Annual Report 2004

3U TELECOM AG







Summary of Group Results

3U Group (US GAAP)		Year-on-year comparison		
		2004	2003	
Revenues	(in € million)	96.46	64.68	
EBITDA (earnings before interest, taxes, depreciation and amortisation)	(in € million)	4.07	5.76	
EBIT (earnings before interest and taxes)	(in € million)	-22.87	1.46	
EBT (earnings before taxes)	(in € million)	-27.22	5.31	
Net income/loss for the period	(in € million)	-29.15	3.58	
Earnings per share (basic)	(in €)	-0.62	0.08*	
Earnings per share (diluted)	(in €)	-0.61	0.07*	
Equity ratio	(in %)	28.50	79.82	

3U Group (US GAAP)		Quarterly comparison		
		Q4 2004	Q4 2003	
Revenues	(in € million)	27.08	19.74	
EBITDA (earnings before interest, taxes, depreciation and amortisation)	(in € million)	0.18	0.41	
EBIT (earnings before interest and taxes)	(in € million)	-9.00	-1.19	
EBT (earnings before taxes)	(in € million)	-11.27	-1.05	
Net income/loss for the period	(in € million)	-11.65	-1.00	
Earnings per share (basic)	(in €)	-0.25	-0.02*	
Earnings per share (diluted)	(in €)	-0.24	-0.02*	
Equity ratio	(in %)	28.50	79.82	

In contrast to the previous year, Group results reported for 2004 reflect these events:

- a) the consolidation of LambdaNet Communications Deutschland AG, acquired on 6 April 2004 (consolidated since second quarter of 2004)
- b) the full consolidation of carrier24 GmbH in the fourth quarter of 2004 (retroactive to 1 January 2004). A controlling interest exists according to US GAAP.



^{*}To improve comparability, the reference figures for the previous year have been adapted to the figures after the stock split.





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Letter to Our Shareholders



3U Management Board: (from left) Michael Schmidt, Roland Thieme, Burkhard von Ehren and Berth Hausmann

Dear Shareholders,

3U TELECOM AG looks back on an eventful and scarcely satisfactory financial year in 2004, one characterised by a dynamic and extremely competitive environment. Company-specific events made 2004 financial year a year of transition and change.

The key events of the 2004 financial year:

- Acquisition of LambdaNet Communications Deutschland AG in April of 2004 positioned the 3U Group excellently within the telecommunications market, broadening its reach. Entering the broadband/IP segment by virtue of this acquisition should substantially enhance the Company's earnings power over the medium to long term.
- Acquisition of OneTelTelecommunication GmbH failed again to contribute to an improvement in earnings in the manner anticipated in 2004. Pricing pressure in the call-by-call business and delays in sales activities had a negative impact on results.
- The initial consolidation of carrier24 GmbH, which provides the largest part of the carrier network for our fixed-line network telephony segment.
- The departure of Management Board Chairman Udo Graul from the Company in July of 2004.
- A realignment of corporate strategy conducted by the Management Board in August of 2004, initiating the restructuring phase.
- The appointment of Berth Hausmann (Finance) and Burkhard von Ehren (Sales and Marketing) to the Management Board, both highly experienced individuals in the telecommunications market, to lead the restructuring of 3U TELECOM AG.



Our objective for the current financial year is for the entire Group to return onto the path to profitability. We will achieve this goal by increasing our sales and exploiting synergy potential. We anticipate double-digit revenue growth and a major improvement in profitability and net earnings.

In our core fixed-line network telephony segment we will stabilise sales, laying the foundation for future growth through a product and price strategy focusing on brand differentiation.

The acquisition of LambdaNet Communications Deutschland AG broadened our profile in the business customer segment and IP services. In the future, the growth segment of broadband and IP services based on new technologies will become a second key source of earnings for the 3U Group.

The introduction of new internal management and controlling instruments will allow the Company to act and react within our rapidly evolving industry with greater dynamism, thus exploiting opportunities as they present themselves.

The support we enjoy from highly dedicated and excellently trained staff makes us confident that we will succeed in making the 2005 financial year a positive one for our shareholders.

We thank you for the confidence you place in us!

Marburg, March 2004

Burkhard von Ehren

Michael Schmidt

Berth Hausmann

Roland Thieme



Report of the Supervisory Board



Hubertus Kestler (Chairman of the Supervisory Board)

Dear Shareholders,

2004 financial year was a year of change for the 3U Group in many respects. The Company faced increasing competition in the past financial year, which led to declining sales for the individual Group companies. The results of 2004 financial year were thus little to the satisfaction of the 3U Group. Non-recurring charges, such as extraordinary goodwill amortisation and restructuring costs incurred starting from the second quarter of 2004 contributed directly to the resulting net loss of $\ensuremath{\mathfrak{C}}$ 29.15 million.

The Company did not succeed in its plans to grow revenue and earnings in the third and fourth quarters of 2004 through

the introduction of new products. Thus in the course of the half-year report, 3U revised its original earnings estimate for the year on 4 August 2004, announcing it did not expect to achieve its projected revenue and earnings figures for the year 2004. Former Management Board Chairman and Company co-founder Udo Graul departed the firm on 20 July 2004 following the Supervisory Board's decision of 25 June 2004 not to renew his management contract due to expire 20 July 2004, removing Mr. Graul from the Management Board. A number of legal disputes followed between the firm and Mr. Graul in the wake of his departure, some of which remain unresolved.

As of 1 October 2004, Berth Hausmann joined the Management Board as CFO. Then in December 2004, Burkhard von Ehren also joined the Management Board, appointed Chief Sales Officer effective 1 January 2005. Both of these gentlemen bring a wealth of experience in the telecommunications market to the Board. Having strengthened the ranks of management through the addition of these new members attracted from outside the firm, and as a result of the simultaneous expansion and reorganisation of middle management primarily in the areas of Finance, Sales and Product Development, the Company achieved major gains in management competency. In consequence, 3U is now in a position to execute on its strategy despite a difficult market environment and return to profitability in the near term. The acquisition of LambdaNet Communications Deutschland AG in April 2004, representing an expansion of the 3U Group's business operations into a future growth area, will play an essential role in achieving this objective. The integration of LambdaNet into the 3U Group is proceeding rapidly, indicating that considerable synergy effects should already be obtainable in the current financial year.



The Supervisory Board observed its obligations pursuant to legal requirements and the Company's memorandum of association in providing ongoing monitoring of Management Board activities and advice with regard to fundamental business policies. The Supervisory Board gathered information on a regular basis on the current financial and economic status of the 3U Group, business developments affecting it and any deviations from business plan or projected targets, conducting discussions with the Management Board on the content of these and other business events of importance. Key topics focused on included the persistent difficulties during the year 2004 involved in integrating OneTel Telecommunication GmbH, acquired in mid-2003, and the resultant legal disputes engendered with former OneTel executives. The central focus of these discussions was the phase of restructuring initiated in July 2004, which necessitated an extraordinary number of special Supervisory Board meetings. A total of 17 Supervisory Board meetings were held during the past financial year, 13 of which took place after June of 2004. The Supervisory Board remained in close contact with the Management Board during this phase of Company evolution above and beyond the context of official meetings to advise on current questions of corporate strategy and the management and structural measures necessary to achieve these ends. Other particular events of importance were also discussed such as the filling of open middle management positions.

In May 2004 the Supervisory Board called for an external review of the management structure of 3U TELECOM AG including middle management. The Supervisory Board discussed the results of this structural review presented in mid-June of 2004 and various potential courses of action available based upon these, creating a framework for the immediate commencement of a corporate restructuring in the course of two Supervisory Board meetings held 22 and 26 June 2004.

In view of the Company's worsening financial situation, the Supervisory Board negotiated substantially reduced compensation packages with management executives Mr. Schmidt and Mr. Thieme retroactive to the start of 2004 financial year. Similar packages were also arranged with the two new members on the Management Board.

The annual financial statements of 3U TELECOM AG, the exemptive consolidated financial statement pursuant to Article 292 a, HGB [German Commercial Code], in line with US GAAP and the summarised management reports of 3U TELECOM AG and of the Group were audited by B. Weber GmbH Wirtschaftsprüfungsgesellschaft of Kirchhain, appointed by shareholders as general auditor in cooperation with internal accounting. The Supervisory Board reviewed the 3U TELECOM AG annual financial statements, the consolidated financial statements and the consolidated summarised management report of 3U TELECOM AG. The auditor attended the balance sheet meeting of the Supervisory Board on 9 March 2005 and reported on the main



results of its audits. 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 2005, 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 would like to thank Company management and in particular all staff members of the affiliated 3U companies for their high level of personal dedication and their achievements during 2004 financial year.

Marburg, 11 March 2005

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 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 TELECOM AG has published the declaration of conformity required according to the German Stock Corporation Act on its website (www.3utelecom.de). It can be found under the path "Investor Relations/Corporate Governance".

■ D&O insurance

3U TELECOM AG has waived 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 TELECOM AG does not believe that the motivation and sense of responsibility with which the members of the Management Board and Supervisory Board perform their duties will be improved by a deductible.

Stock option plan

With the resolution dated 15 May 2003, the Annual General Meeting created contingent capital of up to €4.56 million for issuing stock options to members of the Management Board and executives and employees of 3U Group 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% premium on the strike price as the profit target. Due to the generally difficult market environment, 3U TELECOM AG 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 TELECOM AG 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.

The specific structure of the 3U stock option plan 2003 is published on the homepage of 3U TELECOM AG (www.3utelecom.de) under the path "Investor Relations/stock option plan 03".

