# 3U HOLDING AG
# Annual Report 2007

3U HOLDING

# Summary of group results

| 3U Group (IFRS) | | Year-on-year comparison 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|---|---|---|
| Sales from continued operations | (in € million) | 75.70 | 87.70* |
| EBITDA from continued operations (earnings before interest, taxes and amortisation) | (in € million) | 3.09* | -0.14* |
| EBIT from continued operations (earnings before interest and taxes) | (in € million) | 2.15* | -3.91* |
| EBT from continued operations (earnings before tax) | (in € million) | 4.16 | 0.42* |
| Net income/loss for the period from continued operations | (in € million) | 4.18 | 0.65* |
| Result from discontinued operations | (in € million) | -2.50 | -4.49 |
| Total earnings per share (basic) | (in €) | 0.04 | -0.08 |
| Total earnings per share (diluted) | (in €) | 0.03 | -0.08 |
| Equity ratio | (in %) | 42.08 | 38.51 |

| 3U Group (IFRS) | | Quarterly comparison Q4 2007 | Q4 2006 |
|---|---|---|---|
| Sales from continued operations | (in € million) | 18.39 | 20.27* |
| EBITDA from continued operations (earnings before interest, taxes and amortisation) | (in € million) | 1.56* | -0.16* |
| EBIT from continued operations (earnings before interest and taxes) | (in € million) | 1.35* | 0.16* |
| EBT from continued operations (earnings before tax) | (in € million) | 3.02 | -1.51* |
| Net income/loss for the quarter from continued operations | (in € million) | 3.11 | -0.38* |
| Result from discontinued operations | (in € million) | 0.56 | -4.49* |
| Total earnings per share (basic) | (in €) | 0.01 | -0.05 |
| Total earnings per share (diluted) | (in €) | 0.01 | -0.05 |
| Equity ratio | (in %) | 42.08 | 38.51 |

*The figures for the previous year have been adjusted for discontinued operations.
The EBITDA and EBIT 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 adjustments in provisions of € 0.70 million, and non-recurring special effects of € 0.37 million in connection with the corporate restructuring.
The EBITDA and EBIT figures were adjusted for 2007 to take into account non-recurring positive special effects of € 1.38 million.

# Contents

# Letter to our shareholders

## Dear shareholders,

The realignment of the 3U Group left its stamp on the 2007 financial year.

## Annual General Meeting passes resolution for strategic realignment

At an Extraordinary General Meeting on 15 January 2007, all items on the agenda were approved by an overwhelming majority, preparing the way for the spin-off and transfer of telecommunications services to the new subsidiary 3U TELECOM GmbH yet to be established, renaming of the company to 3U HOLDING AG, and its strategic realignment as a management and investment company.

Actions for rescission and cancellation submitted against the agenda items in December 2007 were concluded with court settlements. After the resolutions were entered in the commercial register on 29 December 2007, the telecommunications service sector was transferred to the newly established, wholly owned subsidiary 3U TELECOM GmbH.

## Sale of LambdaNet

In connection with the strategic realignment, the decision was made in June 2007 to sell LambdaNet Communications Deutschland AG. LambdaNet had been acquired in April 2004 and was subsequently developed into a leading provider of operator network solutions for telecommunications companies, Internet Service Providers and business customers. At the balance sheet date of 31 December 2007, negotiations with potential investors were still in progress.

## Earnings significantly improved

A look at business development shows that thanks to a systematic focus on earnings, we were able to improve our earnings significantly in continuing service sectors and even exceed our expectations. During the 2007 financial year revenues dropped as expected by 13.68 %, from € 87.70 million the previous year to € 75.70 million. Revenues of companies available for sale were not included in the proven sales profits. EBITDA rose by € 3.23 million from 2006, reaching € 3.09 million following an EBITDA-loss of € 0.14 million the previous year. Earnings before tax rose from € 0.42 million in 2006 to € 4.16 million in 2007. Group results also saw a significant increase. 3U HOLDING AG achieved net income for 2007 of € 1.67 million, following net losses in 2006 of € 3.84 million.

The Management Board of 3U HOLDING AG (from left): Oliver Zimmermann and Michael Schmidt

## Management Board downsizes

At 31 December 2007, Roland Thieme withdrew as planned from the Management Board of 3U HOLDING AG; in future it will comprise only two members. Roland Thieme will not only continue to work in operations as director of all fixed line network telephony investments, he holds full power of attorney for 3U HOLDING AG and, as a member of the LambdaNet Supervisory Board, has a decisive voice in business development.

## Strong position in fixed line network telephony segment

Amid a market characterised by bitter competition and declining prices, the management of 3U HOLDING AG has taken appropriate action so as to operate profitably in the fixed line network telephony segment.
Its declared objective is to continue increasing our earnings despite the difficult market environment and to counteract what are for the most part loss-making offers by competitors intended to win over customers – all the while earning a profit. Our subsidiaries thus see their position as extremely strong in the call-by-call and wholesale business, thanks to their multi-brand strategy, consistent rate management and a broad-based target group.

## Shareholders’ resolutions implemented

With all resolutions passed by the Extraordinary General Meeting being entered into the commercial register on 29 December 2007, the Management Board can now put its realignment as a management and investment company into action. The new 3U HOLDING AG will focus on the areas of innovative technologies and corporate restructuring. Past years of experience in restructuring and streamlining the 3U Group mean that our company is very well positioned for the investment business. Future investments will be identified through personal contact and links to a broad network of experts. The first equity investments are to be entered into during the 2008 financial year. The existing asset position and lean cost structure create the financial basis for successful activities in the investment business.

