

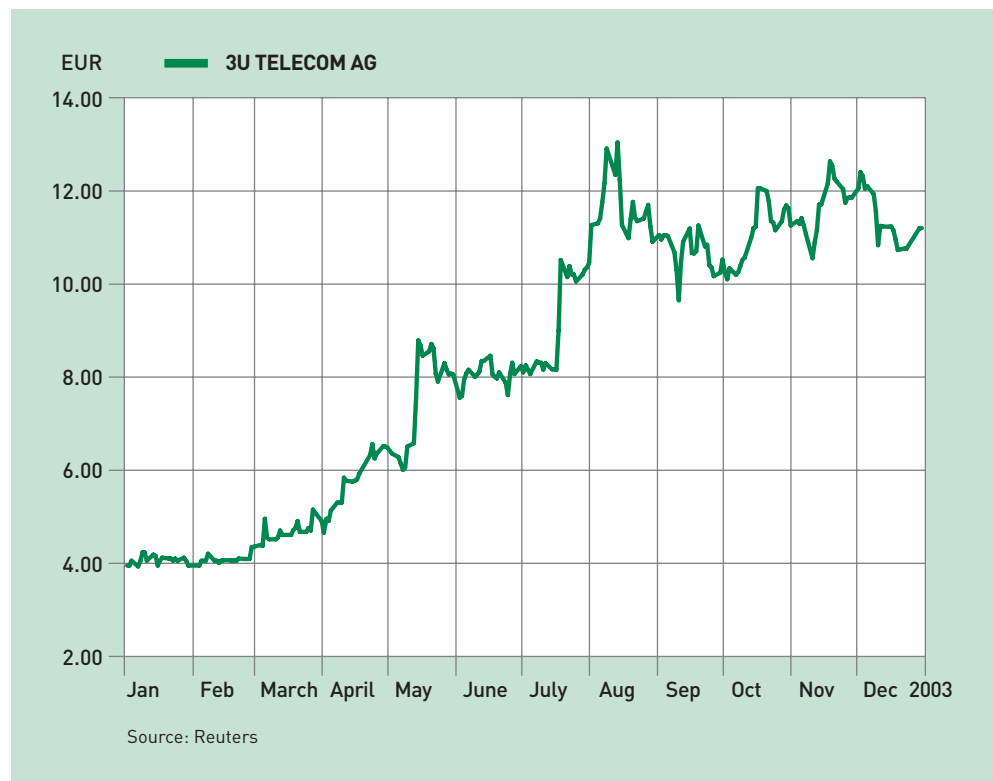


3U TELECOM AG

Annual Report 2003



The 3U Share 2003



Summary of Group Results

3U Group (US GAAP)		Year-on-year comparison	
		2003	2002
Revenues	(€ in millions)	64.68	65.97
EBITDA (earnings/losses before interest, taxes, depreciation and amortisation)	(€ in millions)	5.76	6.54
EBIT (earnings/losses before interest and taxes)	(€ in millions)	1.55	3.05
EBT (earnings/losses before taxes)	(€ in millions)	2.30	4.02
Net income/loss for the period	(€ in millions)	1.73	1.78
Earnings per share	(in €)	0.19	0.20
Net sales return	(in %)	2.68	2.70
Equity ratio	(in %)	80.65	86.72

3U Group (US GAAP)		Quarter-on-quarter comparison	
		Q4 2003	Q4 2002
Revenues	(€ in millions)	19.74	15.59
EBITDA (earnings/losses before interest, taxes, depreciation and amortisation)	(€ in millions)	0.41	1.18
EBIT (earnings/losses before interest and taxes)	(€ in millions)	-1.16	0.63
EBT (earnings/losses before taxes)	(€ in millions)	-1.03	0.86
Net income/loss for the period	(€ in millions)	-1.00	1.12
Earnings per share	(in €)	-0.11	0.12
Net sales return	(in %)	-5.04	7.17
Equity ratio	(in %)	80.65	86.72

The consolidated result is partially negatively impacted by an unscheduled bad debt charge of € 1.8 million.

Due to a discrepancy between the debtor and financial accounting resulting from the period prior to the acquisition of OneTel, € 1.8 million was booked as bad and doubtful debts and a bad debt charge was made as a precautionary measure.

The auditor's certificate dated 11 March 2004 says the following on this matter:

"The validity of claims against registered customers of the company OneTel Telecommunication GmbH of T€ 1,827 is unclear. As a precaution, a bad debt charge was made on this sum. However, the possibility cannot be ruled out that the bad debt charge may be partially unfounded."

3U is planning a significant leap in profits for 2004. 3U wants to increase sales to more than € 100 million and profits after tax to more than € 10 million.

The sales attained in 2003 since the acquisition of OneTel produces sales projected across the whole year of approximately € 80 million. The gap between that and the anticipated € 100 million sales is to be closed by restarting the wholesale business and by implementing the planned measures for organic growth.

The planned post-tax profit of € 10 million is based on the cost structures achieved by 3U before the acquisition of OneTel in 2003 and set to be re-achieved on completion of the integration of OneTel. Accordingly, the expected post-tax profit is approximately 10% of sales.

We are confident that the targets for sales and earnings for 2004 can be achieved.



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| Letter to Our Shareholders

Dear Shareholder,

2003 was an eventful and successful financial year for us, yet another one that we ended with a positive result. In all areas of our company, we laid the crucial foundations for the future and continued to steer 3U towards growth.

The share price also started to rise in the 2003 financial year. The 3U share increased in value by a good 180%. The market capitalisation of 3U increased from € 35 million in January to € 102 million at the year-end. The positive development of the 3U share resulted in listing in the old technology index, the NEMAX 50, at the end of September 2003. Listing in the TecDAX should be possible in the medium term if the share price continues to rise. This will further increase the interest in 3U created on the financial market. Our primary aim initially is to continue our strategy of earnings-oriented growth, leading to a sustainable increase in the enterprise value of 3U. We will continue to focus on a strong earnings situation and sound capital structures in future.

We used 2003 to prepare 3U for long-term growth. The acquisition of OneTel Telecommunication GmbH ("OneTel") in July 2003 was at the forefront of our activities. It enabled us to considerably strengthen our market position in Germany and also improve the strategic position of 3U with a view to further growth. As a result of the acquisition of OneTel, we are expecting significant positive earnings contributions in the 2004 financial year.

With the start of our operations in Belgium and Luxemburg in the second half of 2003 and the start in the UK in February 2004, we have also widened our opportunities abroad both for internal growth and strategic options. 3U is now represented in nine European countries and in the USA.

3U made significant investments in the 2003 financial year, to encourage internal growth. With the acquisition of an IN platform (IN = intelligent network) and the set-up of an in-house development department, new interesting products and services are being created for end customers and resellers, with corresponding earnings contributions for 2004 as a whole. In addition, we shall seize future opportunities for external growth through acquisitions, should the appropriate opportunities arise either at home or abroad.

As you can see, we are steadfastly working to realise and enhance our potential. We are well equipped and highly motivated for the future.

We invite you to accompany us.

Marburg, March 2004

Udo Graul
Chairman of the Management Board



Udo Graul, Chairman
of the Management Board

Photo: © Gabriele Kircher, Marburg



Report of the Supervisory Board



Hubertus Kestler, Chairman of the Supervisory Board

Dear Shareholders,

The Supervisory Board of 3U TELECOM AG dealt intensively with the situation of the Group and its individual corporate areas and major business transactions in 2003. The Supervisory Board monitored the business management of the Management Board in accordance with the duties assigned to it under the terms of legislation and the Articles of Association, and advised the Management Board in the fulfilment of its duties. The Supervisory Board was involved in all major decisions affecting the company. The Supervisory Board was provided with up-to-date and comprehensive information in a total of five meetings. The Chairman of the Supervisory Board was also kept informed of the current situation of the Group and any major developments, business transactions and decisions outside of the scheduled meetings. In addition to the ongoing discussion of, and advice on the financial development and strategic orientation of 3U TELECOM AG and other companies in the Group, the Supervisory Board also dealt specifically with the following important issues during the last financial year:

- Further measures for reducing costs and increasing sales and earnings in all areas of the Group.
- Further development of the organisational structures of the 3U Group including the expansion of activities abroad through the start-up of operations in Belgium, Luxemburg and the UK.
- Advice with regard to internal risk control systems and the development thereof.
- Discussion and approval of budget and financial planning for the 2004 financial year.
- Advice on and discussion of transactions requiring approval.
- Continuation of the discussion on Corporate Governance. In December 2003, the Management Board and Supervisory Board submitted the necessary declaration of conformity to the Corporate Governance Code in its current version.
- Advice on various acquisition plans at home and abroad and financing concepts relating to these, particularly at OneTel Telecommunication GmbH, Neu-Isenburg.
- Information and advice regarding investments, particularly for expanding and stabilising the existing network.
- Advice on new accounting regulations and conversion from US GAAP to IAS in the 2004 financial year.

A noteworthy event in the 2003 financial year was the acquisition of all shares in OneTel Telecommunication GmbH in Neu-Isenburg in July 2003 and the subsequent integration of these in the 3U Group. In this respect, the share capital of 3U TELECOM AG was increased by € 248,448.00 from the current level of € 9,120,000.00 to € 9,368,448.00 through the issue of 248,488 bearer shares, following the relevant resolution of the shareholders' meeting on 17 May 2002, and using some of the authorised capital. To meet the growing requirements for transparency and control as fully as possible, a Supervisory Board was formed at OneTel Telecommunication GmbH, on which the Chairman of the Supervisory Board of 3U TELECOM AG also sits in addition to the members of the Management Board.