A revised stock option plan is being prepared for 2005 which is to be announced on the 3U TELE-COM AG homepage (www.3utelecom.de) following its approval.

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 has not been implemented in full, as we only publish overall compensation figures.

The view held by 3U TELECOM AG is that the relatively minor additional benefit obtained by publishing this information on an individual basis fails to justify the attendant intrusion into the sphere of privacy of Management Board members.

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.

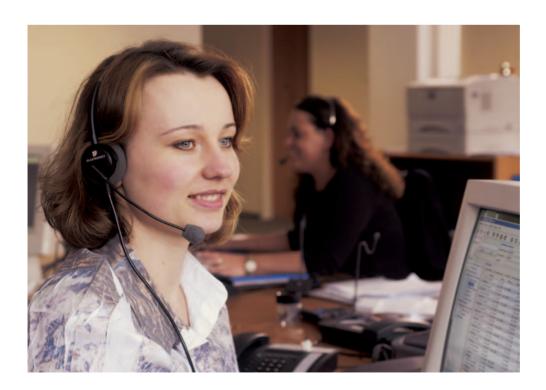


3U TELECOM AG is of the opinion that the introduction of a rigid age limit is not an appropriate selection criterion for finding the most suitable applicants. The emphasis should instead be on the individual skills and experience of the applicant.

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. Remuneration 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 by individual members.

This recommendation has not been implemented in full, inasmuch as the notes to the consolidated financial statement state the aggregate compensation for all Supervisory Board members. It is the view of 3U TELECOM AG in relation to the Supervisory Board as well that the relatively minor additional benefit obtained by publishing this information on an individual basis fails to justify the attendant intrusion into the sphere of privacy of Supervisory Board members.





The 3U Share

Summary of the 3U Share

International Securities Identification Number (ISIN)		DE0005167902	
Stock exchange symbol		uuu	
Trading segment		Prime Standard	
Industry key		Telecommunication	
Designated Sponsor		Helaba Landesbank Hessen-Thüringen	
Initial listing		26 November 1999	
Registered share capital	(in €)	46,842,240.00	
Share price on 30 December 2004*	(in €)	0.88	
Share price high in 2004*	(in €)	3.19 (7 May 2004)	
Share price low in 2004*	(in €)	0.65 (2 September 2004)	
Number of shares		46,842,240	
Market capitalisation on 30 December 2004	(in € million)	41.22	
Earnings per share (basic)	(in €)	-0.62	

Trading volume in the shares was relatively high for the year as an average 7.59 million shares changed hands per month. At the year end the share price was \leqslant 0.88, corresponding to a market capitalisation of \leqslant 41.22 million.





■ 3U share price performance compared to the Tec All Share Index



In contrast to the previous year, shares of 3U stock underperformed the Tec All Share Index.

Since 3 January 2005, shares of 3U TELECOM AG have been included in the GEX (German Entrepreneurial Index), newly created by Deutsche Börse AG.



■ Investor structure

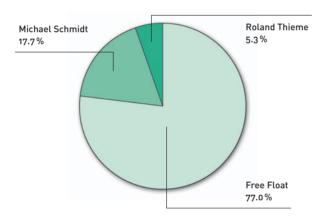
As of 31 December 2004, members of the governing bodies held the following shares with full voting and dividend rights:

Management Board

Berth Hausmann	0	shares
Michael Schmidt 8,29	9,995	shares
Roland Thieme	0,000	shares

Supervisory Board

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



■ Investor Relations

3U TELECOM AG endeavours to provide reports on current events pertaining to the Company in a timely and transparent manner. In the year 2004 these included a report on the Analysts conference the Company participated in as part of the Equity Forum held in Frankfurt am Main, along with comprehensive quarterly and annual reports and its ongoing dialogue with investors, analysts and the media. Upon the conclusion of the restructuring phase, the Management Board of 3U TELECOM AG plans to resume a more active dialogue with institutional investors, analysts and the business media starting in the second half of 2005 to provide additional information on the business prospects of the Company.



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2004 Financial Year

Acquisition of LambdaNet Communications Deutschland AG

The acquisition of LambdaNet Communications Deutschland AG in April of 2004 opened up an additional, attractive line of business for 3U Group, an important strategic move countering increasing competition in the telecommunications market.

Modern IP-based networks and the constantly growing demand for IP create opportunities for new products in both the business and private customer segments. The focus of LambaNet's operations include carrier services (data transfer), ISP (data services for internet service providers incl. DSL) and virtual private networks (VPN), telephone and data networks provided to corporate clients for their own exclusive use.

LambdaNet Communications Deutschland AG has been a wholly owned subsidiary of 3U TELE-COM AG since the fourth quarter of 2004.

New shares issued

At the Annual General Meeting on 13 May 2004, shareholders resolved to increase registered share capital from Company funds from \leqslant 9,348,448 by \leqslant 37,424,792 to \leqslant 46,842,240. This was performed via a 4:1 stock split, involving the issuance of four new shares for each former share, converting \leqslant 37,424,792 in additional paid-in capital into registered share capital.

The Company further received approval for the repurchase of up to 4,684,224 of its own shares (share buyback). As of 31 December 2004, the Company had not yet exercised its privilege in this regard. Additionally, a capital increase of $\leq 23,421,120$ was approved (stock offering).

■ Partnerships with mail order firms Quelle and Neckermann

The partnership agreement concluded in the second quarter of 2004 with Quelle was the start of a sales campaign to increase the number of contract (preselection) customers. In the second half of the year, we concluded a similar agreement with Neckermann Versand AG.

These partnerships should provide a substantial contribution towards expanding our customer base over the medium term.

■ 5-point program in response to revised estimates for the year

In August the original estimates for the year were revised, as it was not possible to realise the product campaign announced for the month of June. In response, the Management Board implemented a 5-point program geared specifically towards internal reorganisation and stepping up sales and marketing activities. This move by the Management Board created the conditions for a return to profitability.



Management change

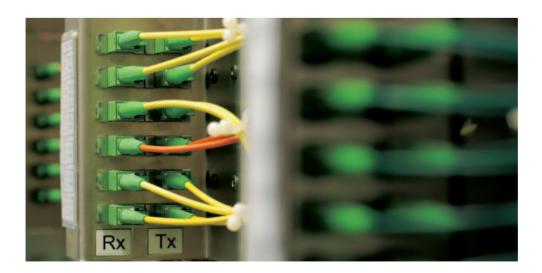
Management Board Chairman Udo Graul departed the firm as of 20 July 2004. By appointing Mr. Berth Hausmann (CFO) and Mr. Burkhard von Ehren (Chief Sales Officer) to the Management Board on 1 October 2004, the Supervisory Board put in place the leadership necessary to getting the Company back on the path to profitability. Both of these gentlemen possess extensive experience in the telecommunications market upon which they can draw to achieve an effective restructuring of the Company allowing it to thrive in a highly competitive market environment.

■ fon4U begins operations

The fon4U subsidiary began operations at the start of the second half of the year, using the network operator number 01053. The company's price offering is directed primarily towards the price-sensitive segment of lengthy conversation callers with precision one-second billing for the first minute and by four-minute intervals thereafter. At the end of 2004, this company landed a key marketing partner, a relationship that led to a significant increase in revenue already noticeable in the first quarter of 2005.

carrier24 GmbH fully consolidated

In view of the controlling interest in carrier24 GmbH for 2004 financial year, this company was fully consolidated in line with US GAAP rules as of 1 January 2004.





Report on Business Developments

1. General industry and market events

Developments in the telecommunications market

The market occupied by the telecommunications industry as a whole can be divided into three main segments:

- Fixed-line network
- Wireless communications
- Broadband/IP (DSL)

After several years of stagnation, the telecommunications market is enjoying a mild overall uptrend with growth projected at roughly 2–3%. Growth is being fuelled primarily by the wireless communications market and the broadband segment, while fixed-line network services are in declining slightly.

Alternative providers are gaining volume at the expense of Deutsche Telekom, advancing up to \leqslant 28.7 billion due to market share gains in local network competition.

Volume for alternative providers (national, long-distance, mobile and international) rose year over year by approximately 11 % (2004: 181 million minutes/day; 2003: 163 million minutes/day).

The core business of the 3U Group (fixed-line network telephony/old company) represented by the call-by-call and preselection products occupies a hotly contested market segment.

In the broadband/IP segment by contrast, the proportionate share of DSL services is growing along with the numbers of DSL users for both alternative providers and Deutsche Telekom AG. 3U TELECOM AG's acquisition of LambdaNet Communications Deutschland AG achieved the Group's entrance into the rapidly expanding broadband/IP segment. This broadened the product array, with the growing demand for DSL access and virtual private networks (VPN) already being accommodated within the current offering.

The LambdaNet subsidiary puts us in a position to operate on a selective basis within this market segment by virtue of having its own proprietary network, the necessary infrastructure and partnership agreements already in place.

Our current base of preselection customers in the old company and over 200 major LambdaNet corporate customers represent a solid foundation upon which to build to achieve our growth objectives.



Regulatory framework

Regulatory authorities are charged with the task of achieving a balance between the varying interests of players within the telecommunications market while providing an effective and flexible legal framework.

The year 2004 saw a revision of the German Telecommunications Act (TKG). It still remains however to be seen what effects changes will have on the activity of the Regulatory Authority for Telecommunications and Posts.

