invoicing is also critical to the Company's strategy. Thus, 3U pursues a fair pricing policy pursuant to which only actual call time is invoiced. In this respect, 3U stands out when compared to other competitors, who largely invoice on a minute-by-minute basis.

Moreover, call-by-call is possible without prior registration. For the customer, this means a simplified procedure when dialling into the network as compared to call-by-call with prior registration.

Using this strategy, 3U commenced its network operations nationwide on 1 April 1999, and achieved considerable sales figures (DEM 62 million) in the first fiscal year, due to its customer-friendly sales policy.

Low prices were able to be implemented from the outset due to 3U's favourable costs situation, which results from the use of inexpensive switching and transmission technology, a very lean organisational structure and concentration on the Company's core area of expertise, namely, fixed network telephony.

3U will expand its offer to European nations outside Germany, and will make major investments this year in establishing its own networks in such countries.

The start-up of a nationwide connection network in France is planned for the end of the year 2000.

The strategic corporate objective is to connect the respective 3U domestic networks to a pan-European 3U network.

## ***Organisational Structure***

3U Telekommunikation AG has an extremely lean corporate structure, and very few permanent staff as a result. As at 31 December 1999, the Company had four employees.

Udo Graul is the Chairman of the Management Board and is responsible for strategic planning, technology and personnel.

Manfred Schwarz is the Management Board member responsible for sales, marketing, purchasing, finance and investor relations.

Two other employees work in technical planning and technical service.

All of the employees working for the Company in the 1999 fiscal year were also founders of the Company, and thus distinguish themselves by virtue of a high level of identification with and motivation for 3U Telekommunikation AG.

In the 1999 fiscal year, personnel costs were DEM 402,000, although two of the employees were employed from May 1999, and the Management Board members from July 1999.

Other aspects are outsourced, e.g. software development and taxation and accounting.

In the year 2000, human resources will be reinforced as part of 3U's expansion into European nations outside Germany.

## ***Significant Events during the Fiscal Year***

The following events were significant for 3U in the 1999 fiscal year:

1 April 1999: Commencement of nationwide activities as a long distance carrier with licences for voice telephony (class 4) and for the operation of transmission routes (class 3) by 3U Telekommunikation GmbH.

21 July 1999: Resolution to reorganise 3U Telekommunikation GmbH as a stock corporation. Such reorganisation was recorded in the Commercial Register on 10 September 1999.

20 October 1999: Resolution to increase the registered capital to EUR 7.2 million as an initial step, and to EUR 9.12 as a second step.

25 November 1999: Admission to the *Neuer Markt* of the Frankfurt Stock Exchange. 1,920,000 no par bearer shares were offered. The issue price set during the bookbuilding procedure was EUR 30.

## ***Course of the Company's Business***

3U commenced its network operations on 1 April 1999. The core business is fixed network telephony using the call-by-call procedure.

During the first expansion stage, 3U had one switching centre and 8 points of interconnection, meaning that high interconnection charges were incurred during this period. The interconnection charges payable to Deutsche Telekom AG are contingent upon the relevant network structure, and are reduced proportionately with each additional expansion stage of the network.

The second expansion stage, having 8 switching centres and 20 points of interconnection, has been operating since the end of 1999. The capacity bottlenecks that occurred to some extent during the start-up phase were able to be remedied in this expansion stage.

Only a few weeks after entering onto the market – in June 1999 – the company connected some 800,000 call minutes per day, thus achieving daily turnover of more than DEM 230,000. By the end of the fiscal year, some 1.5 million call minutes were connected each day, and turnover for the period from 1 April to 31 December 1999 was approximately DEM 62 million. 3U expects an increase in turnover for the year 2000 and subsequent fiscal years.

One particular focal point of the business is connecting overseas calls. At the end of the 1999 fiscal year, an average of 65% of all the call minutes connected were calls made within the domestic fixed network, 32% were overseas calls, and 3% were calls made using the mobile network.

## The Company's Situation

### **Assets, Liabilities and Financial Condition**

The shareholders' equity of DEM 127,277,000 represents 87.4% of total assets amounting to DEM 145,708,000. Medium and long-term assets were DEM 21,303,000, and are therefore 597.5% covered by equity. External funds were 12.7% of the company's total capital. The current assets of DEM 107,424,000 consisted of liquid assets.

The receivables totalling 16,146,000 were almost exclusively from Deutsche Telekom for services amounting to DEM 16,128,000. Of the other provisions amounting to DEM 5,558,000, DEM 5,171,000 related to connection services that have not yet been invoiced and network rental. Trade payables amounting to DEM 11,367,000 largely consisted of initial connection services, collection and invoicing services, legal and consulting costs and transmission technology. An analysis of liquidity reveals the following:

Class 1 liquidity	582.84 %
Class 2 liquidity	671.39 %

Class 2 and 3 liquidity are identical as there are no inventories.

### **Revenue Situation**

3U's result for the 1999 fiscal year was clearly positive. The annual surplus is DEM 734,000, while the result of ordinary activities is DEM 1,292,000, which, when adjusted to take into account the one-off IPO expenses, gives a result before tax and IPO expenses of DEM 8,755,000.

An analysis of profitability reveals the following:

Equity profitability	0.58 %
Total capital profitability	0.54 %
Sales profitability (net)	1.18 %
Sales profitability (gross)	1.26 %

In contrast to the calculation of net sales profitability, in calculating gross sales profitability, interest on external funds in the net income for the year was treated neutrally in terms of its effect on profits.

## Cash Flow Statement

The cash flow statement is calculated using the indirect method. The calculation takes into account the cash inflows and outflows from current business activities, from capital expenditures and from financing, and shows the financial resources at the end of the fiscal year.

	31.12.1999 KDEM
(a) <u>Cash inflow from current operations</u>	
Profits for the period 1 January – 31 December 1999	734
Depreciation of fixed assets	+602
Increase in provisions	+5962
Other non-cash expenses less non-cash income	0
Cash flow	7,298
Net results from the disposal of fixed assets	0
Increase of trade receivables and other assets	-15,611
Increase of trade payables and other liabilities	+11,999
	<u>3,686</u>
(b) <u>Cash outflow from capital expenditures</u>	
Cash received from the disposal of fixed assets	0
Capital expenditure for fixed assets	-21,448
	<u>-21,448</u>
(c) <u>Cash inflow from financing</u>	
Cash inflow from capital increases	+125,388
Cash outflow to shareholders	0
Increase of debt	+2,500
Repayment of debt	-2,500
	<u>125,388</u>
(d) <u>Financial resources at the end of the fiscal year</u>	
Cash changes to financial resources	107,626
Other changes to the value of financial resources	
Financial resources at the beginning of the fiscal year	-202
Financial resources at the end of the fiscal year	<u>107,424</u>

## Expected Development of the Company

3U will further expand and optimise the current network. In order to further expand the network the company is planning to invest in the requisite licence extensions and network expansion, particularly by means of switching and transmission technology.