The objective of the Management Board’s activities is to increase the enterprise value of the 3U Group for both shareholders and employees on a sustained basis. Positive development of the 3U share price should reflect the success of these efforts.

We would like to take this opportunity to thank you very cordially for your confidence in us.

Marburg, April 2008

The Management Board

Michael Schmidt    Oliver Zimmermann

# Report of the Supervisory Board



## Dear shareholders,

During the year under review, the Supervisory Board performed the tasks required of it by law, by the Articles of Association and by its internal rules of procedure. It regularly monitored and advised the Management Board on management of the company, exercising all due diligence. In oral and written reports, the Management Board informed the Supervisory Board regularly and promptly on all issues relevant to the company with respect to planning, business development, the risk situation and risk management. Business developments that deviated from the plans were explained in detail to the Supervisory Board. The Management Board consulted with the Supervisory Board on the Company's strategic orientation. The Supervisory Board approved the proposed resolutions of the Management Board after thoroughly reviewing and discussing them.

## Focus of discussions in the Supervisory Board

In their discussions, the Supervisory Board focussed on the preparations to the sale of LambdaNet Communications Deutschland AG, which because of the global banking crisis was not realised during the year under review. The recession action in connection with the spin-off resolved upon on 15 January 2007 and its settlement represented another focal point of discussions.

Further topics of discussion in Supervisory Board meetings were corporate governance, specifically the efficiency audit of the Supervisory Board in line with the principles of Corporate Governance, and questions regarding human resources, including the extension of appointments and employment contracts of the Management Board. During the financial year, as in the past, the Supervisory Board gave intensive consideration to the Company's strategic development and orientation. The continued reporting of the Group's revenue, earnings and business development as well as the company's financial position constituted a significant topic of discussion for the Supervisory Board. In particular, the Supervisory Board received explanations from the Management Board regarding business developments that deviated from prepared budgets and defined targets.

The risk monitoring system of the company was subject of the statutory audit by the company appointed to audit the financial statements. This audit confirmed that the Management Board of the company has taken the appropriate measures required according to Article 91 (2) of the German Stock Corporation Act and that the existing monitoring system is capable of identifying, on a timely basis, events and developments which might endanger the continuation of the Company's existence.

## Meetings and participation

The Supervisory Board met for a total of ten meetings (on 28 March 2007, 25 April 2007, 16 May 2007, 27 June 2007, 4 July 2007, 7 August 2007, 28 August 2007, 29 October 2007, 12 November 2007 and 28 December 2007). All members 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 passed unanimously. Both Hubertus Kestler, who held the position of Chairman until 6 August 2007, and I myself maintained constant contact with the Management Board, outside Supervisory Board meetings as well, and gained information about business dealings and important events.

## Corporate governance

On 31 December 2007, 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 8 of the Annual Report. The declaration of conformity can be viewed on the 3U HOLDING AG website (www.3u.net) under the path "Investor Relations/Corporate Governance".

## Changes to the composition of the Supervisory and Management Boards

During the period under review, changes occurred in the composition of the governing bodies.

On 6 August 2007, Hubertus Kestler resigned his position as Chairman of the Supervisory Board. This move was taken for personal reasons and by mutual consent with the Company. In his place, Peter Coch, Dipl.-Betriebswirt, was appointed as a new member of the Supervisory Board by the Marburg Local Court on 7 August 2007 in accordance with Section 104 (1) of the German Stock Corporation Act. Following the recommendation in Section 5.4.3 sentence 2 of the German Corporate Governance Code, a vote by the 2008 Annual General Meeting will supersede the appointment by the court.

To the end of 31 December 2007, Roland Thieme left the Management Board.

The Supervisory Board thanks the departing Board members for their dedicated and successful work in the interests of the Company.

## Audit of the 2007 annual and consolidated financial statements

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt, was chosen as auditor by the Annual General Meeting on 28 August 2007 and was mandated by the Supervisory Board to audit the annual financial statements and consolidated financial statements. The auditor audited the annual financial statements and management report of 3U HOLDING AG prepared by the Management Board in line with the German Commercial Code, and the consolidated financial statements and group management report prepared in accordance with IFRS for the 2007 financial year. It awarded all reports an unqualified auditor’s opinion. The aforementioned documents, the audit reports of the auditor and the recommendations of the Management Board on the appropriation of retained earnings were submitted to all members of the Supervisory Board in good time and were discussed in depth at the accounts meeting on 25 April 2008. At this meeting, the responsible auditor reported on the main results of its audit and was available for further information.

In accordance with Section 171 of the German Stock Corporation Act, the Supervisory Board thoroughly examined the annual financial statements of 3U HOLDING AG, the consolidated financial statements, the management reports for 3U HOLDING 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 HOLDING AG as well as the consolidated financial statements as at 31 December 2007; they are thus adopted. The Supervisory Board concurred with the proposal of the Management Board for the appropriation of retained earnings.

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, April 2008
The Supervisory Board

R. Thoenes

Ralf Thoenes
Chairman

8

# Corporate governance report

The German Corporate Governance Code has been in existence in Germany since 2002. It was last updated in June 2007 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 HOLDING AG welcomes the German Corporate Governance Code. It serves the interests of the company and its investors.

