ANNUAL REPORT 2006

3U TELECOM

3U TELECOM

SUMMARY OF GROUP RESULTS

3U Group (IFRS)		Year-on-year comparison 1 Jan – 31 Dec 2006	1 Jan – 31 Dec 2005
Sales	(in € million)	127.51	123.38
EBITDA* (earnings before interest, taxes, depreciation and amortisation)	(in € million)	8.76	6.80
EBIT* (earnings before interest and taxes)	(in € million)	-8.05	-8.25
EBT (earnings before taxes)	(in € million)	-3.88	0.81
Net income/loss for the period	(in € million)	-3.86	0.08
Earnings per share (basic)	(in €)	-0.08	0.00
Earnings per share (diluted)	(in €)	-0.08	0.00
Equity ratio	(in %)	38.51	35.87

3U Group (IFRS)		Quarterly comparison Q4 2006	Q4 2005
Sales	(in € million)	30.30	34.25
EBITDA* (earnings before interest, taxes, depreciation and amortisation)	(in € million)	1.70	2.09
EBIT* (earnings before interest and taxes)	(in € million)	-1.84	-1.88
EBT (earnings before taxes)	(in € million)	-2.77	-4.36
Net income/loss for the period	(in € million)	-2.67	-4.09
Earnings per share (basic)	(in €)	-0.06	-0.09*
Earnings per share (diluted)	(in €)	-0.05	-0.08
Equity ratio	(in %)	38.51	35.87

*The EBITDA and EBIT figures were adjusted for 2006 to take into account the non-recurring positive special effects of € 4.74 million from the agreement with Cogent Communication Group Inc., fund income of € 2.51 million, non operating result of € 0.20 million, as well as the negative special effects of € 0.25 million from deconsolidations, process risk amendments among the provisions of € 0.70 million, and non-recurring special effects of € 0.37 million in connection with the corporate restructuring.
With regard to the EBITDA and EBIT figures for 2005, the non-recurring special effects of € 5.00 million from the deconsolidation of Carrier24 GmbH were eliminated.

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CONTENT

LETTER TO OUR SHAREHOLDERS

Dear shareholders,

In 2006, the Management Board again successfully implemented key measures to re-establish sustained profitability and increase the value of the 3U Group. The main aspects here were to continue the restructuring and prepare for the strategic realignment, the implementation of which was approved in mid-January 2007 at an Extraordinary General Meeting with a majority of over 99 %.

A look at the development of business shows that we stabilised the operating results in what remained an extremely challenging telecommunications market. Crucial factors here were rigorous cost management, the abandonment of loss-making products combined with the cessation of indirect sales as well as the closure and sale of unprofitable foreign subsidiaries. A stable basis for the strategic realignment has thus been created.

In the 2006 financial year, sales totalled € 127.5 million, compared with € 123.4 million in the previous year. EBITDA amounted to € 8.76 million in the past financial year, up € 1.96 million on the previous year (€ 6.80 million). The net loss was € 3.86 million, compared with net income of € 0.08 million in the 2005 financial year achieved as a result of non-recurring items.

Challenging telecommunications market

The sustained decline of the market environment due to the aggressive price war in the fixed-line telephony and broadband/IP segments led to a further decrease in margins. At the end of 2006, market leader Deutsche Telekom AG issued its second profits warning, and not even nine-digit market budgets could stop a downturn in business and customer losses. The market leader was forced to make profit-reducing price cuts so as to avoid losing even more market share.

In this challenging sector situation, the management of 3U TELECOM AG decided to pull out of the loss-making sectors (DSL and VoIP) and concentrate on call-by-call and wholesale activities. The management identified in good time that sufficient margins cannot be generated from the abandoned products for the foreseeable future due to excessively high customer acquisition costs.

According to current planning, the concentration on call-by-call and wholesale will initially secure the profitability of 3U TELECOM AG even though the business environment in the fixed-line telephony segment remains challenging. In the broadband/IP segment, we plan to generate increasingly positive operating results and cash flows with LambdaNet Communications Deutschland AG.

To be able to generate sustained profitable growth, we realigned the business model and decided to enter the investment business. We are confident that this will help us achieve an increase in the enterprise value and the associated positive share price performance.

The Management Board of the 3U TELECOM AG (from left to right): Oliver Zimmermann, Roland Thieme, Michael Schmidt

Outstanding positioning for strategic realignment

At the Extraordinary General Meeting on 15 January 2007 in Frankfurt am Main, we clearly demonstrated that we must expect falling sales and income in future despite continuously performed restructuring and optimisation measures without the simultaneously approved strategic realignment.

As a result of the resolutions adopted at the Annual General Meeting, the essential conditions are now in place for us to become established as a profitable management and investment company in the short and medium term, primarily in the innovative technology and corporate restructuring sectors. In this respect, the Management Board will take account of commercial viability when making the necessary acquisitions, and will focus on projects with sustained return prospects in the interest of shareholders.

Against the background of the restructuring and optimisation measures carried out in the past two years, 3U TELECOM AG is very well positioned for the investment business. The existing expertise of the management and the links with a wide network of experts as well as the company's asset situation and a streamlined cost structure of the investment holding company will enable our company to enter into the investment business successfully.

In the context of the strategic realignment, 3U TELECOM AG will trade as 3U HOLDING AG in future.
The business operations of 3U TELECOM AG will be spun off to 3U TELECOM GmbH, a wholly-owned subsidiary, and continued as an equity investment.

2007: the year of repositioning

Two key targets have been defined for the 2007 financial year:

1. In the short term, stable operating results and positive operating cash flows are to be generated in the existing fixed-line telephony and broadband/IP segments.
2. The first equity investments strong return potential are to be acquired.

With the available capital, we will also continue to act on a return-oriented and risk-aware basis in future. In the same way, we will intensify our investor and public relations work in order to help improve the share price. A look at other successful listed medium-sized investment companies shows that the targeted sustained increase in enterprise value is realistic.

You, the shareholders, approved the proposals of the Management Board and Supervisory Board with a majority of over 99%. We are very grateful to you for that.

Marburg, March 2007

The Management Board

Michael Schmidt | Roland Thieme | Oliver Zimmermann

REPORT OF THE SUPERVISORY BOARD

Dear shareholders,

For the 3U Group, the 2006 financial year was characterised by a persistently challenging competitive environment and the rigorously pursued strategic realignment. The cessation of unprofitable sales channels and business activities as well as the focus on the call-by-call and wholesale sectors combined with streamlining of structure costs were implemented successfully. Due to the limited growth and income prospects in the traditional business areas and the resultant restricted outlook for the future development of the company, the Management Board and Supervisory Board of 3U TELECOM AG decided in November 2006 to reposition 3U TELECOM AG by building up an investment business. In conjunction with the requisite standardisation of Group management, the telecommunications services previously operated at 3U TELECOM AG were spun off and transferred to a new wholly-owned owned subsidiary with retroactive effect from 1 October 2006. The Extraordinary General Meeting of 3U TELECOM AG convened for this purpose on 15 January 2007 overwhelmingly approved the proposals of the management. After the resolutions have been entered in the register of companies, 3U TELECOM AG will assume the function of a management and investment company in the 3U Group under the new name of 3U HOLDING AG, and it will focus its business operations on acquisition of new equity investments in addition to investment management.

The Supervisory Board of 3U TELECOM AG was directly and intensively involved in all these measures as well as other decisions of major importance. Furthermore, the Supervisory Board performed the tasks required of it according to legislation and the Articles of Association, regularly advised the Management Board regarding management of the company and monitored it. The Management Board constantly informed the Supervisory Board regarding the financial position, corporate planning and material business developments of the company, in particular regarding the ongoing restructuring and progress with repositioning. All the reports and draft resolutions of the Management Board were discussed in detail.

The discussion in the Supervisory Board focused on:
- Development of sales and earnings, financial position
- Discussion of the quarterly reports
- Additional measures for focusing on the core business
- Sale or closure of unprofitable subsidiaries abroad
- Discussion and consultation with regard to any business requiring authorisation
- Management Board issues
- Risk management
- Strategy and planning, profitability
- The courses of action arising from the challenging competitive environment

Another subject of discussion was the efficiency review of the Supervisory Board corresponding to the corporate governance principles.

In the 2006 financial year, seven Supervisory Board meetings were held (10 March 2006, 27 April 2006, 22 May 2006, 21 July 2006, 22 September 2006, 23 November 2006 and 21 December 2006). All members of the Supervisory Board were present at each of these meetings. The Supervisory Board consists of three members and did not form any committees. Resolutions by the Supervisory Board were made in meetings and by written consent. All resolutions of the Supervisory Board were unanimous. In addition, outside of the scheduled meetings, the Chairman of the Supervisory Board was regularly informed of the business development by the Management Board and discussed business policy issues with the Management Board. Particular attention was paid to the issues of the operational and strategic development of the Group as well as important transactions. In the context of the audit of the financial statements, the auditor also examined the company's risk management system. This audit confirmed that the Management Board of the company has appropriately taken the measures required according to Article 91 (2) of the German Stock Corporation Act and that the existing monitoring system is suitable for early detection of developments that jeopardise the continuation of the company's activities.

On 30 May 2006, the Management Board and Supervisory Board issued the declaration of conformity in accordance with Article 161 of the German Stock Corporation Act. This declaration is reproduced on page 10 of the 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".

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, the consolidated financial statements prepared in accordance with IFRS and the relevant management reports for the 2006 financial year. It awarded all reports an unqualified auditor's opinion. The auditor was chosen by the Annual General Meeting on 23 May 2006 and was mandated by the Supervisory Board to audit the annual financial statements and consolidated financial statements. The annual financial statement documents and the audit reports of the auditor were submitted to all members of the Supervisory Board in good time and were discussed at the financial statements meeting on 28 March 2007. The Supervisory Board examined the documents presented by the auditor. At this meeting, the responsible auditor reported on the main results of this audit and was available for further information.

The Supervisory Board thoroughly examined the annual financial statements of 3U TELECOM AG, the consolidated financial statements, the management reports for 3U TELECOM AG and the Group as well as the proposal for appropriation of retained earnings, and raised no objections. The Supervisory Board approved the results of the audits of both sets of financial statements by the auditor and also approved the annual financial statements of 3U TELECOM AG as well as the consolidated financial statements to 31 December 2006. The annual financial statements are thus adopted.

Mr Berth Hausmann left the Management Board on 30 September 2006. Mr Oliver Zimmermann was appointed as CFO of 3U TELECOM AG and LambdaNet Communications Deutschland AG on 1 October 2006.

Overall, despite planned sales decreases in the fixed-line telephony segment, the 3U Group again expects positive operating results and cash flows in the traditional business areas of fixed-line telephony and broadband/IP for 2007. Combined with the decision to enter the investment business, this opens up considerable growth opportunities, which are also likely to be reflected in positive share price performance.

The Supervisory Board would like to thank the members of the Management Board and all employees of the 3U Group for their work and commitment in the past financial year.

Marburg, March 2007

Hubertus Kestler
Chairman of the Supervisory Board

CORPORATE GOVERNANCE REPORT

The German Corporate Governance Code has been in existence in Germany since 2002. It was last updated in June 2006 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

In 2006, 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 May 2006. It can be viewed on its website (www.3utelecom.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 German Corporate Governance Code for members of the Management Board and Supervisory Board. 3U TELECOM AG does not believe that the motivation and sense of responsibility with which the members of the Management Board and Supervisory Board perform their duties will be improved by a deductible.

Composition of the Management Board

The Management Board of 3U TELECOM AG consists of three persons. 3U TELECOM AG believes that it is not necessary for the Management Board to have a Chairman or spokesman (cf. Section 4.2.1 of the German Corporate Governance Code).

Stock option plan

The 3U stock option plan for 2003 deviates from the recommendations of the German Corporate Governance Code in Section 4.2.3 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

In Sections 5.1.2 and 5.4.1, 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

Section 5.4.7 of the 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 individually and separately in the corporate governance report, broken down by individual members.

3U TELECOM AG has previously not followed this recommendation. Starting with this annual report for 2006, 3U TELECOM AG will fully comply with this recommendation. In this respect, we refer to the information in the following "Remuneration of the Supervisory Board" section.

Remuneration report of 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. For variable remuneration, uniform Group targets such as the sales of the 3U Group and EBITDA as well as individual targets for the individual Management Board mandates are set as performance targets.

Furthermore, the members of the Management Board were granted a specific number of stock options (component 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 enterprise 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 Management Board.

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. Individual details are set out in the table below:

Name	Fixed remuner-ation	Variable remuner-ation	Fringe-benefits	Stock options 2003		Stock options 2004/2005	
	in €	in €	in €	Number	Value in € *	Number	Value in € *
Michael Schmidt	186,121	5,500		124,360	111,924	165,000	84,150
Roland Thieme	200,826	11,734	492	124,360	111,924	165,000	84,150
Berth Hausmann (to 30 Sep 2006)	116,024	23,330	116,176			165,000	84,150
Oliver Zimmermann (from 1 Oct 2006)	56,340		1,743				
Burkhard von Ehren (to 30 Apr 2006)	55,245		210,000			165,000	84,150

*Value when granted

No other severance awards were made for Managing Board members. In addition, no members of the Managing Board received payments or corresponding commitments from a third party with regard to their activity as a Managing Board member.

Remuneration of the Supervisory Board

Remuneration of the Supervisory Board is stipulated in Article 9 of the company's Articles of Association. According to this, the members of the Supervisory Board receive fixed basic remuneration of € 5,000.00. The Chairman of the Supervisory Board and the Deputy Chairman receive twice and one and a half times the aforementioned remuneration respectively.

Furthermore, each Supervisory Board member receives a bonus of € 1,000.00 per € 0.01 of the dividend in excess of € 0.05 per share distributed to shareholders for the past financial year as well as annual remuneration related to long-term company success of € 1,000.00 per € 100,000.00 earnings before taxes in the consolidated financial statements of the company ("EBT") in excess of the average earnings before taxes in the consolidated financial statements ("EBT") for each of the three preceding financial years. However, total remuneration shall not exceed € 50,000.00 for the Chairman, € 37,500.00 for the Deputy Chairman and € 25,000.00 for the other Supervisory Board members. In addition, all Supervisory Board members receive a meeting fee of € 2,500.00 for each Supervisory Board or committee meeting that they attend. The company reimburses the Supervisory Board members for value added tax payable on their remuneration and expenses.

Individual details of the remuneration (net) paid in 2006 can be found in the table below (in €):

Name	Fixed remuneration	Bonus	Long-term remuneration component	Meeting fees
Hubertus Kestler	10,000			39,493
Ralf Thoenes	7,500			36,381
Gerd Simon	5,000			24,520

In the past financial year, the law firm KMO Kestler Mielert Otto, of which the Supervisory Board Chairman Mr Hubertus Kestler is a partner, received a total of € 752,906 for its consultancy services for the 3U Group. This figure is broken down as follows: 3U TELECOM AG € 585,721, LineCall Telecom GmbH € 1,207, LambdaNet Communications Deutschland AG € 87,018 and OneTel Telecommunication GmbH € 78,960. In the past financial year, the law firm Altenburger Rechtsanwälte, of which the Supervisory Board member Mr Ralf Thoenes is a partner, received a total of € 6,133 for its consultancy services for the 3U Group. No loans were granted to the Supervisory Board members in the reporting year.

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:

The following are beneficiaries:

Group 1:	Members of the company's Management Board and all members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act), 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) 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), 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).

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 from 21 August 2005 and no later than 20 August 2008.

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 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 € 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's Management Board and all members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act), 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) 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), 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).

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 3.0 %.

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 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, 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 €
25 May 2006	Gerd Simon	Supervisory Board	Purchase	10,000	0.80
22 Dec 2006	Oliver Zimmermann	Member of the Management Board, Finance	Purchase	25,000	0.60
28 Dec 2006	Hubertus Kestler	Supervisory Board Chairman	Purchase	100,000	0.60

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

Shareholdings

The following members of the Management and Supervisory Boards hold shares in 3U TELECOM AG (as of 31 December 2006):

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
Oliver Zimmermann	Member of the Management Board, Finance	25,000
Berth Hausmann (as of: 30 Sep 2006)	Member of the Management Board, Finance	22,000
Hubertus Kestler	Supervisory Board Chairman	100,000
Gerd Simon	Supervisory Board	10,000

Marburg and Frankfurt am Main, 15 March 2007

3U TELECOM AG
The Management Board The Supervisory Board

THE 3U SHARE

Summary of the 3U share

International Securities Identification Number (ISIN)	DE0005167902
Securities Identification Number (SIN)	516790
Stock exchange symbol	uuu
Trading segment	Prime Standard
Industry key	Telecommunication
Designated sponsors	Helaba Landesbank Hessen-Thüringen (up to 31 December 2006), AXG Investmentbank AG
Initial listing	26 November 1999
Registered share capital	€ 46,842,240.00
Share price on 29 December 2006*	€ 0.58
Share price high in 2006*	€ 0.96 (13 and 14 March 2006)
Share price low in 2006*	€ 0.58 (28 and 29 December 2006)
Number of shares	46,842,240
Market capitalisation on 31 December 2006	€ 27,168,499.20
Earnings per share (basic)	€ -0.08

In the 2006 financial year, the share price of 3U TELECOM AG developed unsatisfactorily with low trading volume. Compared with the previous year (€ 0.84), the share price was down 31% to € 0.58 as at 29 December 2006. This also represented the annual share price low. The share price high of € 0.96 was reached on 13 and 14 March 2006.