Another planned expansion phase is the operation of long distance networks in other EU member states from the end of the year 2000. To this end, an additional staff member was appointed as of 15 January in order to actively commence the establishment of a long distance network in European nations outside Germany.

The expected introduction of "pre-selection" during the 2000 fiscal year should result in greater customer loyalty. The pre-selection procedure enables the customer to dial directly into the 3U network based on a contractual agreement without having to dial the network access number.

The competition that has resulted from the deregulation of the telephony market and the concomitant reduction in prices has resulted in a major expansion in turnover potential. Competition will also give rise to market possibilities and potential for turnover growth, which 3U will exploit by means of its customer friendly pricing policy (favourable rates and to-the-second invoicing). A further price reduction of the daytime rate was introduced on 1 February 2000, and has already resulted in an increase in the daily number of call minutes connected to approximately 3 million.

However, strong competition and the associated drop in prices also create a risk of receding profit margins where costs cannot be reduced to the same extent. Based on its very lean corporate structure, however, which 3U also intends to maintain in the future, the Company believes that it will be able to hold its own against increasing cost pressure, and will continue to operate profitably.

Risks can emanate from the Company's competitor, Deutsche Telecom AG, which is using both massive price reductions and service restrictions in an attempt to force smaller competitors such as 3U out of the market. As in the past, the contractual relationship between Deutsche Telecom and its competitors will probably continue to be the subject matter of proceedings before the Regulatory Authority for Telecommunications and Posts ("*RegTP*") in the future, the results of which are unforeseeable and may have profit-related effects on the Company. The Company expects, however, that the Regulatory Authority will, as in the past, rule in favour of free competition, meaning that 3U will be able to develop in line with the market.

## **Events of Particular Significant following Conclusion of the Fiscal Year**

The term of the invoicing and collection agreement entered into between 3U and Deutsche Telekom AG is, in principle, limited to 31 March 2000. However, the Regulatory Authority for Telecommunications and Posts ("*RegTP*") has since ordered Deutsche Telekom AG to provide the collection and invoicing services unchanged until 31 December 2000.

By 30 June 2000, Deutsche Telekom must provide its contracting partners with a new offer for the period from 1 January 2001, which offer will provide new rules for the service relationships. However, Deutsche Telekom AG must at least continue (beyond 31 December 2000) to issue invoices and collect charges. Moreover, Deutsche Telekom AG has been ordered to record evidence concerning individual calls made through its competitors if so desired by the customer.

**Eschborn, 21 February 2000**

The Management Board

Udo Graul  
(Chairman )

Manfred Schwarz  
(Deputy Chairman)

# Annual Financial Statements as at 31 December 1999

BALANCE SHEET				
per 31 December 1999				
of				
3U Telekommunikation AG, Eschborn				
ASSETS		31.12.99	31.12.98	
		DM	DM	DM
<b>A. <u>FIXED ASSETS</u></b>				
I. <u>Intangible Assets</u>				
1.	Concessionen, industrial property rights similar rights and assets, and licenses to such rights and assets		3.050.542,00	21.210,00
II. <u>Tangible Assets</u>				
1.	Technical equipment and machinery	3.482.782,00		0,00
2.	Plant and office equipment	100.698,00		39.825,00
3.	Payments on account and assets under construction	0,00		396.000,00
			3.583.480,00	435.825,00
III. <u>Financial Assets</u>				
1.	Loan		14.668.725,00	0,00
			21.302.747,00	457.035,00
<b>B. <u>CURRENT ASSETS</u></b>				
I. <u>Receivables and other assets</u>				
1.	Trade receivables	16.145.590,59		0,00
2.	Other assets	173.135,48		1.369.873,20
	(including from taxes: DM 0,00; Previous year: DM 69.873,20)		16.318.726,07	1.369.873,20
II. <u>Checks, cash on hand, deposits at the Bundesbank and Post Bank, deposits at financial institutions</u>				
			107.424.351,47	0,00
			123.743.077,54	1.369.873,20
<b>C. <u>PREPAID EXPENSES</u></b>				
			662.530,00	0,00
			145.708.354,54	1.826.908,20

<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>						
				31.12.99		31.12.98
				DM	DM	DM
<b>A. EQUITY CAPITAL</b>						
I.	Subscribed Capital			17.837.169,60		1.350.000,00
II.	Capital Reserves			108.900.614,40		0,00
III.	Balance Sheet Profits (losses 1998)			539.388,59		194.476,35
					127.277.172,59	1.155.523,65
<b>B. PROVISIONS</b>						
1.	Tax Provisions			407.617,00		0,00
2.	Other Provisions			5.557.600,00		3.000,00
					5.965.217,00	3.000,00
<b>C. LIABILITIES</b>						
1.	Debts owed to financial institutions			0,00		201.737,99
2.	Trade payables			11.367.744,29		466.336,92
3.	Other liabilities			1.098.220,66		309,64
	(of which from taxes: DM 1.053.763,98;					
	Previous year DM 0,00)					
	(of which from social security : DM 4.840,06;					
	Previous year: DM 0,00)					
					12.465.964,95	668.384,55
					145.708.354,54	1.826.908,20

<b>INCOME STATEMENT</b>				
<b>for the period from 1 January through 31 December 1999</b>				
<b>of</b>				
<b>3U Telekommunikation AG, Eschborn</b>				
		1 Jan 1999 - 31 Dec 1999		1 Jan 1998 - 31 Dec 1998
		DM	DM	DM
1.	Revenues	62.208.253,58		629,53
2.	Other capitalised internal expenses	299.033,16		
3.	Other operating income	11.654,31		10.052,02
			62.518.941,05	10.681,55
4.	Expenses for purchased services		52.717.336,01	0,00
5.	Personnel expenses:			
	a) Wages and salaries	365.027,25		
	b) Social security expenditures for pensions and other support	36.899,84		
			401.927,09	0,00
6.	Amortisation of intangible assets and depreciation of tangible assets		602.234,53	8.368,18
7.	Other operating expenses		7.940.564,23	30.631,24
			61.662.061,86	38.999,42
8.	Income from other investments and long term loans	30.480,00		0,00
9.	Other interest and similar income	451.728,36		19,26
10.	Interest and similar expenses	46.989,52		8.932,37
			435.218,84	-8.913,11
11.	Results from ordinary operations		1.292.098,03	-37.230,98
12.	Extraordinary expenses		0,00	152.050,00
13.	Taxes on income		558.233,09	0,00
14.	Annual net income (loss 1998)		733.864,94	-189.280,98
15.	Loss carry forward from the previous year		-194.476,35	-5.195,37
16.	Balance sheet profit (loss 1998)		539.388,59	-194.476,35