One focus of regulatory activity was preparing the regulatory framework for the voice over IP market. Clearly binding guidelines for all market participants are expected for the first half of 2005. Other key issues for 2005 will be improving competition in the area of direct customer connections and potential competition incentives for alternative infrastructure providers. A homogenisation of existing European legal frameworks is planned, which will have an impact on all of these areas.

For the 3U Group, the decisions made by regulatory authorities on the issues described above are of critical importance. The merging of voice and data, building up the customer base and expanding the technological infrastructure into a combined voice and data network can help open up new business segments for the Company. The question of unbundling customer access (i.e. no Telekom connection required for DSL services) in this context is of key significance, an event that would have a sharp impact on Deutsche Telekom's market share. The future of the voice over IP market and earnings prospects within the segment are closely linked to the outcome of the decision on this question.





2. Group revenue/earnings

Revenues

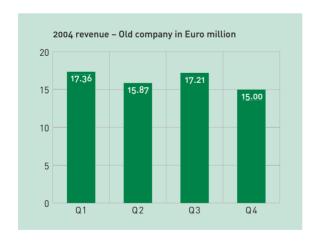
Due to the acquisition and subsequent consolidation of LambdaNet Communications Deutschland AG in the second quarter 2004 and the full consolidation of carrier24 GmbH, only a limited comparison of net profit/loss is possible versus the figures for the previous year, 2003. In addition, the subsidiary OneTel Telecommunication GmbH was consolidated into the old company over a period of twelve months in 2004, whereas the takeover only became effective in the third quarter of 2003. This also makes comparison with the prior year's figures difficult.

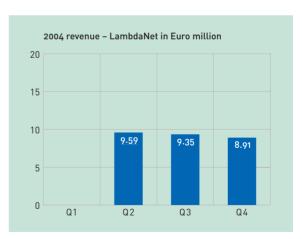
Due to comparability issues with prior quarters, carrier24 GmbH is not included in the graphs, being listed separately within the notes.

For 2004 financial year consolidated revenue rose by 49.13% from \leqslant 64.68 million to \leqslant 96.46 million. Revenue for the old company (3U TELECOM AG incl. international subsidiaries, OneTel Telecommunication GmbH, LineCall Telecom GmbH and fon4U Telecom GmbH) was \leqslant 65.44 million (+ \leqslant 0.76 million year over year).

Particularly in the fourth quarter of 2004, we saw declines in the wholesale/large buyer business. Call-by-call revenues stabilised. Based on the distribution partnership of our fon4U subsidiary, we are anticipating a slight rise in revenues in the first quarter of 2005, with prospects for significant growth over the course of the remaining financial year.

Revenue declined slightly for our international subsidiaries in 2004 financial year, by \in 7.03 million. The Italy, Netherlands and Great Britain subsidiaries fell behind expectations. However, the U.S. shows a positive trend.





The acquisition of LambdaNet Communications Deutschland AG in April widened the Group's earnings base with the addition of a customer-oriented broadband/IP segment. This move



creates growth and synergy potential for the entire corporation to be developed over the course of the next several years.

For the consolidated quarters in 2004 (from the second to the fourth quarter) within the 3U Group LambdaNet posted revenues of \le 27.85 million.

LambdaNet revenues declined in the quarters in question during 2004, chiefly as a result of the provisional insolvency proceedings prior to the takeover by 3U TELECOM AG. Only a small number of customers cancelled their contracts with LambdaNet Communications Deutschland AG due to the level of trust they place in the quality and performance of LambdaNet. The restructuring and additional staff added to reinforce the LambdaNet sales team will provide for rising revenues once again throughout the coming years.

carrier24 GmbH revenues from non-Group companies are not yet represented in the chart (excluding revenues with 3U). These amounted to € 3.17 million in the 2004 financial year.

Earnings

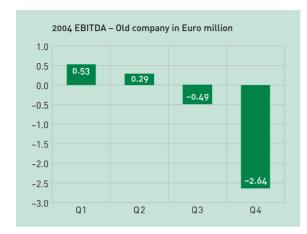
The realignment within fixed-line network telephony and the administrative and restructuring charges following the Chapter 11 phase of LambdaNet weakened operating results and overall Group earnings. In addition to the valuation adjustments performed for the OneTel subsidiary in the second quarter of 2004 we analysed and evaluated at year end the business risks and created provisions for potential futures charges. Creating these provisions for accruing expenses resulted in a charge to overall Group earnings alongside that for the initial consolidation of carrier24 GmbH.

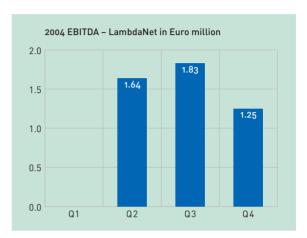
The consolidated net loss was \leq 29.15 million, a substantial deterioration versus the prior year (net profit: \leq 3.58 million).

Declining revenues for the old company in the second half of 2004 contributed to negative EBITDA in the third and fourth quarter. Compared to the previous year (≤ 5.76 million), EBITDA was minus ≤ 2.31 million for the 2004 financial year. This result was impacted by restructuring charges in the second half year and support provided by external service providers in the first half – in particular for OneTelTelecommunication GmbH. The EBITDA margin of the old company was minus 3.40 % for the 2004 financial year (previous year: 8.91 %).

The net loss for the old company was \in 13.04 million, lower than previous year by $- \in$ 16.62 million. The impairment test conducted for OneTel and writing back deferred taxes had a particular influence on results for the first half of 2004. In the fourth quarter of 2004 we made allowances for the risks to which the firm is exposed, particularly taxes and pending litigation.







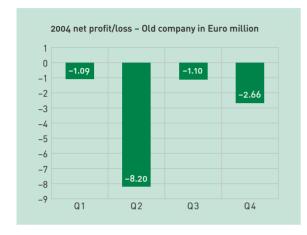
For subsidiary LambdaNet Communications Deutschland AG, EBITDA in the fourth quarter was somewhat weaker than the prior quarter, amounting to a cumulative \in 4.72 million for quarters two through four. Management also created provisions for anticipated operating risks in the fourth quarter of 2004. This broadband/IP segment returned an overall average EBITDA margin of 16.95 %, which will continue to make a substantial contribution to Group earnings in the future.

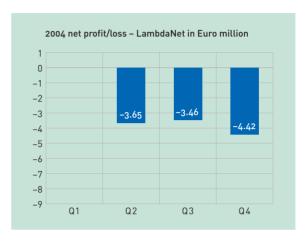
The net loss for this segment was \in 11.53 million, in line with expectations. Depreciation taken on our network was principally responsible for this outcome. The useful operational life of the network will however extend past the depreciation period.

The initial consolidated result of carrier24 GmbH for 2004 was - \in 4.58 million. Cumulative loss carryforwards from prior years totalled minus \in 3.80 million.

Earnings per share (basic) for 2004 were substantially lower, down to minus \leq 0.62 versus previous year of \leq 0.08*.







Capital investment

The acquisition of LambdaNet Communications Deutschland AG in 2004 resulted in a major change to balance sheet assets. In addition to payment of the purchase price, reflected in the change in cash and cash equivalents, this was mainly due to capitalisation of long-term leasing liabilities at LambdaNet and carrier24 GmbH. These investments allowed us to develop new lines of business (e.g. DSL access) and utilising the infrastructure in place at these companies for other end-customer products.

During the reporting period we invested a total of €113.16 million (PY: €11.95 million). Comparability with the prior year is limited due to the initial consolidation of LambdaNet and carrier24, as the fixed assets acquired from LambdaNet and carrier24 are included under capital investment for 2004.

Group net worth and financial condition

The Group's net worth, totalling \le 93.48 million as of 31 December 2003, increased following the consolidation of LambdaNet and carrier24 up to \le 159.55 million ($+ \le$ 66.07 million) as of 31 December 2004 (extended balance sheet).

In addition to the original investment in the network, fixed assets totalling $\[\in \]$ 124.17 million increased by $\[\in \]$ 85.36 million versus the previous year's closing balance through capitalisation of long-term leases at LambdaNet and carrier24. Fixed assets as a percentage of total assets rose year over year from 41.52% to 77.83% at the end of 2004.



At \leqslant 39.81 million cash and cash equivalents were considerably lower at year end versus the prior year (\leqslant 55.50 million). This was principally a result of the purchase of LambdaNet and paying off short-term bank liabilities totalling \leqslant 8.2 million as of year end 2004.

The Group's liquidity remains good, subject to the liquidity risks from prior financial years for which provisions have been created and the collateralisation of loans by 3U TELECOM AG.

The equity was substantially lower for the reporting period down to \leq 45.47 million compared to previous year in amount of \leq 74.61 million. The equity ratio was 28.50 %, strongly influenced by the extended balance sheet mentioned above (PY: 79.82 %).

The consolidation of carrier24 GmbH resulted in shareholders' equity being reduced by \leq 4.58 million.

Capitalising the fibre-optic network agreements of LambdaNet and carrier24 resulted in long-term liabilities of \leqslant 44.38 million. These also include calculated interest and are to be viewed as offsetting items to the corresponding positions carried as assets.