B. Weber GmbH, chartered accountants, in Kirchhain, appointed as auditor by the shareholders' meeting, audited the annual financial statements of 3U TELECOM AG, the consolidated finan-



cial statements with a discharging effect in line with Article 292 a of the German Commercial Code and prepared in line with US GAAP, and the summarised management report of 3U TELECOM AG and the Group, including the bookkeeping, and certified them with an auditor's certificate with the following restriction:

"The validity of claims against registered customers of the company OneTel Telecommunication GmbH of T€ 1,827 is unclear. As a precaution, a bad debt charge was made on this sum. However, the possibility cannot be ruled out that the bad debt charge may be partially unfounded."

The Supervisory Board satisfied itself that the auditor was acting impartially. In the context of the annual audit by B. Weber GmbH, chartered accountants, the risk management was also audited and its essential components were analysed.

The Supervisory Board audited the annual financial statements of 3U TELECOM AG, the consolidated financial statements, the combined summary of the management report of 3U TELECOM AG and the Group management report, and the proposal of the Management Board for the appropriation of the balance-sheet profit. All documents relating to the financial statements were submitted to the Supervisory Board. The auditor attended the balance sheet meeting of the Supervisory Board on 9 March 2004 and reported on the main results of its audits. The auditor answered the questions of the Supervisory Board and provided further explanations. In the meeting on 9 March 2004, the Management Board explained the financial statements of 3U TELECOM AG and the Group.

The Supervisory Board concluded that the annual statements, the consolidated financial statements, the summarised management report and the report of the auditor gave no cause for objection and approved the results of the audit. With the resolution passed on 9 March 2004, the Supervisory Board therefore approved the annual financial statements of 3U TELECOM AG and the consolidated financial statements prepared by the company and audited by the auditor. The annual financial statements are therefore adopted in line with Article 172 of the German Stock Corporation Act. The Supervisory Board approved the Management Board's proposal for the appropriation of the balance sheet profit.

The Supervisory Board would like to thank the Management Board and all employees for their huge personal dedication and work during the last 2003 financial year.

Marburg, 12 March 2004

The Supervisory Board



Hubertus Kestler
Chairman of the Supervisory Board



| Corporate Governance

The Corporate Governance Code has been in existence in Germany since 2002. It contains regulations, recommendations and suggestions for good and responsible corporate management. The purpose of the Code is to create greater transparency, thus increasing the confidence of investors, customers, employees and the public in the corporate management of German companies. 3U TELECOM AG (3U) welcomes the Corporate Governance Code. It serves the interests of the company and its investors.

Declaration of conformity

The Management Board and Supervisory Board of 3U TELECOM AG have discussed the contents of the Corporate Governance Code at length and decided that the recommendations are largely observed.

3U has published the declaration of conformity required according to the German Stock Corporation Act on its website (www.uuu.de). It can be found under the path "Börse und Finanzen/Corporate Governance" (*"Stock Exchange and Finances/Corporate Governance"*).

D&O insurance

3U has dispensed with the deductible for the D&O insurance (directors and officers liability insurance) recommended in Section 3.8 of the Corporate Governance Code for members of the Management Board and Supervisory Board. 3U basically does not believe that the motivation and responsibility with which the members of the 3U Management Board and 3U Supervisory Board perform their duties will be improved by a deductible.



Stock option plan

With the resolution dated 15 May 2003, the shareholders' meeting created contingent capital of up to T€ 912 for issuing stock options to members of the Management Board and executives and employees of 3U TELECOM AG in the context of a stock option plans and granted the Management Board the relevant authorisation. The Management Board made use of this authorisation on 20 August 2003, subject to the consent of the Supervisory Board, and prepared a stock option plan for 2003.

The 3U stock option plan for 2003 deviates from the recommendations of the German Corporate Governance Code to the extent that it provides for a 15 % surcharge on the strike price as the profit target. Due to the generally difficult market environment, 3U is of the opinion that a 15% increase in the share price is an ambitious profit target.

A further deviation is that no cap has been agreed for extraordinary, unforeseen developments. 3U believes that due to the relatively small number of stock options issued, the resulting profits for employees would be modest in comparison to their respective basic remuneration, even in the event of an extremely positive development of share prices. There was therefore no need to agree a cap. However, with respect to stock option plans to be imposed in future, 3U will check whether the agreement of other or additional profit targets and a cap would be prudent.

The specific structure of the 3U stock option plan is published on the homepage of 3U (www.uuu.de) under the path "Börse und Finanzen/Corporate Governance" ("*Stock Exchange and Finances/Corporate Governance*").

Remuneration of the Management Board

The German Corporate Governance Code recommends that the remuneration of the members of the Management Board be reported in the notes to the consolidated financial statements, broken down into the fixed component, performance-related components and components with a long-term incentive effect. Furthermore, the Code also recommends that this information be broken down for the individual members.

This recommendation is not observed.

The Supervisory Board sets the level and structure of the remuneration of the members of the Management Board of 3U TELECOM AG. The total salaries are commensurate with the duties and work of the members of the Management Board and the financial situation of 3U TELECOM AG. The remuneration of the members of the Management Board of 3U TELECOM AG provides sufficient performance incentives for a sustainable increase in enterprise value. The remuneration of the members of the Management Board comprises fixed and variable components.



Prior to the creation of the 3U 2003 stock option plans in August 2003, the remuneration of the Management Board did not include any variable remuneration components with a long-term incentive effect. Since then, the stock options have acted as variable remuneration components with a long-term incentive effect and risk element. These are based on predefined reference parameters. 3U will not alter the profit targets retrospectively. The specific structure of the 3U 2003 stock option plan can be found on the company's website.

In addition, the members of the Management Board receive an annual bonus if they achieve certain performance targets to be specified by the Supervisory Board.

Further details of the remuneration of members of the Management Board can be found in the notes to the consolidated financial statements.

Age limits for members of the Management Board and Supervisory Board

The German Corporate Governance Code recommends the specification of age limits for members of the Management Board and Supervisory Board.

This recommendation is not observed. It constitutes an inappropriate infringement of the right of shareholders to choose members of the Supervisory Board.

The Supervisory Board would similarly be restricted in their choice of suitable members for the Management Board if an age limit were imposed for members of the Management Board. 3U is of the opinion that the introduction of a rigid age limit is not an appropriate selection criterion for finding the most suitable applicants. The emphasis should instead be on the individual skills and experience of the applicant.

Remuneration of the Supervisory Board

The German Corporate Governance Code recommends that the remuneration of the individual members of the Supervisory Board be reported in the notes to the consolidated financial statements, broken down into their components. Remunerations or benefits for personal achievements, particularly consultancy or brokering work, paid by the company to members of the Supervisory Board, shall be specified separately in the notes to the consolidated financial statements broken down into individual members.

This recommendation is not observed.

Cooperation of the Management Board and Supervisory Board

The Management Board and Supervisory Board of 3U TELECOM AG work closely together. The Management Board provides regular, up-to-date and comprehensive reports on the development of business, plans and the risk situation. Deviations of the development of business from



the plans are explained in detail. The strategic orientation of the company is agreed. For major business transactions, the approval prerogatives of the Supervisory Board are set out in the terms of reference for the Management Board.

You can find more information on the subject of cooperation between the Management Board and Supervisory Board on pages 4 and 5.

Risk management

Good Corporate Governance includes responsible handling of the risks arising from the business activities of the company. The Management Board and Supervisory Board are regularly informed of the risks and their development through the risk management system set up in the 3U Group. The system is developed on an ongoing basis and adapted to changing general conditions.

Details on this issue can be found in the "Risk Management" section on pages 23 and 24 of this annual report.

Auditing

It was agreed with the auditor that the Chairman of the Supervisory Board is to be informed immediately of any reasons for exclusion or partiality arising during the audit, if these cannot be resolved. In addition, the auditor is to immediately report all findings and events occurring during the audit which are material for the duties of the Supervisory Board. The auditor must inform the Supervisory Board or make a note in the audit report of any facts uncovered during the audit which negate the declaration of conformity issued by the Management Board and Supervisory Board in accordance with Article 161 of the German Stock Corporation Act.



| The 3U Share

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Summary of the 3U share

International Securities Identification Number (ISIN)	DE0005167902
Stock exchange symbol	uuu
Trading segment	Prime Standard, NEMAX 50
Industry key	Telecommunication
Designated Sponsor	Landesbank Baden-Württemberg (until 31 October 2003) DZ BANK AG (from 1 November 2003) Helaba Landesbank Hessen-Thüringen (from 1 December 2003)
Initial listing	25 November 1999
Registered share capital	(in €) 9,368,448.00
Stock exchange price on 30 December 2003*	(in €) 11.15
High in 2003*	(in €) 12.99 (13 August 2003)
Low in 2003*	(in €) 3.88 (6 January 2003)
Number of shares	9,368,448
Market capitalisation on 30 December 2003	(€ in millions) 102
Earnings per share (basic)	(in €) 0.19
Proposed dividend for 2003	(in €) 0.00

The 3U share is taking off

The price of the 3U share developed extremely positively in 2003. The price more than tripled between January 2003 and mid-August 2003. Accordingly, the market capitalisation of 3U increased from approximately € 35 million in January to approximately € 102 million at the year-end. However, this price increase is underpinned by basic data. 3U is a profitable company with sound capital structures and growth potential.

The relatively high trading volume and the positive price development in 2003 show that interest in the company on the financial market has increased enormously. This is also borne out by the listing on the old technology index, the NEMAX 50, at the end of September 2003.

