



ANNUAL REPORT 2005

3U TELECOM 

3U TELECOM 

SUMMARY OF GROUP RESULTS

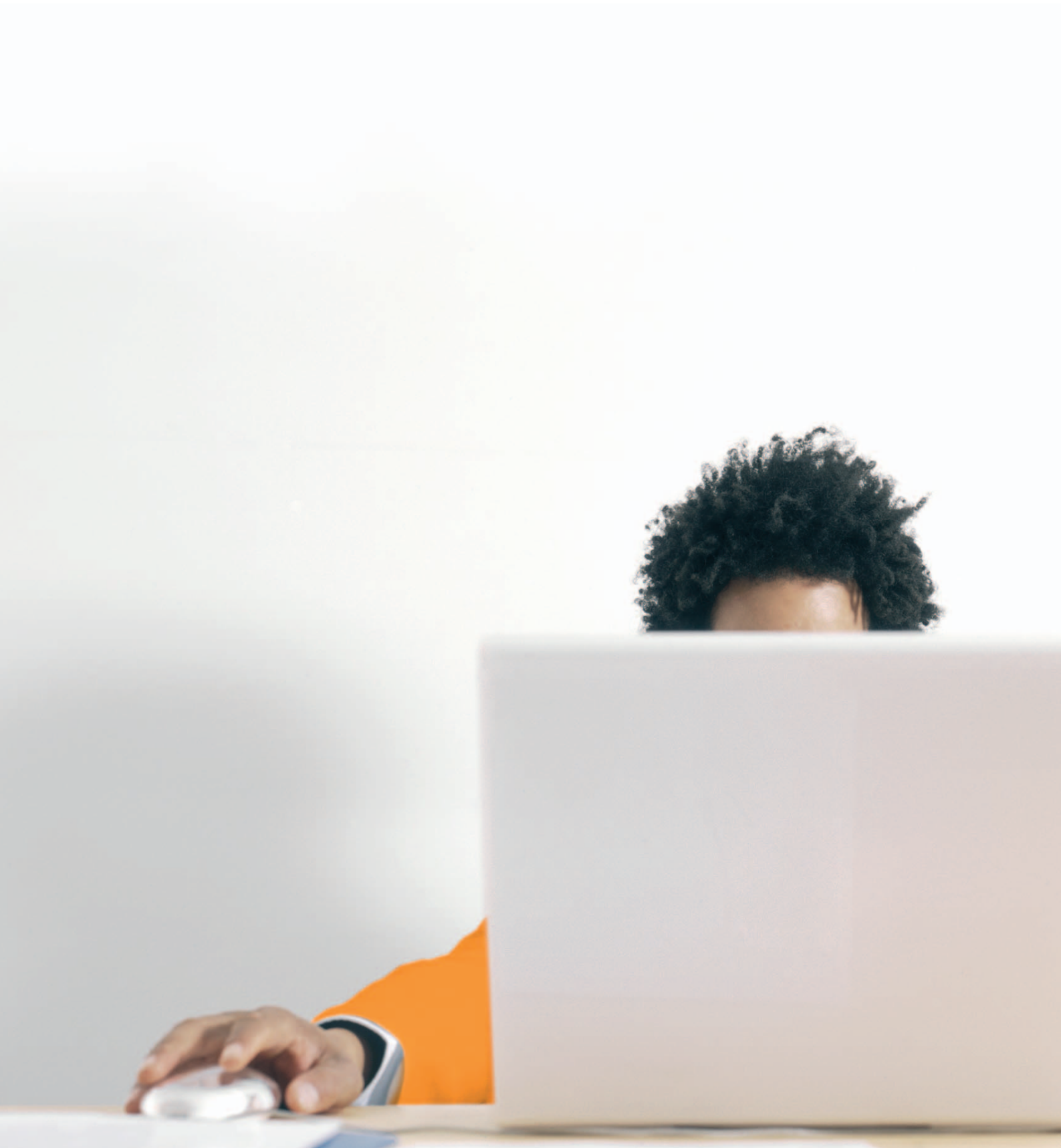
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3U GROUP (IFRS)		YEAR-ON-YEAR COMPARISON	
		2005	2004
Sales	(in € million)	123.38	96.46
EBITDA (earnings before interest, taxes, depreciation and amortisation)	(in € million)	6.80	3.71
EBIT (earnings before interest and taxes)	(in € million)	-8.25	-24.80
EBT (earnings before taxes)	(in € million)	0.81	-28.82
Net income/loss for the period	(in € million)	0.08	-30.32
Earnings per share (basic)	(in €)	0.00	-0.65
Earnings per share (diluted)	(in €)	0.00	-0.64
Equity ratio	(in %)	35.87	27.72

3U GROUP (IFRS)		QUARTERLY COMPARISON	
		Q4 2005	Q4 2004
Sales	(in € million)	34.25	24.59
EBITDA (earnings before interest, taxes, depreciation and amortisation)	(in € million)	2.09	-1.47
EBIT (earnings before interest and taxes)	(in € million)	-1.88	-7.59
EBT (earnings before taxes)	(in € million)	-4.36	-11.38
Net income/loss for the period	(in € million)	-4.09	-11.59
Earnings per share (basic)	(in €)	-0.09	-0.25
Earnings per share (diluted)	(in €)	-0.08	-0.24
Equity ratio	(in %)	35.87	27.72

For the purposes of comparison, net loss in 2004 has been reconciliated according to IFRS. The corresponding value according to US GAAP was -€29.15 million.

The non-recurring items (GasLINE agreement and deconsolidation of Carrier24 GmbH) were eliminated from earnings before interest and taxes (EBIT) and earnings before interest, taxes, depreciation and amortisation (EBITDA) to present the operative development of the Group.



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*English translation of the German Group Management Report and Consolidated Financial Statements prepared by the company as well as English translation of the Auditor's Report to the German Group Management Report and Consolidated Financial Statements prepared by the auditor.

DEAR SHAREHOLDERS,

The 3U Group achieved important, trendsetting targets in the 2005 financial year. As a result of an optimised sales and marketing strategy, we considerably expanded business operations, particularly in the fixed-line telephony segment. Simultaneously the Management Board actively pressed ahead with the restructuring of the Group, thereby further reinforcing the basis for the long-term financial stability of the company. The use of synergies within the Group also had a positive impact on consolidated earnings.

Sales rose to €123.38 million in the 2005 financial year, an increase of 27.9% compared to the previous year. This had an even greater effect on company profit: following a loss of €30.32 million, the 3U Group generated consolidated net income of €0.08 million in the 2005 financial year, influenced by non-recurring items. The return to operational profitability in the fixed-line telephony segment is particularly important for us. We achieved this crucial target at the end of 2005 and are thus optimistic about the future.

EXPANSION OF CORE OPERATING BUSINESS

In contrast to the previous year, the 3U Group grew organically and not due to merger and acquisitions. Increased sales in the fixed-line segment were achieved through several measures: firstly, existing sales co-operations were expanded in the pre-selection and call-by-call businesses. Secondly, we generated considerable increases in the call-by-call segment through vigorous tariff management. Our subsidiary OneTel Telecommunication GmbH (carrier selection code 01086) was thus the price leader in the call-by-call business once again, almost tripling sales and earnings year-on-year in the fourth quarter of 2005. In addition, the direct connection with the mobile telephone provider E-Plus allows for sales and margin growth.

New DSL and Voice over IP (VoIP) products launched in the 2005 financial year also hold future growth potential. We have revised our targets for these products due to considerable increase in customer acquisition costs and more intense competition. We will primarily market DSL and VoIP through co-operations in the future, as the profitability of the company and shortened payback periods increase the group's value. From the Management Board's perspective, the established and controllable sales channels of the co-operation partners offer excellent, calculable growth prospects.

Broadband/IP segment continues to present challenges for business operations. Although increased sales were posted once again at the end of the 2005 financial year, these were primarily from carrier services. Sales growth for products with longer contract periods, such as VPN products for business customers, remains below expectations. However, by strengthening sales team personnel since the start of 2006, we are now on course to increase sales in this segment during the course of the year.

SUCCESSFUL RESTRUCTURING AND ACHIEVEMENT OF SYNERGY EFFECTS

The intensive restructuring measures implemented by the management made a significant contribution to the positive development of the Group. New contract regulations were established with the fibre-optic supplier GasLINE. GasLINE will subsequently reduce network lease prices by €2.5 million per year between January 2005 and the end of 2011. Furthermore, GasLINE also waived a large proportion (€7.86 million) of the convertible bond shown on the balance sheet, which will also have a positive impact on interest payments in the medium-term. The 3U Group generated an overall positive effect on earnings through these new arrangement, corresponding to €30 million until 2011, of which €11.6 million became effective in the 2005 financial year.

Carrier24 GmbH filed for insolvency in August 2005. Carrier24 GmbH had previously provided the network infrastructure for the fixed-line telephony segment of the 3U Group. The subsidiary LambdaNet Communications Deutschland AG now provides this service. These long-term synergies will improve profitability and cash flow. The deconsolidation of Carrier24 GmbH resulted in a non-recurring improvement in earnings in 2005. The Management Board responded to the declining sales and the negative earnings of some foreign subsidiaries. The Dutch subsidiary 3U TELECOM B.V. was sold in



December 2005 and resulted in a non-recurring positive influence on Group earnings. Other foreign subsidiaries are also scheduled to be sold or closed in the first half of 2006. These measures will have a positive impact on the Group's earnings situation in the future.

IMPROVED STABILITY OF THE 3U GROUP

The improvement of business operations and the restructuring measures which have been implemented have considerably increased the economic stability of the 3U Group. There was a significant reduction in long-term liabilities, which led to an increase in the equity ratio. In the past financial year, we succeeded in improving the rating of the 3U Group and the opportunities for external finance. The sustained stable liquidity position of €40.17 million at the end of 2005 provides the management with the financial resources to increase and accelerate company growth. We are also considering focussed acquisitions to strengthen the product portfolio and our customer base.

Main objective of all measures implemented by the Management Board is to re-establish sustainable profitability and thus increase the value of the company. During the 2005 financial year, actions and decisions were led by this objective and additionally creating the prerequisites for the positive development of the share price during the current financial year.

Marburg, March 2006

The Management Board



Berth Hausmann



Michael Schmidt



Roland Thieme

DEAR SHAREHOLDERS,

The Supervisory Board of the 3U TELECOM AG focussed on the situation of the company and the Group during the 2005 financial year. It is pleasing to see the initial successes of the restructuring measures implemented at the end of the 2004 financial year. The Group achieved a considerable increase in sales and improved earnings. It should be emphasised that the operating result and the equity ratio also improved considerably in the Group, even without taking non-recurring items into account. This positive development reaffirms the expectations of the Supervisory Board that the 3U Group is once again on the road to sustained profitability.

The 3U Group succeeded in not only achieving the planned increases in sales and earnings for the reporting year in a competitive environment that continues to be characterised by sharp price and margin decreases, but it also exceeded these targets and thereby creating the basis for further profitable growth. The crucial factor of this was focussing on the core business of 3U TELECOM AG whilst reorganising the DSL and VoIP business and the VPN segment at the subsidiary LambdaNet Communications Deutschland AG in particular.

As part of the restructuring measures, the Supervisory Board mandated a reputable management consultancy firm to examine the structure of both the Management Board and the second level of management. Consultancy assignments were then carried out for the purpose of the strategic and organisational development of the company, including the improvement of key business processes, the structure and organisation of management and controlling instruments. This showed that the management has already implemented a large proportion of the potential to reduce costs and to increase efficiency. The restructuring process can consequently be completed during the 2006 financial year.

The Supervisory Board monitored the Management Board in line with the tasks allocated to it according to legislation and the Articles of Association and advised the Management Board on the fulfilment of its tasks. The Supervisory Board was involved in all important company decisions. The Management Board reported to the Supervisory Board in a total of 13 meetings (9 March 2005, 21 April 2005, 12 May 2005, 18 May 2005, 30 May 2005, 22 June 2005, 15 July 2005, 22 August 2005, 6 October 2005, 12 October 2005, 8 November 2005, 15 November 2005, 16 December 2005). Resolutions by the Supervisory Board were made in meetings and by written consent. In addition, the Chairman of the Supervisory Board was also informed of the current situation of the Group and any important developments, transactions and decisions outside of scheduled meetings.

The key discussion topics were:

- Co-ordination and support of the ongoing restructuring measures
- Examination of the business strategy/focus on core business
- Strengthening the organisational structure of the 3U Group with particular focus on the further development of internal risk control systems
- Examination of the business activities of the 3U Group abroad

- Discussion of desinvestments
- Discussion and consultation with regard to any business requiring authorisation
- Management Board issues
- Discussion of the quarterly reports
- Discussion of financial and investment planning
- 2004/2005 stock option plan
- Increased use of synergy effects in the Group

The Supervisory Board also discussed the structure of the remuneration system for the Management Board. The remuneration of individual members of the Management Board is listed in the Annual Report for the first time. In its meeting of 9 March 2005, the Supervisory Board approved the 2004/2005 stock option programme for the Management Board and the employees of the 3U Group. The Supervisory Board also focussed on the efficiency of its activities and discussed areas for improvement.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt, audited the annual financial statements of 3U TELECOM AG prepared by the Management Board in line with the German Commercial Code as well as the consolidated financial statements prepared in accordance with the international financial reporting standards (IFRS) and the relevant management reports for the 2005 financial year. It awarded all reports an unqualified auditor's opinion. The Supervisory Board examined the documents presented by the auditors. The risk management system and its fundamental components were also analysed during the audit of the annual financial statements by KPMG. The KPMG audit reports on the annual financial statements were supplied to all members of the Supervisory Board in good time and were discussed in detail during the financial statements meeting on 10 March 2006, which was also attended by the auditors. The Supervisory Board determined that the annual statements of 3U TELECOM AG, the consolidated financial statements, the management reports and the report of the auditor gave no cause for objection. The Supervisory Board therefore approved the audit results, the annual financial statements of 3U TELECOM AG and the consolidated financial statements. The annual financial statements of 3U TELECOM AG are thus adopted.

The Supervisory Board was re-elected in its current form by the Annual General Meeting on 19 May 2005 for the period until the closure of the Annual General Meeting that will decide on its discharge for the fourth financial year since the start of the new period in office. The Supervisory Board - consisting of three members - did not form any committees. Mr. Burkhard von Ehren left the company and his position as Member of the Management Board with responsibility for Sales and Marketing on 31 December 2005.

The Management Board and the Supervisory Board reissued the declaration of conformity in accordance with Article 161 of the German Stock Corporation Act (AktG). According to this, the company complies with the recommendations of the Government Commission on the German Corporate Governance Code apart from a few exceptions (cf. page 10 et seq. of this Annual Report). The declaration of conformity can be viewed on the 3U TELECOM AG website (www.3utelecom.de) under the path "Investor Relations/Corporate Governance".

The Supervisory Board would like to thank the Management Board, the company management and all staff members for their high level of dedication and their achievements during the past financial year.

Marburg, 14 March 2006

A handwritten signature in black ink, appearing to read 'Hubertus Kestler', with a stylized flourish at the end.

Hubertus Kestler
Chairman of the Supervisory Board

German Corporate Governance Code has been in existence in Germany since 2002. It was last updated in June 2005 and 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 German Corporate Governance Code. It serves the interests of the Company and its investors.

DECLARATION OF CONFORMITY

As in previous years, the Management and Supervisory Boards of 3U TELECOM AG discussed the contents of the Corporate Governance Code at length and decided that the recommendations are largely observed.

3U TELECOM AG submitted the declaration of conformity required according to the German Stock Corporation Act on 30 December 2005. It can be viewed on its website (www.3u telecom.de) under the path "Investor Relations/Corporate Governance".

DEVIATIONS FROM THE RECOMMENDATIONS

D&O insurance

3U TELECOM AG waives the excess of 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 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

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 performance 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.

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

German Corporate Governance Code recommends that the remuneration of the individual members of the Supervisory Board shall be reported in the Corporate Governance Report, broken down into their components. Remuneration or benefits for personal performance, particularly consultancy or brokering work, paid by the Company to members of the Supervisory Board, shall be specified separately in the Corporate Governance Report, 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 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.

MAIN PRINCIPLES OF THE REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD

All members of the Management Board of 3U TELECOM AG receive a fixed basic salary (fixed component), which is paid in monthly instalments. In addition, all members of the Management Board receive variable performance-based pay (performance-related components) on achieving specific performance targets which are set by the Supervisory Board.

Furthermore, the members of the Management Board were granted a specific number of stock options (components with long-term incentive effects) in the 2003 and 2004/2005 stock option plans. The granting of stock options aims to honour the contribution of the Management Board (and the other employees of the 3U Group) to increasing the company value and to encourage the long-term success of the company. With regard to the actual structure of the stock option plans 2003 and 2004/2005, we refer to the information in the following section "Detailed information on stock option programmes".

No pension commitments were given to the members of the Board of Management.

The remuneration of the members of the Management Board is listed 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.

DETAILED INFORMATION ON STOCK OPTION PROGRAMMES

2003 stock option plan

By way of resolution dated 15 May 2003, the Annual General Meeting authorised contingent capital of up to € 4,560,000.00 (€ 912,000.00 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 the following key areas:

Beneficiaries are:

- Group 1: Members of the company Management Board and all members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG), where the members of the management of companies in Germany and abroad are not allocated to Group 2.
- Group 2: Employees of the company and affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG) in key positions at the first and second level of management below the Management Board or the relevant management (managers and/or employees with key functions),
- Group 3: All other employees of the company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG), where they are not allocated to Group 4,
- Group 4: Trainees and/or part-time or comparable employees of the company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG)

A total of 866,250 stock options (173,250 stock options prior to share split) were issued in the 2003 stock option plan. The distribution between the individual groups is as follows:

Group 1:	455,980 stock options (91,196 stock options prior to share split)
Group 2:	228,000 stock options (45,600 stock options prior to share split)
Group 3:	136,770 stock options (27,354 stock options prior to share split)
Group 4:	45,500 stock options (9,100 stock options prior to share split)
Total:	866,250 stock options (173,250 stock options prior to share split)

The fair value of the stock options granted in 2003 has been fixed at € 0.90. This was calculated using the Black-Scholes model. The model assumptions correspond to a share price of € 2.23, an exercise price of € 2.70, anticipated volatility of 51% and a risk-free interest rate of 3.5%.

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.

Option rights may only be exercised within a period of 15 banking days in Frankfurt am Main following the publication of the annual financial statements and/or consolidated financial statements, the Annual General Meeting or the publication of a quarterly report and/or the Annual Report. The option rights are non-transferable.

Each option right authorises the purchase of a share in the company at the exercise price. The exercise price for the option rights corresponds to the strike price plus a 15% premium as the performance target. The strike price is calculated as the average closing price for the company share in XETRA trading (or a comparable subsequent system) on the Frankfurt stock exchange during the last five trading days prior to the day on which the resolution to issue the option rights is passed. The exercise price is thus €2.70 (€13.48 prior to the share split) per share.

The beneficiary may only sell shares received through the exercise of stock options within a month of the publication of the quarterly reports or after the publication of periodical reporting.

2004/2005 stock option plan

By way of resolution dated 15 May 2003, the Annual General Meeting authorised contingent capital of up to €4,560,000.00 (€912,000.00 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 9 March 2005 and established a stock option plan for 2004/2005. The stock option plan has the following key areas:

The following are beneficiaries:

- Group 1: Members of the company Management Board and all members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG), where the members of the management of companies in Germany and abroad are not allocated to Group 2.
- Group 2: Employees of the company and affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG) in key positions at the first and second level of management under the Management Board or the relevant management (managers and/or employees with key functions),
- Group 3: All other employees of the company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG), where they are not allocated to Group 4,
- Group 4: Trainees and/or part-time or comparable employees of the company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG)

A total of 2,206,000 stock options were issued in the 2004/2005 stock option plan. The distribution between the individual groups is as follows:

Group 1:	870,000 stock options
Group 2:	765,000 stock options
Group 3:	546,000 stock options
Group 4:	25,000 stock options
Total:	2,206,000 stock options

The fair value of the stock options granted in 2005 has been fixed at €0.51. This was calculated using the Black-Scholes model. The model assumptions correspond to a share price of €0.98, an exercise price of €1.06, anticipated volatility of 61% and a risk-free interest rate of 3%.