The share price for 3U TELECOM AG significantly underperformed the Technology All Share Index. Market capitalisation was approximately € 27.2 million as of 31 December 2006 (previous year: € 39.4 million).

In the 2006 financial year, a total of 2,699,920 3U TELECOM shares were traded on the German stock exchanges. This equates to an average trading volume of 224,993 shares per month on the XETRA and Frankfurt exchanges. Due to the low transaction volume, low share turnover led to high levels of volatility in 2006.

*Daily closing price Xetra

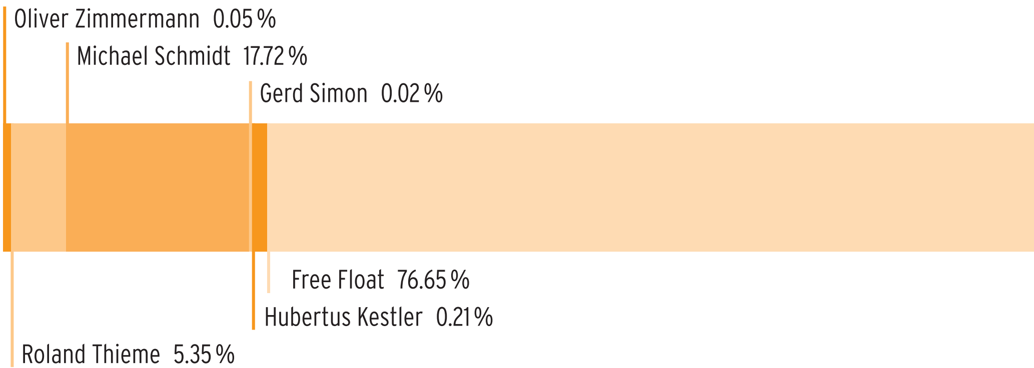
Price performance of 3U shares against the Technology All Share Index

Shareholder structure

As of 31 December 2006, members of the governing bodies held the following shares with full voting and dividend rights:

Management Board		
Michael Schmidt	(Member of the Management Board, Technology)	8,299,995 shares
Roland Thieme	(Member of the Management Board, Technical Service)	2,508,330 shares
Oliver Zimmermann	(Member of the Management Board, Finance)	25,000 shares
Management Board total		**10,833,325 shares**

Supervisory Board		
Hubertus Kestler	(Chairman)	100,000 shares
Ralf Thoenes	(Deputy Chairman)	0 shares
Gerd Simon		10,000 shares
Supervisory Board total		**110,000 shares**



Investor relations

3U TELECOM AG carried on its investor relations activities and continued its active dialogue with investors, private investors and analysts.

Six ad-hoc releases and three corporate news bulletins ensured a high level of transparency in capital market communication in the 2006 financial year.

After restructuring and improving the business operations, the Management Board explained the realignment and creation of a holding structure at an analysts' conference on 12 December 2006 in Frankfurt am Main.

The Management Board expects the presentation of new sales and income potential to translate into an increase in the enterprise value.

GROUP MANAGEMENT REPORT

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.

In future, 3U TELECOM AG will assume the function of a management and investment holding company in the 3U Group under the new name of 3U HOLDING AG. Its will focus its business operations on the investment business, primarily in the innovative technology and corporate restructuring sectors.

GENERAL ECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

Development of the overall economic environment

The global economic upturn continued in autumn 2006, but slowed down by the end of the year. The economy of the euro zone was also healthy. The increase in real gross domestic product was mainly noticeable in countries such as Germany and Italy where only weak rises had been posted in previous years.

Domestic demand provided the main impetus. Private consumption increased slightly and led to a 2.5 % year-on-year rise in price-adjusted gross domestic product (GDP).

Against the background of the strong economy, the ECB tightened its monetary policy in order to counter increasing inflationary risks in good time.

Expert believe that the upturn in the euro zone has the potential to maintain its pace despite an initial slight weakening of the global economy and higher fiscal pressures, such as the rise in value added tax in Germany.

Development in the telecommunications market

Positive economic indicators and increased propensity to consume were countered by falling prices for the use of telecommunications services.

In Germany, the aggressive competition to win over consumers led to an overall fall in prices of 3.0 % for fixed-line telephony, mobile telephony and internet compared with the previous year. Mobile telephony providers suffered particularly heavy decreases of 10.7 %.

In the fixed-line telephony sector, after a 4.4 % fall in 2005, prices for calls to the mobile networks fell by a further 1.6 % in the 2006 financial year. Prices for internet use declined by 5.1 %. Profit margins declined whilst sales from fixed-line services rose slightly to € 39.9 billion. This equates to 57.7 % of the overall telecommunications market, where sales were up 2.2 % to € 69.1 billion.

Since the complete liberalisation of the telecommunications sector in Germany, the market has been growing overall, although it is characterised by intense competition. In addition to the former monopolist Deutsche Telekom AG, a growing number of alternative providers has become established, including the 3U Group as one of the leading providers in the call-by-call sector.

Market growth in the fixed-line and mobile telephony sector is carried by the alternative competitors, who, with € 35.2 billion, generated higher sales than Deutsche Telekom AG (€ 33.9 billion) for the first time ever in 2006. As in the previous year, sales growth was mainly attributable to the successful marketing of line-bound broadband applications. The number of broadband connections rose by almost 50 % to 15.6 million by the end of the year.

A key criterion for competitiveness in the telecommunications market is the growing convergence of various technologies such as voice, data and TV/video communication. Convergence means the technical and practical harmonisation of various media and communications channels. For the companies, this convergence poses a major challenge in the form of intensive competition with competitors mostly from outside the sector. For example, "triple play" technology enables the use of internet, telephone (fixed-line and mobile) as well as television via a single connection. Telecommunications providers are now exposed to competition from internet companies, media firms and cable network operators.

The structures of the telecommunications and information technologies are changing quickly. New technologies are arriving at a fast pace. In some cases they are complementary, and in other cases old technologies are being replaced by new ones. Customers are a driving force in this development. They view the new products with great curiosity and excitement, and then invest in solutions that are efficient, compatible or inexpensive. To structure the traditional business segments of fixed-line telephony and broadband/IP profitably, the market continues to call for high levels of investment in technology and networks where the return on investment is exposed to a relatively high risk. The reasons for this are technological progress and the survival-threatening price dumping of competitors.

The latter was one of the main reasons why the 3U Group created the necessary risk diversification through repositioning and focusing on the investment business. The objective is to tap into new growth and income potential.

Development of the fixed-line telephony market segment

After explosive growth in recent years, the progression of the fixed-line telephony segment in Germany is slowing down appreciably. In 2006, the fixed-line sector (including broadband/IP) reached a market volume of € 39.9 billion compared with € 38.7 billion in the previous year.

According to an estimate in a joint market analysis by DIALOG CONSULT/VATM, the former monopolist Deutsche Telekom AG reduced its sales volume by € 0.1 billion to € 25.7 billion. The market share of Deutsche Telekom AG (64.4 %) thus fell again by almost 3 % in favour of competitors. In the reporting year, the competitors achieved € 14.2 billion, compared with € 12.9 billion in the previous year.

The fixed-line market is characterised by a decline in invoiced connection minutes due to a sharp rise in DSL connections with flat rates for internet access and telephony (VoIP). Total connection minutes fell from 895 million to 879 million minutes per day.

Overall, Deutsche Telekom AG's competitors increased their connection minutes in the fixed-line network to 464 million minutes per day, equating to 52.8 % (2005: 49.2 %) of the total volume, whilst Deutsche Telekom AG's share was reduced to 415 million minutes per day, or 47.2 %.

However, the competitors of Deutsche Telekom AG are not fully benefiting from the cut-throat competition. For each competitor minute, Deutsche Telekom AG collects tariffs for inter-carrier services, usually for 50 % of sales. The lasting dependence of competitors on preliminary products of Deutsche Telekom AG illustrates the challenges involved in the liberalisation of the market for telecommunications services.

In 2006, the number of customers who used the products of alternative providers rose from 25.9 million to 28.3 million. This increase is solely attributable to the growth of "bundle products". Alternative direct access figures were up from 3.3 million to 6.2 million. With 21.9 % market share, alternative direct access customers thus consumed 122 million connection minutes per day. This equates to a 36.3 % share of the total market, compared with 23.8 % in the previous year.

The target market of the 3U Group proved to be relatively stable. Call-by-call with 16.1 million customers (2005: 16.2 million) and pre-selection with 6.0 million customers (2005: 6.4 million) posted slight declines. Whilst pre-selection suffered a fall of 5 million connection minutes to 65 million, call-by-call increased its volume by 1 million talk time minutes to 149 million talk time minutes per day.

In terms of average use of access, there is a discernible trend towards direct access, primarily as a result of the voice flat rates. Whereas the average call-by-call user consumed 9.3 connection minutes a day, the average pre-selection customer clocked up 10.8 minutes and the average direct access user 19.7 minutes.

To expand the market position on the telecommunications market, investments in technology and high marketing expenditure are also essential. However, the market potential exists. Through vigorous tariff management, the 3U Group can gain market share at the cost of competitors in a declining market.

Development of the broadband/IP market segment

As expected, the broadband market in Germany continues to grow. The number of direct broadband connections (DSL) rose by 47 % to 14.9 million. The winner of the DSL boom is Deutsche Telekom AG, which has a market share of 70.5 % (previous year: 76.7 %) with 6.9 million own connections and 3.6 million connections sold via resellers. The alternative providers increased the number of own DSL connections by 2 million to 4.4 million. This equates to a market share of 29.5 % (previous year: 23.3 %).

The 29.6 % increase in the volume of broadband internet traffic to 876 million gigabytes per year clearly demonstrates that demand for broadband services is continuing to rise. In contrast, the market volume for internet access services without DSL and cable modem access declined by just under 15 % to 245 million connection minutes per day in 2006.

The prevailing buyer's market is expressed by cheaper devices as well as falling prices and margins for telecommunications services, which is forcing alternative providers into constant restructuring measures.

However, increased market share is not necessarily reflected by improved earnings. The 3U Group has responded to this development by ceasing the indirect sale of DSL and VoIP to end customers. The Management Board expects that due to the intensified competition situation and the resultant high customer acquisition costs, it will not be possible to sell DSL to end customers with sufficient margins in the foreseeable future. In the broadband/IP segment, the focus is now on business with major customers who want to create new communication structures at international level.

Forward-looking items 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 advantage: "distance" is no longer a factor on the internet. Telephone traffic is collected and sent out simply as a pack of data. This is useful for call centres with high call figures, for example. If VoIP is used when sending out the voice data packets, huge costs are saved in the form of conventional telephone call charges.

In the business customer segment in particular, the VoIP technology is meeting a very positive response as a result of the cost saving potential. In connection with the managed services sector, e.g. with VPN services, the 3U Group is continuously tapping into new growth potential via the subsidiary LambdaNet. Virtual private network (VPN) is a technology for connecting local networks in various locations with a holistic corporate network. According to a study by Frost & Sullivan, the market for IP VPN services will have grown by over 213% between 2004 and 2008. Corporate customers are increasingly converting their conventional communication solutions to IP-based virtual private networks. From the customers' viewpoint, the advantages of this technology are global accessibility, scalability, cost efficiency and extensibility. LambdaNet has taken this development into account by rigorously enhancing and selling the VPN services.

REPORT ON BUSINESS DEVELOPMENT OF THE 3U GROUP 2006

Overview of key events

• Agreement with Cogent

A positive impact on earnings stemmed from the agreement with the Cogent Communications Group, Inc. (Cogent), the former owner of the subsidiary LambdaNet. The offsetting of extensive receivables and liabilities and the write-back of provisions in the second quarter led to a non-recurring positive special effect of € 4.74 million here.

• GasLine liabilities repayment

Repayment of the residual liability of € 4.2 million arising from the restructuring of the convertible bond of the subsidiary LambdaNet with the fibre-optic supplier GasLine in place until 2005 was completed at the end of 2006.

• Non-recurring value adjustment requirement on the customer base of LambdaNet

The contract termination by a major customer in the Carriers Sales division of LambdaNet and the correspondingly reduced order volume resulted in a non-recurring value adjustment requirement at Group level on the customer base of € 1.93 million acquired by 3U TELECOM AG in 2004.

• Sale of the Italian subsidiary 3U TELECOM S.R.L.

The Italian subsidiary 3U TELECOM S.R.L. was sold and deconsolidated with effect from 1 January 2006.

• Cessation of business operations in Belgium and the United Kingdom

At the beginning and middle of the year, the subsidiaries in Belgium and the United Kingdom ceased their business operations and are currently in liquidation. The customer base of the Belgian company has been sold. Both companies have been deconsolidated.

• Cessation of indirect sales

In August, the Management Board resolved to cease active sales of DSL, VoIP and pre-selection products via direct sales and to focus on call-by-call and wholesale products in the fixed-line telephony segment. This decision also involved more than 40 job cuts in these areas, with part-time and temporary staff accounting for approximately one-third of these cuts.

• Start of operations

The market entry of 010017 Telecom GmbH in May 2006 and Discount Telecom S&V GmbH in November 2006 saw two new subsidiaries of 3U TELECOM AG commence their business operations. They have already made pleasing sales contributions in the call-by-call sector.

• Departure of CFO Berth Hausmann

Mr Berth Hausmann left the Management Board on 30 September 2006.

• **Oliver Zimmermann becomes new CFO**
Mr Oliver Zimmermann was appointed as CFO of 3U TELECOM AG and LambdaNet Communications Deutschland AG on 1 October 2006.

• **Sale of Luxemburg subsidiary**
The Luxemburg subsidiary 3U TELECOM SARL was sold and deconsolidated with effect from 30 November 2006.

• **Subsidiary 3U TELECOM AG, Switzerland, in liquidation**
The Swiss company 3U TELECOM AG is in liquidation. The customer base has been sold.

• **Introduction of realignment**
As part of the introduction of a holding structure, a spin-off balance sheet and spin-off plan were prepared with retroactive effect from 30 September 2006.

At the Extraordinary General Meeting on 15 January 2007, the proposed corporate measures were passed with a majority. The final formalities, in particular entry in the register of companies, are still outstanding due to six actions of opposition and annulment.

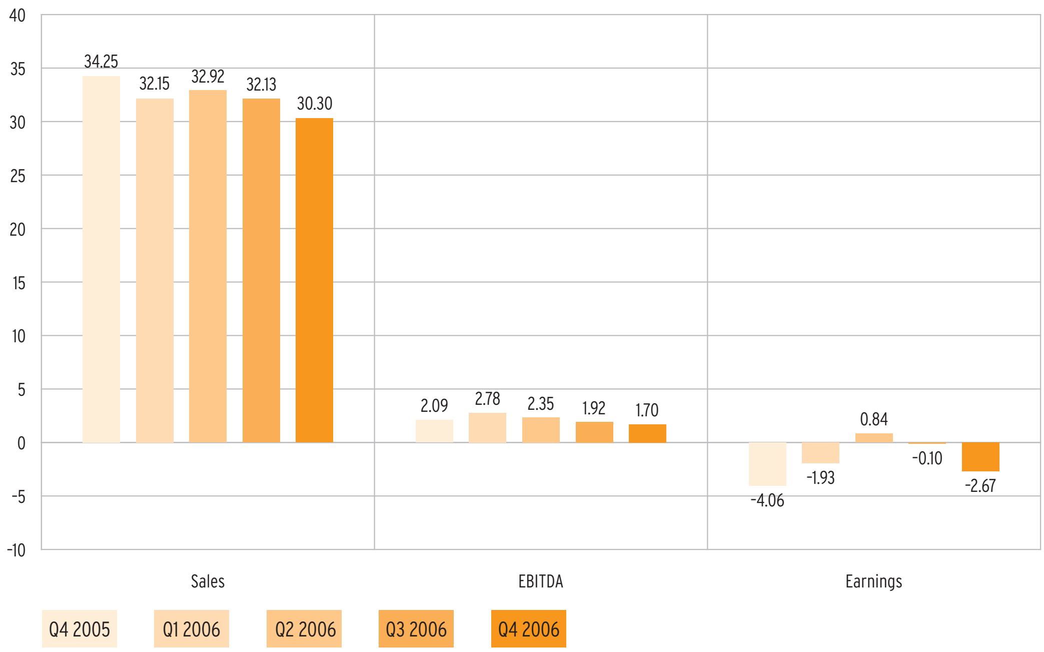
Results of operations

Group

The 3U Group again posted a year-on-year rise in sales and profitability in the 2006 financial year. Due to the continuing cut-throat competition and sustained price war in the fixed-line telephony and broadband/IP segments, the communicated budget figures for 2006 were slightly exceeded in terms of earnings figures, although the sales figure was not quite reached.

The fourth quarter of 2006, which marks a transitional period with the strategic realignment on 1 October 2006, shows a relatively stable development of business.