## Declaration of conformity

In 2007, as in previous years, the Management and Supervisory Boards of 3U HOLDING AG discussed the contents of the Corporate Governance Code at length and decided that the recommendations are largely observed.

3U HOLDING AG submitted the declaration of conformity required according to the German Stock Corporation Act on 31 December 2007. It can be viewed on its website (www.3u.net) under the path "Investor Relations/Corporate Governance".

## Deviations from the recommendations

### D&O insurance

3U HOLDING AG waives the deductible for 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 HOLDING 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 HOLDING AG consists of two persons. 3U HOLDING 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 HOLDING 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 HOLDING 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.

**Informing the Annual General Meeting about the details of the remuneration system**

In the past, the Chairman of the Supervisory Board did not inform the Annual General Meeting about the details of the remuneration systems and its changes. Shareholders could refer to the remuneration report in the 2006 annual report for the corresponding information regarding the details of the remuneration system. In the future, the Chairman of the Supervisory Board will inform the Annual General Meeting accordingly.

**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 HOLDING 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.

**Interim report publication**

In line with Section 7.2.1, interim reports should be publicly accessible within 45 days after the end of the reporting period. Beginning with the interim report for the first quarter of 2007, 3U HOLDING AG deviates from this recommendation. It adheres to the provisions of the Frankfurt Stock Exchange, which regards a publication within two months after the end of the reporting period as sufficient and appropriate to inform company shareholders and investors about current business developments.

## Remuneration report

The remuneration report summarises the principles determining the remuneration of the Management Board at 3U HOLDING AG and explains the amount and structure of Management Board remuneration. The remuneration report is created on the basis of the recommendations of the German Corporate Governance Code, also containing the disclosures required in line with the German Commercial Code, supplemented by the Disclosure of Management Board Remuneration Act (VorstOG). The remuneration report forms part of the group management report.

## Management Board Remuneration

All members of the Management Board of 3U HOLDING AG receive a fixed basic salary (fixed component), which is paid in monthly instalments. In addition, the members of the Management Board receive non-cash benefits composed primarily of policy benefits, company car for personal use, subsidies for annuity and health insurance as well as reimbursement of charges. 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.

### Payments to active Management Board members

The remuneration of the members of the Management Board, broken down into the fixed component and performance-related components, is as follows. Individual details are set out in the table below:

| Name | Fixed remuneration (in T€) | | Variable remuneration (in T€) | | Total remuneration (in T€) | |
|---|---|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** | **2007** | **2006** |
| Michael Schmidt | 231 | 186 | 53 | 6 | 284 | 192 |
| Roland Thieme | 201 | 201 | 0 | 12 | 201 | 213 |
| Oliver Zimmermann (from 1 Oct 2006) | 226 | 58 | 80 | 0 | 306 | 58 |
| Berth Hausmann (until 30 Sep 2006) | 0 | 232 | 0 | 23 | 0 | 255 |
| **Total** | **658** | **677** | **133** | **41** | **791** | **718** |

All remuneration for Management Board activities was made by 3U HOLDING AG. The subsidiaries did not pay any remuneration. With regard to the components with long-term incentive effects, we refer to the Chapter "Detailed information on stock option programmes".

### Former members of the Management Board

In the reporting year, former members of the Management Board received remuneration totalling T€ 300 (previous year: T€ 265).

### Severance awards

For Management Board members Michael Schmidt and Roland Thieme, it was agreed that in the event of their leaving the company, the fixed annual salary and the bonus on a pro rata temporis basis will be paid for a duration of six months after termination. The agreement applies for the departure of the Management Board member from active service in the company under the following circumstances a) death; b) long-term disability; c) the company did not offer an employment contract extension or a conclusion of a new employment contract on at least the same terms, unless an important reason exists for which the Management Board member is responsible d) at the end of the year when the Management Board member has reached 65 years of age. In the event of death, the payment is made to the surviving dependants. In the event of contract termination or dismissal due to an important reason, there is no entitlement to the continuation of payment.

## 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 the 2007 financial year can be found in the table below:

| Name | Fixed remuneration (in T€) | | Meeting fees (in T€) | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Hubertus Kestler (until 6 Aug 2007) | 7 | 10 | 13 | 39 |
| Ralf Thoenes | 9 | 8 | 28 | 36 |
| Gerd Simon | 6 | 5 | 33 | 25 |
| Peter Coch (since 7 Aug 2007) | 2 | 0 | 13 | 0 |
| **Total** | **24** | **23** | **87** | **100** |

In the past financial year, the law firm KMO Kestler Mielert Otto – of which Hubertus Kestler, the Supervisory Board Chairman of 3U HOLDING AG until 6 August 2007, is a partner – received a total of € 162,557 for its consultancy services for the 3U Group (€ 108.498 of which after the end of 6 August 2007) and still calculated for the 2006 period of service. This figure is broken down as follows: 3U HOLDING AG € 106,692 (of which € 106.692 after 6 August 2007), OneTel Telecommunication GmbH € 36,834 (of which € 1,465 after 6 August 2007), LambdaNet Communications Deutschland AG € 19.031 (of which € 341 after 6 August 2007).

In the past financial year, the law firm Altenburger Rechtsanwälte, of which the new Supervisory Board Chairman Ralf Thoenes (previously Supervisory Board Deputy Chairman) is a partner, received a total of € 25,373 for its consultancy services for the 3U Group. This figure is broken down as follows: 3U HOLDING AG € 7,922, 3U TELECOM GmbH € 7,736, fon4U Telecom GmbH € 5,308, LambdaNet Communications Deutschland AG € 4,407.