Asset Movement Schedule												
of												
3U Telekommunikation AG, Eschborn												
		Acquisition and Production Costs				Accumulated Depreciation				Book Values		
		Status	Additions	Disposals	Re-bookings	Status	Status	Addition	Disposal	Status	Status	Status
		01.01.99				31.12.99	01.01.99	(= Depreciation		31.12.99	31.12.99	31.12.98
								for Fiscal Year)				
		DM	DM	DM	DM	DM	DM	DM	DM	DM	DM	DM
<b>I. Intangible Assets</b>												
<b>1. Concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets</b>												
	Software	12.417,10	40.890,00			53.307,10	257,10	8.558,00		8.815,10	44.492,00	12.160,00
	Telecommunication licenses	9.050,00	2.997.000,00			3.006.050,00	0,00	0,00		0,00	3.006.050,00	9.050,00
		21.467,10	3.037.890,00	0,00	0,00	3.059.357,10	257,10	8.558,00	0,00	8.815,10	3.050.542,00	21.210,00
<b>II. Tangible Assets</b>												
<b>1. Technical Equipment and Machinery</b>												
	Switching technology	0,00	2.282.050,53		396.000,00	2.678.050,53		306.595,53		306.595,53	2.371.455,00	0,00
	Transmission technology	0,00	1.367.653,10		0,00	1.367.653,10		256.326,10		256.326,10	1.111.327,00	0,00
		0,00	3.649.703,63	0,00	396.000,00	4.045.703,63	0,00	562.921,63	0,00	562.921,63	3.482.782,00	0,00
<b>2. Plant and Office Equipment</b>												
	Plant equipment	2.700,00	34.660,09			37.360,09	1.015,00	6.371,09		7.386,09	29.974,00	1.685,00
	Office equipment	43.592,03	52.306,14			95.898,17	5.452,03	19.722,14		25.174,17	70.724,00	38.140,00
	Loc-cost commercial assets	0,00	4.661,67	4.661,67		0,00	0,00	4.661,67	4.661,67	0,00	0,00	0,00
		46.292,03	91.627,90	4.661,67	0,00	133.258,26	6.467,03	30.754,90	4.661,67	32.560,26	100.698,00	39.825,00
<b>3. Payments on account and assets under construction</b>												
		396.000,00	0,00		-396.000,00	0,00	0,00			0,00	0,00	396.000,00
<b>Total Tangible Assets</b>												
		442.292,03	3.741.331,53	4.661,67	0,00	4.178.961,89	6.467,03	593.676,53	4.661,67	595.481,89	3.583.480,00	435.825,00
<b>III. Financial Assets</b>												
		0,00	14.668.725,00			14.668.725,00	0,00			0,00	14.668.725,00	0,00
<b>Total Fixed Assets</b>												
		463.759,13	21.447.946,53	4.661,67	0,00	21.907.043,99	6.724,13	602.234,53	4.661,67	604.296,99	21.302.747,00	457.035,00

## Appendix as at 31 December 1999

### General Principles

3U Telekommunikation AG was established as a result of 3U Telekommunikation GmbH's reorganization into a stock corporation (shareholder resolution dated 21 July 1999).

The company is a large stock corporation within the meaning of § 267 of the German Commercial Code ("HGB").

The balance sheet and the income statement were prepared in compliance with §§ 238 *et seq.* and §§ 264 *et seq.* HGB as well as the supplementary provisions under the German Stock Corporation Act and the memorandum and articles of association.

As the company only began active commercial operations (network operations) on 1 April 1999, a comparison with figures from the previous year (31 December 1998) in the balance sheet as at 31 December 1999 and the income statement 1999 is only possible to a limited degree.

### Principles used for the Preparation of Financial Statements and Valuations

#### ***Balance Sheet***

##### Intangible Assets

EDP software is capitalised as an intangible asset at its acquisition cost minus regular amortisation. The useful life is assumed to be 4 years. Amortisation shall be on a *pro rata temporis* basis. As at the balance sheet date, the cumulative acquisition costs for EDP software were DEM 53,000.

There will be no amortization of class 3 and 4 telecommunication licences, since the licences are granted for an indefinite period and do not depreciate in commercial value. The cumulative acquisition costs for class 3 and 4 telecommunication licences were DEM 3,006,000.

The development of intangible assets can be taken from the schedule included as an annex to the appendix.

## Tangible Assets

Tangible assets are capitalised at their acquisition or manufacturing costs minus regular depreciation. Depreciation is done using the straight-line method. The simplification rules were used for the moveable assets, i.e. those assets acquired or manufactured in the first half of the fiscal year were depreciated at the depreciation rate applicable to the complete fiscal year, while those assets acquired or manufactured in the second half of the fiscal year were depreciated at half of the depreciation rate applicable to the complete fiscal year. Cumulative acquisition or manufacturing costs were DEM 4,179,000.

Depreciation was mainly calculated assuming the following useful lives:

	Years
Operating equipment	4
Furniture and fixtures	4-8
Switching equipment	5
Transmission equipment	5

The switching equipment was acquired from Teles AG in Berlin. The purchase agreement with Teles AG also required them to set up the switching centres and put them into operation on site. The switching centres were brought into operation in stages during fiscal year 1999. No extraordinary depreciation was required.

The development of the tangible assets can be taken from the schedule included as an annex.

## Financial Assets

This item includes a step up borrowers' note loan vis-à-vis Baden-Württembergische Bank AG. It has been reflected in the balance sheet at face value. No bad loan allowance was required.

The loan runs from 14 December 1999 to 9 March 2004 and may not be terminated prematurely by the company. The loan receivable may not be assigned more than three times. Until 9 March 2000, the loan shall bear interest at the rate of 4.40% per annum, and from 10 March 2000 to 9 March 2004 it shall bear interest at the rate of 5.02% per annum. The interest accrued until 31 December 1999 was deferred. The receivable derived therefrom is included under the item "other assets".

## Receivables and other Assets

Receivables and other assets are valued at face or a documented lower amount. The trade receivables of DEM 16,146,000 are derived exclusively from the call-by-call business. Based on the invoicing and collection agreement, Deutsche Telekom AG will carry out the invoicing and collection of the receivables on behalf of the company. The trade receivables that had accrued up until 31 December 1999 had been settled in full with Deutsche Telekom AG by the time the annual financial statements had been prepared. Specific bad debt allowances were set up for uncollectible receivables. No additional general bad debt allowances were required.

The other assets include interest receivables (DEM 162,000) from Baden-Württembergische Bank AG with respect to the investments in fixed term deposits and borrowers' note loans, as well as security deposits (DEM 11,000) for rented premises.

## Cash and Cash Equivalents

Cash and cash equivalents relate to a business account and a fixed term deposit account maintained at the Baden-Württembergische Bank AG.

Valuation is done at face.

The item is comprised of the following:

	KDM
Current account	7,424
Fixed-term deposit	90,000
Fixed-term deposit	10,000
Total	107,424

## Prepaid Expenses

Prepaid expenses include furnishing fees for interconnection terminals and rent for network sections. The deferral is based upon a minimum contract term of generally 1-2 years.