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



*The annual values were audited by KPMG. The quarterly figures and the EBITDA amounts have not been audited.
The EBITDA figures were adjusted for 2006 to take into account the non-recurring positive special effects of € 4.74 million from the agreement with Cogent Communication Group Inc., fund income of € 2.51 million, non operating result of € 0.20 million, as well as the negative special effects of € 0.25 million from deconsolidations, process risk amendments among the provisions of € 0.70 million, and non-recurring special effects of € 0.37 million in connection with the corporate restructuring.
With regard to the EBITDA figures for 2005, the non-recurring special effects of € 5.00 million from the deconsolidation of Carrier24 GmbH were eliminated.

In the 2006 financial year, sales at the 3U Group rose by € 4.13 million to € 127.51 million (previous year: € 123.38 million). Sales of € 30.3 million were posted in the fourth quarter of 2006 (previous quarter: € 32.13 million). After adjustment for non-recurring effects, EBITDA of the 3U Group (see adjustment steps in the footnote on the previous page) increased in the financial year to € 8.76 million, up 28.8 % on the previous year (€ 6.80 million). EBITDA totalled € 1.70 million in the fourth quarter of 2006 (third quarter of 2006: € 1.92 million). The net loss in the 2006 financial year was € 3.86 million, compared with net income of € 0.08 million in the 2005 financial year achieved as a result of considerable non-recurring items.

Non-recurring effects from sales and deconsolidation effects at foreign subsidiaries for the 2006 financial year are set out below:

Luxemburg deconsolidation effect:	€ –0.03 million
Switzerland deconsolidation effect:	€ +0.11 million
Italy deconsolidation effect:	€ –0.12 million
Belgium deconsolidation effect:	€ –0.11 million
United Kingdom deconsolidation effect:	€ +0.04 million

In August 2006, the Management Board resolved to cease active sales of DSL, VoIP and pre-selection products via indirect sales and to focus on call-by-call and wholesale products in the fixed-line telephony segment. This decision also involved more than 40 job cuts in these areas, with part-time and temporary staff accounting for approximately one-third of these cuts.

The decrease in administrative expenses primarily results from the above-mentioned job cuts and the discontinuation of a scheduled write-down on the customer base of LineCall.

The reduction in selling expenses chiefly relates to the correction of a posting error. The value adjustments of receivables and losses for receivables of T€ 2,474 were reclassified from other operating expenses to selling expenses in 2006. The amounts for the previous year were modified in accordance with IAS 8.49. This resulted in a reclassification of T€ 4,514 from other operating expenses to selling expenses.

Fixed-line telephony segment

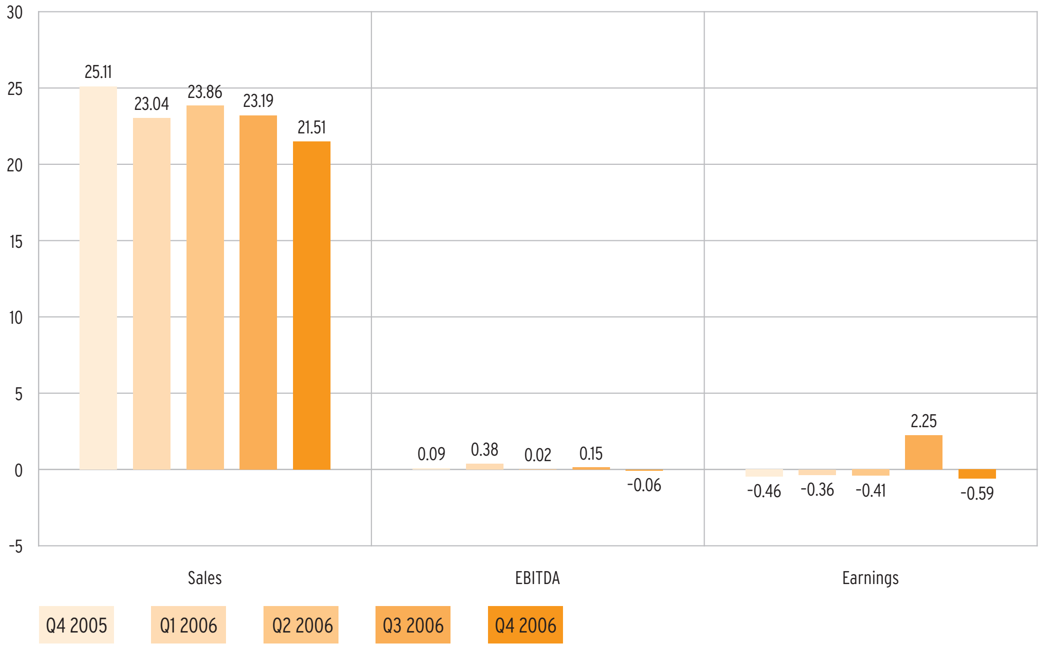
The concentration on the call-by-call and wholesale sales channels as well as the successful positioning of the new network operator codes 010 017 and 01017 has already generated tangible sales contributions combined with an improvement in operating margins.

In the 2006 financial year, the fixed-line telephony segment posted a clear overall increase in sales, although the budget figures were not reached. Sales were up € 4.84 million to € 91.61 million (previous year: € 86.77 million). Sales of € 21.51 million were generated in the fourth quarter of 2006. This represents a slight decrease compared with the third quarter of 2006 (€ 23.19 million).

Apart from slightly negative EBITDA in the fourth quarter of 2006, the segment posted an operating profit for the year as a whole, which is attributable to the continuous optimisation and restructuring of the operating units. The ongoing efficiency review and gradual downsizing, i.e. closure or sale of foreign operations France and the sale of the customer base in Switzerland and Belgium in the midst of liquidation, positively impacted on the earnings situation.

EBITDA amounted to € 0.50 million in the past financial year, up € 2.40 million on the previous year (€ -1.90 million). EBITDA totalled € -0.06 million in the fourth quarter (€ 0.15 million in the third quarter of 2006).

Development (sales, EBITDA, earnings) — fixed-line telephony segment in € million*



*The annual values were audited by KPMG. The quarterly figures and the EBITDA amounts have not been audited.
The EBITDA figures were adjusted for 2006 to take into account the non-recurring positive special effects of € 2.51 million from fund income as well as the negative special effects of € 0.25 million from deconsolidations, process risk amendments among the provisions of € 0.70 million, and non-recurring special effects of € 0.37 million in connection with the corporate restructuring.

Pre-selection and DSL products ceased to be advertised in the third quarter of 2006, and are delivering falling sales and earnings contributions.

Capital gains in the course of the restructuring of fund assets had a positive impact on net earnings to the tune of € 2.51 million.

Overall, net income for the year came to € 0.90 million.

Broadband/IP segment

The development of business in this segment reflected the stabilisation of sales as a result of restructuring measures initiated at an early stage. The terminations and price adjustments in the carrier sales area were largely compensated by new orders. The corporate sales area (virtual private network) did not entirely meet expectations in its role as a new sales pillar. Sales were therefore below budget levels. The expansion of the VPN business remains one of the main tasks, and was pushed forward intensively in the fourth quarter of 2006.

After adjustment for the sales contribution of Carrier24 GmbH, deconsolidated in 2005, external sales increased by € 0.87 million to € 35.90 million (adjusted figure for the previous year: € 35.03 million). At € 8.79 million, sales in the fourth quarter of 2006 almost reached the level of the previous quarter (€ 8.94 million). Without adjustment, the broadband/IP segment posted a slight decline in sales and EBITDA in the 2006 financial year.

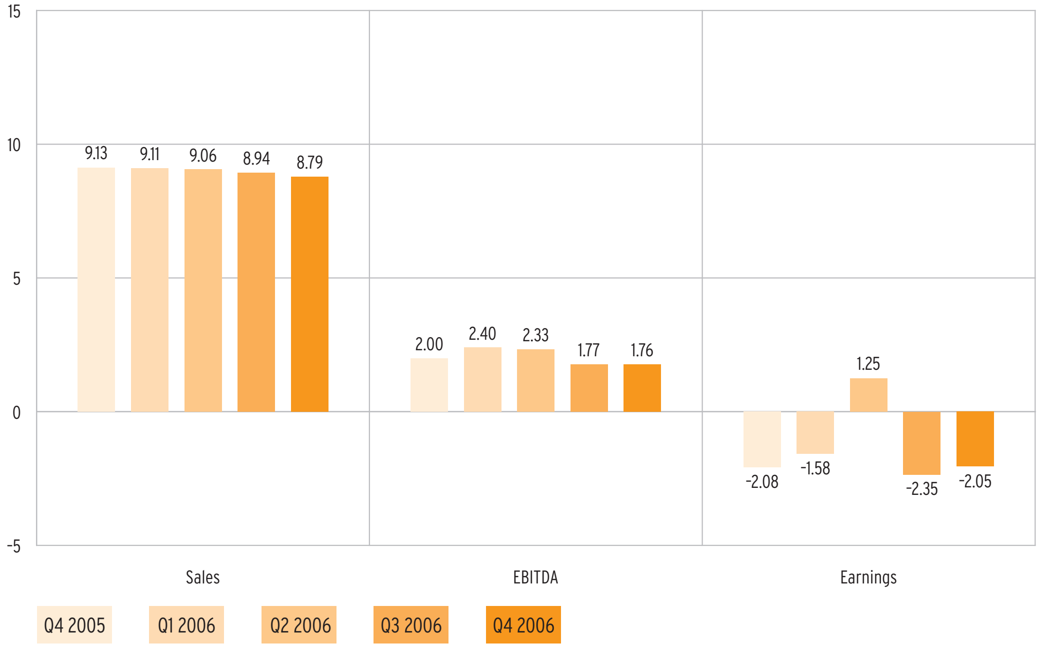
After adjustment for the earnings contribution of the deconsolidated Carrier 24 GmbH of € 1.08 million, EBITDA rose by 8.4 % to € 8.26 million in the 2006 financial year (previous year: € 7.62 million). EBITDA remained at the same level in the fourth quarter at € 1.76 million (previous quarter: € 1.77 million). The EBITDA margin of 23 % in the broadband/IP segment is comparatively high.

In addition to the strong operating profitability in the first half-year, the non-recurring effect of the agreement with Cogent (second quarter of 2006: € 4.74 million) was also a relevant factor in net earnings.

The customer base write-downs allocated to the broadband/IP sector ran counter to this. Due to the contract termination by a major customer in the carrier sales area and the corresponding reduction in the order volume, there was a non-recurring value adjustment requirement on the customer base of € 1.93 million. Overall, the customer base write-downs came to € 3.64 million.

The net loss for the year was € 4.73 million following net income of € 1.53 million in the previous year which was boosted by significant non-recurring effects (GasLINE contract rearrangement € +11.6 million and Carrier24 deconsolidation € +3.3 million).

Development (sales, EBITDA, earnings) — broadband/IP segment in € million*



*The annual values were audited by KPMG. The quarterly figures and the EBITDA amounts have not been audited.
The EBITDA figures were adjusted for 2006 to take into account the non-recurring positive special effects of € 4.74 million from the agreement with Cogent Communication Group Inc. as well as the non operating result of € 0.20 million.

Financial and assets position

As scheduled, the operating cash flow of the Group was positive in the 2006 financial year at € 5.22 million, up € 3.02 million on the previous year.

Cash flow from investing activities was characterised by fund movements and investments in the network infrastructure (€ –2.33 million). The cash flow from financing activities was negative, primarily due to the repayment of bank liabilities started in 2006 and, to a lesser extent, the repayment of lease liabilities at € 4.03 million.

As at the balance sheet date, the liquidity of the company, including cash-equivalent fund assets, totalled € 38.83 million (previous year: € 40.18 million).

The balance-sheet ratios continued to improve. The equity ratio rose to 38.5 % (previous year: 35.9 %), chiefly due to the balance sheet contraction resulting from the reduction of fixed assets on the basis of the continuing high write-downs on the network of LambdaNet set up in 2000 and the non-recurring write-down on the customer base of LambdaNet. The book value of tangible assets declined by € 8.37 million.
Non-current liabilities fell to € 28.49 million at the end of the year.
In the 2006 financial year, in addition to the liabilities to banks, the residual liabilities arising from the convertible bond of a fibre-optic supplier of € 4.20 million were repaid at LambdaNet (large proportion of the changes to trade payables).

In the current financial year, a further € 3.8 million of the bank loans at LambdaNet will be repaid from operating cash inflows.

At € 74.68 million (previous year: € 88.72 million), non-current assets accounted for 69.5 % of the balance sheet total of € 107.42 million. At € 32.74 million (previous year: € 39.03 million), current assets accounted for 30.5 % of the balance sheet total. Non-current provisions and liabilities totalled € 32.79 million (previous year: € 37.10 million). The decrease mainly results from the scheduled repayment of bank loans.

Capital expenditure

To increase earnings power and competitiveness, investments were made in technology and infrastructure. In 2006, the capital expenditure volume amounted to € 4.7 million, focusing on the network infrastructure at the subsidiary LambdaNet. Here, capital expenditure of € 3.20 million went on the specific extension of the network and the interface connection of customers. In the fixed-line telephony segment (€ 0.8 million), capital expenditure centred on switching and transmission technology as well as software. Throughout the Group, purchase commitments amounted to € 0.02 million. Capital expenditure of approximately € 5 million is planned for the 2007 financial year.

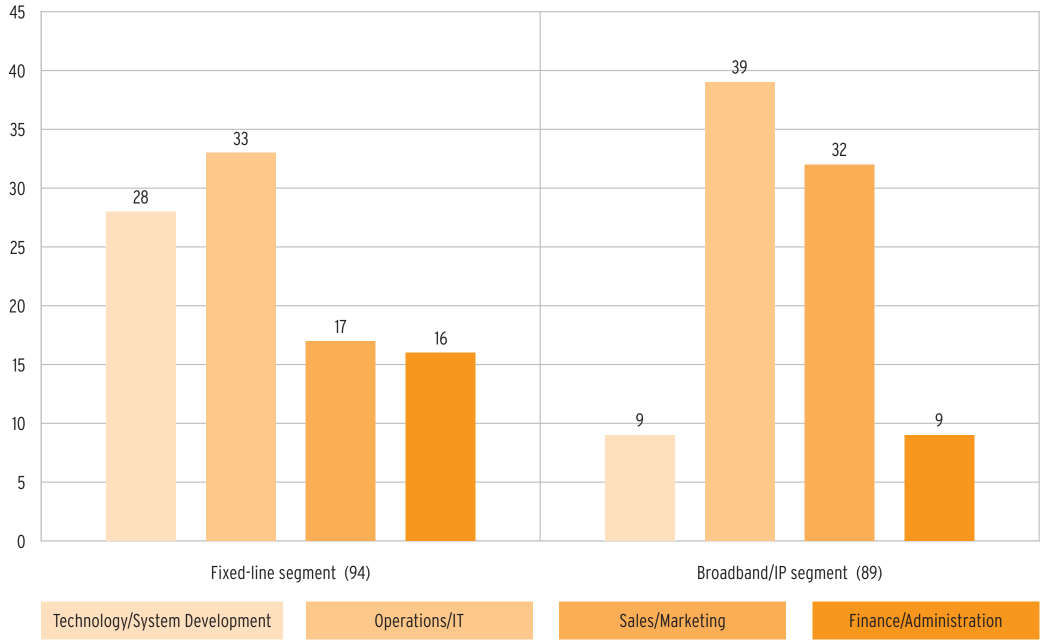
Employees

The number of employees in the fixed-line telephony segment was down by 40 compared with 31 December 2005. The cessation of indirect sales in August 2006 and the associated job cuts were largely carried out in a socially compatible manner. On average for the year, the number of employees in this area was reduced by 17 from 111 in 2005 to 94 in 2006.

In the broadband/IP segment, eight jobs were shed in the context of the overall structural review. Consequently, the number of employees fell by eight during the 2006 financial year. At the beginning of the year, the headcount was significantly above the average of the previous year. As a result of this, the average for the year was 89, which seven more than in 2005 (82 employees).

The remuneration system is divided into fixed and variable components, depending on activity. In 2003 and 2005, stock options were issued to the employees in the context of stock option programmes.

Employee structure 2006*



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

MAIN PRINCIPLES OF THE REMUNERATION SYSTEM FOR THE MANAGEMENT BOARD AND SUPERVISORY BOARD

Remuneration report of 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 remuneration (performance-related components) on achieving specific performance targets which are set by the Supervisory Board. For variable remuneration, uniform Group targets such as the sales of the 3U Group and EBITDA as well as individual targets for the individual Management Board mandates are set as performance targets.

Furthermore, the members of the Management Board were granted a specific number of stock options (component 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 enterprise 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 Management Board.

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.

Remuneration of the Supervisory Board

Remuneration of the Supervisory Board is stipulated in Article 9 of the company's Articles of Association. According to this, the members of the Supervisory Board receive fixed basic remuneration of € 5,000.00. The Chairman of the Supervisory Board and the Deputy Chairman receive twice and one and a half times the aforementioned remuneration respectively.