Financial analysts and the media assessed the performance of 3U last year as extremely positive. Our share was increasingly recommended for buying.

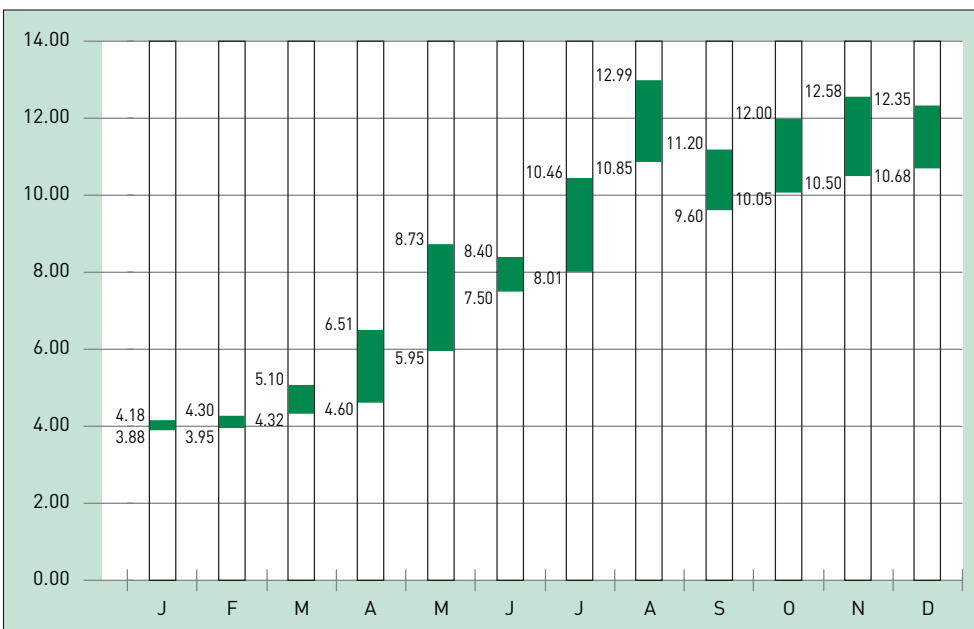
If the 3U share continues to develop positively, listing on the TecDAX should be possible in the medium term. For this, 3U would have to be among the top 35 technology stocks in terms of sales during the last 12 months and among the top 35 stocks with the highest listed free float

* Daily closing price Xetra



on the stock exchange. In terms of sales, 3U has already been one of the top 35 for the last 12 months, but with respect to the listed free float 3U is a little outside of the top 35.

High and low of the 3U share* (in €)



The low for the 2003 financial year was € 3.88 in January, the high was € 12.99 in August 2003. The reason for the leap in the share price in the middle of the year from approx. € 8 to almost € 13 is suspected to lie in the acquisition of its competitor OneTel.

* Daily closing price Xetra

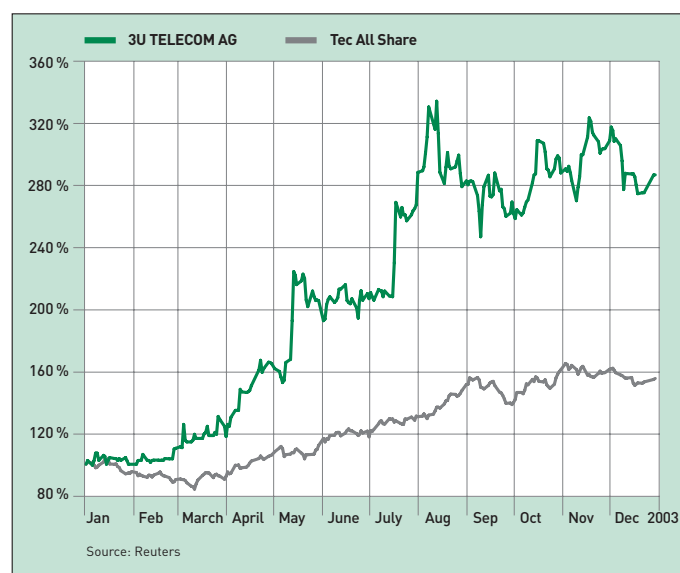


Comparative development of the 3U share

The 3U share widely negated the trend of peer group indices on a regular basis. This made 3U one of the winners on the technology stock exchange in 2003. In the summary of NEMAX winners for 2003, 3U comes in at an impressive seventh place with a performance of 185 %.

Company	Closing price in € on 30 Dec 2003	Change in % from 2002 closing price
freenet.de	56.52	1065.36
Mobilcom	12.80	319.67
Rofin-Sinar Technologies	27.28	278.89
TELES	10.70	275.44
Suess MicroTec	10.15	227.42
Dialog Semiconductor	3.40	203.57
3U TELECOM	11.15	185.90
IDS Scheer	14.48	183.92
United Internet	18.82	178.81
Evotec OAI	5.08	163.21

Source: Boersenreport dated 1 January 2004



Share price trend for 3U TELECOM AG from January 2003 to December 2003 in comparison to the Tec All Share-Index



Proposed dividend

The Management Board and Supervisory Board will propose to the shareholders' meeting on 13 May 2004 that no dividend be distributed for the 2003 financial year.

We believe that we will benefit you, the shareholders of 3U, more in the medium and long term by persisting with our consistent and cost-oriented growth course than by paying dividends now.

Investor structure

As of 31 December 2003, current members of the governing bodies held the following shares with full voting and dividend rights:

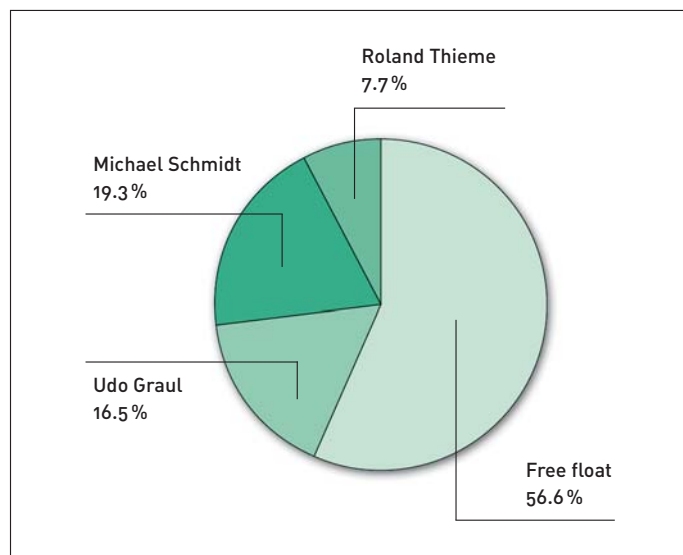
Management Board

Udo Graul (Chairman)	1,500,740 shares
Michael Schmidt	1,758,000 shares
Roland Thieme	700,000 shares

Supervisory Board

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

The free float is 56.6%.



Investor Relations

The management of 3U kept the capital market informed of the strategy and the development of business on an ongoing basis and in a comprehensive manner. We consolidated contacts with institutional investors and private investors in the 2003 financial year and significantly increased our presence with roadshows in Germany and the UK. In addition, we presented our strategy and potential to various banks at analysts' and investor conferences and in stock trading departments.



The Group Management Report

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| A Summary of the 2003 Financial Year

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3U strengthening market position in Germany

In July, 3U acquired all shares in OneTel Telecommunication GmbH, based in Neu-Isenburg. Like 3U, this company is involved in the call-by-call and preselection segments, is excellently positioned with attractive prices and has a large customer base in the call-by-call segment. As a result of this acquisition, 3U hopes to increase its profits quickly and strengthen its market position. At the same time, the acquisition has improved the company's strategic position for further internal and external growth.

Since the end of April 2003, 3U has also entered into competition in the local network sector. Since then, local calls have also been available through 3U. 3U offers this service in approximately 1,800 locations. Further, more extensive expansion to cover sparsely populated areas is not economical in terms of technical expenditure and is therefore not planned.

Our strategy also includes only opening business areas that are expected to provide positive profit contributions, and where applicable only to the extent that they will. We place the emphasis on strong and sustainable growth.

3U is internationally successful

The company's foreign subsidiaries continued to perform well in 2003.

Expansion into other European countries was successfully continued with the start of operations in Belgium (October 2003) and Luxemburg (November 2003). 3U thus strengthened its foundation for internal and external growth.

3U preparing for growth

With the continual increase in profitability, for example as a result of further savings in interconnection costs, we created a good basis for sales growth and increasing earnings in 2003. 3U has oriented itself technically and organisationally for growth and has had a management system certified in accordance with ISO9001 since the middle of 2003. All processes have been optimised as far as possible. The process structures thus created can be applied to companies to be integrated. This accelerates the consolidation process, minimises risks and increases efficiency.

Further growth will create so-called economies of scale, which will positively impact the earnings situation. Costs are rising at a lower rate than the customer base. This means that the development of fixed costs at 3U is separate from customer growth. The reason for this is the high level of automation of our business processes, combined with the use of modern technology. This ensures efficiency and profitability.

We want to encourage organic growth through targeted measures. With the acquisition of an IN platform (IN = intelligent network) and the formation of an in-house development depart-



ment, we have created the basis for the development of new innovative services for end customers and resellers.

At the same time, we will continue our acquisition strategy at home and abroad.