The 2004/2005 stock option plan has a term of five years. The non-transferable option rights can be exercised after a two-year qualifying period on 9 March 2007 at the earliest and no later than 9 March 2010.

Option rights may only be exercised within a period of 15 banking days in Frankfurt am Main following the publication of the annual financial statements and/or consolidated financial statements, the ordinary Annual General Meeting or the publication of a quarterly report and/or the Annual Report. The option rights are non-transferable.

Each option right authorises the purchase of a share in the company at the exercise price. The exercise price for the option rights corresponds to the strike price plus a 15 % premium as the profit target. The strike price is calculated as the average closing price for the company share in XETRA trading (or a comparable subsequent system) on the Frankfurt stock exchange during the last five trading days prior to the day on which the resolution to issue the option rights is passed. The exercise price is thus €1.06 per share.

As a relative performance target, the company share must have outperformed the TecDAX on ten consecutive days between the acquisition of the option rights and the exercise day. In addition, a cap was set at the amount of a gross annual salary.

The beneficiary may only sell shares received through the exercise of stock options within a month of the publication of the quarterly reports or after the publication of periodical reporting.

SHARE TRANSACTIONS

According to Article 15a of the German Securities Trading Act (WpHG), those people with management tasks at 3U TELECOM AG must report their own transactions with 3U TELECOM AG shares or any related financial instruments, particularly derivatives, to 3U TELECOM AG and the German Financial Supervisory Authority BaFin. This obligation also applies to people who have a close relationship with one of the above-named people, where the total transactions of a person with management tasks and the person that has a close relationship with this person reaches or exceeds a total amount of €5,000.00 by the end of a calendar year. The following transactions were reported to 3U TELECOM AG in the past financial year:

TRADING DATE	NAME	POSITION	PURCHASE/SALE	NUMBER	PRICE IN €
18.03.2005	Burkhard von Ehren	Member of the Management Board, Sales and Marketing	Purchase	7,050	0.94
08.06.2005	Berth Hausmann	Member of the Management Board, Finance	Purchase	15,000	1.08
09.06.2005	Berth Hausmann	Member of the Management Board, Finance	Purchase	7,000	0.98

All share transactions were published on the 3U TELECOM AG website (www.3utelecom.de) under the path "Investor Relations/Directors' Dealings".

SHARE HOLDINGS

The following members of the Management and Supervisory Boards hold shares in 3U TELECOM AG (as of 31 December 2005):

NAME	POSITION	NUMBER
Michael Schmidt	Member of the Management Board, Technology	8,299,995
Roland Thieme	Member of the Management Board, Technical Service	2,508,330
Berth Hausmann	Member of the Management Board, Finance	22,000
Burkhard von Ehren	Member of the Management Board, Sales and Marketing	14,500

Marburg and Frankfurt am Main, 10 March 2005

3U TELECOM AG

The Management Board

The Supervisory Board

SUMMARY OF THE 3U SHARE

International Securities Identification Number (ISIN)		DE0005167902
Stock exchange symbol		uuu
Trading segment		Prime Standard
Industry key		Telecommunication
Designated Sponsors		Helaba Landesbank Hessen-Thüringen and Axxon Wertpapierhandelsbank AG
Initial listing		25 November 1999
Registered share capital	(in €)	46,842,240.00
Share price on 30 December 2005*	(in €)	0.84
Share price high in 2005*	(in €)	1.44 (29 April 2005)
Share price low in 2005*	(in €)	0.79 (15 February 2005)
Number of shares		46,842,240
Market capitalisation on 30 December 2005	(in € million)	39.35
Earnings per share (basic)	(in €)	0.00

The 3U TELECOM AG share was unable to elude the overall industry trend and its value declined slightly during the 2005 financial year. Compared to the previous year (€ 0.88), the share price fell by 4.5 % to € 0.84 to the end of 2005. The share price for 3U TELECOM AG slightly underperformed the Technology All Share Index. Market capitalisation was approximately € 39.4 million as of 30 December 2005 (previous year: € 41.2 million).

However, there was a considerable increase in the trading volume for the share, with a total of 124.9 million shares traded on all German stock exchanges in 2005. This corresponds to an average trading volume of 10.4 million shares per month. In relation to the total number of shares at 46.8 million, the stock thus has very high liquidity. This is primarily due to a high level of interest from private investors. The strongest trading month was April 2005 with over 21.8 million shares traded.

* Daily closing price Xetra

PRICE PERFORMANCE OF 3U SHARES AGAINST THE TECHNOLOGY ALL SHARE INDEX



SHAREHOLDER STRUCTURE

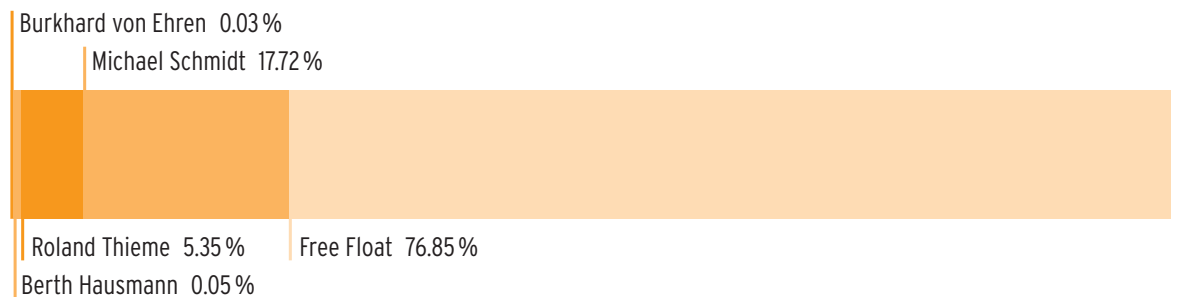
As of 31 December 2005, members of the governing bodies held the following shares with full voting and dividend rights:

MANAGEMENT BOARD

Burkhard von Ehren	14,500 shares
Berth Hausmann	22,000 shares
Michael Schmidt	8,299,995 shares
Roland Thieme	2,508,330 shares

SUPERVISORY BOARD

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



INVESTOR RELATIONS

3U TELECOM AG intensified its Investor Relations activities in the second half of 2005 and strengthened the investor relations activities with investors, private investors and analysts. The milestones achieved in the context of the restructuring and the improvement of business operations resulted in a significantly more positive rating by analysts. The interest of the capital market was also higher as a result of participation in the "Eigenkapitalforum" in November 2005. The Management Board of 3U TELECOM AG wishes to use this initial position for discussions with investors so that the share price develops more positively in conjunction with an improved business and earnings situation than it has recently.

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1. INTRODUCTION

The development of the 3U Group has been successful in the telecommunications market during the past few years. The parent company 3U TELECOM AG is an established fixed-line provider with its own carrier network and modern switching technology.

With its subsidiary LambdaNet Communications Deutschland AG (LambdaNet), the 3U Group also specialises in transport, internet and VPN solutions and is one of the leading network carriers in Germany and Europe.

In addition to the German companies, the Group also operates in several European countries and in the USA.

2. GENERAL ECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

2.1 DEVELOPMENT OF THE OVERALL ECONOMIC ENVIRONMENT

The economic situation was less dynamic in the fourth quarter of 2005 than in the previous quarters. Although the actual economic data was ultimately unable to maintain its significant, positive trend, the indicators of market sentiment such as consumer and industry confidence continued to improve. A sustained but moderate economic recovery is anticipated.

In the past, the telecommunications market has always participated strongly in this development.

2.2 DEVELOPMENT IN THE TELECOMMUNICATIONS MARKET

The overall market for telecommunications services can be divided into three relevant segments:

- Fixed-line
- Mobile communications
- Broadband/IP (DSL)

Market volume of the overall market totalled € 66.9 billion in 2005, thus corresponding to an increase of almost 4 % from the previous year's volume of € 64.6 billion. The growth rate of the telecommunications market continues to be above the percentage increase of gross domestic product. The broadband/IP and mobile telephony segments had a considerable influence on market growth. The total market volume accounts for € 66.9 billion, the fixed-line and broadband/IP segments account for € 37.1 billion and the mobile telephony segment accounts for € 29.8 billion of total sales in the market. Compared to 2004, the fixed-line and broadband/IP segment posted a sales increase of 1.6 % and the mobile telephony segment an increase of 6.4 %.

Since the liberalisation of the market, a range of alternative providers have established themselves on the market alongside Deutsche Telekom AG. The market leader's share in telecommunications services amounted to 51.3 % in 2005. According to estimates, the market share of the former monopolist was thus down by 3.1 percentage points compared to the previous year. In the fixed-Line Services segment, the alternative providers succeeded in expanding their market share compared to Deutsche Telekom AG by 4.2 percentage points to 32.6 %. This market segment represents the core business of the 3U Group.

Telecommunications market continues to be shaped by the high level of market power held by Deutsche Telekom AG. This is reflected in the current - and political - debate on the regulation of its new fibre-optic network. However, the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railway will also have a crucial influence on the development of competition in all relevant segments in the future. The Federal Network Agency is 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 amendment to the German Telecommunications Act in 2004 aimed to achieve a homogenisation of the European legal framework for electronic communications networks and services. For the alternative providers, a positive amendment is

the obligation of Deutsche Telekom AG to provide unbundled DSL access in the future. This means that DSL access would no longer be linked to a fixed-line connection of Deutsche Telekom AG, thereby enabling 3U TELECOM AG to reach end customers directly with its DSL and VoIP products and to exploit new income potential.

Increasing convergence between the individual technologies represents a crucial market trend. In this context, convergence means the technical and practical harmonisation of various media and communications channels. VoIP technology enables telephone calls to be made via the internet. "Triple Play" also represents another trend. "Triple Play" refers to the use of the internet, telephone (fixed-line and mobile) and TV through one connection. Internet service providers are responding to this development by improving ADSL2+ technology and the corresponding targeted expansion of the necessary infrastructure in line with demand. They are thus developing from purely providers of data services to full service providers for fixed-line communications and media. 3U TELECOM AG responded to this trend at an early stage with the acquisition of LambdaNet. Integrated voice and IP products can be distributed via the high quality technology platform. The increasing expansion of content (e. g. sports results or video on demand) is also having a positive impact on the growth of the market. The 3U Group has a high quality, modern network infrastructure with large bandwidths, which is also ideally suited for the distribution of content.

2.3 DEVELOPMENT OF THE FIXED-LINE TELEPHONY MARKET SEGMENT

Fixed-line telephony segment (including broadband/IP) achieved a market volume of € 37.1 billion in 2005. The former monopolist, Deutsche Telekom AG generated a sales volume of € 25.0 billion in 2005 and therefore holds a market share of 67.4%. However, the market share of Deutsche Telekom AG fell by 4.2 percentage points year-on-year in favour of the competitors. The total market growth of 1.6% posted for 2005 was thus exclusively generated by the alternative providers. The development of the market was shaped by a growing share of competitors, who are achieving above average growth through the introduction of innovative price models and reviving the competition. Due to its market position, extensive experience in this segment and the moderate market growth, the 3U Group can benefit from this development and gain further market share in the future.

In terms of the total connection minutes per day, the alternative providers have an estimated share of 49.3%. This corresponds to an increase of 3.0% compared to the figures for the previous year. Divided into local and long-distance calls (including mobile telephone networks and abroad), the alternative providers achieved increased market share of 9.7% for local calls and 3.4% for long-distance calls. Consequently, the market share of alternative competitors rose to 42.1% for local calls and to 50.3% for long-distance calls.

The fixed-line segment can be divided into call-by-call, pre-selection and direct access. Unlike call-by-call and pre-selection providers, providers of direct access are companies which connect customers to their own network by leasing the participant connection line from Deutsche Telekom AG. Pre-selection and call-by-call on the other hand, are purely connection network carrier products with no access to the Deutsche Telekom AG participant connection line. The alternative providers have a total of 25.9 million customers, the majority of which (62.6%) use call-by-call services regularly. The total number of customers increased by 3.4 million customers compared to the previous year. Divided into

the different types of services, the number of customers for call-by-call was up by 1.7 million to a total of 16.2 million, by 0.7 million to a total of 6.4 million for pre-selection and by 1.0 million to a total of 3.3 million customers for direct access.

With an average of 18.5 minutes per day per user for the use of a direct access, this is around 91% higher than the equivalent amount for call-by-call. However, more than half of all minutes via alternative providers were processed through call-by-call services in 2005. With a total of 288 million minutes talk time, call-by-call minutes increased by 10.6% from 142 million in 2004 to 157 million in 2005. Furthermore, talk time minutes in the pre-selection segment rose from 64 million to 70 million and from 45 million to 61 million in the direct access segment.

Fixed-line market, the core segment for 3U TELECOM AG, is characterised by strong competition. Although the number of customers and minute volumes processed per day continued to increase, strong price reductions led to a decline in sales in the overall market. A considerable proportion of sales in the overall market will also be generated from fixed-line services and an overall stable market environment will be anticipated in the future. With its distinctive key competencies, the 3U Group can use this development for its own growth and expand its market share further.

2.4 DEVELOPMENT OF THE BROADBAND/IP (DSL) MARKET SEGMENT

Broadband market offers high growth potential in Germany. The number of broadband connections (DSL and other connection types) is now 10.2 million. Alternative providers have increased their market share from 13.2% to 16.7% of all connections. However, overall connections are largely reseller products of Deutsche Telekom AG, which are gained by alternative providers under their own brand. The alternative providers support the customers, thus creating the basis for future product developments and sales increases.

Increasing connection figures are accompanied by higher subsidies for end devices, higher commission for connection and declining prices and margins. This results in a longer return on investment, which means that providers have higher pre-financing requirements. The 3U Group is responding to this development as an "administration and technology service provider", with greater focus on sales co-operations to avoid increased customer acquisition costs.

Drivers of growth in the broadband market include VoIP technology. With increasing distribution of the technology, this development will have a long-term effect on the existing business models in the fixed-line market and will bring about a fundamental change in the market. The technology is expected to be quickly accepted in the business customers segment due to the cost savings potential. This results in a corresponding need for action by the 3U Group in this area to be able to provide flexible solutions for medium-sized companies either independently or in co-operation with IT companies. Managed services, such as VPN services, are another growth area. In the future, the 3U Group can profit from a forecast average annual market growth of 24% in the next few years in this segment through its subsidiary LambdaNet.

Innovations such as WiMax, technology for local wireless networks, do not represent any competition for DSL technology at present. End devices that support the new radio technology, are scheduled to be launched on the market at the end of 2006.

DSL technology continues to be predominant due to the broader bandwidth, which allows considerably larger volumes of data to be transferred. For this reason, the new technology is expected to be a supplement to cable-linked transfer channels but is not expected to replace DSL technology completely.

3. REPORT ON BUSINESS DEVELOPMENT OF 3U GROUP 2005

3.1 OVERVIEW OF KEY EVENTS

- **Changes to contract regulations with the fibre-optic supplier GasLINE lead to a significant improvement in earnings**

The agreement with the fibre-optic supplier GasLINE Telekommunikationsnetzgesellschaft deutscher Gasversorgungsunternehmen mbH & Co. Kommanditgesellschaft (GasLINE) in July 2005 was a fundamental step for the stability and further growth of the 3U Group. With effect from 1 January 2005, the supplier reduced the annual network lease price for the subsidiary LambdaNet for the duration of the contract until the end of 2009. GasLINE also waived €7.86 million of a €10.48 million convertible bond which is carried on the balance sheet of LambdaNet. The LambdaNet will repay the remaining amount of €2.62 million from operating cash flow by the end of 2006. Overall, the contract changes will result in an improvement of more than €30 million in earnings by 2011.

- **Insolvency and deconsolidation of Carrier24 GmbH (Carrier24)**

Insolvency proceedings for the assets of Carrier24 began on 28 September 2005. On filing for insolvency proceedings on 22 August 2005, the 15% subsidiary was no longer part of 3U TELECOM AG. Full consolidation of Carrier24 was required due to a controlling interest. The write back of loss carry forwards as a result of the deconsolidation of Carrier24 could result in non-recurring positive income of €5.00 million. In contrast, the value adjustments for receivables and advance payments to Carrier24 following deconsolidation resulted in non-recurring expenses of €1.67 million for 3U TELECOM AG. Carrier24 GmbH provided the network infrastructure for the fixed-line telephony segment of the 3U Group until its insolvency. This service has since been performed by the subsidiary LambdaNet. This has enabled considerable synergy effects to be achieved in the Group since the fourth quarter of 2005, accompanied by improved profitability in the fixed-line segment.

In terms of sales and earnings from 1 January to 22 August 2005, Carrier24 accounted for:

- Sales: €1.57 million (with third parties outside the Group)
- EBITDA: €1.08 million
- Earnings before tax: -€0.42 million

- **Relocation of the headquarters of subsidiary OneTel Telecommunication GmbH (OneTel) to Marburg**

The relocation of the headquarters of the subsidiary OneTel (carrier selection code 01086) from Neu-Isenburg to Marburg marked the conclusion of the restructuring and integration of OneTel in the context of the sales and marketing strategy. This resulted in a significant rise in sales whilst achieving a considerable reduction in costs. The 3U Group thus now has a strong, efficient overall organisation, which will make a significant contribution to the profitability of this segment in the 2006 financial year.

- **New subsidiaries founded to strengthen sales**

New subsidiaries were founded in the context of focussing on the core business as an important part of the new sales strategy. 010060 Telecom GmbH, 010017 Telecom GmbH and Discount Telecom S&V GmbH are a platform for additional sales co-operations, thus strengthening the core business.

The new network carrier identification numbers are scheduled to begin operations in the current 2006 financial year.

- **Sale of the Dutch subsidiary 3U TELECOM B.V.**

With the contract dated 21 December 2005, 3U TELECOM AG sold the subsidiary 3U TELECOM B.V., which had previously been in deficit, to the Swiss company Elephant Talk Communications Holding AG with effect from 31 October 2005.

The 3U Group generated non-recurring income of around € 3.14 million from the sale and the subsequent deconsolidation of the company. In contrast, this also resulted in non-recurring expenses of € 3.25 million for the Group through value adjustments for receivables from the subsidiary following deconsolidation.

- **Control and profit transfer agreements concluded**

At the Extraordinary General Meeting of 15 November 2005, shareholders approved the internal Group company agreements presented. The Group gained flexibility in company management through the control and profit transfer agreements between 3U TELECOM AG and the subsidiaries OneTel, fon4U Telecom GmbH (fon4U) and LineCall Telecom GmbH (LineCall), which are effective retroactively from 1 January 2005. Offsetting profits and losses in the next five years will optimise tax payments. Tax provisions of around € 0.9 million for the period recorded during the year were thus reversed in the fourth quarter of 2005 with an impact on earnings.

- **Issue of new stock options**

By way of resolution dated 15 May 2003, the Annual General Meeting authorised contingent capital of up to € 4,560,000.00 (€ 912,000.00 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 9 March 2005 and established a stock option plan for 2005 with a term of five years. This includes the issue of 2,206,000 stock options, each of which permits subscription to a bearer share. 61% of the stock options were issued to employees of the 3U Group. The non-transferable option rights can be exercised at a price of € 1.06 after a two-year qualifying period on 9 March 2007 at the earliest and no later than 9 March 2010.

- **Departure of the Member of the Management Board with responsibility for Sales and Marketing**

Mr. Burkhard von Ehren left the Management Board on 31 December 2005.