Furthermore, each Supervisory Board member receives a bonus of € 1,000.00 per € 0.01 of the dividend in excess of € 0.05 per share distributed to shareholders for the past financial year as well as annual remuneration related to long-term company success of € 1,000.00 per € 100,000.00 earnings before taxes in the consolidated financial statements of the company ("EBT") in excess of the average earnings before taxes in the consolidated financial statements ("EBT") for each of the three preceding financial years. However, total remuneration shall not exceed € 50,000.00 for the Chairman, € 37,500.00 for the Deputy Chairman and € 25,000.00 for the other Supervisory Board members. In addition, all Supervisory Board members receive a meeting fee of € 2,500.00 for each Supervisory Board or committee meeting that they attend. The company reimburses the Supervisory Board members for value added tax payable on their remuneration and expenses.

In the past financial year, the law firm KMO Kestler Mielert Otto, of which the Supervisory Board Chairman Mr Hubertus Kestler is a partner, received a total of € 752,906 for its consultancy services for the 3U Group. This figure is broken down as follows: 3U TELECOM AG € 585,721, LineCall Telecom GmbH € 1,207, LambdaNet Communications Deutschland AG € 87,018 and OneTel Telecommunication GmbH € 78,960. In the past financial year, the law firm Altenburger Rechtsanwälte, of which the Supervisory Board member Mr Ralf Thoenes is a partner, received a total of € 6,133 for its consultancy services for the 3U Group. No loans were granted to the Supervisory Board members in the reporting year.

Appointment and dismissal of the Management Board and amendments to the Articles of Association:

The Management Board is appointed and dismissed in accordance with Articles 84 and 85 of the German Stock Corporation Act. All amendments to the Articles of Association conform to Articles 179 and 133 of the German Stock Corporation Act. However, according to Article 13 (2) of the Articles of Association in conjunction with Article 179 (2) sentence 2 of the German Stock Corporation Act, resolutions of the Annual General Meeting are passed with a simple majority of the votes cast unless another majority is prescribed by law. In addition, if the German Stock Corporation Act prescribes a majority of the share capital represented when the vote is taken, a simple majority of the capital represented is sufficient, if legally permissible.

Share capital and authority of the Management Board to issue or by back shares:

The share capital consists of 46,842,240 no-par bearer shares.

The shares in the capital are as follows:

Michael Schmidt	(Management Board)	17.72 %
Roland Thieme	(Management Board)	5.35 %
Oliver Zimmermann	(Management Board)	0.05 %
Hubertus Kestler	(Supervisory Board Chairman)	0.21 %
Gerd Simon	(Supervisory Board)	0.02 %

According to Article 3 (4) of the Articles of Association, the Management Board is authorised, with the approval of the Supervisory Board, to increase the share capital on one or more occasions by a total of no more than € 23,421,120.00 (in words: twenty three million four hundred and twenty one thousand one hundred and twenty euros) by 12 May 2009 by issuing new shares in exchange for cash contributions and/or contributions in kind. With the approval of the Supervisory Board, the Management Board can fully or partially exclude the subscription right of shareholders in the following cases only: 1. in the event of capital increases against cash contributions provided that the par value of the new shares for which the subscription right is excluded does not exceed ten percent of the share capital existing on 13 May 2004 and that the issue amount of the new shares is not significantly below the stock exchange price as defined by Articles 203 (1) and (2), 186 (3) sentence 4 of the German Stock Corporation Act; 2. provided that the capital increases in exchange for contributions in kind are carried out in order to acquire companies or equity investments in companies; 3. for fractional amounts. With the approval of the Supervisory Board, the Management Board is authorised to stipulate the further details of the capital increase.

According to Article 3 (5) of the Articles of Association, the share capital of the company is to be contingently increased by up to € 4,560,000.00, divided into not more than 4,560,000 shares (Contingent Capital I). The contingent capital increase is only to be carried out insofar as holders of option rights that the company issued on the basis of the authorisation of the Annual General Meeting on 15 May 2003 make use of their option rights. The new bearer shares carry dividend rights from the beginning of the financial year for which no Annual General Meeting resolution has been passed regarding the appropriation of profit when the option rights are exercised. With the approval of the Supervisory Board, the Management Board is authorised to stipulate the further details of the contingent capital increase and its implementation.

By means of a resolution of the Annual General Meeting on 19 May 2005, the company was authorised in accordance with Article 71 (1) no. 8 of the German Stock Corporation Act to acquire shares in the company for the legally permissible purpose by 18 November 2006. The authorisation was limited to the acquisition of 4,684,224 shares with a total notional interest in the share capital of € 4,684,224.00. This entitlement has not been used.

RISK REPORT

Risk and opportunity management (ROM)

Business activity always involves risks. A deliberate approach to risks in the interest corporate success is essential and prudent, particularly in a highly dynamic market such as telecommunications.

The 3U Group systematically deals with all risks, pursuing the objectives of consciously recognising risks in a controlled manner and taking advantage of any opportunities that arise.

To enable better assessment of all market-specific and company-specific situations, the 3U Group uses a holistic risk and opportunity management system (ROM), which was revised in 2005. The ROM processes are based on measures for early identification, analysis, assessment, limitation and control of risks. The respective risk and control ratios are stored with corresponding indicators and can be quantified on a value basis.

In this respect, the 3U Group distinguishes between intra-sector and intra-Group risks. The second category includes corporate strategy, operating risks, staffing risks and financial risks.

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 appropriate measures 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.

The efficiency of the ROM processes and adherence to the regulations and guidelines defined in the risk management manual are regularly examined by the Supervisory Board. The early identification, assessment and management of risks and opportunities is crucial to all intra-Group planning, control and monitoring systems. Opportunities are usually examined in the context of strategy and innovation development. Business area-specific and market-specific potential opportunities are derived from market and competition analyses.

In accordance with the defined ROM processes, the 3U Group only enters into risks if appropriate added value can be expected. The sustained increase in the enterprise is always the objective of all measures taken.

Throughout the Group, the main control ratios are sales, EBITDA and cash flow.

Risks and opportunities that can significantly influence the net assets, financial position and results of operations of the 3U Group are explained below.

Industry risks (market and competition risks)

The current financial year is again characterised by strong movements on the telecommunications market as a result of technological innovations as well as political decisions.

In the short and medium term, it is a matter of whether the successful market model of deregulation can be continued or a relapse to monopolistic structures to the detriment of consumers and alternative providers is on the horizon. The phase of consolidation of the telecommunications market in Germany is still nowhere near complete. The market penetration of Deutsche Telekom AG and its infrastructure is a constant challenge.

Although the alternative providers generated higher sales than Deutsche Telekom AG for the first time ever in the 2006 financial year, the former monopolist still benefited from this development.
An example: Deutsche Telekom AG received 80 % of the revenues from the DSL connections sold by resellers.

To combat the incursions in market share gained by alternative providers, Deutsche Telekom AG is deploying large-scale marketing and sales campaigns. With brand names such as "Congster" and by offering DSL access at low fixed prices, Deutsche Telekom AG is winning back customers who migrated.

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 the inclusion of DSL flat rates in bundling products with no price increase, mobile phone prices at the same level as fixed-line prices and loss-making offers in the fixed-line telephony segment.

The ROM system picks up the signals of the market. After this, suitable measures are taken to reinforce the core business of the 3U Group. The fixed-line telephony segment has been strategically repositioned with a focus on the call-by-call and wholesale business and new network operator codes have been positioned. Vigorous tariff management in the call-by-call sector has led to stabilisation of the market position of 3U TELECOM AG in an environment of low growth and profitability.

However, the possible substitution between the segments due to the low-price strategy of mobile and fixed-line telephony is continuing. The intensified distribution of home zone price models by mobile phone operators and the further establishment of VoIP technology via DSL cables will impact on the core business of the 3U Group.

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 also intensifying the competition.

The liberalisation of the market through legislation will cause an intensification of the competition as additional foreign companies enter the German market. The strategies of the international competitors thus represent a further risk that the 3U Group will not actually achieve the planned growth targets.

LambdaNet is also operating on a market where competition remains highly intensive. Aggressive pricing policies of competitors could negatively impact the attainable margins and the market share of LambdaNet.

Other key customers of LambdaNet could set up their own network infrastructure for strategic or economic reasons. LambdaNet could lose sales as a result of this. This possibility is factored into the company's medium- and long-term planning to an extent that the Management Board deems to be realistic. The risk of the loss of important customers in the carrier sales area is to be compensated by intensified sales growth through an expanded product portfolio.

Changes to the regulatory environment that help to further strengthen the market power of Deutsche Telekom AG could have a direct negative impact on customers of LambdaNet and, to a lesser extent, on LambdaNet itself.

Corporate strategy risks

In the fixed-line telephony segment, the 3U Group focuses its telecommunications services on the call-by-call and wholesale business. The subsidiary LambdaNet offers VPN and carrier services in the business customer segment. The division of the corporate staff into B2C and B2B customers provides opportunities, but also involves risks that stem from the expansion of the business base and generally lead to higher selling expenses.

Due to the fast technological progress and the continuing technological convergence, products and technologies are subject to strong competitive and substitution pressure. Pre-selection and call-by-call, for example, are faced with being squeezed out by voice flat rates and voice over IP. A price reduction spiral triggered by this could lead to a significant fall in sales, which constitutes a substantial risk in terms of the customer base.

The 3U Group will deal with this risk by adapting and expanding the product range and with greater flexibility in its pricing. The increase in the customer base in the high-growth and high-income VPN market will be one of the main factors in shaping the long-term success of the telecommunications activities of the 3U Group.

If the customer acquisition or customer retention costs prove to be higher than expected, this can lead to significant declines in earnings. Market developments are constantly monitored and analysed so that corrections and adjustments can be carried out in good time.

The main focal points here are sales channels, product ranges, tariffs and cooperations with established partners in order to gain access to a broad customer base whilst reducing customer acquisition costs.

Operating units that do not reach defined targets will be examined in line with existing ROM processes and disinvested if applicable. Closures of business units or entire foreign subsidiaries are possible in order to secure the continued existence of the 3U Group.

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

As a result of many years' experience of identifying, managing and integrating investments, we believe that the operating risks arising from acquisitions can be easily controlled.

Operating risks

The service processes within the 3U Group are based on information and telecommunication technologies and software applications. These are subject to continuous development in the shape of state-of-the-art solutions. Effectiveness and cost optimisation are guiding principles.

3U Group has developed its own billing system, which it operates in the fixed-line telephony segment. Priority is given to ensuring operational reliability and to securing customer and company data.

Faults and downtimes, e. g. to hacker interventions, energy shortages or natural disasters, could impair the production processes. Information deficits can lead to failure to collect accounts receivable. Firewalls, back-up systems and ongoing technological optimisations are countermeasures.

In the broadband/IP segment, there is risk of a decline in sales in the event that major customers terminate their contracts. The expansion of the VPN sector (virtual private network) constitutes a counterweight in order to offset or overcompensate for the sales decreases in the carrier sales area. Despite strengthening the sales team, there is still the risk of not achieving full revenue compensation, which would have a negative impact on the earnings situation of the 3U Group.

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.

Staffing risks

In many areas, the company needs highly-qualified staff. Above-average fluctuation or 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, which could ultimately lead to a loss of market share, sales and income.

Adherence to generally prevailing principles of employee management and ongoing development are the basis of a thriving corporate climate. Stock option programmes help to retain qualified employees and to create incentives within a performance-based remuneration system.

Qualified recruitment methods include placements. In our experience, self-trained employees are very loyal and develop a deep attachment that leads to a high level of motivation.

Financial risks

The financial risks include market and liquidity risks. Market risks are defined as potential losses due to regulatory changes of market prices or price-impacting parameters, for example. With regard to the 3U Group, these include the following influencing factors:
- Interest rate risks
- Exchange rate risks
- Risks arising from shares and other securities
- Other price risks

The interest rate risks relating to the bank loan of the subsidiary LambdaNet and the dollar-based exchange rate risks are continuously monitored. Risks arising from shares and other securities, which particularly exist in connection with the fund assets of 3U TELECOM AG, are also an integral component of the risk management system.

Liquidity risks represent the danger of a future liquidity requirement that can only be partially covered or cannot be covered at all when it arises.

The liquidity management implemented throughout the Group ensures that sufficient liquidity is available for business operations at all times.

Fund assets and cash totalling € 7.3 million are pledged for credit lines in place throughout the Group and the loan of LambdaNet.

Opportunities for the 3U Group

Opportunities in business operations

The management has utilised the available opportunities on the hard-fought telecommunications market, which is characterised by falling margins.

After vigorously pursued restructuring, during which indirect sales of unprofitable business operations (pre-selection, DSL and VoIP) were abandoned, unprofitable foreign companies were closed and new network operator codes were positioned, the management is concentrating on business areas that secure stable operating results and positive operating cash flows for the company even in a challenging market environment.

3U TELECOM AG is well positioned in the fixed-line telephony segment with an emphasis on call-by-call and wholesale business with the subsidiaries OneTel, fon4U, LineCall, 010017 Telecom and Discount Telecom with a diversified range of tariffs. This position can be strengthened further with media cooperations. In addition, value-added services, which are already operated to a lesser extent, will tap into further sales and income potential in future to supplement the core business.

In the broadband/IP services segment, the management is focusing on the subsidiary LambdaNet. In the corporate sales are in particular, the sales strategy was examined in the fourth quarter of 2006 and corresponding organisational measures were taken, and focusing of the sales activities was carried out on the basis of a market analysis. Consequently, the Management Board believes that the essential conditions are now in place to strengthen significantly the position of LambdaNet in 2007 in the growing corporate networks market.

The extensive, modern network infrastructure of the 3U Group compared to many other telecommunications companies represents a key strategic advantage.

Opportunities from repositioning

As the growth opportunities on the telecommunications market are limited, the 3U Group faces the challenge of realigning itself, ideally where the management has expertise and above-average returns that help increase the enterprise value.

The 3U Group has extensive expertise in the telecommunications, innovative technologies and restructuring sectors. Against the background of the restructuring and optimisation measures carried out in the past two years, 3U TELECOM AG is very well positioned for the investment business. The existing expertise of the management and the links with a wide network of experts as well as the company's asset situation and a streamlined cost structure of the investment holding company will enable the company to enter into the investment business successfully.

On 15 January 2007, the Extraordinary General Meeting gave its approval to convert 3U TELECOM AG into a management and investment holding company with a majority of over 99 %. 3U TELECOM AG will trade as 3U HOLDING AG in future. The telecommunications business will be spun off into 3U TELECOM GmbH, a wholly-owned subsidiary, with retroactive effect from 1 October 2006; entry in the register of companies is still outstanding. Six actions of opposition and annulment against all the agenda items of the Extraordinary General Meeting of 15 January 2007 have been lodged with the Frankfurt am Main district court. The company's management believes that the presented grounds for opposition are not justified and that the actions will be rejected.

With the strategic fundamental decision in favour of repositioning in the investment business, the management believes that it is once again in the position to meet the main target of the 3U Group, to increase the enterprise value by generating above-average returns.

SIGNIFICANT EVENTS AFTER END OF FINANCIAL YEAR

Extraordinary General Meeting

An Extraordinary Annual General Meeting of 3U TELECOM AG was held in Frankfurt am Main on 15 January 2007.

The agenda item with the highest priority was the proposal to spin off and transfer the telecommunications services to a new wholly-owned subsidiary, 3U TELECOM GmbH, on the basis of a control and profit transfer agreement, with retroactive effect from 1 October 2006.

In future, 3U TELECOM AG will assume the function of a management and investment holding company in the 3U Group under the new name of 3U HOLDING AG. In addition to buying and selling companies, it will focus its business operations on managing the corporate equity investments, predominantly in the innovative technologies and corporate restructuring sectors.

The shareholders of 3U TELECOM AG approved all the resolutions proposed by the Management Board and Supervisory Board with a majority of over 99 %.

Six actions of opposition and annulment against all the agenda items of the Extraordinary General Meeting of 15 January 2007 have been lodged with the Frankfurt am Main district court. The company's management believes that the presented grounds for opposition are not justified and that the actions will be rejected.

The transfer will become legally valid after entry in the register of companies.

Strategic realignment

Challenging telecommunications market
Until the third quarter of 2006, 3U TELECOM AG, established in 1997, focused its business on integrated fixed-line services with its own network infrastructure in the telecommunications sector.

Although the alternative telecommunications providers operate in a growth market, they are also exposed to an intensive price war, high margin pressure and considerable customer acquisition costs. The biggest competitor, Deutsche Telekom AG, continues to earn tariffs for inter-carrier services even if it loses customers, meaning that eight years after liberalisation, the former monopolist still has a market share of approximately 50 % in every market segment except for the mobile phone sector. This overall situation caused the management of 3U TELECOM AG to carry out ongoing restructuring measures (abandonment of unprofitable business activities, cessation of indirect sales, closure of unprofitable foreign companies and introduction of new network operator codes), which have paid off in the shape of a stable market position.

In the 2006 financial year, 3U TELECOM AG, listed on the stock exchange since 1999, operated with various subsidiaries in the fixed-line telephony segment, focusing on the call-by-call and wholesale business, and in the broadband/IP services segment (LambdaNet) with sales of VPN and carrier services to business customers and carriers.