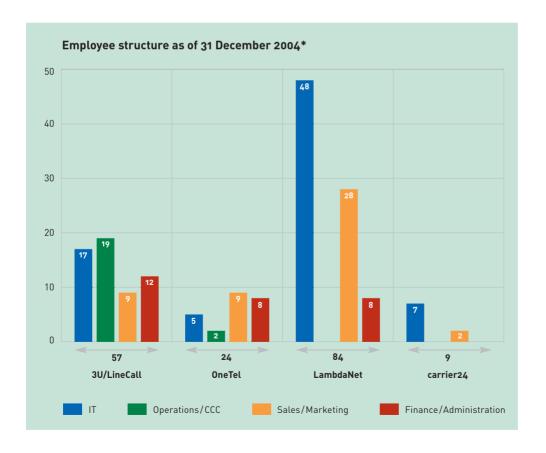




3. Employees

The acquisition of LambdaNet Communications Deutschland AG in 2004 and the initial consolidation of carrier24 GmbH increased the number of employees as of 31 December 2004 to 174 full-time staff (PY: 91).* In addition, 3U TELECOM AG employs part-time students primarily in the Customer Care Centre who can be deployed flexibly.

Our international subsidiaries, with the exception of the U.S. (2 employees), all receive support from the corporate headquarters in Marburg. Our multi-lingual call centre there acts as our interface to customers in Europe, ensuring professionalism, experience and flexibility.





| Primary Business Risks

Regulatory risks

Throughout the last few years the regulatory environment has been characterised by an attempt to tread the narrow path between the interests of former monopolist Deutsche Telekom AG and those of alternative market participants. It must be said that regulators have largely succeeded in this attempt in its most key aspects. Regulatory decisions on the complex of voice over IP issues and unbundling of customer access will be of decisive importance to the 3U Group. With its current product portfolio, the 3U Group is active in market segments in which regulators have already created the conditions for competition. Within these segments, risk is principally a function of competition.

■ Market and competitive risks

Deutsche Telekom AG's attempt to make customer access to the call-by-call and preselection market segments more difficult through the sale of specific hardware devices has been thwarted by regulators. This reveals however how intensely Deutsche Telekom intends to defend these segments – in the local network market as well – since it has lost market share. The multitude of smaller telecommunications providers which do not have their own infrastructure will continue to exist. Though voice telephony prices are no longer falling as drastically as in previous years, without rapid and well-planned development in this area, competition leads to declining revenue and margins – the very situation faced by the 3U Group during the past year.

The market for broadband internet access holds potential for growth. In addition to Deutsche Telekom, Freenet, United Internet and Arcor have already acquired considerable market share, albeit as resellers for Deutsche Telekom to some extent. A limited marketing budget among is one of the reasons which will make it difficult for the 3U Group to catch up with developments in the market over the last two years. We intend to position ourselves within this segment in a focused and effective manner – though not at any price.

Furthermore, wireless communications and internet telephony threaten to cannibalise the fixed-line network business. Wireless communications are likely continue to expand its share of talk time while internet telephony puts traditional telephony under ever-increasing pricing pressure.

Risk management

Business activity involves risk. The prerequisite for continued success in the market is taking certain risks deliberately and consciously. To reduce risk, the 3U Group developed a risk management manual early on, outlining specific business processes, identifying risks involved and offering countermeasures against them. Business risks taken are monitored and managed as the current situation may dictate.



Company processes changed significantly due to the acquisitions of OneTelTelecommunication GmbH and LambdaNet Communications Deutschland AG. These events have given rise to new risks potentially affecting the Group's net worth and financial condition, necessitating further revision of the risk management manual. Having recognised certain deficits with regard to systematic risk management, in the second half of 2004 controlling procedures were introduced Group-wide in the areas of finance, sales and equity holdings in order to properly adapt to the heightened risk management requirements within the Group. The Management Board bears responsibility for monitoring and managing business risks pursuant to the Stock Corporation Act.

Operating risks for individual Group companies

3U TELECOM AG

After the call-by-call business, our second biggest source of revenues is the low-margin wholesale business. This large buyer market is very fragile and price sensitive due to the multitude of providers that occupy it. Failure to collect large individual accounts receivable can lead to serious restatements of earnings.

The year of 2004 saw further declines in revenue in the call-by-call segment. The revamped sales organisation should put a stop to this trend, although the risk of further potential declines in revenue cannot be completely eliminated.

Up to now, our billing has been handled by a proprietary system developed in-house. The amount of information required and the complexity involved for optimal business management is constantly growing. This is an area where additional investment will be needed in the future. The tax audits conducted for the years 1999 to 2002 have indicated a risk of potential back payments of taxes. We have created provisions to cover this eventuality. However, it cannot be ruled out that other unforeseen tax liabilities from previous financial years may emerge, placing a burden on earnings.

Provisions have also been created for unresolved legal disputes with the former Management Board Chairman.

LineCall Telecom GmbH

This company addresses the contract customer segment. This area also saw steady declines throughout recent years, although "white label" distribution partnerships are anticipated to reverse this tendency.

OneTel Telecommunication GmbH

Revenue fell considerably at OneTel in 2004 on a year-over-year basis. Transferring the company headquarters to Marburg will allow us to take advantage of the synergy effects afforded by having a single common and inter-coordinated organisation for effective operations within the market

Legal disputes have been ongoing with the former management of the company since 2004, the estimated financial risk of which has been factored into provisions created per our annual financial statement.



International subsidiaries

Revenue and earnings for our international subsidiaries have tended lower over the last two years, with the exception of the U.S. company. Measures will be taken in the year 2005 to counteract this development.

LambdaNet Communications Deutschland AG

LambdaNet's customer structure is relatively stable. Cancellation of contracts by larger customers can have a negative impact on revenues despite the positive customer acquisition currently being seen. Also, accelerated repayment of bank loans could have a substantial impact on liquidity for the 3U Group. 3U TELECOM AG has provided a guarantee for these loans.

carrier24 GmbH

The consolidation of carrier24 GmbH into the 3U Group resulted in a charge of \leqslant 4.58 million to consolidated earnings (\leqslant 3.80 million of which from prior years). carrier24 provides the majority of the carrier network for 3U TELECOM AG, OneTel Telecommunication GmbH, LineCall Telecom GmbH and fon4U Telecom GmbH. The strategic options of carrier24 GmbH are currently being reviewed.

Staffing risks

In the second half of 2004 we established a leadership and management structure within the Group that is adapted to its needs. Our staff is highly motivated because of the changes and necessary restructuring measures implemented.

In 2005, we will be issuing new shares for the AG as part of the approved stock option program as a tool for long-term employee retention.

■ Technological risks

There were a few difficulties with our voice network at the start of 2004 only. Otherwise we were without any other downtimes of any significance. Continually improving our analysis tools helps protect against risk.

There were no problems of any significance with the IP backbone of subsidiary LambdaNet in 2004.



| Special Events after the end of the Financial Year

■ Burkhard von Ehren new Chief Sales Officer

As of 1 January 2005, Burkhard von Ehren was appointed Chief Sales Officer. This move represents the fulfilment of a key element within the company's 5-point program of organisational, operational and strategic restructuring.

Mr. von Ehren's primary task will be the development and implementation of the revamped sales and marketing strategy.

OneTelTelecommunication GmbH headquarters transferred from Neu-Isenburg to Marburg

In the first quarter of 2005 the headquarters of OneTelTelecommunication GmbH is to be transferred from Neu-Isenburg to Marburg. Severance packages were negotiated with the OneTel Telecommunication GmbH works council for those employees unable to accept the offer of employment in Marburg as well as those affected by job redundancy.

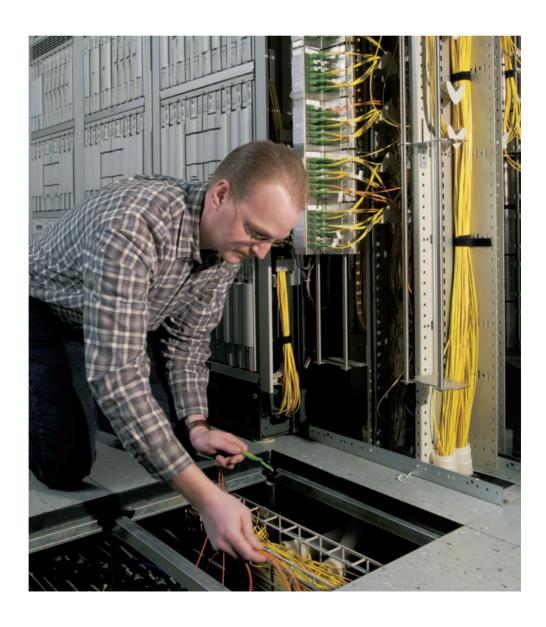




Outlook

■ New lines of business and synergies offer growth potential

With the acquisition of LambdaNet Communications Deutschland AG, 3U TELECOM AG now has a greatly expanded offering within the telecommunications market. The spectrum of the 3U Group's target markets now encompasses all customer groups from private end-customers all the way up to major corporate clients. Exploiting cross-selling potential offers additional growth opportunities for the Group. In addition, the purchase of LambdaNet affords the Group major cost savings potential, primarily in the form of reduced leasing expenses for the fibre-





optic network and retirement of the convertible bond issue floated for this purpose. LambdaNet expects to successfully conclude these negotiations with the vendor in the first half of the present financial year. This will allow for a significant, long-term reduction of infrastructure costs.

We expect moderate growth rates for the domestic fixed-line network telephony market. Focused sales efforts by our key international subsidiaries should fuel a rise in revenue in this business.

Reinforcement and focusing of sales activities

Concentrating fixed-line network telephony sales efforts in Marburg and the organisational measures implemented will contribute to reversing the declining revenues seen over the preceding few years.

The core competency of our subsidiary LambdaNet is in carrier services in combination with data services for internet service providers including DSL and VPN products. Over the medium term, we will be able to counter the heavy competitive pressure in the carrier services segment with opportunity in the VPN segment. Expanded fixed-line network telephony offerings are also being developed for these customers.