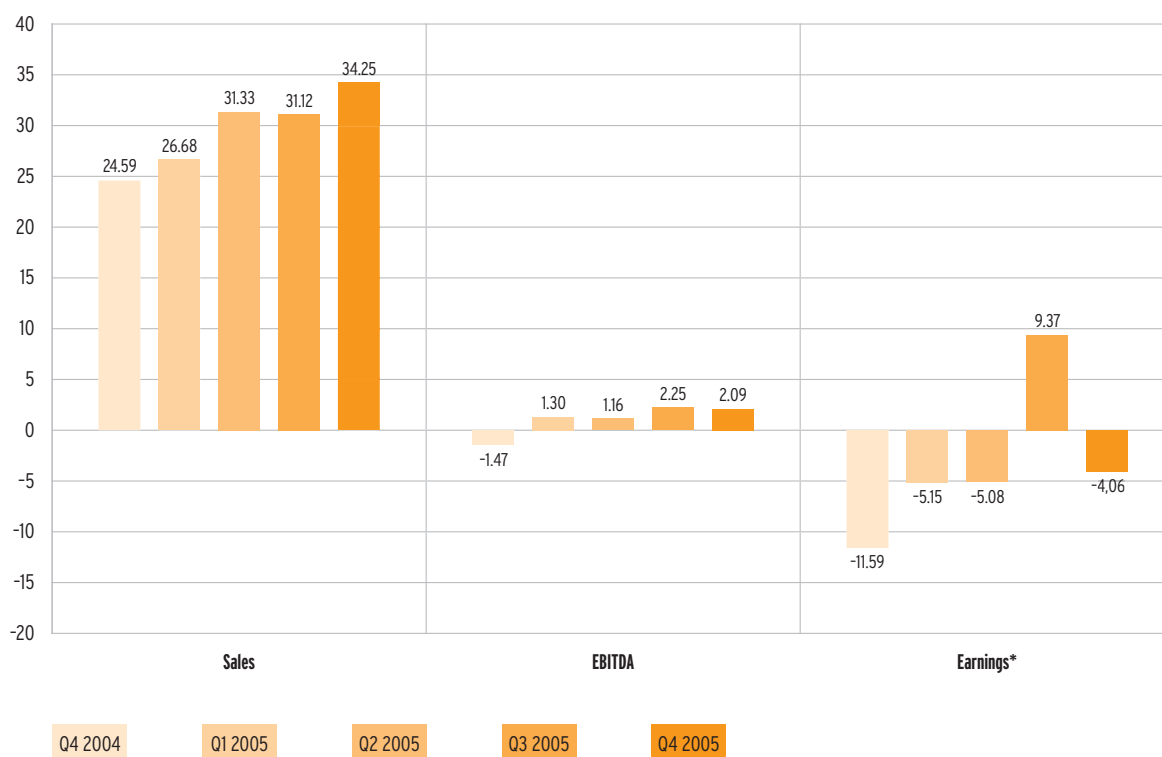
3.2 EARNINGS SITUATION

Group

The 3U Group increased sales year-on-year by € 26.92 million from € 96.46 million to € 123.38 million in the 2005 financial year. This corresponds to an increase of 27.9%. An optimised sales strategy in the core business and continued improvement of internal organisational structures were crucial factors for the positive development of business operations. As a result, the 3U Group generated record sales of € 34.25 million in the fourth quarter of 2005, an increase of € 9.66 million, or 39.3%, compared to the same period in the previous year.

3U Group's EBITDA for the past financial year was € 6.80 million (annual result plus taxes, interest, amortisation, adjusted for non-recurring items from the deconsolidation of Carrier24 at € 3.33 million, the GasLINE agreement at € 11.57 million and other items at € 0.20 million) and was thus significantly higher than the expectations of € 5.8 million to € 6.0 million that had previously been announced. This corresponds to a year-on-year increase of € 3.09 million or, as a percentage, an EBITDA increase of 83.3%. Depreciation of the network infrastructure, system technology and the amortisation of customer base of LambdaNet amount to € 17.48 million (previous year € 27.55 million).

Development (sales, EBITDA, earnings)¹ – 3U Group in € million



¹The annual values were audited by KPMG. The quarterly figures and the EBITDA amounts have not been audited.

*The non-recurring items from the deconsolidation of Carrier24 to the value of € 5 million have been eliminated.

Due to various non-recurring items and operating improvements, the 3U Group posted consolidated net income of € 0.08 million in the 2005 financial year. This represents a significant improvement on the previous year (2004: consolidated net loss of € 30.32 million). Earnings per share (basic) were thus up considerably from -€ 0.65 in the previous year to € 0.00 in the 2005 financial year.

The non-recurring items in the 2005 financial year include:

- New regulations of the agreements with GasLINE: +€ 11.57 million (partial waiver of convertible bond)
- Net impact of the insolvency of Carrier24: +€ 3.33 million
- Net impact of the sale of the Dutch company: -€ 0.11 million.

In addition, long-term cost savings of around € 3.5 million per year up to and including 2009 (2010 and 2011: € 2.5 million) were achieved through the new conditions of the contract with the supplier GasLINE. This will have a positive impact on net income in the next few years.

Fixed-line telephony segment

Fixed-line telephony segment was a clear driver of growth in terms of sales. Through targeted pricing in the call-by-call segment, the promotion of the wholesale business (sale of network capacity to other telecommunications companies) and the expansion of the sales co-operations with Quelle and Neckermann, the segment posted external sales of € 86.77 million in the 2005 financial year. In comparison to the previous year (€ 65.44 million), this corresponds to a sales increase of € 21.33 million or 32.6%. There was consequently above-average development in business operations in the fixed-line telephony segment in relation to the relevant market environment. This positive development was also due to the innovative sales co-operation between fon4U and a media partner. In addition, the now fully integrated subsidiary OneTel almost tripled sales compared to the previous year through vigorous tariff management.

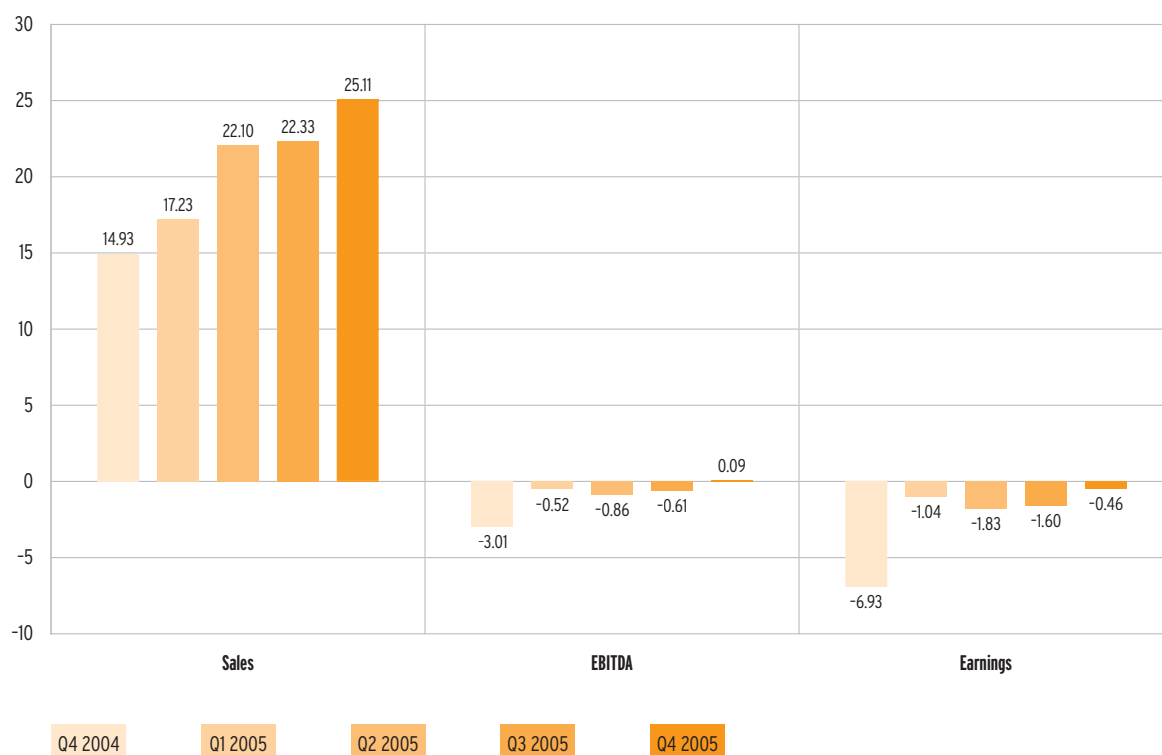
Foreign subsidiaries of the 3U Group in the USA, France, Belgium and Austria also increased or maintained sales.

The Dutch subsidiary 3U TELECOM B.V., which had been in deficit, was sold in December 2005.

Operations ceased at 3U TELECOM Ltd. in the United Kingdom on 31 January 2006.

EBITDA was at -€ 1.90 million in 2005 (previous year: -€ 2.48 million) in the fixed-line telephony segment. However, EBITDA in the fourth quarter of 2005 was positive for the first time in six quarters at € 0.09 million. This corresponds to a year-on-year increase of € 3.10 million (Q4 2004: -€ 3.01 million.) Provisions for personnel expenses and the closure of foreign subsidiaries also had a negative impact on earnings before tax, interest, depreciation and amortisation in the fourth quarter of 2005. The management achieved the target of profitable operations in the fixed-line segment through restructuring measures. This profitability is to be expanded further through improved purchasing conditions and increased productivity in the future. Amortisation in the fixed-line telephony segment totalled € 2.27 million (previous year: € 12.08 million.)

Development (sales, EBITDA, earnings)¹ – fixed-line telephony segment in € million



Broadband/IP segment

There was less dynamic development in sales in the broadband/IP segment. Here, the 3U Group generated external annual sales of € 36.60 million (previous year: € 31.02 million) through the two companies LambdaNet and Carrier24. Taking into consideration that the subsidiary LambdaNet was only consolidated in the second quarter of the 2004 financial year and that Carrier24 was divested on 23 August 2005, there was only a slight increase in sales. With sales of € 9.13 million in the fourth quarter of 2005 (Q4 2004: € 8.91 million), there were signs of a positive change in trend at LambdaNet at the end of the year. Overall, its sales were in line with expectations.

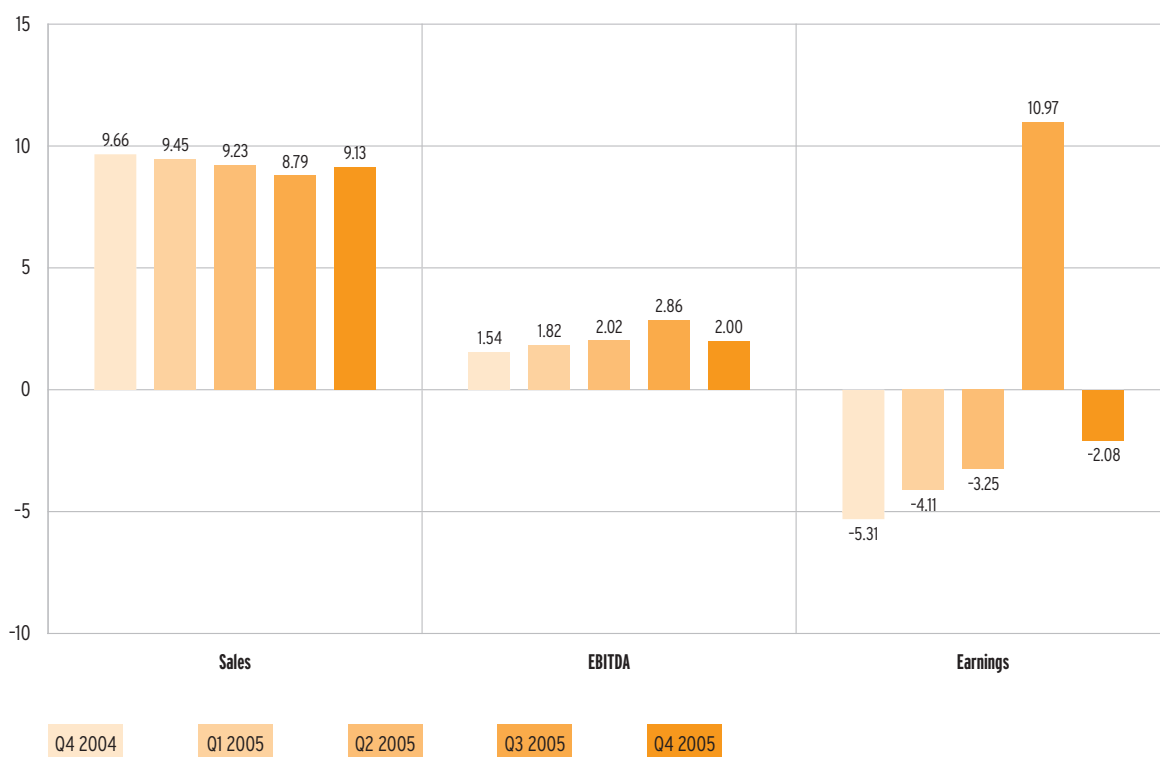
The order that was recently placed by ComBOTS AG (formerly web.de), which will rely on the services of LambdaNet in the future, represents a key success for LambdaNet.

There is a backlog in the broadband/IP segment with regard to sales of VPN products for business customers (corporates). The 3U Group management responded by expanding the sales team in order to increase the customer base in the future. Positive trends can be seen based on the current progress of projects.

¹The annual values were audited by KPMG. The quarterly figures and the EBITDA amounts have not been audited.

Broadband/IP segment is significantly more profitable than the fixed-line segment. EBITDA rose to € 8.70 million in the 2005 financial year (previous year: € 6.18 million in the three consolidated quarters of LambdaNet). This includes earnings from Carrier24, which was divested in August 2005.

Development (sales, EBITDA, earnings)¹ – broadband/IP segment in € million



With an EBITDA margin² of 21.75% (previous year: 16.57%) for the year, the LambdaNet subsidiary is a key for the Group. The increase in the EBITDA margin is partly the result of declining structure costs and reduced purchasing conditions for leased lines.

Amortisation of € 15.21 million in the broadband/IP segment, which will decline considerably after 2007, were at the previous year's level of € 15.47 million.

¹The annual values were audited by KPMG. The quarterly figures and the EBITDA amounts have not been audited.

²EBITDA for the segment divided by sales with third parties (in %)

3.3 FINANCIAL POSITION

As of 31 December 2005, the balance sheet total was down from €158.00 million to €127.75 million. This considerable reduction is partly due to the deconsolidation of Carrier24 and partly to the changes in the contract with the supplier GasLINE. Through the reduction of capitalised lease assets and of an equal amount of leasing liabilities, total assets fell by €15.47 million due to the deconsolidation of Carrier24. The reduced fibre-optic lease prices from the supplier GasLINE reduced the capitalised leasing assets posted on the LambdaNet balance sheet. Liabilities decreased following the modification of leases and the partial waiver of €7.86 million of the convertible bond by the creditor GasLine in the new contract regulations.

This results in a significant improvement in the balance sheet structure, with the equity ratio up to 35.9% at the end of 2005 (previous year: 27.7%). Long-term liabilities amounted to €32.45 million at the end of the year. €20.67 million of the short and long-term liabilities bear interest. The repayment of bank liabilities for the subsidiary LambdaNet amounting to €16.30 million began on 1 January 2006. LambdaNet will also be able to repay the remaining convertible bond amount of €2.62 million using operating cash flow by the end of 2006. The lending banks responded positively to this development, which resulted in an improved rating of 3U TELECOM AG. Due to the improved rating, the company was given at year end 2005 an unsecured credit line for the first time.

As a result of the non-recurring items described (deconsolidation of Carrier24, reduction of fibre-optic lease prices at LambdaNet), the company's fixed assets decreased from €119.05 million at the end of 2004 to €85.36 million on 31 December 2005. Fixed-assets corresponded to 66.8% of the balance sheet total. Current assets totalled €39.03 million on the reporting date in 2005 (previous year: €35.10 million). As a result of the significant increase in sales, there was also a sharp increase of trade receivables at €16.81 million compared to the previous year (€8.91 million).

There was only a slight change in cash and cash-equivalents, including cash-equivalent financial assets (particularly securities of a special fund). Value increases in the financial assets had a positive effect. Operating cash flow totalled €2.20 million. Cash (including cash-equivalent financial assets) amounted to €40.18 million at the end of 2005 (previous year: €39.74 million).

3.4 INVESTMENTS

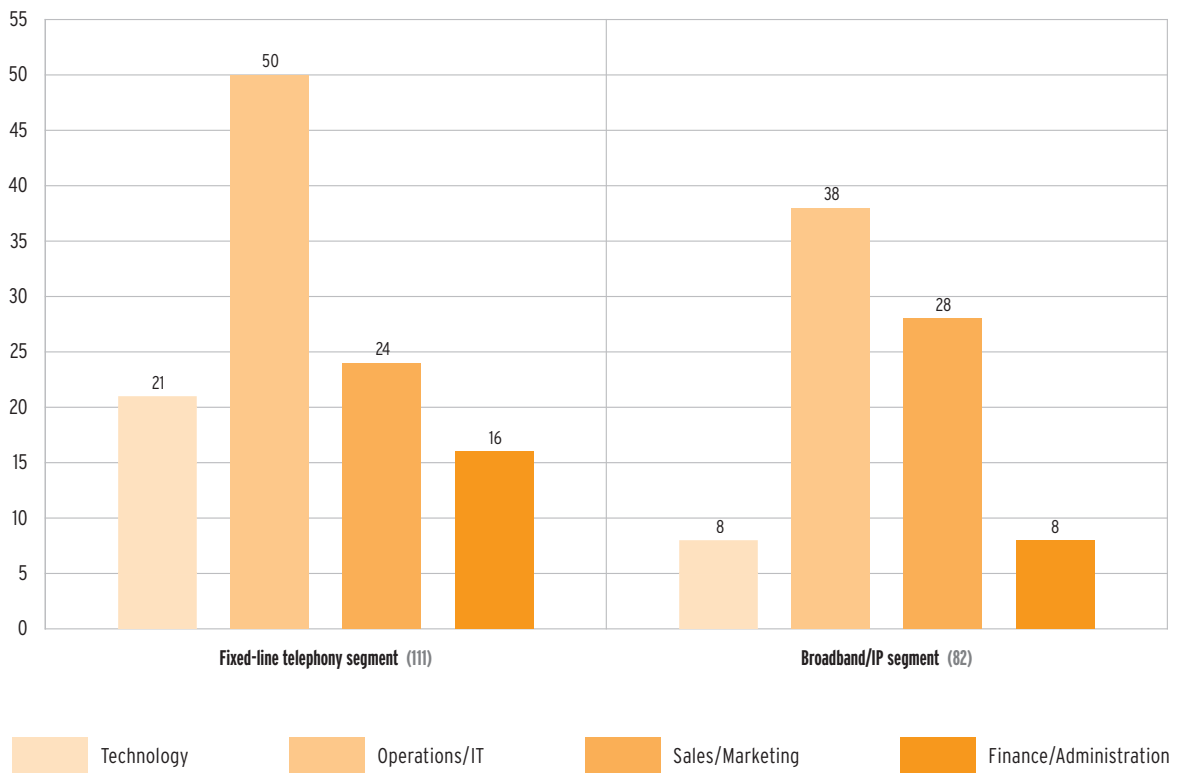
€2.7 million was invested in property, plant and equipment (not including capitalised leasing items) across the Group in the 2005 financial year. In particular, this included re-investments in the existing network structure and new investments in software and office and business equipment. This will maintain the high quality of the network infrastructure for further customer projects.

3.5 EMPLOYEES

The number of employees in the 3U Group decreased by 27 to 193 employees to the end of the year (previous year: 220 employees), primarily due to the decline in temporary staff.* Personnel resources were expanded in fixed-line telephony, the core business, in the areas of sales, customer care and system development, with the aim of achieving optimal customer support and improving the systems to increase productivity and profitability further.

This is similar to the broadband/IP segment. Here, increased personnel in customer care ensured that there was optimal technical support. LambdaNet began to feel the effects of the focus the Corporate/VPN business in the second half of 2005. New personnel were employed, which will continue in the first quarter of 2006.