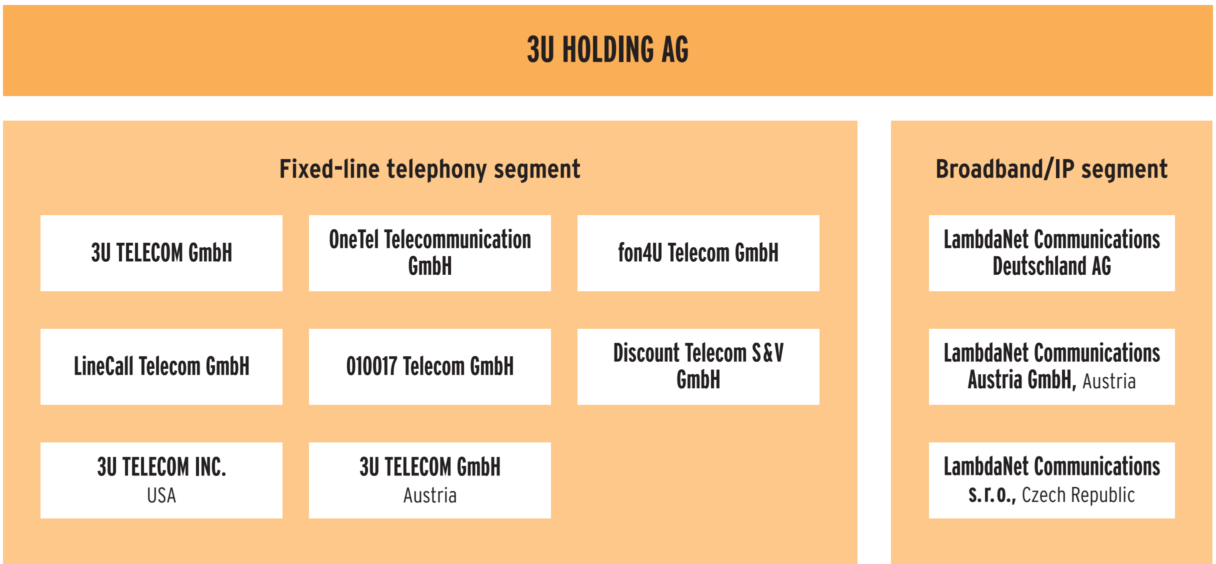
With the focus on the call-by-call and wholesale sectors in the fixed-line telephony segment, the profitability of 3U TELECOM AG in the core business is initially secured. However, there is the risk that despite completed optimisation measures, more declines in sales and income will have to be accepted in future. A strategic realignment and repositioning is therefore the logical consequence in terms of a sustained shareholder-value principle.

Repositioning

The future 3U HOLDING AG plans to operate on the market as a management and investment holding company. Investments will centre on equity investments in the innovative technologies and restructuring sectors.

Against the background of the restructuring and optimisation measures carried out in the past two years, 3U TELECOM AG is very well positioned for the investment business. The existing expertise of the management and the links with a wide network of experts as well as the company's asset situation and a streamlined cost structure of the investment holding company will enable the company to successfully enter into the investment business.

Investment portfolio of the future 3U HOLDING AG



Objectives
In the next few years, 3U HOLDING AG plans to become established as a management and investment company.

Growth with above-average returns is to be generated by means of a broadly diversified and risk-balanced investment portfolio. Successfully implemented exits will form the basis for further increasing the value of the 3U Group and thus also the price of the 3U share.

In the short term, the new 3U HOLDING AG plans to generate stable operating results and positive operating cash flows in the existing fixed-line telephony and broadband/IP segments. Clear business principles, such as a focused investments, procedures and processes (investment criteria), are to be formulated and established for the investment business. Initial possible investments with good return potential are already being examined.

Sale of the French subsidiary

3U TELECOM AG has sold the French subsidiary 3U TELECOM SARL with effect from 1 January 2007.

Future growth potential

The strategy of 3U TELECOM AG has fundamentally changed as a result of the realignment as a management and investment holding company.

Sustained operating profitability is a key factor with regard to future potential investments as well as existing subsidiaries in the telecommunications sector.

In the high-growth but also highly competitive management and investment business, the new 3U HOLDING AG will concentrate on the innovative technologies and corporate restructuring sectors. In view of the restructuring and optimisation measures carried out at the 3U Group in the last two years, 3U TELECOM AG is very well positioned for the investment business. Future investments will be identified via the management's own contacts and possibilities as well as links with a wide network of experts. The first equity investments are to be entered into during 2007. The existing asset situation and the streamlined cost structure of 3U HOLDING AG create the financial backdrop for being able to operate successfully in the investment business.

In the corporate restructuring sector, the interest of the new 3U HOLDING AG is centred on struggling and underperforming companies. Restructuring of such companies and the associated return to profitability means that the prospects for a significant increase in value of these investments are considerable.

The objective of all activities is to increase the enterprise value of the 3U Group for the shareholders as well as the employees on a sustained basis. On the basis of the now stabilised business operations of the subsidiaries in the telecommunications sector, the acquisition of further equity investments will present good opportunities to generate above-average share price performance.

Business forecast for the next two years

In the 2007 financial year, the fixed-line market was characterised by convergence and further market saturation. International strategy and technology consultants Booz Allen Hamilton expect a further increase in market pressure due to increasing customer requirements. The telecommunications companies must cut costs yet at the same time expand customer service and products, which inevitably involves high customer acquisition costs. The telecommunications companies are required to invest in new services in order to cushion the blow of falling sales and stabilise margins in the next few years. Bandwidth (DSL connections) remains a driver of sales and growth in the fixed-line segment. For fixed-line telephony, the trend towards lower sales in the voice sector will continue. A further amalgamation of mobile phone and fixed-line towards more mobile use means additional competitive pressure. The market penetration of triple-play products (bundling of TV, internet and telephony) is likely to increase from 2 % to 4 % in Germany in the 2007 financial year. The high level of competitive pressure in partially saturated markets requires rigid cost management by providers. Similar trends are also expected for the 2008 financial year.

The global broadband market is still characterised by strong growth. The sustained globalisation of managed services and VPN services continues to push forward growth in the telecommunications sector. The increasing performance of the transmission technologies used is just as crucial a factor here as the innovative products and services that it enables. Accordingly, the integration and convergence of data and speech will determine the performance and competitiveness of the providers. In the business customer segment, the VoIP technology in combination with private IP networks (VPNs) will take hold in the medium term as a result of significant savings potential as well as high flexibility and added value.

Widespread availability of broadband connections is the essential condition for the development of the entire broadband market. Broadband internet is highly important to the economy and society in Germany. The development over the last few years clearly demonstrates this. For instance, the number of broadband connections has risen from 0.2 million in 2000 to 15.6 million in 2006.

According to a forecast by broadband industry experts, the number of broadband connections will grow to 21 million in 2010. From 2010, broadband connections are then expected to increase by a further 30 % to over 27 million in 2015. Consequently, almost 70 % of all German households would have a broadband internet connection.

Overall, therefore, there are very good opportunities for the 3U Group to benefit on a sustained basis from the general growth with the subsidiary LambdaNet as an integrated VPN provider, possibly in cooperation with IT companies, with powerful, innovative and flexible solutions, particularly for medium-sized companies.

With regard to the outstanding registration of 3U HOLDING AG as a management and investment company, a forecast for the new investment company would be premature.

Against the background of the instigated structural and operating measures in the existing core business, stabilisation of operating results will continue in the 2007 financial year. Whilst slight increases in sales are expected in the broadband/IP segment, the Management Board assumes that sales will fall heavily in the fixed-line telephony segment.

Overall, the Management Board expects consolidated sales to fall by just under 10 % to € 115 million in the 2007 financial year. The adjusted EBITDA figure is set to rise by approximately 8.4 % from € 8.76 million to € 9.50 million in the 2007 financial year.

In turn, a seven-digit consolidated net loss is expected due to the still very high depreciation of the network infrastructure of the subsidiary LambdaNet in the 2007 financial year.

Sales are expected to fall by 10 % in the fixed-line telephony segment. Positive EBITDA is also expected in the current financial year. The Management expects a slight net profit for the year.

For the fixed-line telephony segment, the 2007 financial year is again set to be shaped by the consolidation into profitable business areas such as call-by-call and wholesale.

For the broadband/IP segment, the Management Board expects a slight increase in sales, with EBITDA set to increase by over 10 %. The net result for the year will be negative due to the continuing high level of write-downs.

Whilst the carrier sales area is still confronted by a saturated market and a sustained decline in prices, the emphatically pursued expansion of the corporate sales sector as an additional core business area has very good growth prospects.

The objective is therefore to utilise the growth opportunity in the corporate sales sector on a sustained basis and gain significant market share and sales in this market segment. To this end, the sales and marketing teams are being strengthened and the organisation and business processes are being optimised.

The Group's operating cash flow will also be positive in the 2007 financial year. Taking into account the repayment of bank loans, the Management Board expects a liquidity position of around € 36 million including cash and cash equivalents by the end of 2007.

Sales in the fixed-line telephony segment are to continue to stabilise and increase substantially in the broadband/IP segment in 2008. The objective is to generate positive EBITDA on a sustained basis as well as net income for the year as a whole.

In the broadband/IP segment, the Management Board expects considerable EBITDA growth in 2008 compared with 2007, boosted by the sales structures established in the interim in the corporate sales area.

For the 2008 financial year, positive net income for the year at Group level is expected for the first time ever as a result of the positive operating earnings contributions and the significant reduction of write-down amounts.

In connection with the estimates and expectations set out here, it must be pointed out that actual future events may differ considerably from the expectations regarding the probable development.

Marburg, 23 March 2007

The Management Board

Michael Schmidt Roland Thieme Oliver Zimmermann

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS OF 31 DECEMBER 2006 (IFRS)

Assets 3U Group (in T€)	Notes to the consolidated financial statements	31 December 2006	31 December 2005
Non-current assets		**74,679**	**88,723**
Intangible assets	[2.3.5] [7.2]	8,010	13,112
Property, plant and equipment	[2.3.5] [7.3]	38,880	47,248
Financial assets*	[2.3.6] [7.5]	24,948	24,996
Deferred tax assets	[7.6]	0	99
Other non-current assets	[7.7]	683	736
Prepaid expenses	[7.8]	2,158	2,532
Current assets		**32,738**	**39,031**
Inventories		102	0
Trade receivables	[7.7]	13,603	16,813
Other current assets	[2.3.7] [7.7]	2,287	3,428
Cash and cash equivalents	[2.3.8] [7.7]	13,979	15,278
Prepaid expenses	[7.8]	2,767	3,512
Total assets		**107,417**	**127,754**

* This includes CityDial GmbH (associated company) with T€ 96 (previous year: T€ 90).

Shareholders' equity and liabilities 3U Group (in T€)	Notes to the consolidated financial statements	31 December 2006	31 December 2005
Shareholders' equity		**41,365**	**45,821**
Issued capital	[7.9]	46,842	46,842
Capital reserve		21,379	20,901
Revaluation reserve	[7.11]	1,115	2,213
Retained earnings		-24,133	-24,210
Net income/loss		-3,856	77
Minority interests	[7.12]	25	9
Adjustment item for currency difference		-7	-11
Non-current provisions and liabilities		**32,788**	**37,096**
Non-current provisions	[2.3.11] [7.16]	4,642	4,647
Non-current liabilities due to banks	[2.3.13] [7.13]	10,137	13,781
Non-current lease liabilities	[2.3.13] [7.13]	17,879	17,523
Other non-current liabilities	[2.3.13] [7.15]	5	53
Deferred tax liabilities	[2.3.12] [7.6]	0	600
Deferred income	[7.17]	125	492
Current provisions and liabilities		**33,264**	**44,837**
Current provisions	[2.3.11] [7.16]	4,998	6,677
Current liabilities due to banks	[2.3.13] [7.13]	3,870	2,515
Trade payables	[2.3.13] [7.14]	18,424	23,425
Current lease liabilities	[2.3.13] [7.13]	2,041	2,778
Other current liabilities	[2.3.13] [7.15]	1,276	6,118
Deferred income	[7.17]	2,655	3,324
Total shareholders' equity and liabilities		**107,417**	**127,754**

CONSOLIDATED INCOME STATEMENT (IFRS)

3U Group (in T€)		Notes to the consolidated financial statements	Financial year 1 Jan – 31 Dec 2006	1 Jan – 31 Dec 2005
Sales		[2.3.1] [6.1]	127,507	123,379
Cost of sales		[2.3.2] [6.2]	-115,448	-114,222
Gross profit			**12,059**	**9,157**
Selling expenses		[6.3]	-7,955	-11,209*
General administrative expenses		[6.4]	-12,518	-15,245
Other operating income		[6.5]	13,691	28,965
Other operating expenses		[6.5]	-3,420	-5,855*
Amortisation of customer base/goodwill		[2.3.5]	-3,796	-1,379
Earnings before interest and taxes			**-1,939**	**4,434**
Interest income		[6.7]	1,867	251
Interest expenses		[6.7]	-3,820	-3,875
Income/expenses from financial assets (equity method)			6	1
Earnings before tax			**-3,886**	**811**
Income tax expense		[2.3.4] [6.8]	46	-734
Earnings before minority interests			**-3,840**	**77**
Minority interests			-16	0
Consolidated net income/loss			**-3,856**	**77**
Earnings per share				
Earnings per share, basic	(in €)	[6.9]	-0.08	0.00
Earnings per share, diluted	(in €)	[6.9]	-0.08	0.00
Average shares outstanding, basic	(per item)	[6.9]	46,842,240	46,842,240
Average shares outstanding, diluted	(per item)	[6.9]	49,914,490	49,914,490

*The valuation allowances on receivables and losses for receivables were reclassified to selling expenses in 2006, the comparative figures for 2005 are a pro rata amount of T€ 4,514 [2.3.15].

CASH FLOW STATEMENT (IFRS)

3U Group (in T€)	1 Jan–31 Dec 2006	1 Jan–31 Dec 2005
Income for the period	**-3,856**	**77**
Depreciation/write-ups of fixed assets	16,805	17,481
Increase/decrease of provisions and valuation allowances	217	2,184
Profit/loss on disposal of non-current assets	-2,556	-7
Increase/decrease of inventories trade receivables	3,108	-8,443
Increase/decrease of trade accounts payable	-5,001	14,748
Changes to other receivables	1,195	6,223
Changes to other payables	-3,535	-20,610
Changes in prepaid expenses and deferred income	81	-5,362
Interest payments	-1,946	-2,441
Income tax payments	46	-239
Other non-cash changes	658	-1,413
Cash flows from operating activities	**5,216**	**2,198**
Inflows from disposals of non-current assets	19	265
Outflows for investments in property, plant and equipment	-4,323	-2,752
Inflows from disposals of intangible assets	43	0
Outflows for investments in intangible assets	-370	-420
Inflows from disposals of financial assets	25,854	0
Outflows from additions to financial assets	-23,554	0
Cash flows from investing activities	**-2,331**	**-2,907**
Outflows from the repayment of bonds and (finance) loans	-3,644	0
Other (repayment of lease liabilities)	-381	0
Cash flows from financing activities	**-4,025**	**0**
Reduction in cash and cash equivalents	**-1,140**	**-709**
Changes to cash and cash equivalents from changes to the scope of consolidation	-159	-512
Cash and cash equivalents at beginning of period	15,278	16,499
Cash and cash equivalents at end of period	13,979	15,278

STATEMENT OF CHANGES IN EQUITY (IFRS)

3U Group (in T€)	Issued capital	Capital reserve	Revaluation reserve/ retained earnings	Profit/ loss carried forward	Minority interests	Currency	Net income/ loss	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
Adjustments previous years	0	0	0	0	0	0	0	0
Stock options	0	579	0	0	0	0	0	579
Revaluation 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**

3U Group (in T€)	Issued capital	Capital reserve	Revaluation reserve/ retained earnings	Profit/ loss carried forward	Minority interests	Currency	Net income/ loss	Total shareholders' equity
As of 1 Jan 2006	**46,842**	**20,901**	**2,213**	**-24,133**	**9**	**-11**	**0**	**45,821**
Consolidated profit	0	0	0	0	16	0	-3,856	-3,840
Adjustments previous years	0	0	0	0	0	0	0	0
Stock options	0	478	0	0	0	0	0	478
Revaluation securities (net)	0	0	-1,098	0	0	0	0	-1,098
Changes taken directly to equity	0	0	0	0	0	4	0	4
As of 31 Dec 2006	**46,842**	**21,379**	**1,115**	**-24,133**	**25**	**-7**	**-3,856**	**41,365**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2006 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 am Main District Court, HRB number 47870). The company's registered office was 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 the provision of telecommunication services in the fixed-line and broadband/IP segments.

The address of the registered office of the Company is:
Neue Kasseler Straße 62 F, 35039 Marburg.

2 Accounting policies

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) as adopted by the EU Commission. The IFRS valid on 31 December 2006 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.

Consolidated financial statements were compiled in T€.

The German Group companies prepare their accounts and documents in accordance with the International Financial Reporting Standards (IFRS). 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 2006.

The financial year of the Company and all subsidiaries included in the consolidated financial statements is the calendar year.

The latest versions of standards were not adopted voluntarily in the consolidated financial statements as of 31 December 2006.