## Equity Capital

In KDM	Balance as at 1 Jan. 1999	Additions/ Reductions	Balance as at 31 Dec. 1999
Subscribed capital	1,350	16,487	17,837
Capital reserves	0	108,901	108,901
Earnings reserves	0	0	0
Balance sheet profit/losses	-194	733	539
Total	1,156	126,121	127,277

The company has a registered share capital of EUR 9,120,000, which is equivalent to DEM 17,837,169.60. The registered share capital consists of 9,120,000 no par value bearer shares, each representing a EUR 1 portion of the registered share capital.

During fiscal year 1999, the capital was increased in several stages as follows:

	EUR
Conversion to EUR (Resolution dated 21 July 1999)	690,244
Rounding (Resolution dated 21 July 1999)	9,756
Capital increase (Resolution dated 20 October 1999)	6,500,000
Capital increase (Resolution dated 20 October 1999) in connection with the IPO	1,920,000
Total	9,120,000

The capital reserves of DEM 108,900,614.40 was formed from the premium paid during the course of the IPO. This was derived from the difference between the issuing price of EUR 30 per no par bearer share and such share's theoretical nominal value of EUR 1.

The loss-carried-forward arose in fiscal years 1997 and 1998, when the company was still in the start-up phase.

In 1999, no earnings reserves were stated.

Pursuant to the proposal on the appropriation of profits, it is intended to distribute dividends of EUR 91,200 to the shareholders. This corresponds to 1 cent per no par bearer share and thus amounts to DEM 178,371.70.

The balance sheet profit for the year is made up as follows:

	DEM
Distribution in accordance with the proposed appropriation of profits	178,371.70
Profit carried forward	361,016.89
Total	539,388.59

## Provisions

The provisions were created in the amount of the anticipated obligations.

The tax provisions consist of trade income taxes and corporate income taxes including "solidarity surcharges". These were calculated by taking into account the proposal on the appropriation of profits.

The development of the item "other provisions" is illustrated by the following table:

In KDM	Balance as at 1 Jan. 1999	Additions	Depletions	Release	Balance as at 31 Dec. 1999
Personnel costs		93			93
Compensation to Supervisory Board		5			5
Professional association		5			5
Listing fees		5			5
Rent for network sections		209			209
Preparation and auditing of annual financial statements	3	70	3		70
Connection services		5,171			5,171
<b>Total</b>	<b>3</b>	<b>5,558</b>	<b>3</b>		<b>5,558</b>

## Liabilities

The liabilities are carried at their repayment value.

	Up to one year KDM	Total KDM
Trade payables	11,368	11,368
Other liabilities	1,098	1,098
<b>Total</b>	<b>12,466</b>	<b>12,466</b>

Of the total trade payables of DEM 11,368,000, DEM 10,741,000 consists of connection and invoicing services, whilst DEM 627,000 relates to other operating expenses.

The "other liabilities" item is made up as follows:

	KDM
Turnover tax	941
Payroll and church tax liabilities	113
Salaries and wages	35
Social security liabilities	5
Other liabilities	4
<b>Total</b>	<b>1,098</b>

## ***Income Statement***

### Revenues

Revenues are recognised when they are actually realised. This occurs when the service has been rendered. The revenues are earned exclusively with telecommunications services in the so-called call-by-call business.

### Depreciation/Amortization

This item includes regular depreciation/amortization on tangible assets and intangible assets. During the fiscal year there was no requirement for irregular depreciation/amortization. The composition of the item can be taken from the schedule included as an annex to the appendix. With respect to the useful lives, reference is made to sections 2.1.1 and 2.1.2.

### Other Operating Expenses

The other operating expenses essentially consist of the following items:

	KDM
Rent, lease charges	103
Repairs, maintenance, configuration measures	56
Gas, electricity, water	4
Legal, consultancy and transaction costs	105
Motor vehicle expenses	19
Postage, telephone and fax expenses	62
Office requirements, periodicals, books	11
Travel expenses	32
Internet costs	7
Other advertising costs, gifts, entertainment	56
IPO expenses	7,463
Other	23
Total	7,941

### Net Financial Results

Net financial results consist of:

The income from other investments and long-term loans was earned from the step up borrowers' note loan to Baden-Württembergische Bank AG.

The item "other interest and similar income" is made up of DEM 207,000 from investments in fixed-term deposits and DEM 245,000 from the current account.

The item "interest and similar expenses" is made up of interest in the amount of DEM 39,000 on a shareholder loan that has been repaid in full, interest in the amount of DEM 6,000 on guarantee facilities and DEM 2,000 on current account interest.

### Taxes on Income

Taxes on income arose exclusively from the profits on ordinary activities and include corporation taxes of DEM 384,000, "solidarity surcharges" of DEM 21,000 and trade taxes of DEM 153,000. The taxes on income were calculated by taking into account the proposal on the appropriation of profits dated 21 February 2000.

### **Financial Obligations as at 31 December 1999**

in KDM	2000	2001-2004	as from 2005
Rent for premises	90	261	5
Car leases	80	50	0
Leased lines	10,071	5,019	0

### **Other Information**

#### ***Management***

Up until 5 May 1999, Mr Roland Thieme, Marburg, was Managing Director of 3U Telekommunikation GmbH. On 5 May 1999, Messrs Udo Graul and Manfred Schwarz were appointed Managing Directors of the company.

Following the reorganisation of 3U Telekommunikation GmbH into 3U Telekommunikation AG, a shareholders' meeting appointed the existing Managing Directors as members of the Management Board on 21 July 1999.

The Management Board consists of the following members:

Udo Graul, Marburg (Chairman)  
Manfred Schwarz, Marburg (Vice Chairman)

The members of the Management Board received a total remuneration of DEM 302,000 during the fiscal year. This included DEM 12,000 for lease expenses as well as an amount of DEM 77,000, which was paid indirectly to a Management Board member (via a limited liability company ("GmbH") in which a Management Board member had a 100% shareholding).

### ***Supervisory Board***

The following persons were elected to the Supervisory Board at a shareholders' meeting held on 21 July 1999:

Jürgen Roth, Managing Director of Baro Lagerhaus GmbH and shareholder in Otto Roth KG, Kirchhain (Chairman)

Michael Schmidt, employee of 3U Telekommunikation AG, Lahntal (Vice Chairman)

Roland Thieme, employee of 3U Telekommunikation AG, Lahntal

In the extraordinary general shareholders' meeting held on 20 October 1999, the existing members of the Supervisory Board were voted out of office and a new Supervisory Board was elected.

The members of this new Supervisory Board are:

Michael Leyener, Attorney at law, Marburg (Chairman),

Dr. Michael Kußmann, Attorney at law, Duisburg (Vice Chairman),

Bodo Rimpler, Bank Director, Kronberg.

Mr Leyener is also chairman of the Supervisory Board of MSB Bau- und Grundstücksverwaltungs GmbH, Marburg and of the Marburger Spar- und Bauverein EG, Marburg.