Employee structure 2005*



*Employees including temporary staff based on full-time equivalents (weighted quarterly figures)

4. RISK REPORT

4.1 INDUSTRY RISKS (MARKET AND COMPETITION RISKS)

The consolidation of the German telecommunication market will not be completed in the current year. The telecommunications industry is shaped by sustained competition for end customers. Competitors battle for market share in the relevant segments of fixed-line telephony, mobile telephony and broadband/IP(DSL). An aggressive pricing policy is leading to a continued decrease in prices and margins at the same time as customer acquisition costs are rising. Provisional highlights of this development are DSL internet flat rates for free, mobile telephone prices at the same level as fixed-line prices and loss-making offers in the fixed-line telephony segment with the aim of gaining customers. The low-price strategy in the mobile telephone and fixed-line industries represent the possibility of a cannibalisation effect between the segments. The intensified distribution of home zone price models by mobile phone operators and the further establishment of VoIP technology via DSL cables pose a risk of substitution with direct consequences for the core business of the 3U Group.

To combat the incursions in market share gained by alternative providers Deutsche Telekom AG launched the "Congster" brand. DSL access at low, fixed prices is to win back customers who have migrated. The introduction of telephony flat rates and the activities of cable and city network operators, who are currently looking for entrance into new growth areas through increased advertising, are all intensifying the competition. Compared to other European markets, the German market is attractive due to its size. The liberalisation of the market through legislation poses the risk of an intensification of the competition as additional foreign companies enter the German market. The strategies adopted by the competitors thus represent a risk that the 3U Group will not actually achieve growth targets.

The reduced prices from mobile and fixed-line operators, increased competition, new supporting media and the possibility of a substitution by a new product such as VoIP will ultimately have an impact on the core business of the 3U Group. Nevertheless, the strategic focus of the Group is on the acquisition of additional market share in the fixed-line segment, based on the expansion of sales co-operations with white-label partners. The competitive advantage of the 3U Group is in its extensive experience in terms of technology and administration and in its high level of flexibility to respond quickly to changes to the market.

4.2 CORPORATE STRATEGY RISKS

German telecommunications market continues to represent considerable opportunities for expansion, particularly for smaller providers. The 3U Group will thus continue to follow a strategy of co-operation with established partners in the call-by-call, pre-selection and DSL product segments in the future, in order to achieve a broad customer base whilst reducing customer acquisition costs. However, co-operation strategies are generally characterised by dependencies. In some circumstances, building a broad customer base with the help of a partner can be a long, drawn-out process and consequently delay business success for the 3U Group. The good positioning of several competitors also constitutes a risk. This could result in the 3U Group being unable to participate fully in existing market growth for products such as DSL or VoIP, particularly as voice telephony is increasingly being offered in conjunction (as a "bundle") with data communication. For this reason, the 3U Group is focussing on the expansion and agreement of additional co-operations with strong partners in order to minimise the risk posed by and dependency on individual business relationships.

The increasing competition and additional substitution possibilities such as VoIP or home zone mobile telephone offers will have a negative impact on the fixed-line segment in the future. Sales decreases in the core business of the 3U Group are possible here in the long-term, which represents a considerable risk with regard to the customer base, which is relatively small. The 3U Group will deal with this risk by adapting and expanding the product range and with greater flexibility in its pricing. However, the increase in the customer base in all product segments during the next few months will set the trend for the long-term success of the company.

The core business of the subsidiary LambdaNet is carrier services. This market segment is characterised by a high level of saturation and few growth prospects in the long-term. The aim is to compensate for potential sales losses in the carrier segment through growth-generating VPN services.

In the long-term, companies which provide both voice services, broadband internet access and additional content to end customers will be those which will be successful on the market. Developing and providing content and expanding the product range places additional demands on organisation. However, the existing technology platform in the Group provides the ideal preconditions to position its own product innovations on the market.

Acquisitions are a strategic option to round off the product portfolio and to push growth. Acquisitions pose both strategic and operating risks, which can lead to considerable additional financial expenditure and can have a negative impact on company earnings. However, detailed due diligence audits prior to takeovers have the objective of minimising these risks.

4.3 OPERATING RISKS

3U Group has developed its own billing system, which it operates in the fixed-line segment. A growing demand for information and increasing complexity place new technical demands on the billing system in terms of efficient control. However, information deficits could represent additional risks such as failure to collect accounts receivable. Further improvement of the system is scheduled to take place in the current financial year to prevent this risk.

The physical direct connection that was recently established with the E-Plus network is linked with the provision of a security, which commits cash equivalents in the form of fund units. However, high minute volumes can be sold to third-party providers through the direct connection in the context of wholesale business. It also offers significant savings potential and thus a margin expansion in terms of call-by-call and pre-selection services for the E-Plus mobile telephone network.

In the broadband/IP segment, there is risk of a decline in sales in the event that major customers terminate their contracts. Despite strengthening the sales team in the corporates area, it is possible that this cannot directly be compensated for by new orders, which would have a negative effect on the earnings situation of the Group. Market share for VPN services has not yet been achieved in the planned scope. Despite strengthening the sales team in terms of personnel, this operating risk will remain in the future.

Stability of the technology platform represents another risk. Any downtimes could lead to reduced sales if these are not rectified quickly. These risks can be controlled at the normal level of risk due to the high standard of technology, by investing in replacements on a regular basis and by revising insurance and maintenance contracts.

The risks of any legal disputes have been assessed and appropriate provisions have been made. Nevertheless, any risks beyond these cannot be excluded completely due to the uncertainty of the outcome of the proceedings.

4.4 STAFFING RISKS

Qualified and efficient staff is the key to the company's success. A shortfall of key members of staff such as sales employees or managers, including members of the Management Board, can pose significant risks to business operations. For this reason, the recruitment and long-term employment of qualified staff is extremely important to the 3U Group. An attractive system of remuneration and a superior working environment accommodate this requirement. The stock options issued during 2005 as part of the stock option programme also aim to retain qualified employees and to create incentives within a performance-based remuneration system.

4.5 FINANCIAL RISKS

3U TELECOM AG is providing collateral of €5 million by pledging part of the bond fund for the bank loan for the LambdaNet subsidiary, which is listed under "financial assets" on the balance sheet. Repayment of this €16.40 million bank loan began on 1 January 2006. In the event that the operating situation of LambdaNet worsens considerably, 3U TELECOM AG might have to increase this collateral. The risk of increasing interest from this bank loan is monitored on a regular basis and will be safeguarded through an interest rate swap in the first quarter of 2006.

There can be a positive change in the credit rating of the 3U Group if business operations improve. This allows for increasing flexibility in terms of company finance. Due to the significant improvement in equity ratio and the positive result in 2005, 3U TELECOM AG has received an unsecured credit line. However, weakened business operations represent a risk that the financial leeway gained will then be restricted again.

Provisions in the previous year already covered the results of the external tax audits carried out for 3U TELECOM AG during the financial year for 1999 to 2002.

The Extraordinary General Meeting of 15 November 2005 approved the control and profit transfer agreements between 3U TELECOM AG and the subsidiaries OneTel, fon4U and LineCall to optimise tax payments in the future.

4.6 RISK MANAGEMENT

Business activity always involves risks. However, it is essential and prudent to approach these risks in a deliberate fashion in order to achieve business success. The 3U Group operates in an extremely dynamic market, which subjects the Group's business operations to a range of risks. For this reason, the 3U Group systematically deals with these risks through risk management to consciously recognise risks in a controlled manner and to take advantage of any opportunities that arise. The sustained increase in the value of the company is ultimately the crucial target of the measures taken.

Both the risk management system and the internal risk management handbook, which contains the relevant regulations and measures for the identification, analysis, assessment, limitation and control of risks, were revised with the help of external experts in 2005. The definition of the risk portfolio is based on the assessment of the probability of different scenarios occurring and any potential damage or negative effects. An escalation process is also described so that those responsible can be informed at an early stage and countermeasures can be introduced. Risk management at the 3U Group includes monthly reporting of the status and assessment of risks. In addition, the Management and Supervisory Boards are informed in the context of a quarterly report on the risk portfolio.

4.7 OPPORTUNITIES FOR THE 3U GROUP

Opportunities in business operations

Established telephone providers face the challenge of setting the right course to safeguard and increase competitive advantages, market share and sales in the future. The 3U Group would like to implement this to increase sales and earnings further, thereby increasing the value of the company. Market share in the fixed-line segment can be increased in the future based on the positive development of the subsidiary OneTel. An active pricing policy and intensive market monitoring create the flexibility required for the company to assert itself against alternative competitors. The low cost structures of the 3U Group, combined with its high level of technical expertise, open up the opportunity to expand market share at the expense of Deutsche Telekom AG and other alternative providers, thereby also giving the 3U Group the opportunity to grow at a faster pace than the market in the future, as it did in the previous year.

Sales co-operations with partners such as Quelle or Neckermann could also make a considerable contribution to the growth of the company in the future. The new companies 010060 Telecom GmbH, 010017 Telecom GmbH and Discount Telecom S&V GmbH provide additional network codes (network carrier identification numbers) as platform for new sales co-operations. These partners enable the 3U Group access to a wider range of customers. The technological expertise and the flexibility of the Group combined with the access to the market enjoyed by established partners could increase income from these co-operations, thereby encouraging the growth of the 3U Group. The co-operations agreed provide an opportunity to combine products (e. g. DSL and telephony) or to quickly position new products on the market using established sales channels.

The extensive, modern network infrastructure of the 3U Group compared to many other telecommunications companies represents an additional strategic advantage. The 3U Group will generate additional sales and earnings growth through the expansion of the wholesale business. The network capacity required for this is available. The recently established direct connection with E-Plus provides the opportunity to offer other telecommunications companies attractive conditions for telephone calls to the E-Plus network. This strategic advantage will make the wholesale business more profitable in the future.

There is still over-capacity in the overall carrier market. The Management Board thus continues to anticipate declining prices. The high quality of the products and the modern, market-oriented technology of LambdaNet may enable the Group to stand its ground against the market trend and to expand sales.

3U Group can also generate inorganic growth through targeted acquisitions. The pre-requisite for this is the completion of the restructuring activities to create the operative basis for an upcoming integration. Possible activities in this respect essentially serve to improve the market position, to increase profitability on the fixed-line segment and to round off the product range, for example in Managed Services (e. g., with innovative content) offered by LambdaNet. The sufficient financial funds available could also be used to strengthen the Group's customer base and to achieve additional synergies.

Opportunities through the Group restructuring

Continued restructuring of the Group represents both non-recurring and ongoing additional earnings opportunities. The streamlining of the Group's structure through the closure or sale of non-profitable subsidiaries will have a positive impact on consolidated earnings in the future. The Management Board holds a positive view of the sale of other foreign subsidiaries, including profitable ones.

The further optimisation of structure costs in the areas of customer support, administration or technology represents the potential to reduce costs. Synergies within the 3U Group will be used and profitability increased as a result of the standardised use of technology and software (e. g. SAP software).

Flexible tariff management within the daily time zones and individual destinations contributed to the positive development of OneTel. If this continues, this will secure the long-term profitability of the subsidiary.

The conclusion of some legal disputes in the Group could have a positive effect on earnings.

5. EVENTS AFTER END OF FINANCIAL YEAR

In January 2006, the Management Board resolved to close the non-profitable companies in Luxembourg and the United Kingdom in the first half of 2006. The company in the United Kingdom ceased business operations on 31 January 2006.

The Management Board also decided in January 2006 to sell the non-profitable company in Italy in the first quarter of 2006. Negotiations are currently being held with an interested party.

Future growth potential

Telecommunications market will remain a dynamic, intensely competitive industry. Growth is primarily the result of new technology, whilst the overall fixed-line telephony market has probably passed its peak in terms of growth. Nevertheless, the fixed-line segment represents considerable potential for companies such as 3U TELECOM AG to increase sales and earnings in the future. Despite increased competition, market share has been gained from competitors through innovative business models, vigorous tariff management and internal cost optimisation. The 3U Group will thus keep to its strategy of continuing to expand the core business of fixed-line telephony. The 3U Group is supported by the performance of a high quality, integrated and modern technology platform combined with a wide range of products, first-class customer services and last but not least, access to multiple sales channels. Existing market share is primarily to be increased by expanding existing co-operations and by arranging new partnerships. Established sales channels also offer upselling potential. This will enable DSL and VoIP products to be sold via the current partners in addition to pre-selection products.

The management sees another opportunity for growth in co-operations with cable network operators. The advantage of these companies is that they have direct access to end customers independent of Deutsche Telekom AG. The new Triple-Play technology, which combines telephony, internet and television in one network connection, will have a special role in this context. With technological expertise and high service quality, the 3U Group meets all the requirements for the first two services named to be able to develop attractive offers for end customers in partnership with cable network operators. One step in this direction is the introduction of a pre-paid VoIP product, which 3U TELECOM AG wishes to position on the market mid-year. At the same time, purchases of attractive services, such as content offers, will be examined in order to supplement the 3U Group's product portfolio as appropriate.

The Management Board anticipates additional sales growth through the expansion of the wholesale business. "Wholesale" refers to the sale of network capacity to other telephone companies. The new direct connection to the E-Plus network provides better purchasing conditions for mobile telephone conversations, as the switching of voice services to the E-Plus network is no longer connected via Deutsche Telekom AG. This improves own margins and creates additional leeway to reduce prices in an intense competitive environment.

In the broadband/IP segment, the subsidiary LambdaNet will continue to focus on the areas of carrier and corporate sales in the future. Whilst telecommunication companies primarily rely on the network capacity of LambdaNet in the carrier segment, the business customer segment represents new growth prospects. Medium-sized companies and major customers can thus process all their data traffic, including voice volumes (i. e. DSL, VoIP, fixed-line telephony), via a single service provider. Using individual virtual private network solutions, companies can considerably reduce all telecommunications costs in a protected environment. The 3U Group has intensified its sales in order to increase its participation in this growth market.

In the medium-term, the 3U Group wishes to position itself as a competent and solution-oriented service provider for private and business customers. The target groups in the business customer segment include carriers, internet service providers and white label co-operation partners. A complete product portfolio and a high level of technological expertise serve to take advantage of the growth opportunities resulting from the increasing convergence of individual forms of technology (fixed-line, mobile communication, IP, DSL, TV). Additional mobile services and value-added services

(e. g. content) will create new sales and earnings potential in addition to the core business of fixed-line telephony in the future.

Business forecast for the next two years

Based on the strategy described and the operative measures, the Management Board anticipates consolidated sales to increase by at least 10 % to €136 million in the 2006 financial year. EBITDA is expected to increase by around 25 % from € 6.80 million to € 8.50 million in the 2006 financial year. The Management Board anticipates that EBITDA will remain positive in the fixed-line segment in all quarters of the current financial year, as in the fourth quarter of 2005. Consequently the target of achieving sustained profitability in this segment will be met. The broadband/IP segment will continue to be a main pillar of earnings. The Management Board expects LambdaNet to achieve an EBITDA margin of over 20 % in 2006. However, a consolidated net loss is expected in a single-digit million figure due to the continued depreciation of the network infrastructure of the subsidiary LambdaNet until the end of 2007. In contrast, the Group's operating cash flow will be positive. Despite the planned start of repayments of bank loans and the repayment of the remaining convertible bond (a total of € 6.70 million in the 2006 financial year), the Management Board anticipates a liquidity position of around € 40 million including cash-equivalents by the end of 2006.

3U Group will follow on from this development in the 2007 financial year. Sales in the fixed-line and broadband/IP segments should increase further, with double-digit percentage growth in sales compared to the current year. The target in the fixed-line segment is to maintain positive EBITDA. In the broadband/IP segment, the Management Board also expects EBITDA to increase on the current financial year, supported by the planned expansion of the sales organisation. Thereby the anticipated net loss for 2007 can be reduced further due to ongoing depreciations. By reducing depreciations considerably from 2008 onwards, the Management Board intends to generate positive annual earnings in subsequent years.

In the current year, the Management Board has created the preconditions to get back on course towards growth and profitability. The restructuring can be successfully completed in the near future. Furthermore, the 3U Group will once be in a stronger position to address the opportunities arising on the telecommunications market. A clear Group strategy, improved internal structures and leading technological expertise are all crucial factors that make the 3U Group a reliable partner and which lead the Management Board to be optimistic about the future.



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3U TELECOM AG, MARBURG

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2005 (IFRS)

ASSETS 3U GROUP (IN T€)	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	31 DEC 2005	31 DEC 2004
NON-CURRENT ASSETS		88,723	122,899
Intangible assets	[2.3.5] [6.2]	13,112	17,162
Property, plant and equipment	[2.3.5] [6.3]	47,248	78,579
Financial assets*	[2.3.6] [6.4]	24,996	23,310
Deferred taxes	[6.6]	99	455
Other non-current assets	[6.7]	736	2,103
Prepaid expenses	[6.8]	2,532	1,290
CURRENT ASSETS		39,031	35,104
Trade receivables	[6.7]	16,813	8,906
Other current assets	[2.3.7] [6.7]	3,428	4,276
Cash and cash equivalents	[2.3.8] [6.7]	15,278	16,499
Prepaid expenses	[6.8]	3,512	5,423
TOTAL ASSETS		127,754	158,003

*This includes CityDial GmbH (associated company) with T€ 90 (previous year: T€ 89).

SHAREHOLDERS' EQUITY AND LIABILITIES 3U GROUP (IN T€)	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	31 DEC 2005	31 DEC 2004
SHAREHOLDERS' EQUITY		45,821	43,798
Issued capital	[6.9]	46,842	46,842
Capital reserve		20,901	20,322
Revaluation reserve	[6.11]	2,213	845
Retained earnings		-24,210	6,111
Net income/loss		77	-30,321
Minority interests	[6.12]	9	9
Adjustment item for currency difference		-11	-10
NON-CURRENT PROVISIONS AND LIABILITIES		37,096	78,047
Non-current provisions	[2.3.11] [6.16]	4,647	4,369
Non-current liabilities due to banks	[2.3.13] [6.13]	13,781	16,467
Non-current lease liabilities	[2.3.13] [6.13]	17,523	44,383
Other non-current liabilities	[2.3.13] [6.15]	53	10,482
Deferred taxes	[2.3.12] [6.6]	600	378
Deferred income	[6.17]	492	1,968
SHORT-TERM PROVISIONS AND LIABILITIES		44,837	36,158
Current provisions	[2.3.11] [6.16]	6,677	5,699
Current liabilities due to banks	[2.3.13] [6.13]	2,515	0
Trade payables	[2.3.13] [6.14]	23,425	13,664
Current lease liabilities	[2.3.13] [6.13]	2,778	2,493
Other current liabilities	[2.3.13] [6.15]	6,118	10,292
Deferred income	[6.17]	3,324	4,010
TOTAL SHAREHOLDER'S EQUITY AND LIABILITIES		127,754	158,003

3U TELECOM AG, MARBURG

CONSOLIDATED INCOME STATEMENT FOR THE 2005 FINANCIAL YEAR (IFRS)

3U GROUP (IN T€)	NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	FINANCIAL YEAR	
		1 JAN 2005 - 31 DEC 2005	1 JAN 2004 - 31 DEC 2004
Sales	[2.3.1] [5.1]	123,379	96,458
Cost of sales	[2.3.2] [5.2]	-114,222	-86,983
GROSS PROFIT		9,157	9,475
Selling expenses	[5.3]	-6,695	-5,719
General administrative expenses	[5.4]	-15,245	-17,254
Other operating income	[5.5]	28,965	3,608
Other operating expenses	[5.5]	-10,369	-821
Amortisation of customer base/goodwill	[2.3.5]	-1,379	-12,476
EARNINGS BEFORE INTEREST AND TAXES		4,434	-23,187
Interest income	[5.7]	251	430
Interest expenses	[5.7]	-3,875	-6,336
Income from financial assets (equity method)		1	-9
EARNINGS BEFORE TAXES		811	-29,102
Income tax expense	[2.3.4] [5.8]	-734	-1,219
EARNINGS BEFORE MINORITY INTERESTS		77	-30,321
Minority interests		0	0
CONSOLIDATED NET INCOME/LOSS		77	-30,321
EARNINGS PER SHARE			
Earnings per share, basic (in €)	[5.9]	0.00	-0.65
Earnings per share, diluted (in €)	[5.9]	0.00	-0.64
Average shares outstanding, basic (pieces)	[5.9]	46,842,240	46,842,240
Average shares outstanding, diluted (pieces)	[5.9]	49,362,990	47,708,490

3U TELECOM AG, MARBURG

CASH FLOW STATEMENT (IFRS)

3U GROUP (IN T€)	1 JAN 2005- 31 DEC 2005*	1 JAN 2004- 31 DEC 2004*
INCOME FOR THE PERIOD	77	-30,321
Depreciation of fixed assets	17,481	27,553
Increase/decrease of provisions and value adjustments	2,184	13,117
Profit/loss from disposals of tangible assets	-7	7
Increase/decrease of trade receivables	-8,443	1,540
Increase/decrease of trade accounts payable	14,748	508
Changes to other receivables	6,223	0
Changes to other payables	-20,610	0
Changes to deferred items	-5,362	783
Interest payments	-2,441	-3,439
Income tax payments	-239	-958
Other cash-neutral changes	-1,413	1,165
CASH FLOW FROM OPERATING ACTIVITIES	2,198	9,955
Inflows from disposals of tangible assets	265	274
Outflows for investments in tangible assets**	-2,752	-935
Outflows for investments in intangible assets	-420	-3,030
Outflows from the acquisition of consolidated companies and other business units	0	-20,945
CASH FLOW FROM INVESTING ACTIVITIES	-2,907	-24,636
Outflows from the repayment of (finance) loans	0	-5,000
Other	0	351
CASH FLOW FROM FINANCING ACTIVITIES	0	-4,649
CHANGE IN CASH AND CASH EQUIVALENTS	-709	-19,330
Changes to cash and cash equivalents from changes to the scope of consolidation	-512	0
Cash and cash equivalents at beginning of period	16,499	35,829
Cash and cash equivalents at end of period	15,278	16,499

* The values have been adjusted for the initial consolidation of LambdaNet Communications Deutschland AG and for the deconsolidation of Carrier24 GmbH.