In view of the many different brands and firms existing within the 3U Group, we have developed a strict Group strategy for all future activities to exploit synergies within the Group and create a foundation for its growth.

Expansion of the product array ("bundling", "cross-selling") – a part of our 5-point program offers particular opportunity in this regard as well as focusing on registered customers (preselection) and "white label" partnerships (such as with mail-order firm Quelle).

In addition to organisational measures, a greatly expanded marketing budget compared to last year's will contribute to the success of our new sales and marketing strategy.

■ Corporate goals for 2005

For 2005 financial year, the 3U Group anticipates revenues to rise by at least 10 % accompanied by a significant improvement in EBITDA.

While we continue to expect declining variable gross margins in the fixed-line network telephony segment, in the broadband/IP segment our expectation is for widening margins based on the product mix previously described. In contrast to the traditional carrier business, we anticipate above-average growth for ISP services and in the VPN business in particular.

According to our current estimates, we anticipate fixed-line network telephony to post negative EBITDA again in 2005. A positive operating result is only likely to be seen in the second half of the year.



In 2005 LambdaNet will have overcome the effects of insolvency proceedings concluded in April of 2004. EBITDA is expected to nearly double in 2005 compared to previous year.

Lower structural and administration expenses across all business areas reflect the synergies obtained through restructuring. The integration of OneTelTelecommunication GmbH completed in the first quarter of 2005 and the subsequent transfer of its headquarters to Marburg form the basis for achieving these. At the same time, we plan to utilise marketing campaigns to augment our redoubled sales efforts for 2005. Although this will trim down cost savings to some extent, it will serve to strengthen our customer base over the long-term.

We expect annual result for the present financial year to improve substantially.



(From left) Berth Hausmann (CFO 3U and LambdaNet), Roland Thieme (CIO 3U), Michael Schmidt (CTO 3U), Burkhard von Ehren (CSO 3U) and Stefan Krüger (CEO LambdaNet)



The Consolidated Financial Statements

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Balance Sheet (US GAAP) as of 31 December 2004

Assets - 3U Group (in T€)	31 Dec 2004	31 Dec 2003
Current assets		
Cash and cash equivalents	16,499	35,827
Trade accounts receivable	8,906	9,322
Inventories	0	509
Prepaid expenses and other current assets	9,977	9,013
Total current assets	35,381	54,671
Non-current assets		
Property, plant and equipment	80,841	3,396
Intangible assets	15,672	10,400
Investments	23,310	23,297
Goodwill	550	0
Deferred taxes	405	1,716
Prepaid expenses and other non-current assets	3,393	0
Total non-current assets	124,171	38,809
Total assets	159,552	93,480

The comparison with the previous year is rendered difficult by the fact that the consolidation of carrier24 GmbH and the acquisition of LambdaNet Communications Deutschland AG strongly changed the balance sheet structures.

In particular, the capitalisation of the long-term leasing contracts of the two companies significantly impacted the assets side, resulting in an extension of the balance sheet (an increase of \leq 44.5 million in the property, plant and equipment item).



Liabilities and shareholders' equity - 3U Group (in T€)	31 Dec 2004	31 Dec 2003
Current liabilities		
Trade accounts payable	13,664	6,723
Accrued expenses	14,939	4,653
Deferred income and other liabilities, short term	7,445	1,115
Deferred tax liabilities	477	1,375
Total current liabilities	36,525	13,866
Non-current liabilities		
Non-current amounts due to banks	16,467	5,000
Non-current leasing liabilities	44,383	0
Deferred income and other liabilities, long term	16,712	0
Total non-current liabilities	77,562	5,000
Shareholder's equity		
Share capital	46,842	9,368
Additional paid-in capital	19,958	57,432
Retained earnings/accumulated deficit	-21,335	7,814
Total shareholder's equity	45,465	74,614
Total liabilities and shareholder's equity	159,552	93,480

A comparison with the figures for the previous year is rendered difficult by the fact that the consolidation of carrier24 GmbH and the acquisition of LambdaNet Communications Deutschland AG strongly impacted the balance sheet structures.

Including the long-term leasing liabilities of the two companies significantly impacted the liabilities side. This resulted in an extension of the balance sheet (an increase of \leq 44.4 million contained in the long-term liabilities item).



Income Statement (US GAAP)

3U Group (in T€)	3-month i	nth report – Q4 12-month repo		
	1 Oct 2004 – 31 Dec 2004	1 Oct 2003 – 31 Dec 2003	1 Jan 2004 – 31 Dec 2004	1 Jan 2003 – 31 Dec 2003
Revenues	27,080	19,742	96,458	64,677
Cost of revenues	-23,394	-17,390	-85,017	-50,609
Gross profit/loss	3,686	2,352	11,441	14,068
Selling and marketing expenses	-1,707	-1,121	-5,626	-2,249
General and administrative expenses	-5,388	-1,671	-17,197	-9,527
Other operating income/expenses	-126	-749	991	-832
Amortisation of goodwill/customer base	-5,469	0	-12,476	0
Operating income/loss	-9,004	-1,189	-22,867	1,460
Interest income and expenses	-3,364	127	-5,904	747
Income from participations	-9	0	-9	0
Other income/expense	1,104	15	1,564	3,104
Result before income taxes				
(and minority interests)	-11,273	-1,047	-27,216	5,311
Income tax	272	38	-1,932	-1,733
Result before minority interest	-11,001	-1,009	-29,148	3,578
Ministra	653	-14	0	1
Minority interest Net income/loss			, and the second	·
Net Income/ toss	-11,654	-995	-29,148	3,577
Depreciation of fixed assets,				
amortisation of intangible assets				
and goodwill	8,792	1,572	25,987	4,209
Net income per share (basic) (in €)	-0.25	-0.02*	-0.62	0.08*
Weighted average shares outstanding (basic) (per item)	46,842,240	46,842,240*	46,842,240	46,842,240*
Net income per share (diluted) (in €)	-0.24	-0.02*	-0.61	0.07*
Weighted average shares outstanding (diluted) (per item)	47,708,490	47,708,490*	47,708,490	47,708,490*



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Cash Flow Statement (US GAAP)

3U Group (in T€)	1 Jan 2004 – 31 Dec 2004	1 Jan 2003 – 31 Dec 2003
Cash flows from operating activities		
Net profit/loss	-29,149	3,577
Adjustments for:		
Minority interests	0	1
Depreciation and amortisation of fixed assets	25,988	4,208
Increase/decrease of provisions and value adjustments	10,285	327
Other cash-neutral expenditure/income	0	-75
Increase/decrease of inventories, trade receivables and other assets that are not attributable to investment or financing activities	-2,120	17,809
Increase/decrease of trade payables and other liabilities that are not attributable to investment or financing activities	29,084	0
Net cash provided by/used in operating activities	34,088	25,847
Cash flows from investing activities		
Inflows from disposals of tangible assets	274	8
Outflows for investments in tangible assets	-89,561	-11,463
Outflows for investments in intangible assets	-19,968	0
Outflows for investments in financial assets	-13	-1,842
Net cash used in investing activities	-109,268	-13,297
Cash flows from financing activities		
Inflows from equity increase	0	2,000
Inflows from the issue of bonds and the take-up of (finance) loans	11,467	5,000
Other	44,383	0
Net cash provided by/used in financing activities	55,850	7,000
Net increase/decrease in cash and cash equivalents	-19,330	19,550
Cash and cash equivalents at beginning of period	35,829	16,279
Cash and cash equivalents at end of period	16,499	35,829



Development of Group Fixed Assets (US GAAP)

3U Group (in T€)	Acquisition and production cost					
	As of 1 Jan 2004	Additions	Disposals	Re-bookings	As of 31 Dec 2004	
I. Intangible assets						
Concessions, industrial property rights and similar rights and assets and licences to such rights and assets	3,550	5,797	5	3	9,345	
2. Customer base	11,948	10,372	0	-8,636	13,684	
	,			-,,,,,		
3. Goodwill	334	3,799	0	8,636	12,769	
Total intangible assets	15,832	19,968	5	3	35,798	
II. Tangible assets						
Land, land rights and buildings including buildings on third party land	961	1	0	0	962	
2. Technical equipment and machines	5,867	73,888	649	-3	79,103	
3. Plant and office equipment	882	15,581	225	0	16,238	
Prepayments and construction in progress	0	92	0	0	92	
		00.5/0	251		0/00=	
Total tangible assets	7,710	89,562	874	-3	96,395	
III. Financial assets						
Long term investments	23,297	13	0	0	23,310	
1. Long term investments	20,277	13	0	0	23,310	
Total financial assets	23,297	13	0	0	23,310	
Total fixed assets	46,839	109,543	879	0	155,503	

The acquisition of LambdaNet Communications Deutschland AG increased Group fixed assets considerably. In the technical equipment and machinery item, leased objects (largely fibre contracts) of $T \in 30,061$ were capitalised. Depending on the contract period, these are amortised over 10 to 15 years.