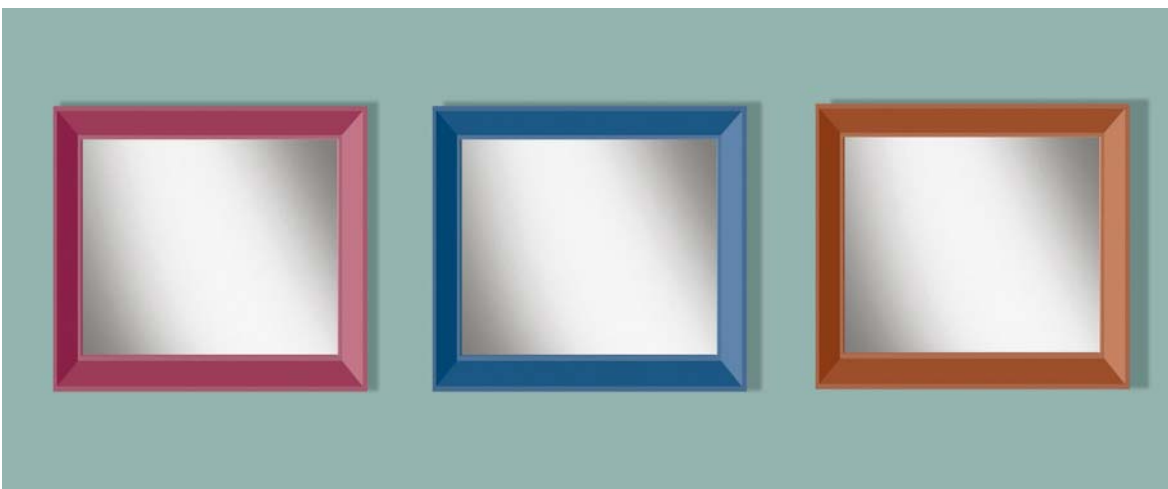
With good financial resources and the approval of the contingent capital increase at the shareholders' meeting in 2002, 3U has a strong starting base.

Following the share buyback authorisation granted at the shareholders' meeting in 2003, the company also has the necessary flexibility for its acquisition plans. In international competition, it is customary to issue own shares of the company as counterperformance for company mergers or for acquisitions of companies or stakes in companies.

3U is being discovered on the stock exchange

The price of the 3U share rose by more than 180 % in 2003. The market capitalisation totalled € 102 million at the end of December, thereby tripling in comparison to the start of the year.

At the end of September 2003, 3U was listed on the NEMAX 50 and is now a promising candidate for listing on the TecDAX in the medium term.



| Economic Environment

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Telecommunications industry slowly recovering

The consolidation phase is not yet over. A number of companies have not survived the difficult macroeconomic conditions. Nevertheless, on the whole the telecommunications industry withstood macroeconomic developments well in 2003. Sales of companies in the German telecommunications market increased from € 59.9 billion in 2001 to € 61.3 billion in 2002 and to an estimated € 63.0 billion in 2003.* In view of the current tangible signs of economic revival, additional growth can be expected in the telecommunications sector.

The mood among investors again turned in favour of telecommunications stocks in 2003. The phase of consolidation and market adjustment in the German telecommunications industry is continuing, albeit with reduced vigour. The interest of investors is considerable and the premise that the remaining competitors are now concentrating on reducing debts, returning to sustainable profits and engaging in new investments support the hope that the former economic strength is returning.

Competition in local networks

The main news in fixed line network telephony in Germany in 2003 was the opening of local networks for call-by-call providers. Since the end of April 2003, it has been possible to make calls in local networks via the network identification numbers of other providers. Preselection for local calls has also been possible since July 2003.



*Source: Tätigkeitsbericht 2002/2003 RegTP (*RegTP 2002/2003 operations report*), December 2003

Competitors in the German fixed line network market*

A total of 89 companies were offering voice telephone services via call-by-call, preselection or direct connection on the basis of a licence in the middle of 2003.

More than 175 providers were operating purely as resellers of fixed line network voice services. In addition, more than 50 licensees were also operating as resellers of fixed line network voice services.

At the end of the third quarter of 2003, 12 network carriers were offering call-by-call in local networks using the designated identification numbers with the 010xy or 0100xy structure. In addition to the offers of network carriers using these identification numbers, call-by-call was also offered for local calls by a further 21 resellers via so-called premium-rate services (0190/0900 call numbers).

On 1 October 2003, preselection was being offered for local calls by nine network carriers. Further providers are expected to follow suit in the near future.

3U is well positioned

Besides Tele2, 3U is one of the few European-wide providers in fixed line networks. In Germany, Arcor is by far the largest competitors among the alternative telephone providers. Beyond 3U, only Deutsche Telekom and freenet are listed on German stock exchanges as companies operating in the fixed line network market.

*Source: Tätigkeitsbericht 2002/2003 RegTP (RegTP 2002/2003 operations report), December 2003



| Development of Our Business

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Sales development

Group sales barely changed yoy in the 2003 financial year, falling almost 2% below the figure for 2002. In 2003, the Group attained sales of € 64.68 million (€ 65.97 million)*.

In the first six months of 2003, sales fell by approximately 19% yoy. This was largely due to the adjustment of the customer portfolio made by 3U in 2003. A considerable reduction was made in the area of wholesale customers (calling card providers etc.), for example, as experience has shown that these customers present a considerably higher default risk than other corporate customers. This reduction resulted in corresponding declines in sales. 3U developed a new piece of software in 2003 designed to automatically monitor the risks incurred in this business. Thanks to the newly developed invoicing system, 3U is now able to further boost wholesale business, which in turn is expected to positively impact sales.

As a result of the acquisition of OneTel in the middle of 2003, sales were significantly increased in the second half of 2003. Sales totalled € 38.96 million in the second half of 2003, thus exceeding the figure for the first six months of 2003 (€ 25.72 million) by more than 50%. The increase on the second half of 2002 was 14.4%.

Investments

3U invested a total of € 11,9 million in 2003, more than any other previous year. The major share of the investments related to the acquisition of OneTel. In addition, we heavily expanded our network in Germany and invested in an IN platform (IN = intelligent network). This was a crucial step for 3U. The IN platform increases the functionality of the switching technology and provides the basis for the development of new services for end customers and resellers. We hope to thus accelerate growth and expect significant increases in sales and earnings in the 2004 financial year as a result of using the IN platform.

Development of earnings situation

The result for 2003 was negatively impacted by the integration of OneTel, the effects of which were felt particularly strongly in the fourth quarter. As a precautionary measure, € 1.8 million was booked as bad and doubtful debts and a bad debt charge made, due to a discrepancy between the debtor and financial accounting from the period prior to the acquisition of OneTel.

As a result of this non-recurring charge, the consolidated result for 2003 of € 1.73 million showed a slight (2.6%) fall year-on-year (€ 1.78 million)*.

The result for the fourth quarter totalled € -1.0 million (€ 1.12 million)*.

* Comparative figure for 2002



EBITDA totalled € 5.76 million in 2003 (€ 6.54 million)* and € 0.41 million in the fourth quarter of 2003 (€ 1.18 million)*.

Earnings per share in 2003 totalled € 0.19, just under the previous year's figure of € 0.20.

Development of the financial situation

The **balance sheet total** of the 3U Group for the last financial year totalled € 89.86 million (€ 79.26 million)*, corresponding to a 13.4 % increase on 2002.

Fixed assets accounted for € 33.47 million of the balance sheet total (€ 26.21 million)*.

Current assets increased to € 54.67 million (€ 52.90 million)*.

Equity increased by 5.4 % from € 68.73 million in 2002 to € 72.47 million in the 2003 financial year (see Group note 3.12). The Group equity ratio in 2003 was 80.65 % at a balance sheet total of € 89.86 million.

The share of **external capital** increased to 19.35 % (13.28 %)*.

Dues to banks totalled € 5 million.

Overall, 3U has an extremely sound capital structure.

The liquidity situation of 3U is extremely good. The sum of all available liquid funds and short-term investment securities was € 55.50 million (€ 57.49 million)*, whereby **liquid funds** increased from € 16.28 million in 2002 to € 35.83 million in the 2003 financial year.

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

*Comparative figure for 2002



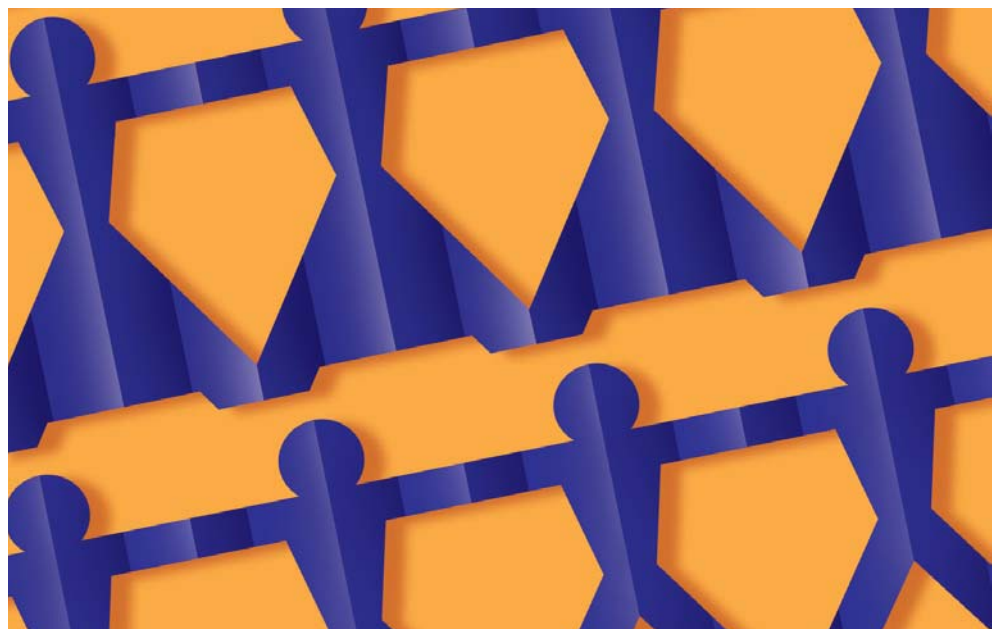
| Employees

As of 31 December, the 3U Group had a total of 91 employees*, compared to 39 for the previous year, corresponding to a yoy increase of 133.33% or 52 employees. The increase in personnel in the Group is primarily attributable to the acquisition of OneTel (39 employees).