** Not including the long-term capitalised leasing items (T€ 5,413)

3U TELECOM AG, MARBURG

STATEMENT OF CHANGES IN EQUITY AS OF 31 DECEMBER 2005 (IFRS)

3U GROUP (IN T€)	ISSUED CAPITAL	CAPITAL RESERVES	REVALUATION RESERVE/ RETAINED EARNINGS	PROFIT/ LOSS CARRIED FORWARD	MINORITY INTERESTS	CURRENCY	NET INCOME	TOTAL SHARE- HOLDERS' EQUITY
AS OF 1 JAN 2004	9,333	57,336	2,760	6,111	9	0	0	75,549
Consolidated profit	0	0	0	0	0	0	-30,321	-30,321
Capital increase	37,473	-37,473	0	0	0	0	0	0
Own shares	36	206	0	0	0	0	0	242
Stock options	0	253	0	0	0	0	0	253
Revaluation of securities	0	0	-1,915	0	0	0	0	-1,915
Currency changes taken directly to equity	0	0	0	0	0	-10	0	-10
AS OF 31 DEC 2004	46,842	20,322	845	6,111	9	-10	-30,321	43,798

3U GROUP (IN T€)	ISSUED CAPITAL	CAPITAL RESERVES	REVALUATION RESERVE/ RETAINED EARNINGS	PROFIT/ LOSS CARRIED FORWARD	MINORITY INTERESTS	CURRENCY	NET INCOME	TOTAL SHARE- HOLDERS' EQUITY
AS OF 1 JAN 2005	46,842	20,322	845	-24,210	9	-10	0	43,798
Consolidated profit	0	0	0	0	0	0	77	77
Stock options	0	579	0	0	0	0	0	579
Revaluation of securities	0	0	1,368	0	0	0	0	1,368
Currency changes taken directly to equity	0	0	0	0	0	-1	0	-1
AS OF 31 DEC 2005	46,842	20,901	2,213	-24,210	9	-11	77	45,821

1. RECONCILIATION OF EQUITY

The procedure for reconciliation from the accounting standards previously used (US GAAP) to IFRS is regulated in IFRS 1 "First-time adoption". This standard was published in June 2003 and is to be used for reporting periods that begin on or after 1 January 2004.

The differences in valuation from the first-time reconciliation from US GAAP to IFRS are credited or debited from equity (retained earnings and revaluation reserves for financial instruments) as of 1 January 2004.

The reconciliation of consolidated equity from US GAAP to IAS/IFRS is as follows:

3U GROUP (IN T€)	NOTE	1 JAN 2004	31 DEC 2004
EQUITY IN ACCORDANCE WITH US GAAP		74,614	45,465
Reduction of unscheduled write-downs on fixed-line licences (correction of errors)	[1]	971	0
Correction of other US GAAP errors	[2]	245	-1,612
CORRECTED EQUITY IN ACCORDANCE WITH US GAAP		75,830	43,853
Reduction of depreciation on fixed-line licences	[3]	9	12
Currency changes for foreign subsidiaries	[4]	-17	-27
Deconstruction obligations	[5]	-75	-89
Own shares/special funds	[6]	-242	0
Increase of deferred tax assets	[7]	39	45
Increase of deferred tax liabilities	[8]	-4	-5
Reporting of minority interests	[9]	9	9
EQUITY IN ACCORDANCE WITH IFRS		75,549	43,798

[1] Reduction of unscheduled write-downs on fixed-line licences

A write-down of T€ 1,566 was charged to the German telecommunications licences of licence classes 3 and 4 in accordance with US GAAP in 2002. According to IAS 36.59, a valuation adjustment is only required if the recoverable amount for the asset value in question is below the carrying amount. In accordance with IAS 36.6, the recoverable amount is the higher of value in use and the net realisable value.

The value in use is the present value of estimated future cash flow from the continued use of an asset, plus the revenues from its subsequent disposal (IAS 36.5). The calculation of value in use is based on the cash flow forecast, which is based on the long-term business plan. Cash flows before taxes and interest were estimated and discounted before taxes and interest. With regard to the discount rate, an interest rate was selected in agreement with IAS 36.55 et seq in conjunction with IAS 36.A15 et seq. The result of the impairment test showed that no impairment is to be carried out.

Due to changes in licence issuing procedure by the regulatory authorities in 2004 financial year, an impairment of T€ 1,566 had to be carried out for licences as well as a reversal of deferred tax liabilities amounting to T€ 595. These corrections were subsequently carried out for retained earnings as of 1 January 2004 and for the earnings for the 2004 financial year.

[2] Correction of other US GAAP errors

In accordance with US GAAP, equity was posted at T€ 45,465, which was too high. The other corrections carried out in accordance with US GAAP were the result of the first-time consolidation of Carrier24 in particular. Carrier24 was originally not consolidated in the quarterly report published on 31 March 2004. This was a special purpose company, which was consolidated in accordance with FIN 46 in the 2004 reporting year, retroactively effective as of 1 January 2004.

[3] Reduction of depreciation on fixed-line licences

Specific fixed-line licences were granted for an unlimited period of use. In accordance with US GAAP, intangible assets with an unlimited period were previously written down over 40 years in accordance with APB 17. However, depreciation is not appropriate for unlimited periods of use in accordance with IFRS (IAS 38.107). Instead, an impairment test must be carried out at least once a year. The impairment test showed that no write-downs were to be carried out. The depreciation carried out in accordance with US GAAP was thus corrected when creating the opening IFRS balance sheet.

[4] Currency changes for foreign subsidiaries

Currency changes for the US subsidiary 3U TELECOM INC., Henderson (USA), was carried out in the consolidated financial statements using the temporal method in accordance with US GAAP. Tangible assets were thus converted at the historical rates at the time of the acquisition. In accordance with IFRS, conversion of non-monetary items and handling of translation results (recognised as income or taken directly to equity) are carried out according to the functional theory of currency changes. According to this, currency changes depends on whether the foreign unit is largely independent or simply an "extended arm" of the parent company and whether its functional currency is the currency of its own country or that of the parent company. The conversion at the rates on the reporting date for 3U TELECOM INC. resulted in lower fixed assets.

Currency differences from independent foreign subsidiaries are to be accumulated as a separate equity item in accordance with IAS 21.30. Here, IFRS 1.22 permits a fresh start without consideration of the accumulated differences. The accumulated differences of T€ 17 are thus included in the retained earnings as of 1 January 2004.

[5] Deconstruction obligations

There are deconstruction obligations for certain fixtures and equipment for technical sites (PoPs) posted under tangible assets following termination of the lease agreements. In accordance with IFRS, these future deconstruction obligations were posted as liabilities at their present value and taken directly to equity in the acquisition costs of tangible assets. The depreciation was applied to the higher acquisition costs in accordance with IFRS.

[6] Own shares/special funds

Shares in 3U TELECOM AG are included in funds assets as of 1 January 2004. According to IAS 32.33, own shares may not be capitalised. According to IAS 1.76, equity must be reduced in the balance sheet. The nominal amount of the shares (T€ 36)

was deducted from share capital as of 1 January 2004 in accordance with IFRS. The difference between the acquisition costs of own shares and the nominal value of the shares is taken into account by reducing retained earnings. The tax liabilities posted in funds assets as of 1 January 2004 are posted under tax liabilities in accordance with IFRS.

[7] Increase of deferred tax assets

Increased provisions for deconstruction obligations liabilities and the currency changes for 3U TELECOM INC. at reporting date rates result in deferred tax assets, which are posted on the balance sheet in accordance with IFRS.

[8] Increase of deferred tax liabilities

The increase of deferred tax liabilities is the result of the modifications to fixed-line licences.

According to IAS 12, the tax rate, valid at the time of the expected reversal of the difference, is to be used for assessment of deferred taxes. This is usually the current tax rate on the balance sheet date. As with US GAAP, the deferred tax liabilities are formed based on the combined group tax rate of 38%.

[9] Reporting of minority interests

In accordance with IFRS, minority interests of T€ 9 are to be reported separately under equity on the balance sheet (IAS 27.33). In contrast, they are not reported under equity in accordance with US GAAP.

2. RECONCILIATION OF INCOME FOR THE PERIOD

The effects of the reconciliation to IFRS on income for the period are presented in the following table:

3U GROUP (IN T€)	NOTE	1 JAN 2004 - 31 DEC 2004
INCOME FOR THE PERIOD IN ACCORDANCE WITH US GAAP		-29,148
Correction	[10]	-310
INCOME FOR THE PERIOD IN ACCORDANCE WITH US GAAP		-29,458
Reduction of depreciation on fixed-line licences	[11]	3
Deconstruction obligations	[12]	-14
Special funds	[13]	-604
Increase of deferred tax assets	[14]	4
Increase of deferred tax liabilities	[15]	1
Stock option programme	[16]	-253
INCOME FOR THE PERIOD IN ACCORDANCE WITH IFRS	[17]	-30,321

[10] Corrections

Carrier24 was originally not consolidated in quarterly report published on 31 March 2004. This was a special purpose entity, which was consolidated in accordance with FIN 46 in the 2004 reporting year, retroactively effective as of 1 January 2004. Initial consolidation resulted in goodwill of T€ 3,799, which was amortised in full in accordance with IFRS 3 in conjunction with IAS 36. The cash flow forecast based on the long-term business plan formed the basis for the unscheduled write-down. Due to offsetting initial consolidation items, the effect on net income was reduced to T€ -423.

Deferred tax liabilities were capitalised as value increases of stock holdings in accordance with US GAAP in the 2004 financial year, although 95 % of value increase on shares is exempt from corporation tax in line with Article 8 b of the German Income Tax Act (EstG). During the conversion to IFRS, this was corrected by T€ 113.

[11] Reduction of depreciation on fixed-line licences

Net income increased by T€ 3 due to the correction of depreciation on specific fixed-line licences.

[12] Deconstruction obligations

The changes in the present value of deconstruction obligations and the higher write-downs on capitalised fixtures and equipment for the technical sites (PoPs) in accordance with IFRS resulted in T€ 14 lower earnings in comparison to US GAAP.

[13] Special funds

In accordance with US GAAP, value increases in securities of the special funds were posted on balance sheet at fair value and recognised as income. In contrast, assets posted on balance sheet for special funds are to be classified as available-for-sale securities according to IFRS. Increases in fair value are taken directly to equity and included in revaluation reserves in accordance with IAS 39.55b.

[14] Increase of deferred tax assets

Due to the different treatments of deconstruction obligations according to IFRS and US GAAP, there is tax income.

[15] Increase of deferred tax liabilities

The correction of depreciation on fixed-line licences results in additional tax expenses.

[16] Stock option programme

In contrast to US GAAP (APB 25), IFRS 2.10 et seq. allows for the accumulation of work performance in equity with an effect on expenses in equity for share price-oriented remuneration based on contingent capital. Stock options for future performance must be distributed according to the service period in terms of expenses. This period corresponds to the vesting period, the period between agreement and the earliest possible exercise (vesting date). This is offset under capital reserves in accordance with IFRS 2.

3U TELECOM AG, MARBURG – NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2005 FINANCIAL YEAR

1 GENERAL INFORMATION ABOUT THE GROUP

3U TELECOM AG (subsequently referred to as 3U TELECOM or the company), headquartered in Marburg, was founded in 1999 as a result of a change in the form of 3U Telekommunikation GmbH, Eschborn (formerly registered with the Frankfurt District Court, HRB number 47870). The company headquarters were relocated to Marburg in the 2003 financial year. It has since been registered in the Register of Companies there, under HRB number 4680.

The business activities of 3U TELECOM AG and its subsidiaries are telecommunication services in the fixed-line and broadband/IP segments.

The company's address is:
Neue Kasseler Straße 62F, D-35039 Marburg

2 ACCOUNTING AND VALUATION METHODS

2.1 ACCOUNTING PRINCIPLES

Consolidated financial statements of 3U TELECOM AG for the 2005 financial year were compiled in accordance with the accounting standards of the International Accounting Standards Board (IASB), the International Financial Reporting Standards (IFRS). The IFRS valid on 31 December 2005 and the appropriate interpretations of the Standing Interpretations Committee (SIC) were observed.

Consolidated financial statements of 3U TELECOM AG present a true and fair view of the net assets, financial position and results of operations.

Consolidated financial statements of 3U TELECOM AG were compiled in accordance with Article 315a of the HGB [German Commercial Code] and comply with Directive 83/349/EEC.

To achieve consistency with consolidated financial statements compiled in accordance with commercial regulations, all statutory information and explanation requirements in addition to the IASB regulations, particularly with regard to the creation of a management report, were also fulfilled.

The company is applying the regulations of IAS 1 (revised in 2003) to the reporting periods prior to 1 January 2005.

Information on reconciliation in accordance with IFRS 1.39 is presented under "First-time adoption of IAS/IFRS" on page 49 et seq.

Consolidated financial statements were compiled in T€.

The German Group companies prepare their accounts and documents in accordance with the German Commercial Code (HGB). The foreign subsidiaries prepare their accounts in accordance with the relevant local regulations. German commercial law and the local accounting principles differ from the International Financial Reporting Standards (IFRS) in considerable respects. All modifications were carried out that were required to present the annual financial statements in accordance with IFRS as of 31 December 2005.

The financial year for the company and all subsidiaries included in the consolidated financial statements corresponds to the calendar year.

2.2 PRINCIPLES OF CONSOLIDATION

2.2.1 Scope and method of consolidation

Consolidated financial statements for the 2004 and 2005 financial years for 3U TELECOM AG include 20 German and foreign subsidiaries, in which 3U TELECOM AG indirectly or directly holds the majority of voting rights or with which it has a controlling relationship based on other rights. The capital consolidation is based on the acquisition method (revaluation

method). This offsets the acquisition costs of the investments with the fair value component of its equity at the time of acquisition.

Assets and liabilities are reported according to their purchase price. The balance of a remaining capitalised difference is posted as goodwill or as the result of the measurement of customer contracts under intangible assets.

Initial consolidation takes place with effect from the day on which 3U TELECOM AG indirectly or directly enters into a controlling relationship with the subsidiary. Any amounts allocated to minority interest are reported separately under equity on the consolidated balance sheet.

Internal sales, expenses and income within the Group and receivables and liabilities between the consolidated companies are eliminated. The income tax effects are taken into account for consolidation procedures influencing earnings and deferred taxes are reported. The 3U Group does not have any interim earnings requiring elimination.

In the event of the sale of a subsidiary and any other events which result in a deconsolidation, the assets and liabilities included until this event and existing goodwill are offset against the sales or with the book value of the investment.

All subsidiaries, which are operated by 3U TELECOM AG directly or indirectly in line with IAS 27, are included in the consolidated financial statements.

An associated company is a company over which the Group has a considerable influence through the option of participating in the decision-making processes with regard to its financial and business policy and which is not a subsidiary or a joint venture of the Group.

The earnings of associated companies are included by using the equity method. Shares in associated companies are posted on the balance sheet at historical costs, adapted in line with any changes in the Group share in the net assets of the associated company following the acquisition and reduced in line with the decline in value of the individual shares.

2.2.2 Foreign currency changes

The functional currency of the subsidiaries is the local currency of the country in which the relevant company is headquartered. Consequently, assets and liabilities posted in foreign currency on the balance sheets of foreign subsidiaries are converted into euro at the relevant rate on the reporting date. Income and expenditure are converted at the average rate for the year. The difference between the historical rate and the rate on the reporting date resulting from the measurement of equity is taken directly to equity in accordance with IAS 21.

2.2.3 Use of estimates

The compilation of the annual financial statements in accordance with the International Financial Reporting Standards requires estimates and assumptions which influence the assets and liabilities amounts, the information in the notes and the income statement. The actual results may differ from the estimates.

2.2.4 Cash flow statement

The cash flow statement shows how the funds of the 3U Group changed during the reporting year through inflows and outflows of funds. The effects of changes to the scope of consolidation are eliminated. For the first-time inclusion of subsidiaries, only actual cash flows are reported in the cash flow statement. The cash amount from the purchase or sale of companies is reported as cash flow from investing activities. Changes to cash and cash equivalents from changes to the scope of consolidation are listed separately. In accordance with IAS 7, differences are made between cash flows from business operations, from investing activities and from financing activities.

2.3. PRINCIPLES OF ACCOUNTING AND VALUATION

2.3.1 Sales

Sales result from activities as a fixed-line provider with its own carrier network and its own switching technology and from transport, internet and VPN solutions.

Sales are calculated and reported without value-added tax and after deduction of discounts granted on performance of the service or acceptance by the customer.

2.3.2 Cost of Sales

The cost of sales of the services supplied to attain the sales comprise the total acquisition and production costs and cost of sales for the products and services sold during the reporting year. In addition to the direct costs such as material and staffing costs, they also comprise the attributable overheads, including depreciation.

2.3.3 Borrowing costs

Interest expenses are posted as expenses in the period in which they incurred, in accordance with the regulations of IAS 23.

2.3.4 Income taxes

Taxes paid or due on income and deferred taxes are listed as income taxes.

As in the previous year, the current taxes do not include any back payments of taxes (or rebates) attributable to previous periods.

2.3.5 Goodwill, intangible assets and tangible assets

Goodwill resulting from capital consolidation is not included in depreciation in accordance with IFRS 3. Goodwill posted on the balance sheet is annually assessed for its economic benefit and for declines in value (impairment test), and in the event of a decline in value written down to fair value.

Purchased and self-created intangible assets are capitalised in accordance with IAS 38 ("Intangible Assets") if it is likely that a future business advantage relates to the use of the asset and if it is possible to ascertain reliably the costs of the

asset. They are reported as acquisition costs or cost of sales, including any development costs incurred that are to be posted on the balance sheet in accordance with IAS 38, and a straight-line amortisation is carried out according to their useful life. No self-created intangible assets were posted on the balance sheet during the first-time implementation. Depreciation of intangible assets generally takes place over a useful life of between three and five years, with the exception of goodwill. There is no depreciation for intangible assets with no definite useful life.