## 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 (€ 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 the following key areas:

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 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 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 performance 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 € 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 (€ 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 9 March 2005 and established a stock option plan for 2004/2005. The stock option plan has the following key areas:

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 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 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 performance 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.

**Shares held by the Management Board and the Supervisory Board as of 31 December 2007:**

| Name | Function | Stock options 2003 | | Stock options 2004/2005 | |
|---|---|---|---|---|---|
| | | Amount | Value in €* | Amount | Value in €* |
| Michael Schmidt | Managing Board | 124,360 | 111,924 | 165,000 | 84,150 |
| Roland Thieme | Managing Board | 124,360 | 111,924 | 165,000 | 84,150 |

*Value when granted

The share options can only be exercised upon the expiry of the vesting period. Its value is allocated to the qualifying period and recognised as an expense in the respective financial year. The expense for 2007 and 2006 financial year is recorded in the table below.

| Name | Function | Expense for components with long-term incentive in T€ | |
|---|---|---|---|
| | | 2007 | 2006 |
| Michael Schmidt | Managing Board | 7 | 42 |
| Roland Thieme | Managing Board | 7 | 42 |
| Berth Hausmann (until 30 Sep 2006) | Managing Board | 0 | 42 |
| Burkhard von Ehren (until 31 Dec 2005) | Managing Board | 0 | 42 |
| **Total** | | **14** | **168** |

As of 31 December 2007, all outstanding options can be exercised.

## Disclosures in line with Section 315 (4) of the German Commercial Code in conjunction with Section 120 (3) sentence 2 of the German Stock Corporation Act

**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 buy back shares:
The share capital consists of 46,842,240 no-par bearer shares. All shares grant the same rights. Each share carries one vote and is decisive for the share of the profits. The rights and obligations from the shares are derived from statutory provisions.

The shares in the capital are as follows:

| | | |
|---|---|---|
| Michael Schmidt | (Managing Board) | 17.72 % |
| Roland Thieme | (Managing Board) | 5.35 % |
| Oliver Zimmermann | (Managing Board) | 0.13 % |
| Hubertus Kestler | (Supervisory Board Chairman until 6 August 2007) | 0.28 % |
| Gerd Simon | (Supervisory Board) | 0.02 % |

In the 2006 and 2007 financial year, we did not receive any notifications with regard to direct and indirect participations on the capital of 3U HOLDING AG in excess of 10 %.

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 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 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 28 August 2007, the Management Board 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 27 February 2009. The authorisation has been 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 yet been used.

For members of the Management Board, no agreements exist for the event of a takeover bid of 3U HOLDING AG.

## Share transactions

According to Article 15a of the German Securities Trading Act, those people with management tasks at 3U HOLDING AG must report their own transactions with 3U HOLDING AG shares or any related financial instruments, particularly derivatives, to 3U HOLDING 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 HOLDING AG in the past financial year:

| Trade date | Name | Function<br>Sale | Purchase | Number<br>in € | Price |
|---|---|---|---|---|---|
| 8 Jan 2007 | Hubertus Kestler | Supervisory Board Chairman (until 6 Aug 2007) | Purchase | 30,000 | 0.61 |
| 7 Dec 2007 | Oliver Zimmermann | Managing Board | Purchase | 34,584 | 0.72 |

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

## Shareholdings

The following members of the Management and Supervisory Boards hold shares in 3U HOLDING AG (as of 31 December 2007):

| Name | Function | Number |
|---|---|---|
| Michael Schmidt | Managing Board | 8,299,995 |
| Roland Thieme | Managing Board | 2,508,330 |
| Oliver Zimmermann | Managing Board | 59,584 |
| Hubertus Kestler (as of 6 Aug 2007) | Supervisory Board Chairman (until 6 Aug 2007) | 130,000 |
| Gerd Simon | Supervisory Board | 10,000 |

Marburg and Düsseldorf, 25 April 2008

3U HOLDING AG
The Management Board          The Supervisory Board

# The 3U share



## Summary of the 3U share

| | |
|---|---|
| International Securities Identification Number (ISIN) | DE0005167902 |
| Wertpapierkennnummer (WKN) *[Securities Identification Number]* | 516790 |
| Stock exchange symbol | UUU |
| Trading segment | Prime Standard |
| Designated sponsor | AXG Investmentbank AG |
| Initial listing | 26 November 1999 |
| Authorised capital in EUR | € 51,402,240.00 |
| Authorised capital in shares | 51,402,240 |
| Registered share capital in EUR | € 46,842,240.00 |
| Registered share capital in shares | 46,842,240 |
| Share price on 28 December 2007* | € 0.78 |
| Share price high in period from 1 January to 31 December 2007* | € 1.11 (16 July 2007) |
| Share price low in period from 1 January to 31 December 2007* | € 0.59 (11 and 17 May 2007) |
| Number of shares | 46,842,240 |
| Market capitalisation at 31 December 2007 | € 36,536,947.20 |
| Earnings per share (basic) | € 0.04 |

During the 2007 financial year the price of the 3U share increased significantly and outperformed the Technology All Share Index. Over the year, the share price increased from € 0.62 to € 0.78. That amounts to a 25.81 % gain in value. During the comparative period the Technology All Share Index increased by 21.57 %. Triggered by a host of Buy recommendations from well-known market letters and magazines, the 3U share rose to € 1.11 in July accompanied by high trading volumes on the German exchanges. One reason for the increased interest in 3U HOLDING AG was the Company's concerted investor and public relations efforts. The market capitalisation as at 31 December 2007 was roughly € 36.54 million, € 9.37 million above 31 December 2006.