The use of modern technology and optimised and largely automated business processes form the basis for the streamlined and flexible organisation of 3U. Our business model requires ongoing monitoring and optimisation of all corporate processes. Synergy effects arising from expansion or acquisitions are analysed carefully and rigorously implemented.

Existing personnel are carefully and gradually adapted to new tasks. This produces a needs-oriented organisational structure and also allows a high level of efficiency.

An example of this is our central multilingual Customer Care Centre, from where all customer enquiries from all European countries are dealt with and preselection applications are processed. This is undoubtedly more economical than setting up local organisational units in the various countries and, by pooling expertise and experience, ensures excellent customer service.



*On the basis of full-time equivalency



Risk Management

Every form of business activity is subject to risks. Calculated risk-taking is a necessary requirement for corporate success.

The relationship between opportunities and risks and how the risks are handled are determined by the risk policy and risk culture of a company.

At 3U, in the context of the Group-wide risk management, all risks that may impact the development of business and the financial or earnings situation are systematically identified and analysed at an early stage, and appropriate measures chosen for dealing with the risks, on the basis of specified principles. The risk management process of the 3U Group is set out in the risk manual of 3U.

Since the middle of the year, 3U has had an ISO-certified management system which also incorporates the risk management.

A few of the important areas of risk for 3U are outlined below.

Regulatory risks

The telecommunications markets are primarily regulated at national level and are therefore quite different both within Europe and throughout the world. The future development of the markets will be greatly influenced by regulatory decisions made both nationally and internationally. In Europe, the regulations are expected to be harmonised as a result of EU legislation and decisions issued by the EU Commission.

Regulatory risks are political risks. Individual companies have no influence on such risks. It is therefore not possible to reduce or restrict them; they simply have to be accepted. On the other hand, these political risks should also not be overstated. The liberalisation of the telephone markets has now developed to such an extent that the aim of promoting competition remains prominent and any restrictions on this are therefore rather unlikely.

Market and competition risks

The strategic market objectives of 3U are geared towards sustainable and increasing sales and earnings, the acquisition of new customers and an increase in its market recognition. The market risks to which 3U is exposed are the risks relating to the fixed line network telephony segment of the telecommunications market. In the voice telephony segment, mobile phones are booming. Nevertheless, fixed line networks are expected to continue to play an important role in the future. In this respect, there is no significant market risk.

A significant intensification of competition is basically not expected, as the market still remains in a phase of consolidation. However, as 3U is well-conditioned for a harsh competitive environment and has proved that it can generate sound profits even in the most difficult market conditions, the opportunities for 3U significantly outweigh the risks.



Infrastructure risks

3U has a modern and high-performance network infrastructure. The production processes are highly automated and are 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 and switching and data technology have been described in a special security strategy report prepared by 3U TELECOM AG and approved by 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 risks and therefore firmly believes in improving the qualifications of its employees. By providing an attractive remuneration system and an interesting and challenging work environment, 3U has managed to recruit and retain skilled employees for long periods of time.

The aim of the 3U stock option programme is to give our employees an even greater share in the success of our company than was previously possible. With the stock option plan, we can offer additional incentives and strengthen the loyalty of our employees to the company even further.

Cooperation and investment risks

The plans to continue our acquisition strategy present new opportunities, but also new risks for 3U. As a rule, the key to any successful acquisition is speedy integration and the exploitation of potential synergies. Our corporate structure is ideal for this. In 2003, 3U even concentrated on creating the optimum basis for further growth, both in technical and organisational terms, in all areas of the company. The aim of external growth poses the risk that the acquisition might not meet expectations. To reduce this risk, 3U uses financial, business and legal due diligence tools. In addition, the corporate tenet of consistent profit orientation creates extremely high requirements for our acquisition goals.



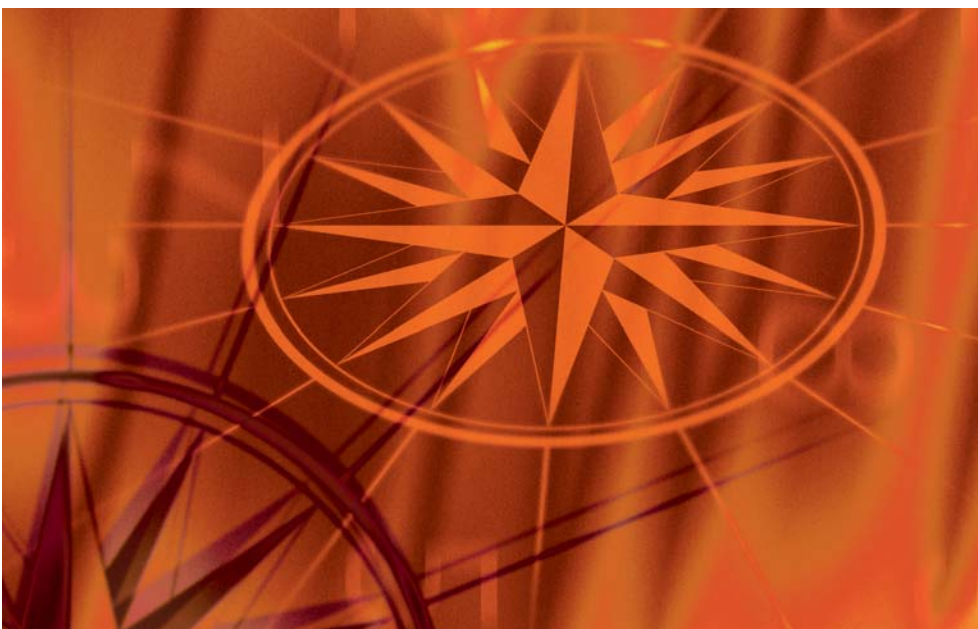
| Special Events

After the End of the Financial Year

3U starts operations in the UK

In February 2004, the British subsidiary of 3U TELECOM AG started commercial operations in the UK and immediately pushed itself into a leading position in terms of charges with low prices and invoicing per second.

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| Outlook

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The telecommunications sector remains buoyant

The telecommunications sector has consistently performed better than the economy as a whole over the last few years. It is to be expected that the competition rather than the market situation will present the greatest challenge for telecommunications companies in future. Right from the start, 3U has been geared towards a harsh competitive environment. Thanks to a streamlined organisational structure, the use of modern technology and strict cost management, 3U is able to offer competitive prices and nevertheless attain high profit margins. The growth rates in the fixed line network market are currently on the low side, while mobile phones are attaining high growth rates. However, contrary to the overall developments in the fixed line network market, we are convinced that we will continue to benefit from market adjustments and achieve strong growth in sales and earnings over the next few years. Fixed line network telephony is our core business and we have prepared ourselves strategically for strengthening our market position on a sustainable and sound basis.

3U will grow organically and externally through acquisitions

We will force organically growth in a targeted manner through specific measures in the areas of product development, sales (acquisition of new customers) and pricing (OneTel, 3U). Since the end of 2003, 3U has had its own software development for new products and services. Customised, innovative products are developed for 3U customers here. To this extent, the IN platform acquired by 3U offers the necessary flexibility and ensures swift implementation of planned innovations. As a result of this and the resumption of the wholesale business temporarily suspended in 2003, we expect considerable internal growth in the whole of the Group. The acquisition of OneTel further improved the strategic position of 3U. The 3U Group already has one of the highest sales and earnings levels among its rivals in fixed line network telephony. By improving its market position in Germany, 3U has consistently implemented its growth strategy and thus optimised the basis for further internal and external growth. 3U will continue to exploit suitable acquisition possibilities both at home and abroad in future.

3U expecting sales and profits to rise in 2004

3U is structured with a view to benefiting from economies of scale. Further growth will allow exploitation of economies of scale, which will positively impact the earnings situation. Costs are rising at a lower rate than the customer base. Sales in excess of € 100 million and post-tax earnings of more than € 10 million are expected for the 3U Group in the 2004 financial year. This corresponds to earnings per share of more than € 1.