Tangible assets are reported in the IFRS balance sheet at depreciated cost. If tangible assets are sold or retired, their acquisition cost and cumulated depreciation are eliminated from the balance sheet and the profit or loss resulting from their sale is posted in the income statement.

The original acquisition cost of tangible assets comprise the purchase price including additional acquisition costs. Expenses incurred after the tangible asset was implemented, such as maintenance, repair and reconditioning costs are usually taken directly to costs for the period in which they incurred. In situations where it has clearly shown that expenses leads to an additional future economic benefit as the result of the expected use of an item or tangible asset beyond the original scope of performance calculated, this expenses is capitalised as additional acquisition or production cost for the tangible assets. Finance costs are not capitalised.

Depreciation is calculated based on the following estimated useful lives:

Building	33 years
Plant equipment	4 years
Office equipment	3-8 years
Switching technology	5 years
Transmission technology	5 years
Lessee fixtures	Duration of the lease agreement

The useful lives and depreciation methods used are examined in each period to ensure that the depreciation methods and the depreciation period correspond to the anticipated economic benefit of tangible asset items.

Low-value asset items with individual acquisition costs of up to €409 are fully written off in the year of their acquisition and presented as additions and disposals and as depreciations in the development of assets for the current financial year.

Please also refer to the information on impairment under 2.3.10.

2.3.6 Special fund share posted as available-for-sale assets

All German and foreign subsidiaries are to be consolidated in IFRS consolidated financial statements, regardless of their legal form (IAS 27.12). For investments of over 50 % special fund shares are not to be treated in accordance with IAS 39. Instead, 3U TELECOM AG must break down the components of the fund and treat them as direct investments both on the balance sheet and in the income statement.

The valuation of special funds is carried out at fair value. The fair value is based on the stock exchange price or trading price on the balance sheet reporting date or on the last trading day prior to the balance sheet reporting date. All special funds are classified as available-for-sale assets.

According to the new version of IAS 39 (2004), shares and securities classified as available-for-sale are only permitted to be taken directly to equity at fair value (IAS 39.55b). These are posted as equity in revaluation reserves.

Cash investments posted in the special fund and due immediately are to be reported under cash and cash equivalents. In accordance with IFRS, other assets and liabilities reported are to be posted under other assets or liabilities.

2.3.7 Other current assets

Other current assets included in the balance sheet comprise capitalised deferred items and other current receivables. The assets are reported with their nominal amount and, if they involve recognisable risks, value adjustments are made for the individual assets. Fixed-sum individual value adjustments are made based on a uniform Group age structure.

Trade receivables do not bear interest.

Foreign currency receivables are converted at the rate on the reporting date and any changes in value subject to exchange rates are posted as income in accordance with IAS 21.23.

2.3.8 Cash and cash equivalents

For the purposes of financial accounting, cash and cash equivalents refer to cash assets, cheques and cash in banks.

Cash and cash equivalents are valued at nominal value.

2.3.9 Leases

According to IAS 17, a lease is classified as a finance lease if all opportunities and risks relating to the ownership are transferred to the lessee. The classification of leases thus depends on the economic substance of the agreement and not on a specific formal contractual form. The leased items are thus capitalised with the present value of the leasing obligations and amortised over the customary useful life. Lease liabilities are posted as liabilities and reduced by the principle repaid for the lease instalments that have already been paid. Important agreements which are to be classified as finance leasing include the agreements between the subsidiary LambdaNet Communications Deutschland AG (LambdaNet) and a significant fibre-optic supplier for the lease of fibre-optic (dark fibre).

A lease is classified as rental leasing if all risks and opportunities relating to the ownership remain with the lessor. Lease payments within a rental lease are listed as expenses in the income statement.

2.3.10 Impairment

The tangible and intangible assets of the company are subject to an impairment test at least on each balance sheet reporting date to ascertain whether there are any indications of a decline in value. In the event of such indications, the recoverable amount for the asset is determined in order to calculate the amount of the relevant impairment charge, where available. If the assets do not generate any cash flows independent of other assets, the recoverable amount for the individual asset value is calculated based on the cash-generating unit to which the asset belongs. Intangible assets with no specific useful life are to be examined on an annual basis and also in the event of any indications of a decline in value.

The recoverable amount is the higher amount from attributable fair value minus costs of disposal and the value in use of an asset. Value in use is determined according to the future cash inflows with interest deducted based on the relevant interest rate before taxes corresponding to the fair value of the money, which reflects the risks of assets that are not yet reflected in the estimated future cash inflows.

If the recoverable amount of an asset (or of a cash-generating unit) is below its carrying amount, the carrying amount is to be reduced to the recoverable amount. The impairment amount must be recognised in income unless the asset has been revaluated. To this extent, the impairment charge is reported as a reduction in the revaluation reserves.

For a revaluation in a subsequent period, the carrying amount of the asset (or the cash-generating unit) is adapted according to the recoverable amount established. However, this is attributed to a maximum of the amount that would have been the carrying amount if no impairment had taken place. The appreciation is thus to be reported as income as the previous impairment was recognised in income; any remaining part is to be taken directly to equity.

2.3.11 Provisions

Provisions are made for legal or factual liabilities, which originated in the past, if it is likely that the fulfilment of the liability will lead to an outflow of Group resources and if it is possible to make a reliable estimate of the liability amount.

Other provisions are made if there is a liability to a third party which is likely to be utilised and if a reliable estimate can be made for the provisional repayment amount required. The valuation of other provisions generally includes all cost components which are also capitalised in inventory assets. Long-term provisions with a remaining term of more than one year are reported with their provisional settlement amount that has been discounted with interest as of the balance sheet reporting date.

2.3.12 Deferred taxes

Deferred tax assets and liabilities are calculated in accordance with IAS 12 ("Income Taxes") for all temporary differences between the financial and tax accounts. Deferred tax assets also include tax reduction claims resulting from the anticipated use of existing loss carryforwards in subsequent years and if there is a sufficient probability of realisation. The assessment and valuation of the deferred tax assets is examined on each balance sheet reporting date, taking the current estimates in accordance with IAS 12.37 and IAS 12.56 into account.

Deferred taxes are calculated based on tax rates which are valid or anticipated according to current legal position at the time of realisation. For capitalisation of tax loss carryforwards, only the part which will provisionally be deductible based on the current tax planning is reported.

2.3.13 Liabilities

Liabilities are liabilities to banks, trade accounts payable, tax liabilities, interest liabilities, liabilities to employees and other liabilities. At first-time recognition they are reported at the repayment amount, discounted if applicable. Foreign currency liabilities are valued at the exchange rate on the reporting date. Trade payables do not bear interest.

Liabilities from finance lease agreements are reported at the present value of rental or leasing instalments or, if this is lower, the fair value of rental and leasing item at the time that the agreement was concluded. In subsequent periods, the principle repaid in the rental and leasing instalments lead to a reduction of the liability.

2.3.14 Employee investment programme

The Group has used the regulations of IFRS 2 "Share-Based Payments".

The Group grants the Management Board and selected employees share-based remuneration through equity instruments. Remuneration through equity instruments is valued at the attributable fair value at the time of grant. The attributable fair value of the share-based payments using equity instruments at the time of grant is carried as expenses through the freeze period or waiting period and reported in capital reserves. This is based on the internal Group estimate of the number of shares, which provide entitlement to additional remuneration.

The attributable fair value was established using the Black-Scholes model for the determination of option prices. Duration was assessed based on the best possible estimation by the Management Board in order to accommodate the particularities of the employee options, the non-transferability, issue restrictions and performance-related payments in the valuation.

2.3.15 Comparative figures

Where necessary, comparative figures are adapted to ensure that they are comparable with the current year due to changes in reporting.

2.4 CRITICAL ACCOUNTING CIRCUMSTANCES

Due to the uncertainties relating to assumptions and estimates, it is our opinion that the following accounting circumstances are to be classified as critical.

2.4.1 Value of intangible assets

The acquisitions, particularly that of LambdaNet, considerably increased the scope of intangible assets, particularly in terms of customer base. The carrying amount of the customer bases was T€ 8,724 or 6.8% of the balance sheet total as of 31 December 2005.

Customer bases are straight-line depreciated over a period of eight years. The useful life is to be examined at the end of each reporting period. In event of significant deviations from the original estimates, amortisation amounts are to be adjusted for the current period and future periods. Significant changes in customer retention can have a negative impact on the estimated useful life, resulting in an impact on future operating results due to higher or extraordinary depreciation.

2.4.2 Contingent liabilities from legal disputes

The operations of 3U Group result in various legal disputes. These are examined on a regular basis to value the provisions for any probable claims including estimated legal costs. With regard to the uncertainty of the outcome of these proceedings, there is the possibility of a negative impact on future operating results.

3 CONSOLIDATION

Fully consolidated, included subsidiaries:

COMPANY	REGISTERED OFFICE	COUNTRY	SUBSCRIBED SHARE CAPITAL	SHARE OF 3U TELECOM AG
3U TELECOM S.R.L.	Bolzano	Italy	100,000 EUR	99 %
3U TELECOM AG	Zurich	Switzerland	500,000 CHF	99.996 %
3U TELECOM SARL	Paris	France	1,000,000 EUR	100 %
3U TELECOM GmbH	Vienna	Austria	250,000 EUR	99.97 %
3U TELECOM B.V.	Hilversum	Netherlands	100,000 EUR	100 %
3U TELECOM S.P.R.L.	Brussels	Belgium	150,000 EUR	99.9 %
3U TELECOM INC.	Henderson (NV)	USA	0 USD	70 %
3U TELECOM SARL	Luxembourg	Luxemburg	15,000 EUR	100 %
3U TELECOM Ltd.	London	UK	150,000 GBP	100 %
OneTel Telecommunication GmbH	Marburg	Germany	3,025,000 EUR	100 %
fon4U Telecom GmbH	Marburg	Germany	25,000 EUR	100 %
LineCall Telecom GmbH	Marburg	Germany	25,000 EUR	100 %
CityDial GmbH	Meckenheim	Germany	150,000 EUR	50 %
LambdaNet Communications Deutschland AG	Hannover	Germany	7,300,000 EUR	100 %
LambdaNet Communications Austria GmbH	Vienna	Austria	35,000 EUR	100 %
LambdaNet Communications s.r.o.	Mestec Kralove	Czech Republic	100,000 CZK	100 %
Carrier24 GmbH	Unterschleißheim	Germany	25,000 EUR	15 %
010060 Telecom GmbH	Marburg	Germany	25,000 EUR	100 %
010017 Telecom GmbH	Marburg	Germany	25,000 EUR	100 %
Discount Telecom S&V GmbH	Marburg	Germany	25,000 EUR	100 %

3U TELECOM AG founded 010060 Telecom GmbH by cash subscription in the reporting year. The company was entered in the Marburg Register of Companies on 24 August 2005. 3U TELECOM AG holds 100 % of the share capital of 010060 Telecom GmbH issued, amounting to € 25,000.00. The company provides telecommunication services in the fixed-line segment.

3U TELECOM AG founded 010017 Telecom GmbH by cash subscription in the reporting year. The company was entered in the Marburg register of companies on 24 August 2005. 3U TELECOM AG holds 100 % of the share capital of 010017 Telecom GmbH issued, amounting to € 25,000.00. The company provides telecommunication services in the fixed-line segment.

3U TELECOM AG founded Discount Telecom S&V GmbH, headquartered in Marburg, by cash subscription in the reporting year. The company was entered in the Marburg register of companies on 8 December 2005. 3U TELECOM AG holds 100 % of the share capital of Discount Telecom S&V GmbH issued, amounting to € 25,000.00. The company provides telecommunication services in the fixed-line segment.

Carrier24 GmbH, which was consolidated in accordance with SIC 12 on 1 January 2004, filed for insolvency on 22 August 2005. 3U Group had a close service relationship with Carrier24 until this time. It had operated the network (backbone) for 3U Group's fixed-line telephony segment. LambdaNet has provided this service since the insolvency of the company.

Carrier24 was divested on 22 August 2005 as 3U TELECOM AG no longer has control over the company since the date on which it filed for insolvency, although 3U TELECOM AG still holds a 15% share in Carrier24.

The results of Carrier24 included in the consolidated financial statements are as follows:

(IN T€)	1 JAN 2005 - 22 AUG 2005	2004
Income	4,016	6,621
Operating expenses	4,432	7,402
Losses from normal business activities before taxes	-416	-781
Attributable income tax expenses	-1	0
Attributable net loss	-417	-781

The net cash flow of Carrier24 in 2005 until it was divested amounted to T€ -61.

The deconsolidation of Carrier24 resulted in a book profit of T€ 4,996, which is calculated as follows:

(IN T€)	22 AUG 2005	31 DEC 2004
Tangible assets	13,924	14,882
Trade receivables	309	446
Other assets	1,285	382
Cash in banks and cash in hand	222	414
ASSETS OF THE SUBSIDIARY ON ITS WITHDRAWAL	15,740	16,124
Provisions	5	149
Trade payables	1,366	743
Other liabilities and deferred items	19,365	19,812
LIABILITIES OF THE SUBSIDIARY ON ITS WITHDRAWAL	20,736	20,704
NET ASSETS OF THE SUBSIDIARY	-4,996	-4,580
DISPOSAL PROCEEDS	0	
DECONSOLIDATION INCOME	4,996	

The Group concluded a sales agreement on 21 December 2005 for the sale of 3U TELECOM B.V., Netherlands, which operated telecommunication services in the fixed-line segment in Netherlands. The sale was carried out in context of the fundamental restructuring of the Group. The deconsolidation was completed on 31 October 2005, as the control over 3U TELECOM B.V., Netherlands, was transferred to the purchaser on this date.

The results of 3U TELECOM B.V., Netherlands, included in the consolidated financial statements are as follows:

(IN T€)	1 JAN 2005 - 31 DEC 2005	2004
Income	781	907
Operating expenses	-1,054	-1,212
Losses from normal business activities before taxes	-273	-305
Attributable net loss	-273	-305

Net cash flow of 3U TELECOM B.V., Netherlands, in 2005 until it was divested amounted to T€ -243 (2004 T€ -261).

The deconsolidation of 3U TELECOM B.V., Netherlands, resulted in a book profit of T€ 3,137, which is calculated as follows:

(IN T€)	31 OCT 2005	31 DEC 2004
Tangible assets	33	46
Trade receivables	245	100
Other assets	313	384
Cash in banks and cash in hand	2	98
ASSETS OF THE SUBSIDIARY ON ITS WITHDRAWAL	593	628
Provisions	51	44
Trade payables	1,526	591
Other liabilities	1,888	2,592
LIABILITIES OF THE SUBSIDIARY ON ITS WITHDRAWAL	3,465	3,227
NET ASSETS OF THE SUBSIDIARY	-2,872	-2,599
DISPOSAL PROCEEDS	265	
DECONSOLIDATION INCOME	3,137	

4 CORRECTION OF ERRORS IN PREVIOUS YEARS

During the preparation of the consolidated financial statements of 31 December 2005, an accounting error was found for the financial year ending 31 December 2004. 3U TELECOM acquired telecommunication licences of licence classes 3 and 4 in previous years and capitalised these. Due to the changes in licence issuing procedure by the regulatory authorities in the 2004 financial year, a write-down of T€ 1,566 for licences and a reversal of deferred tax liabilities amounting to T€ 595 should have been carried out. This has an impact of -€ 0.02 on earnings per share (basic/diluted).

Retrospectively the balance sheet recognition and the balance sheet amount were calculated as though the balance sheet error had never been made. The differences resulting from this were taken directly to equity. The amounts for the previous year were modified in accordance with IAS 8.49 and the impairment charge was posted under the cost of sales for the 2004 financial year.

This error correction relates to the fixed-line telephony segment of the company only. The asset value now reported for the telecommunications licences corresponds to the attributable fair value.

5 SEGMENT REPORTING

Segmentation of the 3U Group into fixed-line telephony and broadband/IP is in line with the internal organisational, management and reporting structures which are determined by the fundamental risks and opportunities of the 3U Group. Fixed-line telephony segment comprises the range of fixed-line telephony services with products call-by-call, pre-selection and scheduling services in wholesale.

The broadband/IP segment comprises the provision of conventional transfer channels and value-added services for modern IP/data transmission.

Segment information for these business areas is as follows:

SEGMENT REPORT 2005

(IN T€)	FIXED-LINE SEGMENT 31 DEC 2005	BROADBAND/IP SEGMENT 31 DEC 2005	CONSOLI- DATI ONS 31 DEC 2005	GROUP 31 DEC 2005
INCOME				
External sales	86,774	36,605		
Sales between segments	34,764	2,734		
Total income	121,538	39,339	-37,498	123,379
NET EARNINGS				
Segment earnings	-4,932	1,532	3,477	77
Depreciation and amortisation	2,268	15,213	0	17,481
Value adjustments	1,942	181	0	2,123
BALANCE SHEET				
Assets	76,441	51,313	0	127,754
Liabilities	21,268	60,665	0	81,933
Capital expenditure	1,152	1,601	0	2,752

SEGMENT REPORT 2004

Including impairment and deferred tax assets relating to telecommunications licence*

(IN T€)	FIXED-LINE SEGMENT 31 DEC 2004	BROADBAND/IP SEGMENT 31 DEC 2004	CONSOLI- DATIONS 31 DEC 2004	GROUP 31 DEC 2004
INCOME				
External sales	65,435	31,023		
Sales between segments	19,668	3,418		
Total income	85,103	34,441	-23,086	96,458
NET EARNINGS				
Segment earnings	-14,756	-16,215	650	-30,321
Depreciation and amortisation	12,084	15,469	0	27,553
Value adjustments	341	214	0	555
BALANCE SHEET				
Assets	75,799	82,204	0	158,003
Liabilities	15,787	98,419	0	114,205
Capital expenditure	25,989	1,517	0	27,506

*See page 49, note [1]

German 3U companies generate the majority of sales and earnings in the 3U Group. The share of German sales/German earnings in total sales/total earnings (in percent) and investments of the German companies are presented according to segments in the following table:

(IN € MILLION)	FIXED-LINE TELEPHONY		BROADBAND/IP	
	2005	2004	2005	2004
Share in sales	77.48 (89.3 %)	58.41 (89.3 %)	33.08 (90.4 %)	28.22 (91.0 %)
Share in earnings	-4.41 (89.3 %)	-13.95 (94.4 %)	4.64 (303.3 %)	-13.47 (83.1 %)
Capital expenditure	1.15	25.99	1.60	1.52
Assets	75.07	71.12	43.62	58.98

In January 2006, the Management Board of the company resolved to close or sell non-profitable foreign companies in fixed-line telephony segment. The Management Board expects to close the companies in the United Kingdom and Luxembourg and to sell the company in Italy in first half of 2006.

The telecommunications services between segments are calculated as is standard on the market, following the arm's length principle using uniform Group pricing models. Price comparison methods are largely used and supplemented with Group-specific effects.

INFORMATION ON CONSOLIDATED INCOME STATEMENT

5.1 SALES

3U Group generates sales from activities as a fixed-line provider with its own carrier network and its own switching technology and from transport, internet and VPN solutions.

Sales are reported without value-added tax and after deduction of discounts granted. The income is calculated in connection with the performance of telecommunications services.

Sales comprise the following:

SALES ACCORDING TO CATEGORY IN € MILLION)	2005	2004
FIXED-LINE TELEPHONY	86.77	65.44
Of which in Germany	77.48	58.41
Of which in Europe	4.68	5.39
Of which in the USA	4.61	1.64
BROADBAND/IP	36.60	31.02
Of which in Germany	33.08	28.22
Of which in Europe	3.52	2.80
TOTAL	123.38	96.46

5.2 COST OF SALES

The item cost of sales for 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.

Sales costs, which also include the manufacturing-related amortisation in the Group, developed as follows:

(IN T€)	2005	2004
Fixed-line telephony	-75,697	-55,421
Broadband/IP	-38,525	-31,562
TOTAL	-114,222	-86,983

5.3 SELLING EXPENSES

Sales and marketing costs comprise both staffing costs and promotional costs such as promotional print material and expenses for trade fairs and company presentations.