It is expected that the Supervisory Board compensation for the previous fiscal year 1999 will be paid in fiscal year 2000. Such compensation amounts to DEM 9,000.

### ***Employees***

There was an average of 2 employees in the company during the year.

### **3U Telekommunikation AG**

Eschborn, 21 February 2000

The Management Board

Udo Graul  
(Chairman)

Manfred Schwarz  
(Vice Chairman)

**Conversion of HGB profits for the year and shareholders' equity to US GAAP of**

**3U Telekommunikation AG, Eschborn**

	Annual Net Profit for the short fiscal year 26.8-31.12.1997 DEM	Equity per 31.12.1997 DM	Annual Net Profit 1998 DM	Capital Increases in 1998 DM	Equity per 31.12.1998 DM	Annual Net Profit 31.12.1999 DM	Capital Increase 21.07.1999 DM	Capital Increase 20.10.1999 DM	Capital Increase 20.10.1999 DM	Premium from IPO 25.11.1999 DM	Equity per 31.12.1999 DM
<b>According to HGB</b>	-5,195.37	44,804.63	-189,280.98	1,300,000.00	1,155,523.65	733,864.94	19,081.00	12,712,895.00	3,755,193.60	108,900,614.40	127,277,172.59
Adjustments Fixed Assets	0.00	0.00	-131.98	0.00	-131.98	-62,667.92	0.00	0.00	0.00	0.00	-62,799.90
deferred tax assets 50 % on adjustment to US-GAAP	0.00	0.00	65.99	0.00	65.99	31,333.96	0.00	0.00	0.00	0.00	31,399.95
deferred tax assets on loss carried forward	2,597.69	2,597.69	94,640.49	0.00	97,238.18	-97,238.18	0.00	0.00	0.00	0.00	0.00
<b>According to US- GAAP</b>	-2,597.68	47,402.32	-94,706.48	1,300,000.00	1,252,695.84	605,292.80	19,081.00	12,712,895.00	3,755,193.60	108,900,614.40	127,245,772.64

**BALANCE SHEET**  
of  
**3U Telekommunikation AG, Eschborn**  
as at **31 December 1999**  
according to **US-GAAP**

<b>ASSETS</b>	<b>31 Dec 1999 DEM</b>	<b>31 Dec 1998 DEM</b>
<b>A. Current assets</b>		
I. Cheques, cash on hand, deposits at the Bundesbank and Postbank, bank deposits	107,424,351.47	0.00
II. Trade receivables and other assets	16,318,726.07	1,369,873.20
	123,743,077.54	1,369,873.20
<b>B. Medium-term and long-term assets</b>		
I. Intangible assets		
1. Telecommunication licences	2,943,250.10	8,918.02
2. Software	44,492.00	12,160.00
	2,987,742.10	21,078.02
II. Tangible assets		
1. Technical equipment and machinery	3,482,782.00	0.00
2. Operating plant and equipment	100,698.00	39,825.00
3. Payments on account and construction in progress	0.00	396,000.00
	3,583,480.00	435,825.00
III. Financial assets	14,668,725.00	0.00
	21,239,947.10	456,903.02
<b>C. Deferred taxes</b>		
I. Deferred taxes from losses carried forward	0.00	97,238.18
II. Deferred taxes on adjustments of fixed assets	31,399.95	65.99
	31,399.95	97,304.17
<b>D. Prepaid expenses</b>		
	662,530.00	0.00
	145,676,954.59	1,924,080.39

**LIABILITIES**

	<b>31Dec 1999</b>	<b>31Dec 1998</b>
	<b>DM</b>	<b>DM</b>
<b>A. Short-term liabilities</b>		
I. Debts owed to financial institutions	0.00	201,737.99
II. Trade payables	11,367,744.29	466,336.92
III. Other liabilities	1,098,220.66	309.64
IV. Tax provisions	407,617.00	0.00
V. Other provisions	5,557,600.00	3,000.00
	<hr/> 18,431,181.95	<hr/> 671,384.55
<b>B. Equity Capital</b>		
I. Subscribed capital	17,837,169.60	1,350,000.00
II. Capital reserves	108,900,614.40	0.00
III. Balance Sheet profits/losses	507,988.64	-97,304.16
	<hr/> 127,245,772.64	<hr/> 1,252,695.84
	<hr/> <hr/> 145,676,954.59	<hr/> <hr/> 1,924,080.39

**INCOME STATEMENT**  
**for**  
**3U Telekommunikation AG. Eschborn**  
**For the period from 1 January - 31 December 1999**  
**in accordance with US-GAAP**

	<b>1 Jan.- 31 Dec 1999 DEM</b>	<b>1 Jan.- 31 Dec. 1998 DEM</b>
1. Revenues	62,208,253.58	629.53
2. Production costs for services generating revenue	53,481,874.48	13,495.08
<b>3. Gross profit/loss</b>	<b>8,726,379.10</b>	<b>-12,865.55</b>
4. Distribution costs	78,791.29	1,020.75
5. General administrative expenses	7,865,030.85	24,615.57
6. Other operating income	11,654.31	10,052.02
<b>7. Operating result</b>	<b>794,211.27</b>	<b>-28,449.85</b>
8. Income from other investments and long-term loans	30,480.00	0.00
9. Other Interest and similar income	451,728.36	19.26
10. Interest and similar expenses	46,989.52	8,932.37
11. Extraordinary expenses	0.00	152,050.00
<b>12. Profit/loss before tax</b>	<b>1,229,430.11</b>	<b>-189,412.96</b>
13. Taxes on income	624,137.31	-94,706.48
<b>14. Net income/net loss for the year</b>	<b>605,292.80</b>	<b>-94,706.48</b>
15. Losses carried forward	97,304.16	2,597.68
<b>16. Balance sheet profit (loss 1998)</b>	<b>507,988.64</b>	<b>-97,304.16</b>

**STATEMENT OF CASHFLOW**  
**according to US-GAAP**  
**for**  
**3U Telekommunikation AG, Eschborn**  
**for the period from 1 January to 31 December 1999**

	<b>31 Dec 1999</b> <b>DEM</b>
a) Cash inflow from current operations	
Net profit for the year	605,292.80
Depreciation of fixed assets	664,902.45
Cashflow	1,270,195.25
Transfers to short-term provisions	5,962,217.00
Net results from the disposal of fixed assets	0.00
Increase of trade receivables	-15,611,382.87
Decrease in the deferred tax assets	65,904.22
Increase of trade liabilities and other liabilities	11,999,318.39
	3,686,251.99
b) Cash outflow for capital expenditures	
Cash received from the disposal of fixed assets	0.00
Capital expenditures	-21,447,946.53
	-21,447,946.53
c) Cash inflow from financing	
Cash contribution from capital increases	125,387,784.00
Cash distribution to shareholders	0.00
Increase of debt	2,500,000.00
Repayment of debt	-2,500,000.00
	125,387,784.00
d) Cash and cash equivalents at the end of the fiscal year	
Changes to financial resources	107,626,089.46
Other changes to the value of financial resources	0.00
Financial resources at the beginning of the fiscal year	-201,737.99
	107,424,351.47