In January 2006, IFRS 7 (Financial Instruments: Disclosures) was published in the Official Journal of European Union. This standard regulates the Company's duty to disclose information on the significance of financial instruments. IFRS 7 applies to financial years beginning after 31 December 2006. The Company will apply this standard from financial year 2007. This is not expected to have any material effect on the consolidated financial statements of 3U TELECOM AG.

In May 2006, IFRIC 7 (Applying the Restatement Approach under IAS 29 Financial Reporting in Hyper Inflationary Countries) was published in the Official Journal of the European Union. This interpretation clarifies how comparative figures in financial statements are restated when the country whose currency is the functional currency of the reporting financial statements is a hyperinflationary country. This standard does not have any implications for the consolidated financial statements of 3U TELECOM AG at this time.

In September 2006, IFRIC 8 (Scope of IFRS 2) was published in the Official Journal of European Union. This interpretation applies to transactions in which the consideration received by the Company (or yet to be received — cash and the fair value of any identifiable non-cash consideration — is less than the fair value of the equity instruments granted or liabilities entered into. This standard does not have any implications for the consolidated financial statements of 3U TELECOM AG at this time.

2.2 Consolidation principles

2.2.1 Scope and method of consolidation

The consolidated financial statements of 3U TELECOM AG for the 2006 and 2005 financial years include sixteen German and foreign subsidiaries, in which 3U TELECOM AG directly or indirectly holds the majority of voting rights or with which it has a control relationship based on other rights. The capital consolidation is based on the acquisition method (revaluation method). The costs of the investments are offset against the fair value of equity at the time of acquisition.

Assets and liabilities are reported at 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 interests 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 and deferred taxes are taken into account for consolidation procedures in income. 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 deconsolidation, the assets and liabilities included until this event and existing goodwill are offset against the proceeds from the disposal.

All subsidiaries controlled directly or indirectly by 3U TELECOM AG 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 cost, 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.

One associated company has been included in the consolidated financial statements.

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 asset and liability amounts, 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 cash of the 3U Group changed during the reporting year as a result of inflows and outflows. The effects of changes in the scope of consolidation are eliminated. In 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 in cash and cash equivalents from changes in the scope of consolidation are reported separately. In accordance with IAS 7, a distinction is made between cash flows from operating, investing activities and financing activities.

2.3 Recognition and measurement principles

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 performed to generate sales comprise the total cost and cost of sales for the products and services sold during the reporting year. In addition to the direct costs such as material and staff 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

Income taxes paid or due and deferred taxes are reported as income taxes.

Current taxes include back payments of taxes and rebates attributable to prior periods.

2.3.5 Goodwill, intangible assets and property, plant and equipment

Goodwill resulting from capital consolidation is not amortised in accordance with IFRS 3. Goodwill recognised 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 internally generated intangible assets are capitalised in accordance with IAS 38 ("Intangible Assets") if it is likely that a future economic benefit relating to the use of the asset and costs of the asset can be reliably determined. They are reported at cost or cost of sales, including any development costs that are recognised on the balance sheet in accordance with IAS 38, and amortised on a straight-line basis over their useful life. No internally generated intangible assets were recognised on the balance sheet neither as part of first-time implementation nor in the following years. Intangible assets are generally amortised over a useful life of between three and five years, with the exception of goodwill. Intangible assets with no definite useful life are not amortised.

Property, plant and equipment are reported in the IFRS balance sheet at depreciated cost. If property, plant or equipment 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 cost of property, plant and equipment includes the purchase price plus additional acquisition costs. Expenses incurred after the property, plant or equipment was added, such as maintenance, repair and reconditioning costs are usually reported directly in income in the period in which they incurred. In situations where it has been clearly shown that expenses leads to an additional future economic benefit as the result of the expected use of an item of property, plant or equipment beyond the original scope of performance calculated, this expense is capitalised as additional cost for property, plant and equipment. Finance costs are not capitalised.

Depreciation is calculated based on the following estimated useful lives:

Buildings	33 years
Operating equipment	4 years
Office equipment	3–8 years
Switching technology	5 years
Transfer technology	5–8 years
Leasehold improvements	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 property, plant and equipment.

Low-value asset items with individual costs of up to € 410 are fully written off in the year of their acquisition and presented as additions and disposals and as write-downs in the statement of changes in assets for the current financial year.

Please also refer to the information on impairment under 2.3.10.

2.3.6 Recognition of available-for-sale financial assets

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

According to the new version of IAS 39 (2004), changes in the fair value of assets classified as available-for-sale can only be taken to equity at fair value (IAS 39.55b). These are recognised under equity in the revaluation reserve.

2.3.7 Other current assets

Other current assets included in the balance sheet include prepaid expenses and other current receivables. The assets are reported at nominal amount and, if they involve recognisable risks, specific valuation allowances are recognised for the individual assets. Global specific valuation allowances are recognised 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 recognised in 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 bank balances.

Cash and cash equivalents are measured 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 at the present value of the lease 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. Key agreements classified as finance leases include the agreements between the subsidiary LambdaNet Communications Deutschland AG (LambdaNet) and a key fibre optic supplier for the leasing of fibre optics (dark fibre).

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

2.3.10 Impairment

The property, plant and equipment and intangible assets of the Company are subject to an impairment test at least on each balance sheet date to ascertain whether there are any indications of impairment. In the event of such indications, the recoverable amount for the asset is determined in order to calculate the amount of any appropriate impairment charge. If the assets do not generate any cash flows independently 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 examined annually and in the event of any indications of a decline in value.

The recoverable amount is the higher of the disposal value less costs of disposal and the value in use of an asset. Value in use is determined using the discounted future cash inflows assuming a fair interest rate in line with the fair value of 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 reduced to the recoverable amount. The impairment amount must be recognised in income unless the asset has been revalued. To this extent, the impairment charge is reported as a reduction in the revaluation reserve.

If the value increases in a subsequent period, the carrying amount of the asset (or the cash-generating unit) is adjusted in line with the recoverable amount established, up to the maximum value of the carrying amount if no impairment had taken place. The reversal is recognised in income to the extent that the previous impairment was also recognised in income; any remainder is taken directly to equity.

2.3.11 Provisions

Provisions are recognised for legal or constructive obligations, which originated in the past, if it is likely that the fulfilment of the obligation will lead to an outflow of Group resources and if the liability amount can be reliably estimated.

Other provisions are recognised if there is a liability to a third party arising from a past event which is likely to be utilised and if the future expected outflow can be reliably estimated. The amount of provisions for litigation is determined on the basis of the outcome of the dispute as assessed by the Management Board to the best of its knowledge and in line with the facts known at the balance sheet date. Long-term provisions with a remaining term of more than one year are reported at their provisional discounted settlement amount as of the balance sheet 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 tax values of assets, equity and liabilities and the values in the consolidated balance sheet. The assessment and measurement of deferred tax assets is examined on each balance sheet date, taking the current estimates into account in accordance with IAS 12.37 and IAS 12.56.

Deferred taxes are calculated based on tax rates which are valid or anticipated according to current legal position at the time of realisation. For the capitalisation of tax loss carryforwards, only the component 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 measured 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 lease 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 lease instalments lead to a reduction of the liability.

2.3.14 Employee participation programme

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

The Group grants the Management Board and employees share-based remuneration through equity instruments. Remuneration with equity instruments is measured at fair value at the commitment date. The fair value of the share-based payments using equity instruments at the commitment date is recognised as an expense on a straight-line basis throughout the blocking or vesting period and recognised in capital reserves. This is based on the internal Group estimate of the number of shares, which provide entitlement to additional remuneration.

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

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 issues

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

2.4.1 Value of intangible assets

The acquisitions, particularly those of LambdaNet, considerably increased the scope of intangible assets, including customer bases in particular. The carrying amount of customer bases as of 31 December 2006 was T€ 5,082.

Customer bases are written down on a straight-line basis over a period of eight years. The useful life is reviewed at the end of each reporting period. In the 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 amortisation or impairment.

2.4.2 Contingent liabilities from legal disputes

The operations of 3U Group result in various legal disputes. These are regularly examined to measure 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. Thus, as of 31 December 2006, total provisions for pending legal disputes of T€ 2,248 were recognised for existing legal disputes with a maximum total risk of T€ 7,142.

3 Scope of consolidation

Fully consolidated, included subsidiaries:

Company	Registered office	Country	Issued equity		Share held by 3U TELECOM AG
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 S.P.R.L.	Brussels	Belgium	150,000	EUR	99.9 %
3U TELECOM INC.	Henderson (NV)	USA	0	USD	70 %
3U TELECOM SARL	Luxemburg	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 %
LambdaNet Communications Deutschland AG	Hanover	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 %
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 %

Company included at equity:

Company	Registered office	Country	Issued equity		Share held by 3U TELECOM AG
CityDial GmbH	Meckenheim	Germany	150,000	EUR	50 %

The carrying amount of the CityDial investment is T€ 96.

Deconsolidation of 3U TELECOM SARL, Luxemburg

The Group concluded a sales agreement on 30 November 2006 for the sale of 3U TELECOM SARL, Luxemburg, which provided telecommunication services in the fixed-line segment in Luxemburg. The sale was carried out in context of the fundamental restructuring of the Group. The deconsolidation was completed on 30 November 2006, as control over 3U TELECOM SARL, Luxemburg, was transferred to the purchaser on this date.

The results of 3U TELECOM SARL, Luxemburg, included in the consolidated financial statements are as follows:

(In T€)	1 Jan 2006 – 30 Nov 2006
Income	125
Operating expenses	-38
Net interest income	-5
Profit from ordinary activities before taxes	**82**
Income tax expense	1
Net gain	**83**

In 2006, the net cash flow of 3U TELECOM SARL until its deconsolidation was T€ -6.

The deconsolidation of 3U TELECOM SARL, Luxemburg, resulted in a book loss of T€ 31, which is calculated as follows:

(In T€)	30 Nov 2006
Other assets	26
Banks balances and cash in hand	6
Assets of subsidiary on deconsolidation	**32**
Other liabilities and deferred income	1
Liabilities of subsidiary on deconsolidation	**1**
Net assets of subsidiary	**31**
Proceeds from disposal	0
Result of deconsolidation	**-31**

Deconsolidation of 3U TELECOM AG, Switzerland

The Management Board resolved to liquidate 3U TELECOM AG, Switzerland. 3U TELECOM AG, Switzerland, provided telecommunication services in the fixed-line segment in Switzerland. Its activities were fully suspended in 2006, its customer base sold and a liquidator appointed.

As it was also entered in the Commercial Register of the Zurich canton that the company was dissolved by way of resolution of the Annual General Meeting on 18 October 2006, the company was deconsolidated as of this date.

The results of 3U TELECOM AG, Switzerland, included in the consolidated financial statements are as follows:

(In T€)	1 Jan 2006 – 18 Oct 2006
Income	473
Operating expenses	-523
Net interest income	-10
Loss from ordinary operating activities before taxes	**-60**
Income tax expense	-1
Net loss	**-61**

In 2006, the net cash flow of 3U TELECOM AG, Switzerland, until its deconsolidation was T€ -23.

The deconsolidation of 3U TELECOM AG, Switzerland, resulted in a book profit of T€ 112, which is calculated as follows:

(In T€)	18 Oct 2006
Trade receivables	33
Other assets	19
Banks balances and cash in hand	23
Assets of subsidiary on deconsolidation	**75**
Provisions	5
Trade payables	44
Other liabilities	138
Liabilities of subsidiary on deconsolidation	**187**
Net assets of subsidiary	**–112**
Proceeds from disposal	0
Result of deconsolidation	**112**

Deconsolidation of 3U TELECOM S.R.L., Italy

On 31 March 2006, 3U TELECOM AG concluded a disposal agreement for 3U TELECOM S.R.L., Italy, which offered fixed-line telecommunication services in Italy. The sale was carried out in context of the fundamental restructuring of the Group. The deconsolidation was completed on 1 January 2006, as the control over 3U TELECOM S.R.L., Italy, was transferred to the purchaser on this date.

The deconsolidation of 3U TELECOM S.R.L., Italy, resulted in a book profit of T€ 811, which is calculated as follows:

(In T€)	1 Jan 2006
Intangible assets	76
Property, plant and equipment	8
Trade receivables	76
Other receivables	141
Other assets	85
Banks balances and cash in hand	86
Assets of subsidiary on deconsolidation	**472**
Financial liabilities	950
Provisions	7
Trade payables	185
Other liabilities	141
Liabilities of subsidiary on deconsolidation	**1,283**
Net assets of subsidiary	**–811**
Proceeds from disposal	0
Result of deconsolidation	**811**

The income statement has not been shown here as the deconsolidation date was 1 January 2006.

Valuation allowances adjustments on loans of T€ 935 were charged against the result of deconsolidation, resulting in a net effect of disposal of T€ -124.

Deconsolidation of 3U TELECOM S.P.R.L., Belgium

The Management Board resolved to liquidate 3U TELECOM S.P.R.L., Belgium. 3U TELECOM S.P.R.L., Belgium, provided telecommunication services in the fixed-line segment in Belgium. Its activities were fully suspended in 2006 and its customer base was sold as of 30 September 2006.

As there are also materiality aspects supporting the non-inclusion of this subsidiary, in this case 3U TELECOM S.P.R.L., Belgium, was deconsolidated as of 31 December 2006 owing to materiality.

The results of 3U TELECOM 3U TELECOM S.P.R.L., Belgium, included in the consolidated financial statements are as follows:

(In T€)	**1 Jan 2006–31 Dec 2006**
Income	656
Operating expenses	-737
Net interest income	-24
Loss from ordinary operating activities before taxes	**–105**
Income tax expense	0
Net loss	**–105**

In 2006, the net cash flow of 3U TELECOM S.P.R.L., Belgium, until its deconsolidation was T€ -36.

The deconsolidation of 3U TELECOM S.P.R.L., Belgium, resulted in a book profit of T€ 318, which is calculated as follows:

(In T€)	31 Dec 2006
Trade receivables	37
Other receivables	42
Other assets	3
Banks balances and cash in hand	36
Assets of subsidiary on deconsolidation	**118**
Financial liabilities	427
Provisions	5
Other liabilities	4
Liabilities of subsidiary on deconsolidation	**436**
Net assets of subsidiary	**-318**
Proceeds from disposal	0
Result of deconsolidation	**318**

Valuation allowances on loans of T€ 427 were charged against the result of deconsolidation, resulting in a net effect of disposal of T€ -109.

Deconsolidation of 3U TELECOM Ltd., UK

The Management Board resolved to liquidate 3U TELECOM Ltd., UK. 3U TELECOM Ltd., UK, provided telecommunication services in the fixed-line segment in the UK. Its activities were fully suspended in 2006 and liquidation was initiated.

As there are also materiality aspects supporting the non-inclusion of this subsidiary, in this case 3U TELECOM Ltd., UK, was deconsolidated as of 31 December 2006 owing to materiality.

The results of 3U TELECOM Ltd., UK, included in the consolidated financial statements are as follows:

(In T€)	**1 Jan 2006 – 31 Dec 2006**
Income	30
Operating expenses	-71
Net interest income	-19
Loss from ordinary operating activities before taxes	**-60**
Income tax expense	0
Net loss	**-60**

In 2006, the net cash flow of 3U TELECOM Ltd., UK, until its deconsolidation was T€ -6.

The deconsolidation of 3U TELECOM Ltd., UK, resulted in a book profit of T€ 174, which is calculated as follows:

(In T€)	31 Dec 2006
Trade receivables	2
Other receivables	9
Other assets	35
Banks balances and cash in hand	6
Assets of subsidiary on deconsolidation	**52**
Financial liabilities	131
Provisions	9
Trade payables	86
Other liabilities	0
Liabilities of subsidiary on deconsolidation	**226**
Net assets of subsidiary	**–174**
Proceeds from disposal	0
Result of deconsolidation	**174**

Valuation allowances on loans of T€ 131 were charged against the result of deconsolidation, resulting in a net effect of disposal of T€ 43.

4 Correction of errors in previous years

As part of the preparation of the consolidated financial statements as of 31 December 2006, one classification error was corrected. In 2006, valuation allowances on receivables and losses on receivables of T€ 2,474 were reclassified from other operating expenses to selling expenses. The amounts for previous years were adjusted in line with IAS 8.49. This resulted in a reclassification from other operating expenses to selling expenses of T€ 4,514.

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.
The fixed-line telephony segment comprises the range of fixed-line telephony services call-by-call products, pre-selection and wholesale termination services.
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 2006

(In T€)	Fixed-line segment	Broadband/IP segment	Consolidation	Group
Income statement	**2006**	**2006**	**2006**	**2006**
Sales				
External sales	91,609	35,898		
Intra-segment sales	33,288	0		
Inter segment sales	311	1,281		
Total sales	125,208	37,179	-34,880	127,507
Net income (before minorities)				
Segment result	892	-4,732	0	-3,840
Depreciation and amortisation	1,398	15,407*	0	16,805
Valuation allowances on trade receivables	-181	44	0	-137
Balance sheet	**31 Dec 2006**	**31 Dec 2006**	**31 Dec 2006**	**31 Dec 2006**
Assets	46,575	60,842	0	107,417
Liabilities	18,528	47,524	0	66,052
Capital expenditure	826	3,867	0	4,693

* Depreciation and amortisation includes non-recurring impairment of the customer base of € 1.93 million.