During the year under review, a total of 54,096,734 shares of 3U HOLDING AG were traded on German exchanges. This means that there was over 20 times more trading volume than there had been the previous year (2,699,920 shares traded in 2006). This corresponds to an average trading volume of 4.51 million shares per month.

*Daily closing price Xetra

## Share price

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

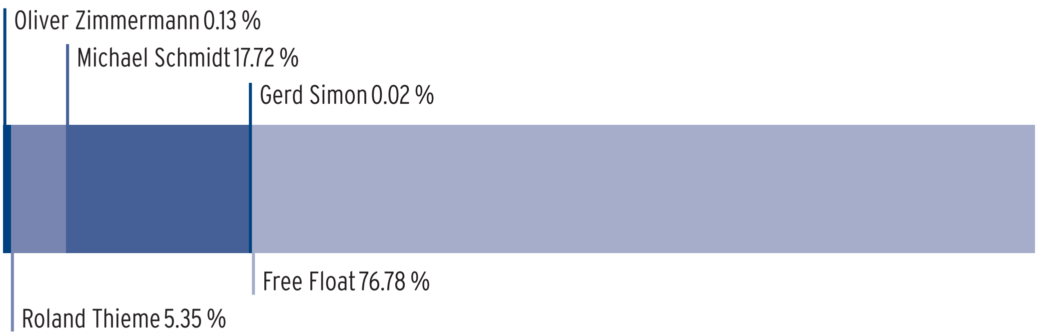

*Daily closing price Xetra

## Shareholder structure

As of 31 Dezember 2007, members of the governing bodies held the following shares with full voting and dividend rights:

| **Management Board** | |
|---|---|
| Michael Schmidt | 8,299,995 shares |
| Roland Thieme | 2,508,330 shares |
| Oliver Zimmermann | 59,584 shares |
| **Management Board total** | **10,867,909 shares** |

| **Supervisory Board** | | |
|---|---|---|
| Ralf Thoenes | (Chairman) | 0 shares |
| Gerd Simon | (Deputy Chairman) | 10,000 shares |
| Peter Coch | | 0 shares |
| **Supervisory Board total** | | **10,000 shares** |



## Investor relations

3U HOLDING AG increased its investor relations activities considerably during the 2007 financial year. In light of the increased interest in the shares of 3U HOLDING AG, we intensified our active dialogue with investors, private investors and analysts.

Eight ad-hoc releases and three corporate news bulletins ensured a high level of transparency in our extensive capital market communication during the year under review.

The Management Board anticipates that the now complete strategic realignment will spark even more interest in the 3U HOLDING AG share and that this will manifest itself in increased enterprise value as well.

# Group Management Report

# Introduction

The realignment of the company's business activities left its stamp on the 2007 financial year. The 3U Group was faced with the challenge of realigning itself despite limited opportunities for growth in the telecommunications market so as to achieve a more sustainable increase in enterprise value.

This was the background for the shareholders' approval at the general meetings in January and August 2007 for 3U TELECOM AG's realignment as a management and investment company. Since 31 October 2007 the company has borne the name 3U HOLDING AG. Effective 15 January 2007, the telecommunications business was spun off into 3U TELECOM GmbH, a wholly owned subsidiary. The spin-off was approved by the Extraordinary General Meeting on 15 January 2007.

# General economic and industry-specific conditions



## Development of the overall economic environment

According to the German Federal Ministry of Economics and Technology, the gross domestic product (GDP) for 2007 on average was 2.5 % above the level of the previous year.

The drastic rise in corporate investments had a positive effect on the job market in 2007 as well. By the end of the year, the number of unemployed persons, adjusted for seasonal changes, had dropped to 3.51 million. This represents a decline of roughly 590,000 from the corresponding number the previous year. During the same period, the rate of unemployment fell from 9.8 % to 8.4 %. At more than 40 million employees, autumn of 2007 represented a historic high.

Even so, private consumption proved to be the German economy's weak point during the year under review. This was brought on not only by price rises in energy and food but particularly by the strong increase in sales tax from 16 % to 19 % at the beginning of the year. The result was noticeably more inhibited buying behaviour. Although private consumption did recover over the course of the year, overall it was not able to reach the value of the previous year and was 0.3 % lower, adjusting for price changes.

In its annual economic report, the federal government predicted further economic growth of 1.7 %.

## Trends on the fixed line network telephony market

In a market study based on a survey of member companies, the Association of Telecommunications and Value-Added Service Providers (VATM) and Dialog Consult GmbH forecast telecommunications services revenues of approximately € 63.4 billion for the German market in 2007, which would be 2.8 % lower than the previous year. In spite of this trend, the study predicted a 4.5 % rise in revenues for competitors of Deutsche Telekom AG (DTAG) in the fixed-line business; due primarily to growth in broadband connections and direct access. Judging from estimated 2007 revenue, DTAG continues to control the market with a penetration rate of roughly 60 %.