Asset Movement Schedule													
according to US-GAAP													
of													
3U Telekommunikation AG, Eschborn													
		Acquisition and Production Costs					Status	Accumulated Depreciation			Book Values		
		Status	Additions	Disposals	Re-booking	Status		Status	Additions	Disposals	Status	Status	Status
		1-Jan-1999				31-Dec-1999	1-Jan-1999	(= Depreciation for Fiscal Year)			31-Dec-1999	31-Dez-1999	31-Dez-1998
		DM	DM	DM	DM	DM	DM	DM	DM	DM	DM	DM	DM
<b>I.</b>	<b>Intangible Assets</b>												
	<b>1. Concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets</b>												
	Software	12.417,10	40.890,00			53.307,10	257,10	8.558,00		8.815,10	44.492,00	12.160,00	
	Telecommunication licenses	9.050,00	2.997.000,00			3.006.050,00	131,98	62.667,92		62.799,90	2.943.250,10	8.918,02	
		21.467,10	3.037.890,00	0,00	0,00	3.059.357,10	389,08	71.225,92	0,00	71.615,00	2.987.742,10	21.078,02	
<b>II.</b>	<b>Tangible Assets</b>												
	<b>1. Technical Equipment and Machinery</b>												
	Switching technology	0,00	2.282.050,53		396.000,00	2.678.050,53		306.595,53		306.595,53	2.371.455,00	0,00	
	Transmission technology	0,00	1.367.653,10		0,00	1.367.653,10		256.326,10		256.326,10	1.111.327,00	0,00	
		0,00	3.649.703,63	0,00	396.000,00	4.045.703,63	0,00	562.921,63	0,00	562.921,63	3.482.782,00	0,00	
	<b>2. Plant and Office Equipment</b>												
	Plant equipment	2.700,00	34.660,09			37.360,09	1.015,00	6.371,09		7.386,09	29.974,00	1.685,00	
	Office equipment	43.592,03	52.306,14			95.898,17	5.452,03	19.722,14		25.174,17	70.724,00	38.140,00	
	Low-cost commercial assets	0,00	4.661,67	4.661,67		0,00	0,00	4.661,67	4.661,67	0,00	0,00	0,00	
		46.292,03	91.627,90	4.661,67	0,00	133.258,26	6.467,03	30.754,90	4.661,67	32.560,26	100.698,00	39.825,00	
	<b>3. Payments on account and assets under construction</b>	396.000,00	0,00		-396.000,00	0,00	0,00			0,00	0,00	396.000,00	
	<b>Total Tangible Assets</b>	442.292,03	3.741.331,53	4.661,67	0,00	4.178.961,89	6.467,03	593.676,53	4.661,67	595.481,89	3.583.480,00	435.825,00	
<b>III.</b>	<b>Financial Assets</b>	0,00	14.668.725,00			14.668.725,00	0,00			0,00	14.668.725,00	0,00	
	<b>Total Fixed Assets</b>	463.759,13	21.447.946,53	4.661,67	0,00	21.907.043,99	6.856,11	664.902,45	4.661,67	667.096,89	21.239.947,10	456.903,02	

## Appendix as at 31 December 1999 (according to US GAAP)

### General Principles

3U Telekommunikation AG was established as a result of 3U Telekommunikation GmbH's reorganization into a stock corporation (shareholder resolution dated 21 July 1999).

The company is a large stock corporation within the meaning of § 267 of the German Commercial Code ("HGB").

The balance sheet and the income statement were prepared in compliance with the US Generally Accepted Accounting Principles.

As the company only began active commercial operations (network operations) on 1 April 1999, a comparison with figures from the previous year (31 December 1998) in the balance sheet as at 31 December 1999 and the income statement 1999 is only possible to a limited degree. For this reason, no comparison with figures from the previous year was made in the Statement of Cash Flow.

### Principles used for the Preparation of Financial Statements and Valuations

#### ***Balance Sheet***

##### Cash and Cash Equivalents

Cash and cash equivalents relate to a business account and a fixed term deposit account maintained at the Baden-Württembergische Bank AG.

Valuation is done at face.

The item is comprised of the following:

	KDM
Current account	7,424
Fixed-term deposit I	90,000
Fixed-term deposit II	10,000
Total	107,424

The current account may be terminated on a day-to-day basis. At the time of acquisition, the term remaining for both fixed-term deposit accounts was approx. one month

## Receivables and other Assets

Receivables and other assets are valued at face or a documented lower amount. The trade receivables of DEM 16,146,000 are derived exclusively from the call-by-call business. Based on the invoicing and collection agreement, Deutsche Telekom AG will carry out the invoicing and collection of the receivables on behalf of the Company. The trade receivables, which accrued until 31 December 1999, were settled in full with Deutsche Telekom AG by the time the annual financial statements had been prepared. Specific bad debt allowances were set up for uncollectible receivables. No additional general bad debt allowances were required. The receivables are due and payable at short notice.

The specific bad debt allowances developed as follows

	KDM
1997 – 1998	0
1999	993
Total	993

The other assets include interest receivables (DEM 162,000) from Baden-Württembergische Bank AG with respect to the investments in fixed term deposits and borrowers' note loans, as well as security deposits (DEM 11,000) for rented premises.

## Intangible Assets

EDP software is capitalised at its acquisition costs minus regular amortisation. The useful life is assumed to be 4 years. Amortisation shall be on a *pro rata temporis* basis. As at the balance sheet date, the cumulative acquisition costs for EDP software were DEM 53,000.

Class 3 and 4 telecommunication licences are granted for an indefinite period. Pursuant to the APB (Accounting Principles Board Opinion No. 17), intangible assets with an indefinite period of use are to be amortized over a maximum period of 40 years. In the year of acquisition, amortization was applied on a *pro rata temporis* basis and amounted to DEM 63,000 during the fiscal year. The cumulative acquisition costs for class 3 and 4 telecommunication licences were DEM 3,006,000.

The development of intangible assets can be taken from the schedule included as an annex to the appendix.

## Tangible Assets

Tangible assets are capitalised at their acquisition or manufacturing costs minus regular depreciation. Depreciation is done using the straight-line method. The simplification rules were used for the moveable assets, i.e. those assets acquired or manufactured in the first half of the fiscal year were depreciated at the depreciation rate applicable to the complete fiscal year, while those assets acquired or manufactured in the second half of the fiscal year were depreciated at half of the depreciation rate applicable to the complete fiscal year. Cumulative acquisition or manufacturing costs were DEM 4,179,000.

Depreciation was mainly calculated assuming the following useful lives:

	Years
Operating equipment	4
Furniture and fixtures	4-8
Switching equipment	5
Transmission equipment	5

The switching equipment was acquired from Teles AG in Berlin. The purchase agreement with Teles AG also required them to set up the switching centres and put them into operation on site. The switching centres were brought into operation in stages during fiscal year 1999. No extraordinary depreciation was required.