5.4 GENERAL ADMINISTRATIVE EXPENSES

General administrative expenses include the costs of administrative personnel, staffing costs for Management Board, legal and consultancy costs, invoicing and collection costs, software maintenance and office space rental costs.

5.5 OTHER OPERATING INCOME AND EXPENSES

Other operating income of T€ 28,965 essentially comprises income from the modification of a long-term fibre-optic contract (T€ 11,569, previous year: T€ 0), from the deconsolidation of Carrier24 at T€ 4,996 (previous year: T€ 0) and of 3U TELECOM B.V. at T€ 3,137 (previous year: T€ 0). This also includes income from the write-back of provisions (T€ 414, previous year: T€ 763), income from the disposal of tangible assets (T€ 439, previous year: T€ 165), income from amortised receivables (T€ 2,232, previous year: T€ 0), income from reminder fees (T€ 486, previous year: T€ 0) and income from securities in non-current assets (T€ 433, previous year: 960).

Other operating expenses includes the following items:

(IN T€)	2005	2004
Value adjustments of receivables and losses for receivables	-4,514	0
Write-downs on receivables and capitalised deferred items to divested subsidiaries	-4,142	0
Write-downs not attributable to functional areas	-951	0
Losses from the disposal of assets	-432	-172
Expenditure from price differences	-187	-194
Repair and maintenance	-16	-12
Formation of provisions, where not allocated to other types of expenses	-12	-102
Other costs	-115	-341
TOTAL	-10,369	-821

5.6. ADDITIONAL INFORMATION ON CONSOLIDATED INCOME STATEMENT

Personnel expenses

The average number of employees was 193 (previous year: 220):

	2005	2004
Sales	52	50
Administration	24	31
Operations/IT	88	110
Technology/system development	29	29
TOTAL	193	220

Personnel expenses comprise the following:

(IN T€)	2005	2004
Salaries and wages	12,463	10,488
Social security contributions	1,609	1,418
Pension/support costs	144	77
TOTAL	14,216	11,983

Depreciation and amortisation

Amortisation on intangible and depreciation on tangible assets amounted to T€ 17,481 (previous year: T€ 27,553). No amortisation had to be carried out for goodwill.

5.7 INTEREST INCOME AND INTEREST EXPENSES

This item relates to current account and loan accounts. It also reports interest expenses for leasing liabilities.

(IN T€)	2005	2004
Other interest income	250	430
Income from investments	1	0
INTEREST INCOME	251	430
Interest expense from lendings	-1,668	-3,022
Interest for leasing instalments	-1,574	-2,210
Interest expenses for deconstruction costs	-277	-193
Interest expenses for current account	-166	-54
Other finance expenses	-190	-857
INTEREST EXPENSES	-3,875	-6,336
TOTAL	-3,624	-5,906

5.8 INCOME TAXES

Taxes paid or due on income and deferred taxes are listed as income taxes.

(IN T€)	2005	2004
Ongoing income tax expenses	-432	-1,519
Deferred taxes	-302	300
TOTAL	-734	-1,219

3U TELECOM AG and its German subsidiaries are subject to corporation and trade tax. Income is currently subject to corporation tax of 25 % plus 5.5% solidarity surcharge. Trade tax is currently around 19% of taxable income and is deductible in the calculation of corporation taxable income.

With effect from 1 January 2005, 3U TELECOM AG concluded profit transfer agreements with OneTel Telecommunication GmbH, LineCall Telecom GmbH and fon4U Telecom GmbH. The profit transfer agreements were approved in the Extraordinary General Meeting of 15 November 2005 and entered in December 2005.

Deferred taxes have been calculated using the liability method according to IAS 12. A combined income tax rate of 38 % is used for Germany. The tax rate used for foreign companies is also 38 %, with the exception of France, for which a rate of 33.3 % is used.

In accordance with IAS 12.81, the following overview contains a reconciliation of tax expenses resulting from the calculation of the use of the German tax rates on earnings before tax and the actual tax expenses in the annual financial statements presented.

	2005	2005	2004	2004
	€	%	€	%
Earnings before tax	811	100	-29,102	100 %
Consolidated tax rate (38 %)				
Calculated tax expenses	-308	-38	11,059	38
Non-taxable income/ non-deductible expenses	3,233	398.6	-209	-0.7
Deconsolidation of subsidiaries	2,551	314.6	0	0.0
Non tax-deductible impairment of customer base/goodwill	-524	-64.6	-2,607	-9.0
Value adjustments for capitalised tax assets/ no tax assets set up on loss carryforwards	-5,302	-653.8	-9,663	-33.2
Other	-384	-47.3	201	0.7
TOTAL	-734	-90.5	-1,219	-4.2

5.9 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated based on the following data:

Earnings per share

	31 DEC 2005	31 DEC 2004
EARNINGS (IN T€)	77	-30,321
Basis for basic earnings per share (the interest share of the parent company in earnings for the period)	77	-30,321
BASIS FOR DILUTED EARNINGS PER SHARE	77	-30,321
NUMBER OF SHARES (PIECES)	46,842,240	46,842,240
Weighted average number of ordinary shares for the basic earnings per share	46,842,240	46,842,240
Impact of potential ordinary shares to be diluted:		
Options	2,520,750	866,250
Weighted average number of ordinary shares for diluted earnings	49,362,990	47,708,490
EARNINGS PER SHARE (IN €)		
Earnings per share, basic	0.00	-0.65
Earnings per share, diluted	0.00	-0.64

6 INFORMATION ON THE CONSOLIDATED BALANCE SHEET

6.1 TANGIBLE ASSETS

The development of individual tangible asset items and depreciation/impairment for the current financial year are presented separately in the list of Group assets in "Appendix 1 to the Notes on the Consolidated Financial Statements".

6.2 INTANGIBLE ASSETS

The book values of intangible assets are calculated as follows:

(IN T€)	31 DEC 2005	31 DEC 2004
Licences, concessions and software licences	3,684	5,421
Customer base and goodwill	9,428	11,741
TOTAL	13,112	17,162

Acquired intangible assets were valued according to acquisition costs less depreciation according to straight line amortisation. This relates primarily to software licenses for transfer and IT technology.

German telecommunication licenses of license class 3 and 4 largely acquired in the 1999 financial year were granted for an unlimited period. Due to a change in licence issuing procedure in the 2004 financial year, an impairment of T€ 1,566 had to be carried out for the afore-mentioned licences. As this was previously omitted, there is consequently a balance sheet error which has now been corrected using the retrospective method with effect for the 2004 financial year.

Telecommunication licences for Switzerland, Italy, France and Austria were acquired in the 2000 financial year. The accumulated acquisition costs for these licences totalled T€ 223. The Swiss licence was granted for a 10-year period of use and the French licence for a 15-year period of use. Licences are amortised on a pro rata temporis basis in accordance with their useful life.

An impairment test was carried out for the goodwill of OneTel Telecommunication GmbH in the 2004 financial year and an unscheduled write-down of T€ 5,927 was carried out on 30 June 2004. After this impairment, goodwill amounts to T€ 550. An impairment test is conducted at least once a year. The impairment test is based on the DCF method (entity approach) to calculate the value in use. It is based on three detailed planning years with residual value calculation. Planning was based on the assumption of a moderate increase in sales, a terminal growth rate of 0.5% for the government bond and a weighted average cost of capital (WACC) of 12.2%. Tests since conducted have not resulted in any other write-downs of goodwill.

The initial consolidation of the 90% investment in LambdaNet on 1 April 2004 resulted in capitalised goodwill of T€ 8,746, which was capitalised as customer base and amortised over eight years. The valuation of the total customer base of

LambdaNet was based on multiples based on comparable transactions. 3U TELECOM AG took over the remaining shares in LambdaNet on 31 December 2004. The goodwill resulting from initial consolidation is T€ 1,624. This was also classified as customer base and amortised over eight years.

As of 31 December 2005, the carrying amount for the customer base is T€ 8,724.

6.3 TANGIBLE ASSETS

Please refer to the list of Group assets in "Appendix 1 to the Notes on the Consolidated Financial Statements" for the book values of tangible assets.

Tangible assets acquired by 3U TELECOM from Carrier24 at T€ 365 is documented as a maximum of T€ 250 with lessors liens. All technical and office equipment was transferred as security for the bank loan for LambdaNet.

6.4 FINANCIAL ASSETS

Securities available for disposal

(IN T€)	31 DEC 2005	31 DEC 2004
Attributable fair value	24,906	23,221

The securities represent financial investments in bonds and listed shares, which are to generate income for the Group from dividend income, interest income and trading income. They have no fixed due date and some have no fixed interest rate. The attributable fair values of these securities are based on published market data.

Assets in securities are in the form of two special funds, both of which are managed by Bank Julius Bär (Deutschland) AG. Gains are achieved with a resolution to distribute them. T€ 1,368 was booked as a total amount in the 2005 financial year through positive net changes in fair value after deferred taxes in revaluation reserves.

Funds assets are subject to fair value change risks of shares and fixed-interest securities. These are monitored regularly using the value-at-risk approach. On a weighted, monthly basis, this results in a maximum potential loss of around T€ 250 at a confidence level of 95%.

As of 31 December 2005, the special fund JB-Bernhard-Fonds, with a value of €13,00 million, was a fixed-interest securities bond consisting of 99% government bonds from the euro zone and Pfandbriefen. 1% was in cash. For risk reasons, bonds with remaining durations of up to seven years with AAA and AA ratings were held. The average coupon was 4.5% p.a. and the average yield at 3.1% p.a. as of 31 December 2005. The duration (capital commitment duration) was 2.8 years.

The special fund JB-Otto-Fonds, with a value of €12.42 million, consisted of 54 % shares, 43 % bond titles and 3 % cash as of 31 December 2005. The duration of bonds was 2.5 years. The average coupon was 4.1 % p. a. and the average yield 2.9 % p. a. as of 31 December 2005.

T€ 6,250 of the special fund was placed as a security for credit for LambdaNet.

6.5 FINANCE LEASING

Long-term lease agreements are capitalised for fibre-optic in the 3U Group. The capitalised fibre-optic contracts are based on an average normal useful operating life of 10 to 15 years. The interest rates range from 6.53 % to 8.58 %. All leases are based on fixed instalments. No agreements were made on any potential lease payments. All leasing liabilities are in euro.

Liabilities from finance leasing are posted on the balance sheet as current or non-current liabilities. The development is presented as follows:

FINANCE LEASING (IN T€)	31 DEC 2005		31 DEC 2004
	BOOK VALUES	CASH VALUES	BOOK VALUES
CAPITALISED LEASE ASSETS IN TANGIBLE ASSETS	19,735		30,061
Current (due within 1 year)	2,978	2,778	5,269
Non-current (due in 1 to 5 years)	11,726	9,221	20,809
Non-current (due in 5 years or more)	12,600	8,302	20,050
Book value of the leases	27,304	20,301	46,128
Future interest on finance leases	7,003		14,847
PRESENT VALUE OF LEASES	20,301		31,281

Extension options and price adaptation clauses are part of some leases.

The fibre-optic agreements with the supplier GasLINE contain price adaptation clauses. The amounts are subject to an escalation factor on half-yearly payment dates. For lease payments, this is calculated according to the producer price index for industrial goods. For maintenance charges, this is calculated according to a wage cost index.

Payments recognised as expenses totalled T€ 7,003 in the 2005 financial year.

With regard to the total of future minimum lease payments and their relevant present values, please refer to 6.18 "Contingent liabilities and other financial liabilities".

Modifications to the conditions of the fibre-optic lease contract with GasLINE in July 2005 reduced the value of capitalised leases by T€ 7,984. Depreciations on these capitalised leases are thus reduced by T€ 1,140 per year.

6.6 DEFERRED TAXES

Deferred taxes were calculated by taking temporary differences into account using the liability method in accordance with IAS 12. The combined income tax rate of 38% was used for Germany. The tax rate used for Austria and the USA is 38% and 33.3% for France. The following amounts are posted on the consolidated balance sheet:

(IN T€)	31 DEC 2005	31 DEC 2004
ASSETS		
Deferred taxes from deductible temporary differences	45	42
Deferred taxes from taxable loss carryforwards	54	413
TAX DEFERMENT POSTED AS ASSETS	99	455
LIABILITIES		
Deferred taxes from direct recording in equity	589	311
Deferred taxes from taxable temporary differences	11	67
TAX DEFERMENT POSTED AS LIABILITIES	600	378

A new estimate of the future realisation of the existing tax loss carryforwards was made in the financial year based on updated business plans. This led to a reversal of capitalised deferred taxes at T€ 76 for the subsidiaries 3U TELECOM S.P.R.L., Belgium, and 3U TELECOM SARL, Luxembourg. In addition, the deferred taxes posted as assets were reduced from tax use and offsetting against profits in the financial year.

Loss carryforwards, for which no deferred taxes were posted on the consolidated balance sheet, amount to T€ 44,517, taking the statutory state tax regulations into account. T€ 42,160 of this relates to Germany and T€ 2,357 to abroad.

Deferred tax liabilities from temporary differences contain a total of T€ 589 (previous year: T€ 311) of deferred taxes which were directly taken into account in equity. These refer to deferred tax liabilities from the valuation of special funds.

6.7 OTHER FINANCIAL ASSETS

Other financial assets generally comprise trade receivables, other assets and cash and cash equivalents.

Trade receivables are calculated as follows:

(IN T€)	31 DEC 2005	31 DEC 2004
Trade receivables from third parties	28,882	20,425
Value adjustments	-12,069	-11,519
TOTAL	16,813	8,906

Depending on the age structure of the receivables, uniform value adjustments are carried out within the Group for the receivables.

Other assets consist of:

(IN T€)	31 DEC 2005	31 DEC 2004
Receivables from tax refunds	2,516	3,149
Cost-free IP transit (MetroMedia)	492	861
Sureties	154	231
Fixed-term deposits for guarantees	116	362
Loans to former employees	381	142
Value adjustments for loans	-171	-142
Cost-free fibre-optic lease (MetroMedia)	0	1,107
Other	676	669
TOTAL	4,164	6,379
OF WHICH NON-CURRENT	736	2,103
OF WHICH CURRENT	3,428	4,276

It is the opinion of members of the Management Board that book value of trade receivables and other receivables directly correspond to their attributable fair value.

Cash in banks and cash in hand refers to cash and short-term deposits with an original due date within three months or less. The book value of these assets corresponds to their attributable fair value.

Default risk

The most important financial assets of the Group are cash in banks and cash in hand, trade receivables and other receivables. The default risk for the Group mainly results from trade receivables. The balance sheet amounts include the value adjustment deducted from receivables that cannot be recovered, which are based on the experience of the management and the estimates of the current economic environment of the company. The risk of default for cash and cash equivalents is limited as these are held by banks which have high credit ratings from the international rating agencies.

6.8 PREPAID EXPENSES

Pre-paid expenses generally refer to network leases at T€ 4,531 (T€ 1,289 of which are long-term) and construction cost supplements amounting to T€ 1,243 (long-term).

6.9 ISSUED CAPITAL

The issued capital consists of 46,842,240 no-par bearer shares with a notional value of €1.00 per share. The total share capital is fully paid. The total number of shares in circulation did not change during the reporting year.

The company only has one class of shares. These do not grant entitlement to a fixed dividend.

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 €1.00 were issued. These are entitled to participate in earnings from the beginning of the 2004 financial year. All shares grant the same rights.

Authorised capital

An authorised capital of T€ 23,421 was approved at the Annual General Meeting of 13 May 2004.

Contingent capital

The company has contingent capital of T€ 4,560.

6.10 EMPLOYEE INVESTMENT PROGRAMMES

2003 stock option plan

By way of resolution dated 15 May 2003, the Annual General Meeting authorised contingent capital of up to € 4,560,000.00 (€ 912,000.00 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 following are beneficiaries:

- Group 1: Members of the company Management Board and all members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG), where the members of the management of companies in Germany and abroad are not allocated to Group 2.
- Group 2: Employees of the company and affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG) in key positions at the first and second level of management below the Management Board or the relevant management (managers and/or employees with key functions),
- Group 3: All other employees of the company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG), where they are not allocated to Group 4,
- Group 4: Trainees and/or part-time or comparable employees of the company and of the affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG)

A total of 866,250 stock options (173,250 stock options prior to share split) were issued in the 2003 stock option plan. The distribution between the individual groups is as follows:

Group 1:	455,980 stock options (91,196 stock options prior to share split)
Group 2:	228,000 stock options (45,600 stock options prior to share split)
Group 3:	136,770 stock options (27,354 stock options prior to share split)
Group 4:	45,500 stock options (9,100 stock options prior to share split)
Total:	866,250 stock options (173,250 stock options prior to share split)

The exercise price is € 2.70.

The fair value of the stock options granted in 2003 has been fixed at € 0.90. This was calculated using the Black-Scholes model. The model assumptions correspond to a share price of € 2.23, an exercise price of € 2.70, anticipated volatility of 51%* and a risk-free interest rate of 3.5%.

Each option right authorises the purchase of a share in the company at the exercise price. The exercise price for the option rights corresponds to the strike price plus a 15 % premium as the profit target. The strike price is calculated as the average closing price for the company share in XETRA trading (or a comparable subsequent system) on the Frankfurt

*Source: Bloomberg

stock exchange during the last five trading days prior to the day on which the resolution to issue the option rights is passed. The exercise price is thus €2.70 per share.

A total of T€ 221 (previous year: T€ 253) of the 2003 stock option plan was posted as staffing costs, taking a fluctuation rate of 35 % into account.

2004/2005 stock option plan

On 9 March 2005, the Management Board resolved to launch a second stock option programme. The 2004/2005 stock option plan has a term of five years. The non-transferable option rights can be exercised after a two-year qualifying period on 9 March 2007 at the earliest and no later than 9 March 2010.

The option rights may only be exercised within a period of fifteen banking days in Frankfurt am Main following the publication of the annual financial statements and/or consolidated financial statements, the Annual General Meeting or the publication of a quarterly report and/or the Annual Report.

The 2004/2005 stock option plan has the following key areas:

Please refer to the 2003 stock option plan for the classification of beneficiaries.

A total of 2,206,000 stock options were issued in the 2004/2005 stock option plan. The distribution between the individual groups is as follows:

Group 1:	870,000 stock options
Group 2:	765,000 stock options
Group 3:	546,000 stock options
Group 4:	25,000 stock options
Total:	2,206,000 stock options

The exercise price is €1.06.

The fair value of the stock options granted in 2005 has been fixed at €0.51. This was calculated using the Black-Scholes model. The model assumptions correspond to a share price of €0.98, an exercise price of €1.06, anticipated volatility of 61%* and a risk-free interest rate of 3.0 %.

Each option right authorises the purchase of a share in the company at the exercise price. The exercise price for the option rights corresponds to the strike price plus a 15 % premium as the profit target. The strike price is calculated as the average closing price for the company share in XETRA trading (or a comparable subsequent system) on the Frankfurt stock exchange during the last five trading days prior to the day on which the resolution to issue the option rights is passed. The exercise price is thus €1.06 per share.

*Source: Bloomberg

As a relative performance target, the company share must have outperformed the TecDAX on ten consecutive days between the acquisition of the option rights and the exercise day. In addition, a cap was set at the amount of a gross annual salary.

The beneficiary may only sell shares received through the exercise of stock options within a month of the publication of the quarterly reports or after the publication of periodical reporting.

A total of T€ 359 (previous year: T€ 0) of the 2003 stock option plan was posted as staffing costs in the 2005 financial year, taking a fluctuation rate of 15 % into account.

The exercise prices range from €1.06 to €2.70. The weighted exercise price is €1.52.

6.11 REVALUATION RESERVE

The revaluation reserve of T€ 2,213 resulted from the valuation of securities of the special fund at fair value and the deferred tax liabilities from the additions to securities taken directly to equity.

6.12 MINORITY INTERESTS

The minority interests amounted to T€ 9 (previous year: T€ 9.).