Accumulated depreciation					Book	values
As of 1 Jan 2004		Disposals	Re-bookings	As of 31 Dec 2004	As of 31 Dec 2004	As of 31 Dec 2003
0.070	1 / / 0	0	0	2.027	F (00	1.001
2,269	1,669	2	0	3,936	5,409	1,281
2,830	1,671	0	-1,080	3,421	10,263	9,118
334	10,805	0	1,080	12,219	550	0
5,433	14,145	2	0	19,576	16,222	10,399
5,433	14,145	2	U	17,070	10,222	10,377
60	27	0	0	87	875	901
3,856	10,356	425	0	13,787	65,316	2,011
399	1,459	178	0	1,680	14,558	483
377	1,457	170	U	1,000	14,556	403
0	0	0	0	0	92	0
4,315	11,842	603	0	15,554	80,841	3,395
.,,,,,,	. 1,5 .2				33,511	0,070
0	0	0	0	0	23,310	23,297
0	0	0	0	0	23,310	22 207
	U	U	U	U	23,310	23,297
9,748	25,987	605	0	35,130	120,373	37,091



Statement of Changes in Equity (US GAAP) as of 31 December 2004

3U Group (in T€)	Reporting period 2004			Re	porting period 20	003
	As of 1 Jan 2004	Additions/ disposals	As of 31 Dec 2004	As of 1 Jan 2003	Additions/ disposals	As of 31 Dec 2003
Share capital	9,368	37,474	46,842	9,120	248	9,368
Additional paid-in capital/capital reserves	57,432	-37,474	19,958	55,680	1,752	57,432
Earnings reserves	0	0	0	0	0	0
Retained earnings	7,814	-29,149	-21,335	4,236	3,578	7,814
Total	74,614	-29,149	45,465	69,036	5,578	74,614



Notes to the Consolidated Financial Statements as of 31 December 2004 in accordance with US GAAP

1 General principles of preparation

The consolidated financial statements of 3U TELECOM AG, Marburg, as of 31 December 2004 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.

The financial statements of 3U TELECOM AG and all material subsidiaries in which the Company has a majority holding and the financial statements of one company (a variable interest entity), where the Group is the material beneficiary and exercises a controlling interest were included in the consolidated financial statements.

2 Scope of consolidation, method of consolidation

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

Country	Company		cribed e Capital	Share held by 3U TELECOM AG	Facts supporting consolidation
Italy	3U TELECOM S.R.L.	EUR	100,000	99%	Control. Influence
Switzerland	3U TELECOM AG	CHF	500,000	99.996%	Control. Influence
France	3U TELECOM SARL	EUR	1,000,000	100 %	Control. Influence
Austria	3U TELECOM GmbH	EUR	250,000	99.97%	Control. Influence
Netherlands	3U TELECOM B.V.	EUR	100,000	100%	Control. Influence
Belgium	3U TELECOM S.P.R.L.	EUR	150,000	99.9%	Control. Influence
USA	3U TELECOM INC.	USD	0	70%	Controlling Influence
Luxemburg	3U TELECOM SARL	EUR	15,000	100%	Control. Influence
UK	3U TELECOM Ltd.	GBP	150,000	100%	Controlling Influence
Germany	OneTel Telecommu- nication GmbH	EUR	3,025,000	100%	Controlling Influence
Germany	fon4U Telecom GmbH	EUR	25,000	100%	Controlling Influence
Germany	LineCall Telecom GmbH	EUR	25,000	100%	Controlling Influence
Germany	CityDial GmbH	EUR	150,000	50%	Significant Influence
Germany	LambdaNet Communications Deutschland AG	EUR	7,300,000	100 %	Controlling Influence
Germany	carrier24 GmbH	EUR	25,000	15%	Controlling Influence
	Switzerland France Austria Netherlands Belgium USA Luxemburg UK Germany Germany Germany Germany	Switzerland 3U TELECOM AG France 3U TELECOM SARL Austria 3U TELECOM GmbH Netherlands 3U TELECOM B.V. Belgium 3U TELECOM S.P.R.L. USA 3U TELECOM INC. Luxemburg 3U TELECOM SARL UK 3U TELECOM Ltd. Germany OneTel Telecommunication GmbH Germany fon4U Telecom GmbH Germany LineCall Telecom GmbH Germany CityDial GmbH Germany LambdaNet Communications Deutschland AG	Italy 3U TELECOM S.R.L. EUR Switzerland 3U TELECOM AG CHF France 3U TELECOM SARL EUR Austria 3U TELECOM GmbH EUR Netherlands 3U TELECOM B.V. EUR Belgium 3U TELECOM S.P.R.L. EUR USA 3U TELECOM INC. USD Luxemburg 3U TELECOM SARL EUR UK 3U TELECOM Ltd. GBP Germany OneTel Telecommunication GmbH Germany fon4U EUR Telecom GmbH Germany LineCall EUR Telecom GmbH Germany CityDial GmbH EUR Germany LambdaNet Communications Deutschland AG	Switzerland 3U TELECOM AG CHF 500,000 France 3U TELECOM SARL EUR 1,000,000 Austria 3U TELECOM GmbH EUR 250,000 Netherlands 3U TELECOM B.V. EUR 100,000 Belgium 3U TELECOM S.P.R.L. EUR 150,000 USA 3U TELECOM INC. USD 0 Luxemburg 3U TELECOM SARL EUR 15,000 UK 3U TELECOM Ltd. GBP 150,000 Germany OneTel Telecommunication GmbH EUR 3,025,000 Germany fon4U EUR 25,000 Telecom GmbH EUR 25,000 Germany LineCall EUR 25,000 Telecom GmbH EUR 150,000 Germany CityDial GmbH EUR 7,300,000 Germany LambdaNet Communications Deutschland AG EUR 7,300,000	Italy



With the exception of CityDial GmbH, which was measured using the equity method, all subsidiaries were consolidated according to the full consolidation method as in the previous year. carrier24 GmbH was consolidated for the first time as of 1 January 2004.

The record date on the financial statements of the Group and all consolidated companies is 31 December 2004.

According to SFAS 141, statements on new business combinations are to be made in the notes.

LambdaNet Communications Deutschland AG was acquired in April 2004. LambdaNet owns an IP-based network and offers carrier services (data transfer), data services for internet service providers (including DSL) and Virtual Private Networks (VPN). Here, corporate customers are offered their own telephone and data network.

With the acquisition of LambdaNet, the 3U Group extended its performance range, thus creating a second pillar towards becoming a full-service fixed-line network provider.

Since carrier 24 GmbH was founded on 10 June 2002, the 3U Group has held a 15% stake. In July 2002, the Company acquired the technical equipment of the insolvent Energis/Energis24. carrier24 GmbH provides carrier services and competes directly in this segment with LambdaNet Communications Deutschland AG. It provides the major part of the transfer network for the fixed-line network telephony segment in the 3U Group.

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. The resulting currency losses of T€ 109 were largely the result of the depreciation of the US dollar against the euro.

3.3 Cash and cash equivalents

Cash and cash equivalents are current account and overnight credits at domestic and foreign banks and cash assets, which are valued at nominal value. As of the reporting date, these total € 16.50 million. The current accounts can be terminated on a daily basis. The foreign currencies were valued at rates applying on the reporting date.

Since the fourth quarter of 2004, we have implemented cash pooling (except LambdaNet and carrier24).



3.4 Trade receivables

Trade receivables were booked at their nominal value, unless writedowns were required. The total carrying amount of the trade receivables was $T \in 8,906$ and consisted primarily of claims of the German parent company against Deutsche Telekom AG ($T \in 2,091$), claims against CityDial ($T \in 14$), other carriers ($T \in 707$) and other customers ($T \in 358$) and customer claims of the subsidiaries in Switzerland ($T \in 37$), Austria ($T \in 196$), Italy ($T \in 66$), France ($T \in 218$), the Netherlands ($T \in 89$), Belgium ($T \in 50$), the USA ($T \in 238$), carrier24 GmbH ($T \in 397$), fon4U Telecom GmbH ($T \in 421$), LambdaNet Communications Deutschland AG ($T \in 2,433$), LineCall Telecom GmbH ($T \in 815$), OneTel Telecommunication GmbH ($T \in 776$).

At the subsidiaries individual value adjustments totalling $T \in 424$ were recognised as losses in the income statement in the financial year. For individual receivables with non-material individual amounts, the individual value adjustments were calculated on a global basis. 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 minus $T \in 297$ for the parent company in the last financial year.

3.5 Prepaid expenses and other short-term assets

Other assets primarily comprise tax claims of $T \in 3.199$, claims against network carriers of $T \in 71$, sureties of $T \in 245$ and miscellaneous $T \in 2.641$. The prepaid expenses items ($T \in 13.370$) mainly include supply charges for interconnection points 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

Tangible assets also include rented buildings, technical and other equipment totalling $T \in 44,505$ (previous year: 0) which are allocated to the Group as economic owner due to the design of the relevant leasing contracts (capital leases). Depreciation on leased equipment in the financial year totalled $T \in 3,448$ (previous year: 0).

As of 31 December 2004, the future lease payments resulting from capital lease contracts totalled $T \in 72,308$.

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

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



3.7 Intangible assets

Acquired intangible assets acquired were valued at acquisition cost, less any scheduled amortisation based on the straight-line method. This relates primarily to software licenses for transfer and IT technology.

Internally developed software was capitalised at production cost (direct costs) and depreciated over the expected useful life.

The German telecommunication licenses of license class 3 and 4 largely acquired in the 1999 financial year were granted for an unlimited period. An impairment test is made when there are indications of a decline in value. In 2002, a write-down was charged as the replacement costs of the licenses had sunk to T€ 4 per license.

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 development of intangible assets is shown in the asset analysis (development of Group fixed assets).

Goodwill OneTel

The goodwill of $T \in 8,636$ from the initial consolidation as of 1 July 2003 was amortised to a value of $T \in 6,477$ as of 30 June 2004. As of 30 June 2004, after analysis of the existing customer base there was a reclassification into goodwill, which is no longer amortised. An assessment of the sustained value was made on the basis of an impairment test. Write-downs of $T \in 5,927$ were charged as of 30 June 2004. After this write-down, goodwill is measured at $T \in 550$. The impairment test as of 31 December 2004 produced a similar result.