The added value (DTAG's competitors' share of fixed-line revenues – corrected to reflect the wholesale revenues of DTAG – to total fixed-line revenues) of DTAG's competitors in the fixed-line segment rose steadily, according to the information provided by VATM und Dialog Consult GmbH. While the value-added rate of competitors in 2005 stood at 22.5 %, it rose to 26.7 % in 2007. DTAG thus still retains almost three-quarters of added value. The reason for this is the still enormous volume of inter-operator services that competitors purchase from DTAG.

Annual capital expenditure by telecommunications providers for network engineering and infrastructure since 2003 ranged between € 5.4 billion and € 6.3 billion. For the past year, the study predicted capital expenditure amounting to € 5.9 billion, half of which was attributable to competitors of DTAG.

The number of employees of these competitors remained almost the same. The roughly 51,000 employees in this segment (full-time equivalents) produced average revenues estimated at about € 0.65 million per employee (full-time equivalent). By comparison, the investments of 3U HOLDING AG earned average revenues per employee (full-time equivalent) of approximately € 1.35 million and thus twice as much as DTAG's other competitors. DTAG's figure is approximately € 0.206 per employee.

VATM and Dialog Consult GmbH forecast a significant rise in voice minutes on bundled connections (physical connection comes from competitor) for 2007. In the call-by-call segment, voice minutes remained relatively constant, but in preselection they dropped drastically. At roughly 375 million voice minutes per day, market penetration breaks down as follows: Direct access, at 179 million voice minutes, has a 47.7 % market share (previous year: 36.9 %); call-by-call, at 143 million voice minutes, has a market share of 38.2 % (previous year: 43.5 %), while the market share of preselection, with 53 million voice minutes, is only 14.1 % (previous year: 19.6 %).

A call-by-call number is the five- or six-digit code that comes before the selection code only possible from a T-Com fixed line. The Federal Network Agency assigns call-by-call numbers. Every network operator code (call-by-call selection code) requires its own legal entity.

Although the call-by-call market is no longer growing, in the telecommunications market, because of the currently predominant issues of flat rates, DSL and VoIP, its position as a niche market is underestimated. There is hardly a product in the telecommunications segment that allows the break-even point to be reached — at a clearly defined expense — as quickly as call-by-call. Predatory competition will, however, continue to increase. Moreover, falling prices in mobile communications are causing a decrease in the use of fixed lines.

## Broadband/IP market trends

The subsidiary held for sale, LambdaNet Communications Deutschland AG (LambdaNet), operates in three customer segments:

- As a network operator, i.e. a provider of voice services – both mobile and based on fixed lines – and of national and international leased lines
- Internet service provider
- Business customers

Stagnation is observable in the network operator customer segment. The continuing consolidation in this market is causing decreasing demand for bandwidth. Large network operators now sometimes have so much demand for bandwidth that investing in an in-house infrastructure is worthwhile. Furthermore, this segment is characterised by price declines. Growth potential can be found in co-location products (leasing of equipment space) and local access management for network operators.

Internet service providers use the services of LambdaNet to provide data communication services for end customers. The constantly growing coverage with high-bit-rate technologies like DSL and UMTS in the end customer market are causing the data volume handled to continue rising. New applications like voice over IP are contributing to this trend. On the other hand, the declining price of service to the end customer also ultimately affect preliminary product prices. Overall, stable or slightly rising revenue potential can be expected.

In the area of data communication solutions for business customers, heavily increasing market volume is anticipated. According to a study by Frost & Sullivan, the market for IP VPN services will grow 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 VPN services.

## Financial market trends

According to the Bundesbank's 2007 financial stability report, the problems arising from the US subprime mortgage market have caused a considerable dislocation on the international finance markets. This represents a serious test for the global financial system. A comprehensive revaluation of lending risk, occurring particularly on the markets for structured financial instruments, along with the increased liquidity requirements of banks themselves, have strained the confidence of market players to the point that the distribution of available liquidity on the money market only functions in a limited manner.

On the international corporate financing markets, the rise in risk premiums has put an end to a relatively long period of extremely favourable lending terms (cf. the 2007 Annual Report of the Bundesbank).

In view of the scenarios described above and the uncertainty of the stock markets, 3U HOLDING AG in November 2007 sold the investment fund units held since the summer of 2006, thereby realising book profits. The funds freed up in the process were then invested in fixed-interest investments.

# Report on Business Development



## Overview of key events during the 2007 financial year

- **Realignment**

An Extraordinary General Meeting was held on 15 January 2007. The most important items on the agenda were the proposals to spin off and transfer the telecommunications services to a new wholly-owned subsidiary, 3U TELECOM GmbH; a name change to 3U HOLDING AG; and strategic realignment as a management and investment company. The shareholders approved all proposals of the Management Board and the Supervisory Board with a majority of more than 99 %.

Six actions for rescission and cancellation of all agenda items of the Extraordinary General Meeting of 15 January 2007 were lodged with the Frankfurt am Main district court.

In December 2007, the legal disputes with the parties bringing the action were concluded through a court settlement. On this basis, the company and the shareholders who brought the suit jointly declared the actions for rescission and cancellation to be resolved. Moreover, the actions for rescission and cancellation of the resolutions of the Extraordinary General Meeting on 15 January 2007 were withdrawn. After the resolutions were entered in the commercial register on 29 December 2007, economic ownership of the transferred assets and liabilities was transferred, retroactive to 15 January 2007, to the newly established, wholly owned subsidiary 3U TELECOM GmbH. For the sake of simplicity and to preserve materiality, the spin-off was made effective 1 January 2007.