6.13 FINANCIAL LIABILITIES

Financial liabilities generally refer to overdraft facilities and lease liabilities. Current lease liabilities have reduced by T€ 920 to T€ 1,573. This is due to both the deconsolidation of Carrier24 and the signature of the contract with an important fibre-optic supplier.

The remaining terms of the financial liabilities are:

(IN T€)	TOTAL	UP TO 1 YEAR	1 TO 5 YEARS	MORE THAN 5 YEARS
FINANCIAL LIABILITIES	36,597	5,293	23,002	8,302

Non-current liabilities due to banks were down by T€ 2,686 to T€ 13,781 compared to the previous year. Non-current leasing liabilities decreased by T€ 26,860 to T€ 17,523. This is due to the deconsolidation of Carrier24 and the signature of the contract with an important fibre-optic supplier, both of which resulted in reduced leasing liabilities.

Financial liabilities comprise the following:

(IN T€)	31 DEC 2005	31 DEC 2004
Liabilities due to banks	16,296	16,467
Leasing liabilities	20,301	46,876
TOTAL	36,597	63,343

6.14 TRADE PAYABLES

It is assumed that the book value of the trade payables corresponds to their attributable fair value.

6.15 OTHER LIABILITIES

Other liabilities comprise the following:

(IN T€)	31 DEC 2005	31 DEC 2004
Supplier loan	4,201	10,482
Social security contributions	228	241
Income and church tax	141	135
Other taxes	641	11
Provisions of a liability nature	786	9,341
Payroll	139	176
Other liabilities	35	389
TOTAL	6,171	20,774
OF WHICH NON-CURRENT	53	10,482
OF WHICH CURRENT	6,118	10,292

A convertible bond of T€ 10,481 was posted in the consolidated financial statements of 3U TELECOM AG until July 2005. On conclusion of a new agreement with a fibre-optic supplier, T€ 7,861 of the liability from this convertible bond was cancelled and the remaining bond was converted into a loan. The remaining loan (T€ 2,620), interest expenses due for the 2004, 2005 and 2006 financial years and other expenses amounting to T€ 1,581 are due for payment on 31 December 2006.

6.16 PROVISIONS

Provisions essentially comprise deconstruction obligations amounting to T€ 4,647 (previous year: T€ 4,369), tax provisions amounting to T€ 1,774 (previous year: T€ 1,847), staffing provisions amounting to T€ 1,187 (previous year: T€ 0), process risks amounting to T€ 1,084 (previous year: T€ 1,304) and provisions for insolvency administrators amounting to T€ 740 (previous year: T€ 833).

Income from the reversal of provisions amounts to T€ 414. The use of provisions totals T€ 2,549.

6.17 DEFERRED ITEMS

Deferred items essentially refer to deferred sales.

6.18 CONTINGENT LIABILITIES AND OTHER FINANCIAL LIABILITIES

The Group had the following other liabilities on the balance sheet reporting date:

(IN T€)	UP TO 1 YEAR*	1 TO 5 YEARS*	MORE THAN 5 YEARS*
Rents and cleaning	252 (233)	38 (30)	0
Rental leasing	3,709 (3,425)	12,337 (9,421)	2,269 (1,216)
Insurance policies	51 (47)	0	0
Other financial liabilities	171 (158)	127 (96)	0
Purchase commitments	57 (56)	0	0
TOTAL	4,240 (3,919)	12,502 (9,547)	2,269 (1,216)

Rental leasing refers to lease agreements for offices, technical space and passenger cars. The agreements concerned have a remaining term of 1 to 10 years. Rental leasing payments in 2005 amounted to T€ 3,677.

*Amounts in brackets represent the relevant present values

7 NOTES ON THE CASH FLOW STATEMENT

The fund comprises cash in banks and cash in hand. The only cash held as foreign currency is held in US dollars and the exchange rate fluctuations relating to this did not have an impact on the cash flow statement.

Cash flows are broken down into ongoing business operations, investing and financing activities. The indirect calculation method was used for the presentation of cash flows from ongoing business operations.

The 2004 US GAAP cash flow statement was adjusted for the initial consolidation of Carrier24 and LambdaNet in the conversion to IFRS. Their interim amounts changed considerably in the modification of the 2004 cash flow statement.

Cash flows from business operations:	T€ -24,133
Cash flows from investing activities	T€ +84,632
Cash flows from financing activities:	<u>T€ -60,499</u>
Total:	T€ 0

Liquidity effects of the divested companies were eliminated from the 2005 cash flow statement.

After adjustment for cash-neutral income and expenses (essentially depreciation and interest expenses) and consideration of the changes to working capital, the 3U Group achieved a cash inflow of T€ 2,198 from ongoing business operations.

Cash flow from investing activities amounted to T€ -2,908.

In total, there was a decrease of T€ 709 (before changes to the scope of consolidation) in cash and cash equivalents.

8 OTHER INFORMATION

8.1 FINANCIAL RISKS

No derivative financial instruments were used in the 3U Group in the past financial year.

Foreign currency risk

3U Group primarily conducts its business operations in Germany and invoices in euro. Trade payables in foreign currency are of subordinate importance for the Group, thus there is no significant foreign currency risk.

Default risk

Default risks are in line with the normal market risks and appropriate value adjustments are made. Securities and cash and cash equivalents are generally held at major German banks and in their money market funds. There is no significant default risk.

Liquidity/refinancing risk

Financial planning instruments are implemented throughout the Group to monitor and control liquidity. The planning horizon is one year. Short-term liquidity planning and control is conducted in advance for the next three months on a daily basis. This planning is updated daily based on actual data.

Interest change risk

The risk of increasing interest rates for bank loans is monitored on a regular basis and will be safeguarded through an interest rate swap in the first quarter of 2006.

8.2 RELATIONSHIPS WITH CLOSELY-RELATED COMPANIES AND PEOPLE

The following persons were appointed members of the Management Board of the company in the reporting year.

Berth Hausmann	Weßling Member of the 3U TELECOM AG Management Board, responsible CFO
Michael Schmidt	Lahntal Member of the 3U TELECOM AG Management Board with responsibility for Technology Supervisory Board or Advisory Board positions: Chairman of the Supervisory Board, OneTel Telecommunication GmbH until 4 May 2005 Member of the Supervisory Board, LambdaNet Communications Deutschland AG until 7 April 2005
Roland Thieme	Lahntal Member of the 3U TELECOM AG Management Board with responsibility for Technical Services Supervisory Board or Advisory Board positions: Member of the Supervisory Board, LambdaNet Communications Deutschland AG
Burkhard von Ehren	Krefeld Member of the 3U TELECOM AG Management Board with responsibility for Sales (until 31 December 2005) Supervisory Board or Advisory Board positions: Member of the Supervisory Board, LambdaNet Communications Deutschland AG from 7 April 2005

The total remuneration for the Management Board in 2005 was T€ 760 (previous year: T€ 886). Variable bonus components for 2005 are determined after approval of the financial statements by the Supervisory Board.

NAME	FIXED REMUNERATION (IN €)	VARIABLE REMUNERATION (IN €)	LONG-TERM REMUNERATION COMPONENTS STOCK OPTIONS IN €
Berth Hausmann	174,072.00	11,000.00	84,150
Michael Schmidt	183,099.96	0.00	84,150
Roland Thieme	191,897.16	0.00	84,150
Burkhard von Ehren	171,999.96	27,500.00	84,150

All remuneration for Management Board activities was made by 3U TELECOM AG. The subsidiaries did not pay any contributions.

There is a non-interest bearing loan agreement of T€ 17 for the Member of the Management Board Michael Schmidt, which previously had a fixed term until 31 December 2005, but which has now been extended into the 2006 financial year. The loan agreement for the Member of the Management Board Roland Thieme created in the previous year and which amounts to T€ 17, was paid back during the reporting year.

Shares held by the Management and Supervisory Boards as of 31 December 2005:

NAME	SHARES	2003 OPTIONS	2005 OPTIONS
Berth Hausmann	22,000	0	165,000
Michael Schmidt	8,299,995	124,360*	165,000
Roland Thieme	2,508,330	124,360*	165,000
Burkhard von Ehren	14,500	0	165,000

*After stock split

The following persons were appointed members of the Supervisory Board in the reporting year:

Hubertus Kestler	<p>Frankfurt am Main Lawyer and notary, Kestler, Mielert, Otto (KMO) in Frankfurt am Main Chairman of the 3U TELECOM AG Supervisory Board Other Supervisory Board or Advisory Board positions: Deputy Chairman of the Supervisory Board of OneTel Telecommunication GmbH until 4 May 2005 Chairman of the Supervisory Board, LambdaNet Communications Deutschland AG</p>
Gerd Simon	<p>Bad Homburg vor der Höhe Industrial Engineer Other Supervisory Board or Advisory Board positions: Member of the Supervisory Board of Elabs AG, Frankfurt am Main Member of the Supervisory Board of OneTel Telecommunication GmbH until 4 May 2005 Member of the Supervisory Board, LambdaNet Communications Deutschland AG</p>
Ralf Thoenes	<p>Düsseldorf Lawyer, Altenburger, Düsseldorf Deputy Chairman of the 3U TELECOM AG Supervisory Board Other Supervisory Board or Advisory Board positions: Deputy Chairman of the Supervisory Board of LambdaNet Communications Deutschland AG</p>

Supervisory Board remuneration in 2005 was T€ 176 (previous year: T€ 192).

Remuneration for the services of members of the Supervisory Board in addition to the Supervisory Board payments stipulated in the Articles of Association are made with the approval of the Supervisory Board in accordance with Article 114 Paragraph 1 of the German Stock Corporation Act (AktG).

These were as follows:

Hubertus Kestler (KMO):	Legal consultation	T€ 778
Ralf Thoenes (Altenburger):	Legal consultation	T€ 57

8.3 EVENTS AFTER THE BALANCE SHEET REPORTING DATE

After the balance sheet reporting date, the 3U Group issued a letter of intent with regard to the sale of the subsidiary 3U TELECOM S.R.L., Italy.

In January 2006, the Management Board resolved to close the subsidiaries in the fixed-line segment 3U TELECOM SARL, Luxembourg, and 3U TELECOM Ltd., United Kingdom.

Sales of the three above mentioned companies correspond to less than 1% of total consolidated sales for 2005. There are no significant assets and liabilities to third parties as of the reporting date of the financial statements.

No estimate can yet be made on the financial impact of the two events stated.

Negotiations with the financial authorities with regard to the tax audit for 1999 to 2002 were largely completed in January 2006 with the provisional result of a tax back payment of T€ 1,200. The corresponding provision was made on 31 December 2005.

8.4 AUDITORS FEES

The auditors fees for the 2005 financial year totalled T€ 157 for the audit of the financial statements.

KPMG also provided consultancy services for a fee of T€ 50.

8.5 DEVIATIONS FROM GROUP ACCOUNTING ACCORDING TO THE HGB [GERMAN COMMERCIAL CODE]

The balance sheet and consolidation methods were carried out in accordance with the International Financial Reporting Standards (IFRS). The regulations of the HGB and the German Stock Corporation Act (AktG) differ in certain material aspects from the IFRS. The deviations are as follows:

- The use of straight-line depreciation instead of the tax-motivated declining balance method
- Special tax items are not permitted in accordance with Article 7g of the German Income Tax Act (EstG)
- No amortisation of goodwill
- Provisions for internal obligations are not permitted
- Discounting on provisions
- Forming deferred tax assets and deferred tax liabilities

8.6 DECLARATION PURSUANT TO ARTICLE 161 OF THE GERMAN STOCK CORPORATION ACT (AKTG) ON THE GERMAN CORPORATE GOVERNANCE CODE

The Management and Supervisory Boards have published a declaration of conformity in line with Article 161 of the German Stock Corporation Act (AktG) on the 3U TELECOM AG website at www.3utelecom.de, which is thus available to the public.

8.7 INFORMATION PURSUANT TO ARTICLE 160 PARAGRAPH 1 NO. 8 OF THE GERMAN STOCK CORPORATION ACT (AKTG)

Udo Graul, the major shareholder and former Chairman of the Management Board, announced in a mandatory release on 7 June 2005 pursuant to Article 21 Paragraph 1 of the German Securities Trading Act (WpHG), that he fell short of the investment thresholds of 10 % and 5 % on 31 May 2005 and no longer holds shares in 3U TELECOM AG.

8.8 DATE OF THE RELEASE OF THE FINANCIAL STATEMENTS FOR PUBLICATION

The Management Board of 3U TELECOM AG released the consolidated financial statements to the Supervisory Board at 3 March 2006. The Supervisory Board is responsible for examining the consolidated financial statement and for declaring that it approves the consolidated financial statements.

Marburg, 3 March 2006

The Management Board



Berth Hausmann



Michael Schmidt



Roland Thieme

3U TELECOM AG, MARBURG

DEVELOPMENT OF GROUP FIXED ASSETS (IFRS)

3U GROUP (IN T€)	ACQUISITION AND PRODUCTION COST				As of 31 Dec 2005
	As of 1 Jan 2005	Additions	Disposals	Re-bookings	
I. INTANGIBLE ASSETS					
1. Concessions, industrial property rights and similar rights and assets and licences to such rights and assets	9,345	420	1,110	0	8,655
2. Customer base	13,990	0	0	0	13,990
3. Goodwill	12,769	0	3,799	0	8,970
TOTAL INTANGIBLE ASSETS	36,104	420	4,909	0	31,615
II. TANGIBLE ASSETS					
1. Land, land rights and buildings including buildings on third party land	962	6	0	0	968
2. Technical equipment and machines	76,842	6,905	14,969	92	68,870
3. Plant and office equipment	16,238	1,169	15,506	0	1,901
4. Prepayments and construction in progress	92	85	0	-92	85
TOTAL TANGIBLE ASSETS	94,134	8,165	30,475	0	71,824
III. FINANCIAL ASSETS					
1. Investments	71	19	0	0	90
2. Investment securities	23,239	1,667	0	0	24,906
TOTAL FINANCIAL ASSETS	23,310	1,686	0	0	24,996
TOTAL FIXED ASSETS	153,548	10,271	35,384	0	128,435

ACCUMULATED DEPRECIATION					BOOK VALUES		
As of 1 Jan 2005	Additions*	Disposals	Re-bookings	As of 31 Dec 2005	As of 31 Dec 2005	As of 31 Dec 2004	
3,924	1,632	406	-179	4,971	3,684	5,421	
2,799	2,085	0	228	5,112	8,878	11,191	
12,219	0	3,750	-49	8,420	550	550	
18,942	3,717	4,156	0	18,503	13,112	17,162	
87	27	0	0	114	854	875	
13,788	12,570	2,994	0	23,364	45,506	63,054	
1,680	1,167	1,749	0	1,098	803	14,558	
0	0	0	0	0	85	92	
15,555	13,764	4,743	0	24,576	47,248	78,579	
0	0	0	0	0	90	71	
0	0	0	0	0	24,906	23,239	
0	0	0	0	0	24,996	23,310	
34,497	17,481	8,899	0	43,079	85,356	119,051	

* = Depreciation for the period

We have audited the consolidated financial statements prepared by 3U TELECOM AG comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the group management report for the business year from 1 January to 31 December 2005. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs.1 HGB (German Commercial Code) are the responsibility of the parent company's management board. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs.1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Frankfurt am Main, 3 March 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagenseil
Wirtschaftsprüfer

Wehner
Wirtschaftsprüfer

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SUPERVISORY BOARD POSITIONS HELD BY MEMBERS OF THE MANAGEMENT BOARD

BURKHARD VON EHREN

Within the Group:

- LambdaNet Communications Deutschland AG,
Hannover
(since 7 April 2005)

MICHAEL SCHMIDT

Within the Group:

- LambdaNet Communications Deutschland AG,
Hannover
(to 7 April 2005)
- OneTel Telecommunication GmbH, Marburg
(Chairman to 4 May 2005)

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

MICHAEL SCHMIDT

Within the Group:

- LambdaNet Communications Deutschland AG,
Hannover
(since 7 April 2005)

SUPERVISORY BOARD POSITIONS HELD BY MEMBERS OF THE SUPERVISORY BOARD

HUBERTUS KESTLER

Within the Group:

- LambdaNet Communications Deutschland AG, Hannover
(Chairman)
- OneTel Telecommunication GmbH, Marburg
(Deputy Chairman to 4 May 2005)

GERD SIMON

Within the Group:

- LambdaNet Communications Deutschland AG, Hannover
- OneTel Telecommunication GmbH, Marburg
(to 4 May 2005)

External:

- Elabs AG, Frankfurt am Main

RALF THOENES

Within the Group:

- LambdaNet Communications Deutschland AG, Hannover
(Deputy Chairman)

FINANCIAL CALENDAR

- **PUBLICATION OF FIGURES FOR Q1/2006**
15 May 2006

- **ANNUAL GENERAL MEETING**
23 May 2006

- **PUBLICATION OF FIGURES FOR Q2/2006**
15 August 2006

- **PUBLICATION OF FIGURES FOR Q3/2006**
15 November 2006

- **ANALYST'S CONFERENCE**
Q4 2006

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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 number 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 the 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.

ISP

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.

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 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.

Long-distance carrier 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 selection code" and "carrier code".

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.

Participant network carrier

Participant network carriers provide the physical connection (last mile) for the end customer. This connection enables the customer to use all the services of the participant network carrier without any diversions. The participant network carriers have obligations regarding emergency calls, information requests and tapping measures on instruction by the authorities.

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.

Pre-selection

Unlike call-by-call, pre-selection does not require a selection code to be dialled first. The selection code of the preferred provider is pre-defined. However, it is still possible to use other providers by means of call-by-call.

Reseller

Resellers purchase connection minutes from a licensed network carrier and sell 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.

A transfer technology network supplies the transport capacity for streams requiring applications and networks which operate on higher protocol layers. Transfer technology also includes specific functions for operating and maintenance (OAM).

Transfer technology provides the superior layers and multiplex and switching technology for defined services. Multiplex technology and switching technology are designed to use the transport capacity (bandwidth) supplied by the transfer technology effectively and economically.

Voice over Internet Protocol /**Voice over IP (VoIP)**

Technique for establishing telephone connections via the internet.

There are three main methods:

PC to PC, PC to Phone, Phone to Phone.

VPN

Virtual Private Network is a technology for connection 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 individual 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 the Supervisory Board, in line with Article 161 of the German Stock Corporation Act, of the implementation of the recommendations of the Government Commission of the German Corporate Governance Code.

Deferred taxes

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

Earnings per share

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

EBIT

Earnings before interest, taxes.

EBITDA

Earnings before interest, taxes, depreciation and amortisation.

EBT

Earnings before taxes.

Equity ratio

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

Free float

Shares which are widely held.

IFRS

International Financial Reporting Standards

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 (RoI)

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.

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This annual report contains statements relating to the future which are subject to risks and uncertainties and which are assessments of the management of 3U TELECOM AG and reflect its current opinions with regard to future events. Such predictive statements can be recognised by the use of terms such as "expect", "assume", "estimate", "anticipate", "intend", "can", "plan", "project", "will" and similar expressions. Statements relating to the future are based on current and valid plans, estimates and expectations. Such statements are subject to risks and uncertainties, most of which are difficult to estimate and which are generally beyond the control of 3U TELECOM AG.

The following are - by no means exhaustive - examples of factors that may trigger or affect a deviation: the development of demand for our services, competitive factors - including price pressure -, technological changes, regulatory measures, risks in the integration of newly acquired companies. If any of these or other risks and uncertain factors occur, or if the assumptions on which the statements are based prove to be incorrect, the actual results of 3U TELECOM may differ materially from those outlined or implied in these statements. The company does not undertake to update predictive statements of this nature.

This Annual Report contains a range of figures which are not part of commercial regulations and the International Financial Reporting Standards (IFRS), such as EBT, EBIT, EBITDA and EBITDA adjusted for special influences, adjusted EBITDA margin, investments (capex). These figures are not intended to substitute the information for 3U TELECOM AG in accordance with the German Commercial Code (HGB) or IFRS. It should be noted that the figures for 3U TELECOM AG which are not part of commercial regulations and the IFRS, can only be compared to the corresponding figures of other companies to a certain extent.

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