Segment report 2005

(In T€)	Fixed-line segment	Broadband/IP segment	Consolidation	Group
Income statement	**2005**	**2005**	**2005**	**2005**
Sales				
External sales	86,774	36,605		
Intra-segment sales	34,710	0		
Inter segment sales	54	2,734		
Total sales	121,538	39,339	-37,498	123,379
Net income				
Segment result	-4,932	1,532	3,477	77
Depreciation and amortisation	2,268	15,213	0	17,481
Valuation allowances on trade receivables	1,942	181	0	2,123
Balance sheet	**31 Dec 2005**	**31 Dec 2005**	**31 Dec 2005**	**31 Dec 2005**
Assets	51,121	76,633	0	127,754
Liabilities	21,268	60,665	0	81,933
Capital expenditure	1,152	1,601	0	2,753

German 3U companies generate the majority of sales and earnings in the 3U Group. The following table shows the shares of German sales/earnings in total sales/earnings (in percent) and investments of German companies by segment:

(In € million)	Fixed-line 2006	Fixed-line 2005	Broadband/IP 2006	Broadband/IP 2005
Share of sales	84.56 (92.3 %)	77.48 (89.3 %)	32.98 (91.9 %)	33.08 (90.4 %)
Share of earnings	1.31 (68.9 %)	-4.41 (89.3 %)	-4.93 (54.7 %)	4.64 (303.3 %)
Capital expenditure	0.83	1.15	3.87	1.60

In 2006, the Management Board of the Company implemented the decision it made in January 2006 to close or dispose of non-profitable foreign companies in the fixed-line telephony segment. This process has now been largely concluded.

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.

6 Notes on the consolidated income statement

6.1 Sales

Sales generated by fixed-line telephony and broadband/IP provider activities are reported without sales tax and net of discounts granted. The income is recognised by way of invoicing after performance of telecommunications services.

Sales are composed as follows:

Sales by category (in T€)	2006	2005
Fixed-line telephony	**91,608**	**86,774**
Of which in Germany	84,552	77,482
Of which in Europe	2,432	4,682
Of which in the USA	4,624	4,610
Broadband/IP	**35,898**	**36,605**
Of which in Germany	32,981	33,089
Of which in Europe	2,917	3,516
Total	**127,506**	**123,379**

6.2 Cost of sales

The item cost of sales for the services and goods provided to generate sales largely comprises expenses for origination and termination services, supply charges for interconnection points and leased lines, pro rata staff 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.

The cost of sales costs, which also includes production-related write-downs in the Group, developed as follows:

(In T€)	2006	2005
Fixed-line telephony	-79,950	-75,697
Broadband/IP	-35,498	-38,525
Total	**-115,448**	**-114,222**

6.3 Selling expenses

In addition staff costs, marketing and selling costs also include advertising expenses, such as printed advertisements, expenses for trade fairs and corporate presentations and losses on receivables (reclassification, see 6.5).

6.4 General and administrative expenses

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

6.5 Other operating income and expenses

Other operating income (T€ 13,691) includes the following items:

(In T€)	2006	2005
Income from the adjustment of a long-term fibre optic agreement	0	11,569
Effects of the deconsolidation of subsidiaries	1,415	8,133
Reversal of provisions	6,468	414
Disposal of non-current assets	220	439
Income from receivables written down	71	2,232
Income from reminder fees	691	486
Income from investment securities	2,511	433
Other income	2,315	5,259
Total	**13,691**	**28,965**

Other operating expenses (T€ 3,420) includes the following items:

(In T€)	2006	2005
Effects of the deconsolidation of subsidiaries	-1,524	-4,142
Write-downs not attributable to functional areas	0	-951
Losses from the disposal of non-current assets	-373	-432
Expenditure from price differences	-14	-187
Repair and maintenance	-14	-16
Provisions not allocated to functional expenses	-1,043	-12
Other expenses	-452	-115
Total	**-3,420**	**-5,855***

*In 2006, write-downs and losses on receivables were reclassified to selling expenses. Thus, the amount of T€ -4,515 included in this presentation for 2005 has been removed for purposes of comparability.

6.6 Additional notes on the consolidated income statement

Staff costs

The average number of employees was 183 (previous year: 193).

	2006	2005
Sales	49	52
Administration	25	24
Operations/IT	72	88
Technology/system development	37	29
Total	**183**	**193**

Staff costs comprise the following:

(In T€)	2006	2005
Salaries and wages	10,532	12,463
Social security contributions	1,559	1,609
Pension/support costs	91	144
Total	**12,182**	**14,216**

Depreciation and amortisation

Amortisation on intangible assets and depreciation on property, plant and equipment amounted to T€ 16,805 (previous year: T€ 17,481). Amortisation of intangible assets is reported as T€ 3,796 for amortisation of customer bases and T€ 1,667 for cost of sales.

6.7 Interest income and expenses

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

(In T€)	2006	2005
Other interest income	1,867	251
Income from investments carried at equity	6	1
Interest income	**1,873**	**252**
Interest expense on loans	-1,084	-1,668
Interest on lease instalments	-1,453	-1,574
Interest expenses for restoration costs	-286	-277
Interest expenses for current account	-12	-166
Other financial expenses	-985	-190
Interest expenses	**-3,820**	**-3,875**
Total	**-1,947**	**-3,623**

6.8 Income taxes

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

(In T€)	2006	2005
Current income tax expenses	129	-432
Deferred taxes	-83	-302
Total	**46**	**-734**

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

Effective 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 registered 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. With the exception of France, the US, Austria and Luxemburg, the tax rate used for foreign companies is also 38 %. A different tax rate was used in France, the US, Austria and Luxemburg.

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

	2006 T€	2006 %	2005 T€	2005 %
Earnings before tax	-3,886	100.0	811	100.0
Consolidated tax rate (38 %)				
Notional tax income/expense	1,476	-38.0	-308	-38.0
Non-taxable income/ non-deductible expenses	639	-16.4	3,233	398.6
Deconsolidation of subsidiaries	-192	4.9	2,551	314.6
Non tax-deductible impairment of customer base/goodwill	-1,384	35.6	-524	-64.6
Valuation allowances for deferred tax assets/ non-capitalisation of deferred tax assets on loss carryforwards	-838	21.6	-5,302	-653.8
Different tax rate for foreign subsidiaries	190	-4.9	0	0.0
Other	158	-4.1	-384	-47.3
Total	**49**	**-1.3**	**-734**	**-90.5**

6.9 Earnings per share

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

Earnings per share

	31 Dec 2006	31 Dec 2005
Earnings (in T€)	**-3,856**	**77**
Basis for basic earnings per share (share in net profit for period of parent company)	**-3,856**	**77**
Basis for diluted earnings per share	**-3,856**	**77**
Number of shares	**46,842,240**	**46,842,240**
Weighted average number of ordinary shares for basic earnings per share	46,842,240	46,842,240
Effect of dilutive potential ordinary shares:		
Options	2,520,750	2,520,750
Weighted average number of ordinary shares for diluted earnings	49,362,990	49,362,990
Earnings per share (in €)		
Earnings per share, basic	-0.08	0.00
Earnings per share, diluted	-0.08	0.00

7 Notes on the consolidated balance sheet

7.1 Non-current assets

The development of individual non-current items and depreciation and impairment for the current financial year are presented separately in the consolidated statement of changes in assets in "Appendix 1 to the Notes on the Consolidated Financial Statements".

7.2 Intangible assets

The carrying amounts of intangible assets are as follows:

(In T€)	31 Dec 2006	31 Dec 2005
Licences, concessions and software licences	2,378	3,684
Customer base and goodwill	5,632	9,428
Total	**8,010**	**13,112**

Acquired intangible assets were measured at cost less straight-line amortisation. This relates primarily to software licenses for transfer and IT technology.

The first-time consolidation of the 90 % investment in LambdaNet on 1 April 2004 resulted in goodwill of T€ 8,746, which was capitalised as the customer base and is being written down over eight years. The total customer base of LambdaNet was measured using multiples based on comparable transactions.
3U TELECOM AG acquired the remaining shares in LambdaNet on 31 December 2004. The goodwill resulting from first-time consolidation is T€ 1,624. This was also classified as a customer base and is being written-down over eight years.

As of 31 December 2006, the carrying amount for the customer base is T€ 5,082.
As a result of the termination of a contract by a major customer at LambdaNet and the reassessment of the possible future income, discounted with an interest rate of 6.37 %, an impairment of € 1.93 million was recognised on the customer base.

7.3 Property, plant and equipment

Please refer to the consolidated statement of changes in assets in "Appendix 1 to the Notes on the Consolidated Financial Statements" for the carrying amounts of property, plant and equipment.

All technical and office equipment was pledged as collateral for the bank loan for LambdaNet.

7.4 Financial assets

Assets available for sale

(In T€)	31 Dec 2006	31 Dec 2005
Fair value	24,852	24,906

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 fair values of these securities are based on published market data.

Investments in securities are in the form of funds and promissory notes, which are managed by two banks. As a result of positive changes in fair value, a net figure of T€ 1,098 (after deferred taxes) was withdrawn from the revaluation reserve.

The fund assets are subject to the risk of changes in fair value owing to shares (47.3 % of fund assets) and fixed-income securities and money market investments (52.7 % of fund assets). 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€ 620 at a confidence level of 95 %.

As of 31 December 2006, money market funds consisted of near-money market securities and floating rate bonds focusing on Europe.

As of the end of year, the average coupon and the average return were 4.30 % with an average duration (capital commitment period) of 0.25 years.

As of 31 December 2006, the bond funds consisted of German fixed-income securities, primarily in the public sector, and fixed-income euro zone securities.

The fund's assets were invested evenly across various terms with an average coupon of 4.23 %, and average return of 3.97 % and an average duration (capital commitment period) of 2.98 years.

As of 31 December 2006, the share fund primarily consisted of euro zone and German shares. A minor share related to non-European shares.

7.5 Finance leases

Long-term lease agreements are capitalised for fibre-optics in the 3U Group. The capitalised fibre-optic contracts are based on an average ordinary useful 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 concluded on contingent rentals. All lease liabilities are in euro.

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

Finance leases (in T€)	Carrying amounts 31 Dec 2006	Present values 31 Dec 2006	Carrying amounts 31 Dec 2005
Capitalised leased property, plant and equipment	**17,321**		**19,735**
Current portion (due within 1 year)	2,759	2,041	2,978
Non-current portion (due in 1 to 5 years)	12,386	9,524	11,726
Non-current portion (due in more than 5 years)	10,565	8,355	12,600
Carrying amount of leases	**25,710**	**19,920**	**27,304**
Future interest on finance leases	5,790		7,003
Present value of leases	**19,920**		**20,301**

Some of the leases include prolongation options and price adjustment clauses.

The fibre-optic agreements with the supplier GasLINE include price adjustment 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€ 2,540 in the 2006 financial year.

With regard to the total of future minimum lease payments and their relevant present values, please refer to 7.18 "Contingent liabilities and other financial obligations".

7.6 Deferred taxes

Deferred taxes were calculated by taking temporary differences into account using the liability method in accordance with IAS 12. For Germany and the rest of the world not including France, a combined income tax rate of 38 % was applied. The tax rate used for the US is 33 %. The following amounts are reported on the consolidated balance sheet:

(In T€)	31 Dec 2006	31 Dec 2005
Assets		
Deferred taxes from deductible temporary differences	0	45
Deferred taxes from tax loss carryforwards	0	54
Deferred tax assets	**0**	**99**
Liabilities		
Deferred taxes from recognition directly in equity	0	589
Deferred taxes from taxable temporary differences	0	11
Deferred tax liabilities	**0**	**600**

In the current financial year, deferred tax assets on the loss carryforwards of individual Group divisions reported to date were fully eliminated by way of tax use and offsetting against profits. Deferred tax liabilities from direct recognition in equity related to the revaluation of financial assets and were eliminated by way of the disposal of financial assets.

In financial year 2006, the future realisation of existing tax loss carryforwards was reassessed based on revised business plans. Owing to the loss situation in previous periods and expected losses by individual Group divisions in the near future, no deferred tax assets have been recognised on loss carryforwards in spite of the positive development forecast in the medium term.

Also, no deferred tax liabilities are reported if these are offset by deferred tax assets. 3U TELECOM AG utilises the netting option provided for by IAS 12, whereby deferred tax assets and liabilities are reported net if they relate to the same tax authority (for the relevant taxable entity).

Under the provisions of local tax law, the loss carryforwards for which no deferred tax assets were reported in the consolidated balance sheet amounted to a total of T€ 71,046 for corporation tax and T€ 65,933 for trade tax and primarily relate to LambdaNet. Tax loss carryforwards relate to Germany.

The deferred tax liabilities from temporary differences do not include any deferred tax liabilities (previous year: T€ 589) that were recognised directly in equity rather than income.

7.7 Other financial assets

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

Trade receivables are composed as follows:

(In T€)	31 Dec 2006	31 Dec 2005
Trade receivables from third parties	20,793	28,882
Valuation allowances	-7,190	-12,069
Total	**13,603**	**16,813**

Depending on the age structure of the receivables, uniform valuation allowances are recognised within the Group for the receivables.

Other assets consist of:

(In T€)	31 Dec 2006	31 Dec 2005
Receivables from tax refunds	1,332	2,516
Cost-free IP transit (MetroMedia)	123	492
Deposits	243	154
Fixed-term deposits for guarantees	20	116
Loans to former employees	381	381
Valuation allowances on loans	-219	-171
Cost-free fibre-optic lease (MetroMedia)	0	0
Others	1,090	676
Total	**2,970**	**4,164**
Of which non-current	683	736
Of which current	2,287	3,428

The carrying amount of trade and other receivables is the fair value.

Bank balances and cash in hand includes cash and short-term deposits with an original due date within three months or less. The carrying amount of these assets is their fair value.

Default risk

The most important financial assets of the Group are bank balances and cash in hand, trade and other receivables. The default risk for the Group mainly results from trade receivables. The balance sheet amounts include the valuation allowance for expected uncollectable receivables, based on management experience 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 international rating agencies.

7.8 Prepaid expenses

Prepaid expenses primarily relate to network rental in the amount of T€ 2,570 (of which non-current: T€ 1,126).

7.9 Issued capital

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

The Company has only 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 2005 financial year. All shares grant the same rights.

Authorised capital
The Annual General Meeting of 13 May 2004 resolved new authorised capital of T€ 23,421 until 12 May 2009.

Contingent capital
The Company has contingent capital of T€ 4,560.

7.10 Employee participation 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 (€ 912,000 before the stock split on 6 July 2004) for issuing stock options to members of the Management Board, executives and employees in the context of a stock option plan and authorised the Management Board accordingly. With the approval of the Supervisory Board, the Management Board made use of this authorisation on 20 August 2003 and established a stock option plan for 2003. The 2003 stock option plan has a term of five years. The non-transferable option rights can be exercised after a two-year qualifying period on 21 August 2005 at the earliest and no later than 20 August 2008.

The beneficiaries are:

Group 1: Members of the Company's Management Board and all members of the management of affiliated companies in Germany and abroad (Article 15 of the German Stock Corporation Act, AktG) if 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) if 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 are based on a share price of € 2.23, an exercise price of € 2.70, anticipated volatility of 51 % (source: Bloomberg) and a risk-free interest rate of 3.5 %.

Each option right authorises the purchase of one 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's shares in EXTRA trading (or a comparable successor 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 per share.

In total, T€ 0 was recognised as staff costs for the 2003 stock option plan for financial year 2006 (previous year: T€ 221). This includes a fluctuation rate of 35 %.

2004/2005 stock option plan

On 9 March 2005, the Management Board had 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 key details of the 2004/2005 stock option plan are as follows:
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 are based on a share price of € 0.98, an exercise price of € 1.06, anticipated volatility of 61 % (source: Bloomberg) and a risk-free interest rate of 3.0 %.

Each option right authorises the purchase of one 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's share in XETRA trading (or a comparable successor 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's shares must have outperformed the TecDAX on ten consecutive days between the acquisition of the option rights and the exercise date. 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.

In total, T€ 478 was recognised as staff costs for the 2004/2005 stock option plan for financial year 2006 (previous year: T€ 359). This includes a fluctuation rate of 15 %.

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

7.11 Revaluation reserve

The revaluation reserve of T€ 1,115 resulted from the measurement of fund securities at fair value and the deferred tax liabilities from the additions to securities taken directly to equity.

7.12 Minority interests

The minority interests amounted to T€ 25 (previous year: T€ 9.).

7.13 Financial liabilities

Financial liabilities generally refer to overdraft facilities and lease liabilities.

Financial liabilities comprise the following:

(In T€)	31 Dec 2006	31 Dec 2005
Liabilities due to banks*	14,007	16,296
Lease liabilities	19,920	20,301
Total	**33,927**	**36,597**

The remaining terms of the financial liabilities are:

(In T€)	Total	Less than 1 year	Between 1 and 5 years	More than 5 years
Financial liabilities	33,927	5,568	10,270	18,089

Non-current liabilities due to banks were down by T€ 3,644 to T€ 10,137 as against the previous year. Non-current lease liabilities rose by T€ 356 to T€ 17,879. This was due to the lease-financed selective expansion of the network.