Goodwill carrier24

The initial consolidation of carrier24 resulted in goodwill of $T \in 3,799$, which was written off in full at the same time.

LambdaNet customer base

The initial consolidation of the 90% interest in LambdaNet as of 1 April 2004 resulted in good-will of $T \in 8,746$. As tangible assets did not contain any hidden reserves, the goodwill was capitalised as customer base and amortised over eight years. As of 31 December 2004, the carrying amount is $T \in 7,800$.

Since the end of October 2004, LambdaNet is fully owned by 3U TELECOM AG. The goodwill resulting from initial consolidation is $T \in 1,624$. This too was classified as customer base and amortised over eight years. At the reporting date, the carrying amount was $T \in 1,637$.



3.8 Financial assets

The units of the JB-Otto-Fonds and JB-Bernhard-Fonds were posted as long-term investment securities. This is a special fund of Julius Bär Kapitalanlagegesellschaft. The units are measured at fair value of $T \in 23,239$ (previous year: $T \in 22,926$). In the previous year, the units were reported at acquisition cost. This accounting change, which first became effective in the statements for the second quarter of 2004, has a positive effect in the income statement of $T \in 1,047$ including the cash and cash equivalents contained in the funds. The funds' cash holdings were posted under cash and cash equivalents ($T \in 747$). In prior periods, this accounting change positively impacted income (31 December 2003: $T \in 3,074$; 31 December 2002: $T \in 461$; 31 December 2001: $T \in 85$). The comparative figures of previous years were adjusted correspondingly. The securities in the funds are classified as trading securities. The financial assets item also includes the subsidiary CityDial GmbH which is measured using the equity method at $T \in 71$.

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. As of the middle of the year, the deferred taxes on loss carryforwards at OneTel Telecommunication GmbH were reversed. The high annual losses of this company in 2004, the planned annual loss in 2005 and the open results of the restructuring measures meant that we did not defer any taxes at the end of the year. 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 \leqslant 0, as depletion of the losses is not expected in the foreseeable future. Deferred tax liabilities were formed for adjustments in financial assets due to US GAAP changes. The assumed tax rate was 38% for corporation and trade tax.

The following table shows the reconciliation from the expected to reported tax expenses, broken down to Germany and International.

(In T€)	Germany	International	Total
US GAAP income from continuing operations	0	0	0
Group companies with profits	690	24	714
Back payments for previous years	802	0	802
Deferred taxes on fixed assets	-18	0	-18
Deferred taxes on loss carryforwards	1,330	0	1,330
Reversal of deferred taxes	-898	0	-898
Other	2	0	2
Tax expenses	1,908	24	1,932



3.10 Liabilities

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

(In T€)	Total	Up to one year	Up to five years	More than five years
Trade payables	13,664	13,664	0	0
Lease liabilities	44,383	2,493	922	40,968
Other liabilities	24,157	8,345	0	15,812
Amounts due to banks	16,467	0	16,467	0
Total	98,671	24,502	17,389	56,780

Other liabilities include liabilities from social security ($T \in 241$), wage and church tax ($T \in 89$), other tax liabilities ($T \in 46$), short-term liabilities to employees ($T \in 175$), deconstruction costs ($T \in 4,253$) and a convertible bond with a duration to 2009 ($T \in 10,481$) as well as others ($T \in 340$).



3.11 Provisions

Provisions were established in the amount of probable utilisation. The total of tax and other provisions was $T \in 14,939$.

Tax provisions of T€ 1,847 were established for corporate and trade tax for the German parent company and LineCall Telecom GmbH. This includes a tax provision as of the end of 2004 representing management's estimate for the results of the tax audit of the years 1999 to 2002.

The following overview shows the development of the other provisions:

(In T€)	As of 1 Jan 2004	Depletion	Addition*	Write-back	As of 31 Dec 2004
Connection services	2,606	-2,751	3,011	0	2,866
Network lease payments	3	-1,230	3,865	-88	2,550
Miscellaneous	90	-176	2,340	-31	2,223
Litigation risks	0	-41	1,375	-30	1,304
Personnel	126	-290	1,790	-540	1,086
Insolvency manager (LambdaNet)	0	0	833	0	833
Interest	0	-15	557	0	542
Electricity	0	-51	543	-29	463
Preparation and audit of the annual financial statements, other legal and consulting costs	257	-198	323	-12	370
Provisions for holiday pay	187	-186	216	-9	208
Invoicing costs	120	0	65	0	185
Location administration	0	-120	282	-27	135
Outstanding invoices	0	0	100	0	100
Third party services	72	-52	70	0	90
Supervisory Board	23	-20	68	0	71
Advertising	54	-6	0	0	48
Telephone	21	-18	15	0	18
Total	3,559	-5,154	15,453	-766	13,092



3.12 Statement of changes in equity

(In T€)	As of 1 Jan 2004	Additions/disposals	As of 31 Dec 2004
Subscribed capital	9,368	37,474	46,842
Capital reserves	57,432	-37,474	19,958
Earnings reserves	0	0	0
Net income for the year	7,814	-29,149	-21,335
Total	74,614	-29,149	45,465

The share capital consists of 46,842,240 no-par bearer shares with a notional value of €1.

On 6 July 2004 there was a 4:1 stock split, with each shareholder receiving four new shares for each share held. A total of 37,473,792 new bearer shares with a notional value of \leqslant 1 were issued. These are entitled to participate in earnings from the beginning of the 2004 financial year.

The Company does not expect to pay a dividend to its shareholders for the 2004 financial year.

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 a network carrier and IP infrastructure provider.

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

The item manufacturing costs of the services and goods supplied to attain the sales largely comprises expenses for connection services, supply charges for interconnection points and leased lines, pro rata personnel costs, 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 relates to our current account and loan accounts. As a result of the LambdaNet integration and its leasing liabilities and amounts due to banks together with the convertible bond, interest expenses increased considerably as against the previous year.



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

The Group has a stock option program (2003 Stock Option Plan) as an incentive to generating long-term commitment to the Company among employees and managers.

By way of resolution dated 15 May 2003, the Annual General Meeting authorised contingent capital of up to \in 4,560,000 (\in 912,000 before the stock split on 6 July 2004) for issuing stock options to members of the Management Board, executives and employees in the context of a stock option plan and authorised the Management Board accordingly. With the approval of the Supervisory Board, the Management Board made use of this authorisation on 20 August 2003 and established a stock option plan for 2003. The 2003 Stock Option Plan has a term of five years. The non-transferable option rights can be exercised after a two-year qualifying period on 21 August 2005 at the earliest and no later than 20 August 2008. The exercise price is \in 2.70. As of 31 December 2004, the option value was \in 0.23 (previous year \in 0.90) calculated using the Black-Scholes model.

For present the employee stock subscription rights in accounts, the Company uses the intrinsic value based method stipulated by APB Opinion No. 25 "Accounting for Stock Issued to Employees". With this method, in line with SFAS 123, the effect on the annual result of this calculation must be included in the annual financial statements as pro forma information.

Pro forma personnel expenses were $T \in 40$ in 2004 and $T \in 60$ in 2003. A total of 866,250 stock options (after the stock split) were issued.

In 2004, no new share options were issued. The share options were adjusted for the stock split.

2003 stock option plan

Outstanding stock options on 1 January 2004	866,250
Issued stock options	0
Exercised stock options	0
Expired stock options	0
Outstanding stock options on 31 December 2004	866,250



4 Segment Reporting

Due to the acquisition of LambdaNet Communications Deutschland AG and the required consolidation of carrier24 GmbH, operations at Group level are now divided into two different segments (fixed-line network telephony and broadband/IP).

In the Management Report, we took account of this development by presenting carrier24 GmbH separately.

In the following segment reporting, carrier24 GmbH is assigned to the broadband/IP segment on the basis of the product portfolio.

3U Group as of 31 Dec 2004 (in T€) (cumulated)	Fixed-line network telephony	Broad- band/ IP	Elimina- tions in the Group	Group
Segment revenues	65,435	34,440	-3,410	96,465
Segment earnings (before financial result and income taxes)	-12,735	-9,198	-935	-22,867
Segment assets	77,348	101,478	-19,275	159,552
Segment fixed assets	53,671	81,835	-15,133	120,373
Impairment of goodwill/ customer base	7,743	0	4,733	12,476
Amortisation of tangible assets	1,822	11,689	0	13,511
Employees (annual average FTEs)	97.6	106.6	2.0	202.1

Internal sales were consolidated.

The fixed-line network telephony segment includes foreign sales of \in 7.03 million. We reported the value adjustments for this segment (OneTel goodwill) in the Group Management Report. Provisions were also reported.

In the Group, $T \in 935$ was written off for the customer base of LambdaNet and the goodwill for carrier24 of $T \in 3,799$ was written off.



5 Financial obligations as of 31 December 2004 and other contingent liabilities

3U Group (in T€)	2005	2006-2009	From 2010
Long-term rental and leasing contracts	1,910	7,181	10,054
POP rents/office rents and cleaning	3,283	9,468	2,222
Leasing vehicles	256	181	0
Leased lines	208	150	48
Service contracts	12	0	0
Insurance policies	27	1	0
Designated Sponsoring	50	0	0
Total	5,746	16,981	12,324

The parent company provided surety bonds to its own suppliers and suppliers of subsidiaries totalling T\$ 220 and T \in 248, as well as letters of comfort for T \in 53.