- **Name change to 3U HOLDING AG**

The entry in the commercial register on 31 October 2007 means that 3U TELECOM AG now operates under the new name of 3U HOLDING AG. The name change expresses the strategic realignment of the company.

- **Start of disposal process of LambdaNet**

In June 2007 a resolution was passed to sell the interest in LambdaNet Communications Deutschland AG as part of the repositioning as a management and investment company. Following the acquisition of LambdaNet in April 2004 and its successful development into one of the leading providers of operator network solutions for telecommunications companies, Internet service providers and business customers, it is now being sold for strategic reasons. As the focus is now on call-by-call and wholesale business, LambdaNet is no longer needed for its operations. Negotiations with potential investors are currently in progress.

- **Sale of the French subsidiary**

The French subsidiary 3U TELECOM SARL was sold effective 1 January 2007.

- **Change in the Supervisory Board**

On 6 August 2007, Hubertus Kestler, Chairman of the Supervisory Board, resigned his position for personal reasons and by mutual arrangement with the company. Peter Coch, Dipl.-Betriebswirt, was appointed as a new member of the Supervisory Board. The new Chairman of the Supervisory Board is the former Deputy Chairman, Ralf Thoenes. Gerd Simon was elected as the new Deputy Chairman.

## Results of operations

### Group

The broadband/IP service sector and the fixed-line network telephony companies in the USA and Austria are currently held for sale. Sales negotiations are expected to be complete by mid-2008. These sectors are recognised as discontinued operations and their results retrospectively as a total.

Consolidated revenues as at 31 December 2007 thus result solely from the original fixed line network telephony service sector in Germany. During the 2007 financial year revenues in the fixed line network telephony service sector declined 13.68 % as expected as a result of industry trends, reaching € 75.70 million (previous year: € 87.70 million). In Q4 2007* the company generated revenues of € 18.39 million (Q4 2006: € 20.27 million).

A consistent focus on profit produced caused figures from the continuing service sectors to improve considerably and even to exceed expectations. Earnings before interest, taxes and depreciation and amortisation (EBITDA) rose by € 3.23 million from the previous year to € 3.09 million. During the fourth quarter of 2007*, EBITDA was € 1.56 million (Q4 2006: € –0.16 million). Earnings before taxes (EBT) rose from € 0.42 million in 2006 to € 4.16 million in 2007. Earnings from continued operations rose from € 0.65 million in 2006 to € 4.18 million in 2007.

These significant improvements in earnings can be attributed to several effects. Within the cost of sales, improvements made to the invoicing system made it possible to lower postage and invoice costs. Moreover, it was possible to reduce network costs by making better use of resources while reducing the quantity and cost of leased lines.

The decrease in selling and marketing expenses from the previous year can be attributed, first, to staff cuts made the previous year when indirect sales were discontinued, and second, to a reduction in losses on receivables due to improved receivables management.

The downturn in other operating income is due primarily to a drop from the previous year in income from the reversal of provisions and from investment security sales and to the positive effects of the deconsolidation of subsidiaries that occurred the previous year.

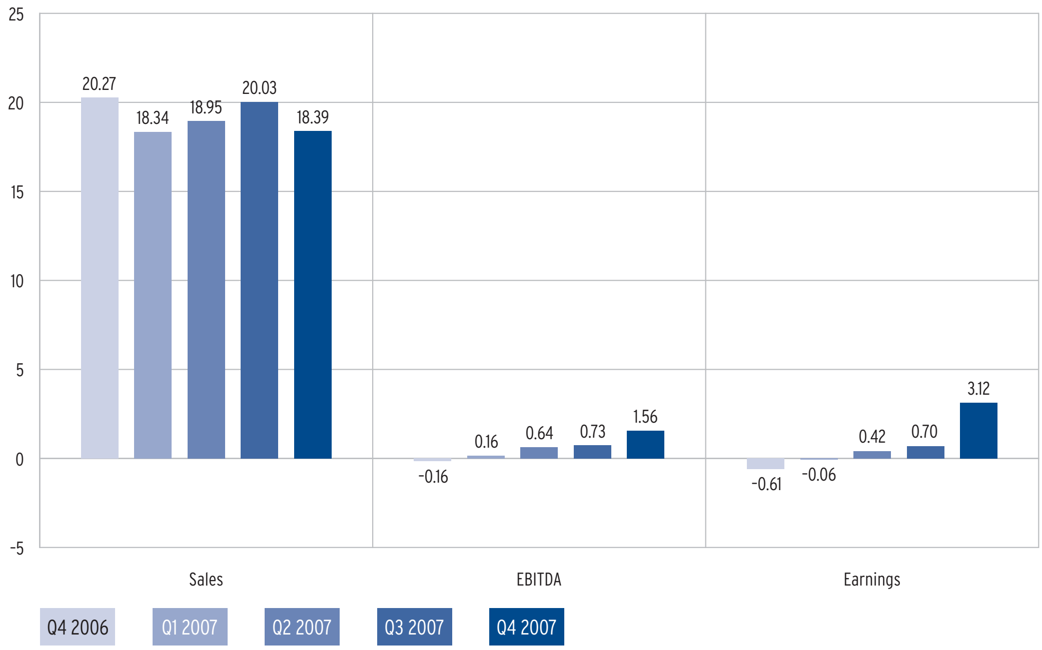
Factors impacting other operating costs of the previous year included high additions to provisions for litigation risks and negative effects from the deconsolidation of subsidiaries.