*The liabilities to banks of T€ 14,007 break down as follows: Nominal amount T€ 14,106 less discount T€ –99.
The interest rate is 3M Euribor +2.5 % with a term until 1 October 2009. The loan's collateral consists of a pledged fixed-term deposit with a loan value of € 3.0 million. The repayment schedule is as follows: T€ 3,772 (2007), T€ 4,935 (2008) and T€ 5,245 (2009).

7.14 Trade payables

It is assumed that the carrying amount of trade payables is approximately their fair value.

7.15 Other liabilities

Other liabilities comprise the following:

(In T€)	31 Dec 2006	31 Dec 2005
Supplier loans	0	4,201
Social security contributions	95	228
Income and church tax	0	141
Other taxes	185	641
Provisions of a liability nature	578	786
Payroll	127	139
Other liabilities	296	35
Total	**1,281**	**6,171**
Of which non-current	5	53
Of which current	1,276	6,118

7.16 Provisions

Provisions essentially comprise restoration obligations of T€ 4,642 (previous year: T€ 4,647), tax provisions of T€ 1,905 (previous year: T€ 1,774), staff provisions of T€ 577 (previous year: T€ 1,187), litigation risks of T€ 1,228 (previous year: T€ 1,084) and provisions for insolvency administrators T€ 498 (previous year: T€ 740).

Income from the reversal of provisions amounts to T€ 6,468.

7.17 Deferred income

Deferred income primarily relates to deferred sales.

7.18 Contingent liabilities and other financial obligations

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

(In T€)	Less than 1 year*	Between 1 and 5 years*	More than 5 years*
Rent and cleaning	601 (555)	771 (631)	15 (9)
Rental leases	3,130 (2,890)	9,629 (7,441)	1,120 (694)
Insurance policies	49 (45)	0	0
Other financial liabilities	114 (105)	208 (164)	0
Purchase commitments	44 (0)	0	0
Total	**3,938 (3,595)**	**10,608 (8,236)**	**1,135 (703)**

Rental leases relate to lease agreements for offices, technical space and cars. The agreements concerned have a remaining term of 1 to 10 years. Rental lease payments in 2006 amounted to T€ 3,303.

At € 4.30 million, fund assets are pledged as collateral for 3U TELECOM AG's credit lines. Also, fixed-term deposits of € 3.00 million have been pledged as collateral for LambdaNet's liabilities to banks.

3U TELECOM AG has issue a letter of comfort for financial obligations up to a maximum of € 112,600 until 31 December 2007 to Telekom Austria for 3U TELECOM GmbH, Vienna.

*Amounts in brackets represent the relevant present values.

8 Notes to the cash flow statement

The fund comprises bank balances and cash in hand. The only significant foreign currency holdings are in US dollars and the exchange rate fluctuations relating to this did not have any material impact on the cash flow statement.

Cash flows are broken down into operating, investment and financing activities. The indirect calculation method was used for the presentation of cash flows from operating activities.

The cash effects of the divested companies were eliminated from the 2006 cash flow statement.

After adjustment for non-cash income and expenses (essentially depreciation and interest expenses) and consideration of the changes in working capital, the 3U Group generated a cash inflow of T€ 5,216 from operating activities.

Cash flow from investing activities amounted to T€ –2,331.

In total, cash and cash equivalents amounted to T€ –1,140 (before changes to the scope of consolidation).

9 Other information

9.1 Financial risks

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

Foreign currency risk
The 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 valuation allowances 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 risk
The risk of rising interest on bank loans is monitored on a timely basis.

9.2 Related parties

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

Berth Hausmann	Weßling Chief Financial Officer of 3U TELECOM AG until 30 September 2006
Michael Schmidt	Lahntal Chief Technology Officer of 3U TELECOM AG
Roland Thieme	Lahntal Chief Technology Service Officer of 3U TELECOM AG Supervisory Board or Advisory Board mandates: Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover
Oliver Zimmermann	Berlin Chief Financial Officer of 3U TELECOM AG from 1 October 2006

Total remuneration of the Management Board granted in 2006 amounted to T€ 983 (previous year: T€ 760), including the stock option remuneration component recognised in income in 2006.

Name	Fixed remuneration in T€	Variable remuneration in T€	Long-term remuneration components Stock options in T€
Berth Hausmann	232	23	42
	(of which termination payment: 114)		
Michael Schmidt	186	6	42
Roland Thieme	201	12	42
Burkhard von Ehren	265	0	42
	(of which termination payment: 210)		
Oliver Zimmermann	58	0	0

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

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 2006, but which has now been prolonged to the 2007 financial year.

As of 31 December 2006, there is an unlimited loan receivable of € 370,708.84 from Management Board member Roland Thieme that bears interest at 4.5 % p. a. The receivable is collateralised by a land charge.

Shares held by the Management Board and the Supervisory Board as of 31 December 2006:

Name		Shares	2003 options	2005 options
Michael Schmidt	(Management Board)	8,299,995	124,360*	165,000
Roland Thieme	(Management Board)	2,508,330	124,360*	165,000
Oliver Zimmermann	(Management Board)	25,000		
Hubertus Kestler	(Supervisory Board)	100,000		
Ralf Thoenes	(Supervisory Board)	0		
Gerd Simon	(Supervisory Board)	10,000		

*After stock split

In the reporting year, the following persons were members of the Supervisory Board:

Hubertus Kestler	Frankfurt am Main Lawyer and notary, KMO Kestler Mielert Otto, Frankfurt am Main Chairman of the Supervisory Board of 3U TELECOM AG Other Supervisory Board or Advisory Board mandates: Chairman of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover
Gerd Simon	Bad Homburg vor der Höhe, Industrial Engineer Other Supervisory Board or Advisory Board mandates: Member of the Supervisory Board of Elabs AG, Frankfurt am Main Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover
Ralf Thoenes	Düsseldorf Lawyer, Altenburger, Düsseldorf Deputy Chairman of the Supervisory Board of 3U TELECOM AG Other Supervisory Board or Advisory Board mandates: Deputy Chairman of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover

The Supervisory Board remuneration for 2006 amounted to T€ 123 (T€ 88 of which for 3U TELECOM AG, previous year: T€ 176).

Name	Fixed remuneration	Bonus	Long-term remuneration component	Meeting fees
Hubertus Kestler	10,000			39,493
Ralf Thoenes	7,500			36,381
Gerd Simon	5,000			24,520

Remuneration for services by Supervisory Board members exceeding the remuneration of the Supervisory Board provided for by the Articles of Association amounted to T€ 759 in total and was composed as follows:

Hubertus Kestler (KMO Kestler Mielert Otto):	Legal consulting	T€ 753
Ralf Thoenes (Altenburger):	Legal consulting	T€ 6

The remuneration for services (legal consulting costs) by Hubertus Kestler (KMO Kestler Mielert Otto) is composed as follows: 3U TELECOM AG T€ 586, LineCall Telecom GmbH T€ 1, LambdaNet Communications Deutschland AG T€ 87 and OneTel Telecommunication GmbH T€ 79.

The details of the remuneration system for the Management Board and the Supervisory Board are presented in the management report.

9.3 Events after the balance sheet date

After the balance sheet date, at the Extraordinary General Meeting of 3U TELECOM AG on 15 January 2007, the shareholders approved all resolutions proposed by the Management Board and the Supervisory Board with a majority of over 99 %. Thus, the spin-off and transfer of telecommunications services to the new wholly owned subsidiary 3U TELECOM GmbH was resolved retroactively as of 1 October 2006. In order to become effective, the resolved spin-off must first be entered in the Commercial Register. At present, six actions for rescission and cancellation are pending against the resolutions of the Annual General Meeting. In future, 3U TELECOM AG will assume the function of a management and investment holding company in the 3U Group under the new name of 3U HOLDING AG. As a result of the resolved amendment of the purpose of the Company, the operating activities of 3U HOLDING AG will primarily focus on investment business in the fields of innovative technologies and corporate restructuring in future.

At this time, no estimate can be made as to the financial impact of the above event.

9.4 Auditor's fees

The auditor's fees for financial year 2006 are:

Statutory audit of the annual financial statements	T€ 182
Special audit	T€ 54
Total	T€ 236

9.5 Deviations from Group accounting in accordance with HGB

The accounting and consolidation methods were applied consistently 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 IFRS. The material 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 of provisions
- Recognition of deferred tax assets and liabilities

9.6 Declaration on the Corporate Governance Code in accordance with Article 161 AktG

The Management Board and the Supervisory Board 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.

9.7 Information in accordance with Article 160 (1) no. 8 AktG

In accordance with Article 41 (2) sentence 1 WpHG, by way of letter dated 4 April 2002, Michael Schmidt, Flachspfuhl 11, 35094 Lahntal, notified the Company that he held a total of 19.19 % and therefore more than 15 % of the voting rights of 3U TELECOM AG (SCN 516790) as of 1 April 2002.

In accordance with Article 41 (2) sentence 1 WpHG, by way of letter dated 4 April 2002, Roland Thieme, Alte Hute 2–4, 35094 Lahntal, notified the Company that he held a total of 7.68 % and therefore more than 5 % of the voting rights of 3U TELECOM AG (SCN 516790) as of 1 April 2002.

9.8 Date of approval of the financial statements for publication

The Management Board of 3U TELECOM AG approved the consolidated financial statements to be forwarded to the Supervisory Board on 23 March 2007. The Supervisory Board is responsible for examining the consolidated financial statements and for declaring that it approves the consolidated financial statements.

Marburg, 23 March 2007

The Management Board

Michael Schmidt   Roland Thieme   Oliver Zimmermann

DEVELOPMENT OF GROUP FIXED ASSETS (IFRS)

3U Group (in T€)	Acquisition and production cost				
	As of 1 Jan 2006	Additions	Disposals	Reclassi-fications	As of 31 Dec 2006
I. Intangible assets					
1. Concessions, industrial property rights and similar rights and assets and licences to such rights and assets	8,655	370	43	5	8,987
2. Customer base	13,990	0	0	0	13,990
3. Goodwill	8,970	0	0	0	8,970
Total intangible assets	**31,615**	**370**	**43**	**5**	**31,947**
II. Tangible assets					
1. Land, land rights and buildings including buildings on third party land	968	8	0	0	976
2. Technical equipment and machines	68,870	2,654	2,972	23	68,575
3. Other equipment, plant and office equipment	1,901	155	75	0	1,981
4. Prepayments and constructions in progress	85	1,506	0	-28	1,563
Total tangible assets	**71,824**	**4,323**	**3,047**	**-5**	**73,095**
III. Financal assets					
1. Investments	90	6	0	0	96
2. Investment securities	24,906	16,852	24,906	0	16,852
3. Other loans	0	8,000	0	0	8,000
Total financal assets	**24,996**	**24,858**	**24,906**	**0**	**24,948**
Total fixed assets	**128,435**	**29,551**	**27,996**	**0**	**129,990**

	Accumulated depreciation					Book values	
	As of 1 Jan 2005	Additions*	Disposals	Reclassi-fications	As of 31 Dec 2006	As of 31 Dec 2006	As of 31 Dec 2005
	4,971	1,667	29	0	6,609	2,378	3,684
	5,112	3,796	0	0	8,908	5,082	8,878
	8,420	0	0	0	8,420	550	550
	18,503	**5,463**	**29**	**0**	**23,937**	**8,010**	**13,112**
	114	28	0	0	142	834	854
	23,364	10,937	1,671	0	32,630	35,945	45,506
	1,098	377	32	0	1,443	538	803
	0	0	0	0	0	1,563	85
	24,576	**11,342**	**1,703**	**0**	**34,215**	**38,880**	**47,248**
	0	0	0	0	0	96	90
	0	0	0	0	0	16,852	24,906
	0	0	0	0	0	8,000	0
	0	**0**	**0**	**0**	**0**	**24,948**	**24,996**
	43,079	**16,805**	**1,732**	**0**	**58,152**	**71,838**	**85,356**

* = Depreciation for the period

AUDITOR'S REPORT

We 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 financial year from 1 January to 31 December 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRS, as adopted by the EU, and the additional requirements of German commercial law pursuant to Article 315a (1) HGB (German Commercial Code) are the responsibility of the management board of the company. 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 Article 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 Article 315a (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, 23 March 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Wagenseil Wirtschaftsprüfer	Riedmann Wirtschaftsprüfer

FURTHER INFORMATION

MEMBERSHIP OF OTHER SUPERVISORY BODIES

Mandates of the Management Board

Roland Thieme

Within the Group:

- Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover

Mandates of the Supervisory Board

Hubertus Kestler
Within the Group:
- Chairman of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover

Gerd Simon
Within the Group:
- Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover

External:
- Member of the Supervisory Board of Elabs AG, Frankfurt am Main

Ralf Thoenes
Within the Group:
- Deputy Chairman of the Supervisory Board, LambdaNet Communications Deutschland AG, Hanover

FINANCIAL CALENDAR

- **Publication of report on Q1/2007**
  31 May 2007
- **Annual General Meeting 2007**
  August 2007
- **Publication of report on H1/2007**
  31 August 2007
- **Analysts' conference**
  Q4 2007
- **Publication of report on Q3/2007**
  30 November 2007

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GLOSSARY

Telecommunications terms

ADSL
Asymmetric digital subscriber line. Large bandwidth for users, small bandwidths for the Internet (see DSL).

Backbone
The long-distance telecommunications network that connects exchanges.

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 pre-selection always begins with 010 and is only possible with a T-Com telephone connection.
For "call-by-call with registration", customers must first be registered with their selected telephone company.
No prior registration is required for real call-by-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 servers).

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.

Federal Network Agency
Regulatory body for electricity, gas, telecommunications, post and railways (www.bundesnetzagentur.de), formerly the regulatory body for telecommunications and post (RegTP)

Fibre-optic network
A fibre-optic network consists of cables containing thousands of tiny fibre-optic bundles. These cables allow a considerably higher rate of transmission than conventional copper cables.

ISP
Internet service provider.

Intelligent Network (IN)
The Intelligent Network (IN) is not an actual physical network, but a service-oriented central system based on an existing telephone network. An IN adds intelligent network components and additional performance features to a telephone network. It focuses on value-added services for fixed-line telephony (see service number).

Interconnection charges
Fees charged by Deutsche Telekom AG 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.

Least cost routing (LCR)
Process whereby 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 code
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).

MPLS
Multi protocol label switching is a method for labelling data packages when transferring data. MPLS allow quality of service: defined bandwidths, high availability and short run times as well as bundling all IP-based services on a homogenous platform.

Mainstream technology
Technology based on well-known and widespread standard components.

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.

Quadruple play
Also known as: quad play.
In quadruple play, mobile telephony products are offered in addition to existing television, Internet and telephone offerings from a single source (see Triple play).

Resellers
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 that participates in establishing a connection in an IP network (e. g. the Internet).
Such systems route the IP packages to the relevant target computer using their address.

SDSL
Symmetric digital subscriber line.
Same bandwidth for users and the Internet (see DSL).

Service number
A service number is a service provided by the Intelligent Network (IN).
Codes used for service numbers are
0800 (free call, i. e. the party being called assumes the costs of the call),
0700 (call forwarding to any connection, known as a "personal number"),
0180 (shared cost services, i. e. the parties making and receiving the call share the costs),
0900 (chargeable information and content services),
0137 (phone voting and competitions) and information (118xx).

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

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 superordinate 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.

Triple play
Marketing term for bundled provision of the three services TV, (IP) telephony and Internet from a single source. Triple play originally referred to transporting voice, data and video (triple) via a network.

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

Voice over Internet Protocol/
Voice over IP (VoIP)
Technology for establishing telephone connections via the internet.
There are three methods:
PC to PC, PC to phone, phone to phone.

Web hosting
Web hosting means hosting web sites on the server of an Internet service provider. The web host or provider makes its resources available in return for payment. In particular, these resources include providing and operating the web server and its network connection.

Wholesale
Wholesale business in the telecommunications sector refers to the purchase and resale of minutes between carriers.

Financial terms

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 cash-based component of accounting.
It is a record of the values of cash flows within a financial year. To this end, inflows and outflows in the respective reporting period are offset, thus indicating the change in cash and cash equivalents.

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

Corporate governance
Term describing responsible company management and control based on long-term value added.

Declaration of conformity
Declaration by the Management Board and the Supervisory Board, in line with Article 161 of the German Stock Corporation Act, that the recommendations of the Government Commission of the German Corporate Governance Code have been implemented.

Deferred taxes
Temporary differences in tax expense in single entity and consolidated financial statements compared to the tax accounts. This item establishes a meaningful relationship between earnings and the related tax expense.

EBIT
Earnings before interest and taxes.

EBITDA
Earnings before interest, taxes, depreciation and amortisation.

EBT
Earnings before taxes.

Earnings per share
This key ratio indicates the share of consolidated net income or loss generated that is attributable 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 outstanding.

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

Holding
The term holding (short for holding company or organisation) does not describe a legal form per se, but an established organisational of form of the parent company of affiliated companies.

IFRS
International Financial Reporting Standards.

Market capitalisation
Current price of a single share in a company multiplied by the total number of shares of the company.

Return on equity (ROE)
Ratio of new profit for the year to capital employed.

Return on investment (ROI)
Management 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 the 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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DISCLAIMER

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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