3U TELECOM AG provided its wholly owned subsidiary, LambdaNet, with a limited letter of comfort for €2 million until 31 December 2005.

6 Other Information

6.1 Management

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

Udo Graul (Chairman), Wetter, 1 January 2004 to 20 July 2004; Berth Hausmann, Weßling, 1 October 2004 to 31 December 2004;* Michael Schmidt, Lahntal, 1 January 2004 to 31 December 2004; Roland Thieme, Lahntal, 1 January 2004 to 31 December 2004.

The total salaries of the Management Board were $T \in 886$ for the financial year. In connection with the retroactive reduction of Management Board remuneration, the two Management Board members Schmidt and Thieme each received a loan of $T \in 17$ which is to be repaid by the end of 2005 at the latest.

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 2004 to 31 December 2004;

Gerd Simon,

Industrial Engineer, Bad Homburg, 1 January 2004 to 31 December 2004;

Ralf Thoenes (Deputy Chairman),

Lawyer, Düsseldorf, 1 January 2004 to 31 December 2004.



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

Gerd Simon:

Member of the Supervisory Board of Elabs AG, Frankfurt am Main.

Within the Group:

Hubertus Kestler:

Member of the Supervisory Board (Deputy Chairman) of OneTel Telecommunication GmbH to 20 July 2004.

Chairman of the Supervisory Board of OneTel Telecommunication GmbH since 21 July 2004. Chairman of the Supervisory Board of LambdaNet Communications Deutschland AG since 6 April 2004.

Gerd Simon:

Member of the Supervisory Board of OneTel Telecommunication GmbH

Member of the Supervisory Board of LambdaNet Communications Deutschland AG.

Ralf Thoenes:

Member of the Supervisory Board (Deputy Chairman) of LambdaNet Communications Deutschland AG.

The remuneration paid to members of the Supervisory Board during the 2003 financial year totalled $T \in 192$.

6.3 Employees

The average number of employees in the Group (including LambdaNet and carrier24) for the year was 202 (converted to full-time equivalents).

Personnel costs for the financial year comprised T€ 6,354 wages and salaries plus T€ 793 social security expenses.

6.4 Total number of shares held by members of the management and supervisory bodies as of 31 December 2004

Management Board10,799,995 shares Supervisory Board0 shares

6.5 Earnings per share

Nominator: net income for the year	(in €)	-29,148,580.79
Denominator: shares	(number)	46,842,240
Earnings per share	(in €)	-0.62



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

As a listed company, 3U TELECOM AG issued the required declaration of conformity to the German Corporate Governance Code in line with Article 161 of the German Stock Corporation Act and made it available to its shareholders.

6.7 Deviations from Group accounting according to the HGB [German Commercial Code]

The accounting and consolidation methods were applied in compliance with German law. The regulations of the HGB and the German Stock Corporation Act differ in certain material aspects from US GAAP:

- While US GAAP focuses on providing information relevant to decision-making processes of investors, HGB accounting is defined by a stronger emphasis on protecting creditors and the prudence principle.
- In line with HGB, all balance sheet and income statement items must be shown in the form and sequence prescribed in Articles 266 and 275 HGB. US GAAP requires a different form of presentation, in the order of the shortest liquidation. This form was used for the consolidated financial statements.
- According to US GAAP, the short-term portion of long-term receivables and liabilities are shown in a separate balance sheet item. The share due within one year is treated as shortterm.
- Lease contracts are all agreements which transfer the right of use of specific tangible asset for a specified period. 3U TELECOM uses tangible assets as a lessee. US GAAP prescribes specific criteria whereby, on the basis of risk and reward, it is assessed whether economic ownership of the leased property is allocated to the lessee (capital lease) or the lessor (operating lease).
- According to HGB, deferred tax refund claims resulting from tax losses carried forward may not be reported in the balance sheet. This is because the anticipated future tax savings are as yet unrealised. Under US GAAP, such tax reduction claims are capitalised. They are measured according to the probability that they will be utilised within the period in which the loss carryforwards may be applied.
- Under US GAAP, stock-based compensation can be accounted for in two ways. For presenting the Company share subscription rights, the Company uses the intrinsic value based method stipulated in APB Opinion No. 25 "Accounting for Stock Issued to Employees". With this method, according to SFAS 123, the effect on the annual result of this calculation must be included in the annual financial statements as pro forma information.
- According to Article 248 Paragraph 2 of the HGB, intangible assets not purchased against remuneration may not be capitalised. According to US GAAP, this is possible under specific circumstances. In the financial year, employees developed software they used.
- The special funds posted under financial assets are posted at fair value.



■ The Consolidated Financial Statements ■

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

N	20.470
Net income for the year in accordance with US GAAP	-29,148
Minority interests	0
Net income for the year	-29,148
Adjustments for HGB [German Commercial Code]:	
•	0.450
Fixed assets	3,478
Capitalisation of long-term lease contracts	542
Capitalisation of reconstruction liability	74
Prepaid taxes, 38% on adjustment of fixed assets	-18
Prepaid taxes on loss carry forward/loss of consolidated subsidiaries	1,330
Deferred taxes on fixed assets	-898
Deferred items	266
Leasing liabilities	421
Net income for the year in accordance with the HGB [German Commercial Code]	-23,953
Equity in accordance with US GAAP	45,465
Minority interests	0
Equity	45,465
Liquity	43,403
Adjustments for HGB [German Commercial Code]:	
Fixed assets	-19,872
Capitalisation of long-term lease contracts	2,199
Capitalisation of reconstruction liability	31
Prepaid taxes, 38% on adjustment of fixed assets	8
Prepaid taxes on loss carry forward/loss of consolidated subsidiaries	-414
Deferred taxes on fixed assets	477
Deferred items	3,138
Leasing liabilities	15,598
Equity in accordance with the HGB [German Commercial Code]	46,630

3U TELECOM AG

Marburg, 11 March 2005

The Management Board

Berth Hausmann

Michael Schmidt

Roland Thieme



Auditor's Certificate

We 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 2004 to 31 December 2004. 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 2004 to 31 December 2004, did not give rise to any objections.

In our opinion, the consolidated financial statements present a true and fair view of the net worth, financial position and results of the Group and the cash flows in the financial year in line 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 2004 to 31 December 2004 meet the requirements for exempting the Company from having to prepare consolidated financial statements and a Group management report pursuant to German law.

Kirchhain, 11 March 2005

B. Weber GmbH Wirtschaftsprüfungsgesellschaft (Chartered Accountants)

Weber Wirtschaftsprüferin (Auditor)



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Supervisory Board Positions held by Members of the Management Board

Michael Schmidt

Within the Group:

- OneTel Telecommunication GmbH, Neu-Isenburg
- LambdaNet Communications Deutschland AG, Hannover

Roland Thieme

Within the Group:

 LambdaNet Communications Deutschland AG, Hannover

Further Management Board Positions held by Members of the Management Board

Berth Hausmann

Within the Group:

 LambdaNet Communications Deutschland AG, Hannover (Chief Financial Officer since November 2004)

| Supervisory Board Positions held by Members of the Supervisory Board

Hubertus Kestler

Within the Group:

- OneTel Telecommunication GmbH, Neu-Isenburg
 (Deputy Chairman to 20 July 2004, Chairman since 21 July 2004)
- LambdaNet Communications Deutschland AG, Hannover (Chairman since 6 April 2004)

Gerd Simon

External:

- Elabs AG, Frankfurt am Main Within the Group:
- OneTel Telecommunication GmbH, Neu-Isenburg
- LambdaNet Communications Deutschland AG, Hannover

Ralf Thoenes

Within the Group:

 LambdaNet Communications Deutschland AG, Hannover



| Financial Calendar

- Publication of figures for Q1/2005 17 May 2005
- Annual General Meeting 19 May 2005
- Publication of figures for Q2/2005 15 August 2005
- Publication of figures for Q3/2005 15 November 2005

Analysts' conference November 2005

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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.

Co-location

Technology location which allows the service provider to accommodate telecommunication equipment (e.g. switching technology or web server).

DSL

Digital Subscriber Line.

Technology for digital transfer of data via telephone lines. The key feature is the large bandwidth that allows high-speed Internet access.

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.

Internet Protocol (IP)

A vendor-neutral transfer protocol based on the Internet

IP packages the information to be sent in an IP data package and selects the method to send the package to its destination.

ISF

Internet Service Provider.

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.

Long distance carried 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.

Long-distance carrier

All telephone networks for calls extending beyond the local network are defined as long-distance networks (e.g. long-distance calls). Pure long-distance carriers therefore do not install any subscriber connections, but offer telecommunications services via the network using their own or leased telecommunications infrastructures.

Mainstream technology

Technology based on well known and widespread standard components.



MPLS

Multi Protocol Label Switching is a method for labelling data packages when being transferred. MPLS allows "Quality of Service": Defined bandwidths, high availability and short run times as well as bundling all IP-based services on a homogenous platform.

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 predefined.

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

Reseller

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

Router

Switching system, participating in establishing a connection in an IP network (e. g. the Internet). Such systems route the IP packages to the relevant target computer on the basis of the address.

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.

Transfer technology

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

Voice over Internet Protocol / Voice over IP (VoIP)

Technique for establishing telephone connections via Internet. There are three main methods: PC to PC, PC to Phone, Phone to Phone.

VPN

Virtual Private Network is a technology for connecting local networks of different locations and to connect individual work places and mobile employees into a holistic corporate network.



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.

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).

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.

Free float

Share which are widely held.

HGB

German Commercial Code.

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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