The development of the tangible assets can be taken from the schedule included as an annex.

## Financial Assets

This item includes a step up borrowers' note loan vis-à-vis Baden-Württembergische Bank AG. It has been reflected in the balance sheet at face value. No bad loan allowance was required.

The loan runs from 14 December 1999 to 9 March 2004 and may not be terminated prematurely by the company. The loan receivable may not be assigned more than three times. Until 9 March 2000, the loan shall bear interest at the rate of 4.40% per annum, and from 10 March 2000 to 9 March 2004 it shall bear interest at the rate of 5.02% per annum. The interest accrued until 31 December 1999 was deferred. The receivable derived therefrom is included under the item "other assets".

## Deferred Tax Assets

The deferred tax assets were created from the difference arising as a result of the additional amortization on telecommunications licences. A tax rate of 50 % has been assumed (for trade and corporate income taxes). The development of the deferred tax assets can be taken from the conversion to US GAAP of the profits for the year and of equity capital according to HGB (annex to appendix (sheet 2)).

## Prepaid Expenses

Prepaid expenses include furnishing fees for interconnection terminals and rent for network sections. The deferral is based upon a minimum contract term of generally 1-2 years.

## Liabilities

The liabilities involve short-term liabilities, which are stated at their repayment value.

	Up to one year KDM	Total KDM
Trade payables	11,368	11,368
Other liabilities	1,098	1,098
Total	12,466	12,466

Of the total trade payables of DEM 11,368,000, DEM 10,741,000 relate to connection and invoicing services, whilst DEM 627,000 relate to other operating expenses. The trade payables include obligations of DEM 7,000 to a management board member, as well as obligations of DEM 4,000 to a majority shareholder.

The "other liabilities" item is made up as follows:

	KDM
Turnover tax	941
Payroll and church tax liabilities	113
Salaries and wages	35
Social security liabilities	5
Other liabilities	4
Total	1,098

## Provisions

The provisions involve probable obligations. In other words, there is a large degree of certainty that they will occur. Therefore, it is obligatory that they be reported in the balance sheet. They will be reflected in the amount of the probable claim.

The tax provisions are comprised of trade income taxes and corporate income taxes including "solidarity surcharges". These were calculated by taking into account the proposal on the appropriation of profits.

The development of the item "other provisions" is illustrated by the following table:

In KDM	Balance as at 1 Jan. 1999	Additio ns	Depletio ns	Relea se	Balance as at 31 Dec. 1999
Personnel costs		93			93
Compensation to Supervisory Board Members		5			5
Professional association		5			5
Listing fees		5			5
Rent for network sections		209			209
Preparation and auditing of annual financial statements	3	70	3		70
Connection services		5,171			5,171
Total	3	5,558	3		5,558

## Equity Reconciliation

In KDM	Balance as at 1 Jan. 1999	Additions/ Reductions	Balance as at 31 Dec.1999
Subscribed capital	1,350	16,487	17,837
Capital reserves	0	108,901	108,901
Earnings reserves	0	0	0
Balance sheet profit/loss	-194	733	539
Total	1,156	126,121	127,277

The company has a registered share capital of EUR 9,120,000, which is equivalent to DEM 17,837,169.60. The registered share capital consists of 9,120,000 no par value bearer shares, each representing a EUR 1 portion of the registered share capital.

During fiscal year 1999 the capital was increased in several stages as follows:

	EUR
Conversion to EUR (Resolution dated 21 July 1999)	690,244
Rounding (Resolution dated 21 July 1999)	9,756
Capital increase (Resolution dated 20 October 1999)	6,500,000
Capital increase (Resolution dated 20 October 1999) in connection with the IPO	1,920,000
Total	9,120,000

The capital reserve of DEM 108,900,614.40 was formed from the premium paid during the course of the IPO. This was derived from the difference between the issuing price of EUR 30 per no par value bearer share and such share's theoretical nominal value of EUR 1.

The loss-carried-forward arose in fiscal years 1997 and 1998, when the company was still in the start-up phase.

In 1999, no earnings reserves were stated.

Pursuant to the proposal on the appropriation of profits, it is intended to distribute dividends of EUR 91,200 to the shareholders. This corresponds to 1 cent per no par value bearer share, and thus amounts to DEM 178,371.70.

The balance sheet profit for the year is made up as follows:

	DEM
Distribution in accordance with the proposed appropriation of profits	178,371.70
Profit carried forward	361,016.89
Total	539,388.59

## ***Income Statement***

### Revenues

Revenues are recognised when they are actually realised. This occurs when the services have been rendered. The revenues are earned exclusively with telecommunications services in the so-called call-by-call business.

### Production Costs for Services generating Revenue

The item "production costs for services generating revenue" essentially includes expenses for connection services (DEM 47,823,000), invoicing and collection services (DEM 3,154,000), furnishing fees for interconnection terminals and leased lines (DEM 1,663,000), customer care (DEM 77,000), pro rata share of personnel expenses (DEM 9,000), amortization on telecommunication licences, switching and transmission technology, EDP and office equipment employed in the sales process (DEM 654,000), pro rata share of motor vehicle and travelling expenses (DEM 3,000), rent for the sites (DEM 44,000) as well as maintenance expenses (DEM 55,000).

### Administrative Expenses

The administrative expenses include personnel expenses (DEM 129,000), Supervisory Board expenses (DEM 11,000), motor vehicle expenses (DEM 12,000), maintenance (DEM 1,000), legal and consultancy costs (DEM 105,000), office requirements, telephone, postage (DEM 73,000), rent (DEM 31,000), depreciation (DEM 11,000), other costs (DEM 29,000), as well as the costs in connection with the IPO (DEM 7,463,000).

### Interest Income and Interest Payments

Net financial results consists of:

The income from other investments and long-term loans was earned from the step up borrowers' note loan to Baden-Württembergische Bank AG.

The item "other interest and similar income" is made up of DEM 207,000 from investments in fixed-term deposits and DEM 245,000 from the current account.

The item "interest and similar expenses" is made up of interest in the amount of DEM 39,000 on a shareholder loan which has been repaid in full, interest in the amount of DEM 6,000 on guarantee facilities and DEM 2,000 on current account interest.

## Taxes on income

Taxes on income relate exclusively to the results of ordinary activities and include corporation taxes of DEM 384,000, "solidarity surcharges" of DEM 21,000, trade taxes of DEM 153,000 as well as deferred taxes of DEM 66,000. The taxes on income were calculated by taking into account the proposal on the appropriation of profits dated 21 February 2000.

## **Financial Obligations as at 31 December 1999**

in KDM	2000	2001-2004	as from 2005
Rent for premises	90	261	5
Car leases	80	50	0
Leased lines	10,071	5,019	0

## **Other Information**

### ***Management***

Up until 5 May 1999, Mr Roland Thieme, Marburg, was Managing Director of 3U Telekommunikation GmbH. On 5 May 1999, Messrs Udo Gaul and Manfred Schwarz were appointed Managing Directors of the company.