The Consolidated Financial Statements

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Balance Sheet (US GAAP) as of 31 December 2003

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Assets - 3U Group (in T€)	31 Dec 2003	31 Dec 2002
Current assets		
Cash and cash equivalents	35,827	16,279
Short-term investments/marketable securities	0	21,543
Trade accounts receivable	9,322	9,203
Accounts receivable due from related parties	0	0
Inventories	509	23
Prepaid expenses and other current assets	9,013	5,854
Total current assets	54,671	52,902
Non current assets		
Property, plant and equipment	3,396	3,267
Intangible assets	10,400	3,253
Investments	19,677	19,666
Goodwill	0	28
Deferred taxes	1,716	142
Total non current assets	35,189	26,356
Total assets	89,860	79,258



Liabilities and shareholders' equity - 3U Group (in T€)	31 Dec 2003	31 Dec 2002
Current liabilities		
Trade accounts payable	6,723	5,914
Accrued expenses	4,653	4,327
Other current liabilities	1,115	319
Total current liabilities	12,491	10,560
Long-term debt, less current portion	5,000	0
Minority interest	- 100	- 36
Shareholder's equity		
Share capital	9,368	9,120
Additional paid-in capital	57,432	55,680
Retained earnings/accumulated deficit	5,669	3,934
Total shareholder's equity	72,469	68,734
Total liabilities and shareholder's equity	89,860	79,258



Income Statement (US GAAP)

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3U Group (in T€)	12-month report		4th quarter	
	1 Jan 2003 – 31 Dec 2003	1 Jan 2002 – 31 Dec 2002	1 Oct 2003 – 31 Dec 2003	1 Oct 2002 – 31 Dec 2002
Revenues	64,677	65,967	19,742	15,594
Cost of revenues	-50,609	-48,404	-17,390	-11,318
Gross profit/loss	14,068	17,563	2,352	4,276
Selling and marketing expenses	-2,249	-842	-1,121	-277
General and administrative expenses	-9,527	-6,968	-1,671	-2,249
Other operating income	249	0	26	-315
Other operating expenses	-1,081	-6,332	-775	-845
Operating income/loss	1,460	3,421	-1,189	590
Interest income and expenses	747	964	127	225
Other income/expense	30	-414	14	31
Result before income taxes (and minority interests)	2,237	3,971	-1,047	846
Income tax	-565	-2,235	38	262
Result before minority interest	1,672	1,736	-1,009	1,108
Minority interest	-63	-45	-14	-11
Net income/loss	1,735	1,781	-995	1,119
Depreciation and amortisation	4,209	3,492	1,572	548
Net income per share (basic) (in €)	0.19	0.20	-0.11	0.12
Weighted average shares outstanding (basic) (per item)	9,368,448	9,120,000	9,368,448	9,120,000



Cash Flow Statement (US GAAP)

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3U Group (in T€)	1 Jan 2003 – 31 Dec 2003	1 Jan 2002 – 31 Dec 2002
Cash flows from operating activities		
Net profit/loss	1,735	1,781
Adjustments for:		
Minority interest	- 63	- 45
Depreciation and amortisation	4,208	3,492
Increase/decrease in provisions and accruals	327	2,341
Other	- 11	20
Change in net working capital	17,809	9,601
Net cash provided by/used in operating income	24,005	17,190
Cash flows from investing activities		
Purchase of property, plant and equipment	- 11,463	- 4,778
Proceeds from sale of equipment	8	302
Net cash used in investing activities	- 11,455	- 4,476
Cash flows from financing activities		
Proceeds from issuance of share capital	2,000	0
Proceeds from short or long-term borrowings	5,000	0
Net cash provided by/used in financing activities	7,000	0
Net increase/decrease in cash and cash equivalents	19,550	12,714
Cash and cash equivalents at beginning of period	16,279	3,565
Cash and cash equivalents at end of period	35,829	16,279



Development of Group Fixed Assets (US GAAP)

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3U Group (in T€)	Acquisition and production cost				As per 31 Dec 2003
	As per 1 Jan 2003	Additions	Disposals	Re-bookings	
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets and licences to such rights and assets	5,690	9,808	0	0	15,498
2. Goodwill	334	0	0	0	334
Total intangible assets	6,024	9,808	0	0	15,832
II. Tangible assets					
1. Land, land rights and buildings including buildings on third party land	952	9	0	0	961
2. Technical equipment and machines	4,620	1,742	8	-486	5,868
3. Plant and office equipment	513	391	22	0	882
Total tangible assets	6,085	2,141	29	-486	7,711
III. Financial assets					
1. Long term investments	19,676	0	0	0	19,676
Total financial assets	19,676	0	0	0	19,676
Total fixed assets	31,785	11,949	29	-486	43,219



Accumulated depreciation				Book values		
As per 1 Jan 2003	Additions*	Disposals	As per 31 Dec 2003	As per 31 Dec 2003	As per 31 Dec 2002	
2,437	2,662	0	5,099	10,399	3,253	
306	28	0	334	0	28	
2,743	2,690	0	5,433	10,399	3,281	
33	27	0	60	901	919	
2,563	1,293	0	3,856	2,011	2,056	
222	199	22	399	483	292	
2,818	1,519	22	4,315	3,396	3,267	
10	0	11	-1	19,677	19,666	
10	0	11	-1	19,677	19,666	
5,571	4,209	33	9,746	33,473	26,214	

* = Depreciation for the period



| Statement of Changes in Equity (US GAAP) as of 31 December 2003

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3U Group (in T€)	Reporting year 2003			Reporting year 2002		
	As per 1 Jan 2003	Additions/ disposals	As per 31 Dec 2003	As per 1 Jan 2002	Additions/ disposals	As per 31 Dec 2002
Share capital	9,120	248	9,368	9,120	0	9,120
Additional paid-in capital/ capital reserves	55,680	1,752	57,432	55,680	0	55,680
Earnings reserves	0	0	0	0	0	0
Retained earnings	3,934	1,735	5,669	2,153	1,781	3,934
Total	68,734	3,735	72,469	66,953	1,781	68,734



Notes to the Consolidated Financial Statements as of 31 December 2003 in Accordance With US GAAP

1 General Principles of Preparation

The consolidated financial statements of 3U TELECOM AG, Marburg, (until 15 May 2003, the head office was in Eschborn) as of 31 December 2003 were prepared in accordance with the US Generally Accepted Accounting Principles (US GAAP). The consolidated income statement was structured using the cost of sales method.

2 Scope of Consolidation, Method of Consolidation

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

Registered Office	Country	Company	Subscribed Share Capital	Share held by 3U TELECOM AG	Facts supporting consolidation
Bolzano	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
Luxemburg	Luxemburg	3U TELECOM SARL	EUR 15,000	100 %	Controlling influence
London	UK	3U TELECOM Ltd.	GBP 150,000	100 %	Controlling influence
Neu-Isenburg	Germany	OneTel Telecommunication GmbH	EUR 3,025,000	100 %	Controlling influence
Marburg	Germany	fon4U Telecom GmbH	EUR 25,000	100 %	Controlling influence
Marburg	Germany	LineCall Telecom GmbH	EUR 50,000	100 %	Controlling influence
Meckenheim	Germany	CityDial GmbH	EUR 150,000	50 %	Significant influence



3U TELECOM Ltd. (UK), fon4U Telecom GmbH (Marburg) and OneTel Telecommunication GmbH (Neu-Isenburg) were included in the consolidated financial statements of 3U TELECOM AG for the first time as fully consolidated companies. Capital consolidation was performed in accordance with the acquisition method. CityDial GmbH was consolidated as an associated company using the equity method. 3U TELECOM Ltd. and fon4U Telecom GmbH were newly formed in 2003. The stake in OneTel Telecommunication GmbH was acquired on 1 July 2003. The hidden reserves of OneTel Telecommunication GmbH released by the first-time consolidation were written down in line with the useful life of the assets.

Intra-Group loans and other receivables, liabilities, sales, expenditure and income were eliminated. There were generally no intra-Group profits, as goods and services within the Group were invoiced at cost. The book profits arising from the sale of fixed assets within the Group were eliminated. Since the claims against Group companies were written down to the documented value in the individual financial statements of the parent company, accounts receivable did not match accounts payable. Debts were consolidated and the differences thus obtained posted as a gain or loss. The income was then offset against the item shown in the individual financial statements as "Other income/expenses".

The record date on the financial statements of the Group and all consolidated companies is 31 December 2003.

3 Notes on the Consolidated Balance Sheet and Consolidated Income Statement

3.1 Accounting and valuation methods

The annual financial statements of the consolidated companies 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, American and British subsidiaries was performed in accordance with the temporal method. Long-term items (fixed assets and equity) were converted at the historical rates on the date of acquisition, while short-term items (liquid funds, receivables, other assets, short-term liabilities and provisions) were converted at the record date rate. Items in the income statement were converted at the annual average exchange rate. Currency differences were offset and reported as a gain or loss in the income statement.



3.3 Cash and cash equivalents

Cash and cash equivalents are current account and overnight credits at domestic and foreign banks and limited cash assets, which are valued at nominal (face) value.

This item consists of the following (in €):

3U TELECOM AG	(Marburg)	28,691,021.49
3U TELECOM GmbH	(Austria)	1,178,544.94
3U TELECOM AG	(Switzerland)	156,497.42
3U TELECOM S.R.L.	(Italy)	364,388.90
3U TELECOM SARL	(France)	1,178,981.07
3U TELECOM B.V.	(Netherlands)	697,205.07
3U TELECOM S.P.R.L.	(Belgium)	5,938.42
3U TELECOM INC.	(USA)	35,182.42
3U TELECOM SARL	(Luxemburg)	14,208.33
3U TELECOM Ltd.	(UK)	210,100.07
fon4U Telecom GmbH	(Marburg)	16,262.60
OneTel Telecommunication GmbH	(Neu-Isenburg)	329,330.63
LineCall Telecom GmbH	(Marburg)	2,948,046.47
Cash assets		1,731.07
		35,827,438.90

The current accounts can be terminated daily.

3.4 Trade receivables

Trade receivables were booked at their nominal value, unless writedowns were required. The total book value of the trade receivables was T€ 9,322 and consisted primarily of claims of the German parent company against Deutsche Telekom AG (T€ 3,210), claims against CityDial (T€ 14), other carriers (T€ 907) and other customers (T€ 353) and claims of the subsidiaries in Switzerland (T€ 68), Austria (T€ 526), Italy (T€ 175), France (T€ 385), the Netherlands (T€ 195), Belgium (T€ 12), the USA (T€ 21), LineCall Telecom GmbH (T€ 1,311) and OneTel Telecommunication (T€ 5,321) against their own customers.

The bad debt charges on the trade receivables of the subsidiaries totalled T€ 3,085 as of 31 December 2003, those of the parent company T€ 92. In the case of the subsidiaries, a total of T€ 757 was booked as expenditure due to specific and general bad debt charges. The balance from the charge-backs of DTAG, subsequent inflows at DTAG, the inflows resulting from reminders or the collection of receivables through a debt collection company totalled T€ – 533 for the parent company in the last financial year.



The claims against registered customers of the subsidiary OneTel Telecommunication GmbH posted in the financial accounting were T€ 1,827 higher than those reported in the debtor accounting. The management believes that the receivables posted in the debtor accounting were correct and has therefore levied a specific bad debt charge on the full net amount of bad and doubtful debts. These are the differences from the period prior to the acquisition of OneTel by 3U.

3.5 Prepaid expenses and other short-term assets

Other assets primarily comprise tax claims of T€ 2,856, claims against network carriers of T€ 213, sureties of T€ 160 and a further miscellaneous T€ 280.

The prepaid expenses items (T€ 5,504) mainly includes supply charges for interconnections and rents for network sections. Prepayment is commensurate with the minimum contractual period.

The receivables and other assets have a residual term of up to one year.

3.6 Tangible assets

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

Depreciation of the assets was primarily based on the following useful lives:

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



3.7 Intangible assets

Intangible assets were valued at their costs of acquisition, less any scheduled amortisation based on the straight-line method.

Most of the German telecommunications licences (licence classes 3 and 4) acquired in the 1999 financial year were granted for an indefinite period of time and are amortised as an intangible asset with an indefinite useful life over a maximum period of 40 years. Amortisation takes place in the year of acquisition on a pro rata temporis basis. An unscheduled amortisation was performed in 2002 because the replacement costs of the licences had dropped to T€ 4 per licence.

The telecommunications licences for Switzerland, Italy, the Netherlands, France and Austria were acquired in the 2000 financial year. The accumulated acquisition costs for these licences totalled 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 with their useful life. The Italian, Dutch, Austrian, OneTel and fon4U licences are amortised over 40 years in accordance with APB (Accounting Principles Board Opinion 17), as the licences were granted for an indefinite period of time and there has been no economic depreciation.

An unscheduled amortisation to the lower of cost or market value was performed during the financial year on the customer base acquired from a competitor in 2002.

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

3.8 Financial assets

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

The units of the JB-Otto-Fonds were posted as long-term investment securities. This 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 at the balance sheet date was T€ 22,926. In addition, securities of DaimlerChrysler UK Holding are also shown. They were valued at the lower market value (T€ 500; cost of acquisition: T€ 501).



3.9 Deferred taxes

Deferred taxes were formed on adjustments of fixed assets required according to US GAAP. The assumed tax rate was 38% for corporation and trade tax. Moreover, prepaid taxes were formed on the tax carryforwards of the consolidated subsidiaries at the respective applicable corporation tax rate. For the subsidiaries based in the Netherlands, Switzerland and Italy, the asset items were written down to € 0, as depletion of the losses is not expected in the foreseeable future.

3.10 Liabilities

Liabilities were reported at their liability amounts. They have the following residual terms:

(In T€)	Total	Up to one year	Up to five years
Trade payables	6,722	6,722	0
Other liabilities	1,115	1,115	0
Amounts due to banks	5,000	0	5,000
Total	12,837	7,837	5,000

The other liabilities item includes foreign value added tax (T€ 281), liabilities for social security expenses (T€ 59), wage and church tax (T€ 156), wages and salaries (T€ 18), other amounts due to former shareholders (T€ 221), short-term liabilities to banks (T€ 348) and miscellaneous (T€ 32).

3.11 Provisions

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

Tax provisions were formed for the corporation and trade tax owed by the German parent company and LineCall Telecom GmbH.



The following overview shows the development of the other provisions:

(In T€)	As per 1 Jan 2003	Depletion	Addition	Write-back	As per 31 Dec 2003
Connection services	2,737	2,737	2,606	0	2,606
Preparation and audit of the annual financial statements, other legal and consulting costs	236	236	257	0	257
Licence fees	0	0	0	0	0
Provisions for holiday pay	132	132	187	0	187
Invoicing costs	203	203	120	0	120
Network lease payments	8	8	3	0	3
Advertising	9	9	54	0	54
Supervisory Board	19	19	23	0	23
Telephone	12	12	21	0	21
Third party services	87	87	72	0	72
Personnel	0	0	126	0	126
Miscellaneous	34	34	90	0	90
Total	3,477	3,477	3,559	0	3,559

3.12 Statement of changes in equity capital

(In T€)	As per 1 Jan 2003	Additions/ disposals	As per 31 Dec 2003
Share capital	9,120	248	9,368
Additional paid-in capital/ capital reserves	55,680	1,752	57,432
Earnings reserves	0	0	0
Retained earnings	3,934	1,735	5,669
Total	68,734	3,735	72,469

The share capital consists of 9,368,448 no-par bearer shares with a notional value of € 1. In 2003 it increased by 248,448 shares with a notional value of € 1 as a result of a capital increase from authorised capital in return for non-cash contributions.

The capital reserves of € 55,680,000.00 were formed from the premium paid in the context of the initial public offering and were calculated from the difference between the issue price of € 30 per share and the notional value of € 1 per share. In 2003, the capital reserves increased by € 1,751,552.00.



The company does not expect to pay a dividend to its shareholders for the 2003 financial year. The net income for the year of T€ 1,713 (of the parent company) will be brought forward and booked to a new account.

3.13 Sales

Sales are recorded as soon as they are made. This is the case when the service or goods have been supplied. Sales result exclusively from the company's work as an internetwork carrier.

3.14 Manufacturing costs of the services and goods supplied to attain the sales

The item manufacturing costs of the services and goods supplied to attain the sales largely comprises expenses for connection services, supply charges for interconnections and leased lines, pro rata personnel costs, amortisation on telecommunications licences, switching and transmission technology, IT and office equipment used in the sales process, amortisation on licences, pro rata vehicle and travel costs, rental costs for the sites, telephone expenses and expenses for repairs and other costs.

3.15 Interest income/interest expenses

This item includes the interest on BW Bank Ireland money market floaters (these matured on 2 December 2003) and the DaimlerChrysler securities and the interest accrued from current account balances.

3.16 Income taxes

This item primarily consists of corporation tax and trade tax owed by the parent company and LineCall Telecom GmbH and deferred taxes on the loss carryforwards of the consolidated subsidiaries.

3.17 Stock options

Stock options issued in the context of a conditional capital increase are reported in the balance sheet on the date the option is issued rather than on the date of commitment. On the date the option is issued, an inflow equal to the associated nominal capital increase is transferred to the subscribed capital and a sum equal to an additional sum is added to the capital reserves in line with Article 272 paragraph 2 no. 1 of the German Commercial Code.

On the basis of the resolution of the shareholders' meeting on 15 May 2003, a total of 173,250 stock options were issued to members of the Management Board, executives and employees of the company and its subsidiaries in August 2003 as part of the 2003 stock option plan. Each stock option entitles the owner to purchase one 3U share. The following table gives an overview of the development of ownership of stock options within the 2003 stock option plan.



2003 stock option plan

Outstanding stock options on 1 January 2003	0
Issued stock options	173,250
Exercised stock options	0
Lapsed stock options	0
Outstanding stock options on 31 December 2003	173,250

4 Segment Reporting

The German parent company generated T€ 56,884 of the T€ 65,967 in sales. Both the parent company and the subsidiaries generated their income exclusively from their work as internet-work carriers. For this reason, no detailed segment reporting is required.

5 Financial Obligations as of 31 December 2003 and Other Contingent Liabilities

(In T€)	2004	2005–2008	From 2009
Rent and cleaning	189	258	61
Leasing vehicles	181	106	0
Leased lines	246	221	51
Consultancy contracts	6	0	0
Insurance policies	32	0	0
Designated sponsoring	95	0	0

The parent company issued letters of comfort with a value of TCHF 50, T€ 200 and T€ 375 to suppliers of subsidiaries.



6 Other Information

6.1 Management

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

Udo Graul (Chairman), Wetter, 1 January 2003–31 December 2003;
Michael Schmidt, Lahntal, 1 January 2003–31 December 2003;
Roland Thieme, Lahntal, 1 January 2003–31 December 2003.

The total salaries of the Management Board were T€ 779 for the financial year.

6.2 Supervisory Board

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

Hubertus Kestler (Chairman),
Lawyer and notary, Frankfurt am Main, 1 January 2003–31 December 2003;

Gerd Simon,
Industrial Engineer, Bad Homburg, 1 January 2003–31 December 2003;

Ralf Thoenes (Deputy Chairman),
Lawyer, Dusseldorf, 1 January 2003–31 December 2003.

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

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

Within the Group:
Hubertus Kestler:
Member of the Supervisory Board (Deputy Chairman) of OneTel Telecommunication GmbH.

The remuneration paid to members of the Supervisory Board during the 2003 financial year totalled T€ 63.

6.3 Employees

The average number of employees in the Group (excluding OneTel) for the year was 46 (converted to full-time manpower). OneTel had an average of 37 employees in the second half of the year.



Personnel costs for the financial year comprised T€ 3,330 wages and salaries plus T€ 455 social security expenses.