Following the reorganisation of 3U Telekommunikation GmbH into 3U Telekommunikation AG, a shareholders' meeting appointed the existing Managing Directors as members of the Management Board on 21 July 1999.

The Board of Management consists of the following members:

Udo Gaul, Marburg (Chairman)  
Manfred Schwarz, Marburg (Vice Chairman)

The members of the Management Board received a total remuneration of DEM 302,000 during the fiscal year. This includes DEM 12,000 for lease expenses as well as an amount of DEM 77,000, which was paid indirectly to a Management Board member (via a limited liability company ("GmbH") in which a Management Board member had a 100% shareholding).

### ***Supervisory Board***

The following persons were elected to the Supervisory Board at a shareholders' meeting held on 21 July 1999:

Jürgen Roth, Managing Director of Baro Lagerhaus GmbH and shareholder in Otto Roth KG, Kirchhain (Chairman)

Michael Schmidt, employee of 3U Telekommunikation AG, Lahntal (Vice Chairman)

Roland Thieme, employee of 3U Telekommunikation AG, Lahntal

In the extraordinary general shareholders' meeting held on 20 October 1999, the existing members of the Supervisory Board were voted out of office and a new Supervisory Board was elected.

The members of this new Supervisory Board are:

Michael Leyener, Attorney at law, Marburg (Chairman),

Dr. Michael Kußmann, Attorney at law, Duisburg (Vice Chairman),

Bodo Rimpler, Bank Director, Kronberg.

Mr Leyener is also chairman of the Supervisory Board of MSB Bau- und Grundstücksverwaltungs GmbH, Marburg and of the Marburger Spar- und Bauverein EG, Marburg.

It is expected that the compensation payable to the Supervisory Board for the previous fiscal year 1999, will be paid in fiscal year 2000. Such compensation amounts to DEM 9,000.

### ***Employees***

There was an average of 2 employees in the company during the year.

### ***Total number of Shares held by Members of the Management Board and Supervisory Board***

	Number of Shares
Management Board	3,500,000
Supervisory Board	1,700

### **Earnings per Share**

The following table shows earnings per share:

<hr/>	
Numerator:	
Annual net profit adjusted for special factors	DEM 8,068,322
<hr/>	
Denominator:	
Weighted average of publicly held shares (no par bearer shares)	7,389,370
<hr/>	
Earnings per share	DEM 1.09

The profit for the year was influenced to a considerable extent by the costs incurred in the course of the IPO and has been adjusted to take into account these special factors. The annual net profit adjusted for special factors may be determined on the following basis:

	DEM
<hr/>	
Annual net profit according to US GAAP	605,292
<hr/>	
Listing expenses	7,463,030
<hr/>	
Annual net profit adjusted for special factors	8,068,322

For the year in which the company went public, the number of shares will be calculated on a time-weighted basis (*zeitgewichtet*) from the share capital as at 31 December 1999 as well as the share capital as it existed immediately prior to the IPO. No interim capital increases took place.

### **3U Telekommunikation AG**

Eschborn, 21 February 2000

The Management Board

Udo Graul  
(Chairman)

Manfred Schwarz  
(Vice Chairman)

# Auditor's Opinion

## Auditor's Opinion

"I have audited the annual financial statements, including accounting, and the Management Report for 3U Telekommunikation AG, Eschborn, for the fiscal year 1 January through 31 December 1999. According to the provisions of German commercial law and the additional rules contained in the Company's memorandum and articles of association, accounting and the preparation of the annual financial statements and the Management Report are the responsibility of the Company's legal representatives. My duty is to express an opinion about the annual financial statements, including the accounting, and the Management Report on the basis of the audit conducted by me.

I carried out my audit of the annual financial statements in accordance with § 317 of the German Commercial Code ("HGB") and the generally accepted principles of auditing as laid down by the German Institute of Auditors ("Institut der Wirtschaftsprüfer (IDW)"). According to these principles, the audit is to be planned and conducted in such a way that any inaccuracies or violations, which could materially affect the presentation of the Company's assets, liabilities, financial position or results as reflected in the annual financial statements prepared in accordance with the generally accepted principles of accounting, are identified with sufficient certainty. In determining how the audit is to be conducted, we review the Company's business activities, its financial and legal environment and any expectations concerning potential errors. In connection with the audit, the effectiveness of the Company's internal controls system and evidence supporting the accounting figures and information provided in the annual financial statements and the management report are assessed on the basis of random sampling. The audit includes an assessment of the accounting principles applied and the significant projections made by the legal representatives, as well as an evaluation of the overall presentation of the annual financial statements and the management report. I believe that my audit provides a sufficiently secure basis upon which to issue my opinion.

My audit found nothing objectionable.

In my opinion, the annual financial statements prepared in accordance with generally accepted accounting principles present a true and fair view of the Company's assets, liabilities, financial position and results. The management report in general accurately reflects the Company's situation and accurately portrays future development risks."

Kirchhain, 24 February 2000

Beate Weber  
Auditor

## **Report of the Supervisory Board of 3U Telekommunikation AG**

- (1) The Management Board has kept the Supervisory Board informed of current business developments, the Company's situation and material business events, particularly at the meeting of the Supervisory Board held on 20 October 1999.

On the basis of this information, the Supervisory Board has monitored the Management Board and is of the opinion that the Company is being managed in a proper manner.

- (2) A total of three meetings of the Supervisory Board were held in 1999: on 21 and 22 July as it was previously constituted, and on 20 October as it is presently constituted.
- (3) The Annual Financial Statements of 3U Telekommunikation AG as at 31 December 1999 and the Management Report for the 1999 fiscal year submitted by the Management Board were audited by the auditor/tax consultant, Beate Weber, who was appointed as auditor, and who provided an unqualified auditor's opinion. There have been no objections to the audit's findings.
- (4) The Supervisory Board examined the Annual Financial Statements as at 31 December 1999, the Management Report and the proposal for the appropriation of the balance sheet profits, taking into account the Audit Report of the auditor, Ms. Weber. There were no objections.

The Supervisory Board held a meeting on 22 March 2000, at which the Management Board and the auditor were present, along with all the members of the Supervisory Board. At the meeting, the auditor reported on the significant findings of the audit and provided supplementary information in relation to the audit.

- (5) The Supervisory Board unanimously approved the Annual Financial Statements as at 31 December 1999 prepared by the Management Board, which are hereby approved. Similarly, the Supervisory Board approved of the Management Board's proposal on the appropriation of profits, according to which dividends totalling DEM 178,371.70 are to be distributed to shareholders, and DEM 361,016.89 is to be carried forward as profits.
- (6) The Supervisory Board wishes to thank the Management Board and the employees for the work performed by them over the year covered by the Report.

Marburg, 22 March 2000

The Supervisory Board

Michael Leyener  
Chairman