6.4 Total number of shares held by members of the management and supervisory bodies as of 31 December 2003

Management Board 3,958,740 shares
Supervisory Board 0 shares

6.5 Earnings per share

The following table shows the earnings per share:

Nominator: net income for the year	(in €)	1,734,902.41
Denominator: shares	(number)	9,368,448
Earnings per share	(in €)	0.19

6.6 Information in accordance with Article 314 paragraph 1 no. 8 of the German Commercial Code

3U TELECOM AG has issued the declaration required as a listed company in accordance with Article 161 of the Stock Corporation Act and made it available to shareholders.

6.7 Deviations from Group accounting according to the German Commercial Code

The accounting and consolidation methods were applied in compliance with German law. Deviations only occurred with respect to the following accounting and valuation methods:

The capitalised telecommunications licences, which were granted for an indefinite period of time and, due to the lack of economic depreciation, were not amortised pursuant to German law, will be amortised over a period of 40 years for the purposes of US GAAP accounting. The prepaid taxes resulting from this will be included at a rate of 38 %, which corresponds to the current corporation and trade tax rate.

During the financial year, employees of the company developed software for internal use. The personnel costs incurred by the development of new software were capitalised and amortised over three years. The resulting prepaid taxes were prepaid at a rate of 38 % for corporation and trade tax.

Any loss carryforwards of subsidiaries are set aside as prepaid taxes under US GAAP regulations and, if necessary, amortised if they lose their value.



The following table shows the effects on the net income for the year and equity (in T€):

Net income for the year in accordance with US GAAP	1,735
Minority interests	- 63
Net income for the year	1,672
Adjustments for German Commercial Code:	
Fixed assets	- 78
Prepaid taxes, 38 % on adjustment of fixed assets	29
Prepaid taxes on loss carryforward/loss of consolidated subsidiaries	- 1,607
Net income for the year in accordance with the German Commercial Code	16
Equity in accordance with US GAAP	72,469
Minority interests	- 100
Equity	72,369
Adjustments for German Commercial Code:	
Fixed assets	- 68
Prepaid taxes, 38 % on adjustment of fixed assets	26
Prepaid taxes on loss carryforward/loss of consolidated subsidiaries	- 1,744
Equity in accordance with the German Commercial Code	70,583

3U TELECOM AG

Marburg, 5 March 2004

The Management Board



Udo Graul



Michael Schmidt



Roland Thieme



Auditor's Certificate

We have audited the consolidated financial statements – consisting of the balance sheet, income statement, shareholders' equity statement, cash flow statement and notes together with the Group management report – prepared by 3U TELECOM AG for the financial year from 1 January 2003 to 31 December 2003. The company's Management Board was responsible for the preparation and content of the consolidated financial statements and Group management report. Our task 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 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 judgement 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 major projections made by the legal 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.

Our audit, which also covered the Group management report prepared by the Management Board for the financial year from 1 January 2003 to 31 December 2003, did not give rise to any objections, with the exception of the following restriction.

The validity of claims against registered customers of the company OneTel Telecommunication GmbH of T€ 1,827 is unclear. As a precaution, a bad debt charge was made on this sum. However, the possibility cannot be ruled out that the bad debt charge may be partially unfounded.

Subject to this restriction, we believe that the consolidated financial statements provide a true and correct picture of the Group's financial and earnings situation and of the payment flows for the financial year in conformity with US GAAP.



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 financial year from 1 January 2003 to 31 December 2003 meet the requirements for exempting the company from having to prepare consolidated financial statements and a Group management report pursuant to German law.

Marburg, 11 March 2004

B. Weber GmbH
Wirtschaftsprüfungsgesellschaft



Weber
Wirtschaftsprüferin
(Auditor)



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Supervisory Board Positions Held by Members of the Management Board

Udo Graul

Within the Group:
OneTel
Telecommunication GmbH,
Neu-Isenburg
(Chairman)

Michael Schmidt

Within the Group:
OneTel
Telecommunication GmbH,
Neu-Isenburg

Roland Thieme

Within the Group:
OneTel
Telecommunication GmbH,
Neu-Isenburg

Supervisory Board Positions Held by Members of the Supervisory Board

Hubertus Kestler

Within the Group:
OneTel
Telecommunication GmbH,
Neu-Isenburg
(Deputy Chairman)

Gerd Simon

E:labs AG,
Frankfurt am Main



| Financial Calendar

■ Shareholders' meeting
13 May 2004

■ Publication
of figures for Q2/2004
16 August 2004

■ Publication
of figures for Q3/2004
15 November 2004

■ Publication
of figures for Q1/2004
17 May 2004

■ Analysts' conference
October 2004

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| Glossary

■ Telecommunication 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 call-by-call" 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 registration", the customer must first be registered with the selected telephone company, but for real call-by-call no prior registration is necessary.

Call-connection charges ("start" charges)

Fixed amount payable for establishing each telephone connection, regardless of the length of the call.

Carriers' carrier

Network carriers providing other telecommunications companies with network services.

Glass-fibre network

A glass-fibre network consists of cables containing thousands of tiny glass-fibre bundles (fibre-optic cables). These cables permit a considerably higher rate of transmission than conventional copper cables.

Interconnection charges

Fees charged by Deutsche Telekom for connecting calls for other telephone companies.

Internetwork carrier

Also known as long distance carrier.

All telephone networks for calls extending beyond the local network are defined as internetworks (e.g. long-distance calls).

Pure internetwork carriers therefore do not install any subscriber connections, but offer telecommunications services via the internetwork using their own or rented telecommunications infrastructures.

Internetwork identification number

Identification number (e.g. 01078), which the telephone customer can dial before dialling a number, in order to establish the connection using the network of the preferred telephone company (call-by-call). Also known as carrier code.

Least cost routing (LCR)

Process by which a connection is initiated via whichever supplier is available and currently has the lowest cost. This varies according to 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 for providing voice telephony services. The various forms of authorisation are summarised as Licence Classes 1 to 4.

Local network

Sum of all connections that can be reached under the same local network identification number. The boundaries of a local network are generally based on the city and district boundaries.

Mainstream technology

Technology based on well known and widespread standard components.

Point of interconnection

This is the place where the connection is technically produced. The detailed conditions affecting the point of interconnection (interfaces, protocols, network management, billing management etc.) are governed by an agreement (Interconnection Agreement) between the network carriers involved.

Preselection

Unlike call-by-call, preselection does not require a selection code to be dialled first.

The selection code of the preferred provider is pre-defined.

However, it is still possible to use other providers by means of call-by-call.



Reseller

Resellers purchase connection minutes from a licensed internet network carrier and sell these minutes on to end customers in their own name and for their own account.

Switching in

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

Switching technology

Technology for establishing a connection between telephone connections.

Transmission technology

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

**Financial Terms****Break-even**

Profit threshold.

Cash flow

Key ratio for assessing the financial strength and earnings power of a company. The cash flow is calculated from the inflow and outflow of payments (cash or cash equivalents) from current operations (see cash flow statement).

Cash flow statement

The cash flow statement is the liquidity-oriented part of the accounting. It is a value-based record of payment flows within a financial year. To this end, inflows and outflows in the respective reporting period are offset, thus indicating the change in liquid funds.

Consolidation

Addition of sub-accounts to an overall account, e.g. of balance sheets of individual companies in the Group to the consolidated balance sheet.

Corporate Governance

Term for responsible company management and control based on long-term value added.

Declaration of conformity

Declaration of the Management Board and Supervisory Board, in line with Article 161 of the German Stock Corporation Act, of the implementation of the recommendations of the Government Commission of the German Corporate Governance Code.

Deferred taxes

Temporal differences in tax expenditure in commercially acceptable individual and consolidated financial statements compared to the tax bills. This item establishes a meaningful relationship between earnings and the commercially related tax expenditure.

Earnings per share

This key ratio indicates the proportion of consolidated net income or loss generated that is apportionable to one share. This key ratio is calculated by dividing the net result for the year (consolidated net income/loss) by the average weighted number of ordinary shares in trading.

EBIT

Earnings before interest, taxes.



EBITDA

Earnings before interest, taxes, depreciation and amortisation.

EBT

Earnings before taxes.

Equity ratio

Equity reported in the balance sheet divided by the balance sheet total (the higher this key ratio is, the lower the level of indebtedness).

Free float

Free float of stock.

Market capitalisation

Current price of the individual share of a company multiplied by the total number of shares of the company.

Return on equity (RoE)

Ratio of the net income for the year to equity deployed.

Return on investment

Cash flow return on investment (CFROI).
Control ratio for investment decisions. It takes into account both the acquisition value and the returns to be expected from the acquisition in the future.

Return on sales

Financial ratio indicating the ratio of pre-tax earnings/consolidated result to sales.

Scope of consolidation

Group of subsidiaries in a Group which are included in the consolidated financial statements.

US GAAP

US "Generally Accepted Accounting Principles".



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This annual report contains statements relating to the future which are subject to risks and uncertainties. They are assessments of the Management Board of 3U TELECOM AG and reflect its current opinions with regard to future events.

Such predictive statements can be recognised by the use of terms such as "expect", "estimate", "intend", "can", "will" and similar expressions in relation to the company.

The following are – by no means exhaustive – examples of factors that may trigger or affect a deviation:

the development of demand for our services, competitive factors – including price pressure –, technological changes, regulatory measures, risks in the integration of newly acquired companies. If any of these or other risks and uncertain factors occur, or if the assumptions on which the statements are based prove to be incorrect, the actual results of 3U TELECOM may differ materially from those outlined or implied in these statements.

The company does not undertake to update predictive statements of this nature.



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