* The quarterly figures and EBITDA amounts were not examined by the auditor.

Discontinued operations impacted earnings negatively with losses of € 2.50 million (previous year: € 4.49 million) and achieved revenues of € 41.85 million (previous year: € 44.77 million). Other operating income stood at € 1.48 million (previous year: € 6.98 million). Current expenses of € 45.51 million (previous year: € 56.06 million) and taxes of € 0.32 million (previous year: € 0.18 million) produced the result stated above. The improvement is primarily attributable to the recognition of the assets available for sale at the lower carrying amount, while the previous year's earnings included high scheduled depreciation and amortisation.

Overall, the consolidated result improved considerably over the previous year. Net income/loss for 2007 increased by € 5.51 million to € 1.67 million (previous year: € –3,84 million).

**Development (sales, EBITDA, earnings) — 3U Group (continued operations) in € million***




* The annual figures were examined by the auditor. The quarterly figures and the EBITDA amounts have not been audited. The quarterly figures and the EBITDA amounts have not been audited.
The comparative figures (sales, EBITDA and earnings) of the previous period have been adjusted for discontinued operations.
The EBITDA figures were adjusted for 2006 to take into account the non-recurring positive special effect of € 0.31 million from fund income (Q4 2006) as well as the negative special effects of € 0.25 million from deconsolidation (Q1 to Q4 2006), process risk adjustments in provisions of € 0.70 million (Q4 2006) and non-recurring special effects of € 0.37 million in connection with the corporate restructuring (Q4 2006). The EBITDA figures were adjusted for 2007 to take into account the non-recurring positive non-recurring effects of € 1.38 million in income from investment securities (Q4 2007).

## Financial and asset position

Balance sheet ratios have changed considerably as a result of the reclassification of assets held for sale. Moreover, non-current assets were reclassified as current liquidity. Corresponding comparisons with previous reporting periods are therefore only of limited significance.

The presentation of the equity ratio remains unchanged. It is a key indicator of the company's stability. In comparison to 31 December 2006 (38.51 %), the equity ratio of the 3U Group improved further, reaching 42.08 %. This is attributable particularly to the balance sheet contraction caused by continued high depreciation and amortisation.

As at 31 December 2007, cash and cash equivalents decreased by € 3.9 million from the 2006 reporting date (€ 38.83 million) to € 34.45 million, due to the classification of LambdaNet's cash position as held for sale. Taking the capital assigned to discontinued operations into account, cash and cash equivalents during the financial year dropped moderately from € 38.83 million to € 38.54 million despite further repayments of € 5.43 million being made.

Total assets at 31 December 2007 stood at € 99.92 million (previous year: € 107.42 million). With € 3.8 million (31 December 2006: € 74.68 million), non-current assets accounted for 3.8 % of total assets. At € 96.12 million (31 December 2006: € 32.74 million), current assets accounted for 96.20 % of total assets. Non-current provisions and liabilities totalled € 0.10 million (31 December 2006: € 32.79 million). The drop is attributable to the repayment of these liabilities and the recognition of non-current provisions and liabilities held for sale during the previous year.

Assets and liabilities held for sale comprise the following:

| (In T€) | LambdaNet Communications Deutschland AG | 3U TELECOM Inc. USA | 3U TELECOM GmbH Austria |
|---|---|---|---|
| Assets held for sale | 50,063 | 748 | 538 |
| Liabilities held for sale | 41,930 | 559 | 454 |

The Group's operating cash flow in 2007 increased by € 3.09 million to € 8.32 million from the previous year, primarily because of the improved consolidated result Cash flow from investing activities is affected by a shift of financial assets. The outflows for investments in property, plant and equipment relate primarily to investments in network infrastructure. The negative cash flows from financing activities result from a scheduled repayment of liabilities in the service sectors held for sale.

**Summary of financial position**

The Management Board views the financial position of the company at the time of preparation of the Group Management Report as positive overall. We not only met our income targets in the fixed-line telephony segment during the 2007 financial year, we even exceeded them. In the broadband/IP, on the other hand, we fell short of our income targets. Because of its solid financial and asset position, however, the 3U Group is well positioned to continue its successful growth.

## Capital expenditure

In fixed-line telephony, capital expenditure of € 1.5 million centred on switching and transmission technology, with the objective of improving our competitive standing.

In the broadband/IP segment available for sale, € 2.9 million was invested in adjustments to the network capacity, new equipment for the interface connection of customers, and the expansion of technical space.

## Employees

As at 31 December 2007, the 3U Group employed a workforce of 159 employees (147 as at 31 December 2006).

At 62, the number of employees in the fixed-line telephony segment remained constant compared to 2006 (62 as at 31 December 2006).

The discontinuation of direct sales during 2006 reduced the average number of employees for the year by 32, going from 94 in 2006 to 62 for the 2007 financial year.

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.

As at the reporting date of 31 December 2007, the USA fixed line network telephony segment available for sale employed a staff of three (at 31 December 2006: three employees). The Austria service sector also available for sale did not have any employees.

In the broadband/IP segment the number of employees rose from 82 at 31 December 2006 to 95 at 31 December 2007. The average number of employees for the year was 90 (previous year: 89).

**2007 employee structure* of the continued fixed-line telephony segment**


## Non-financial performance indicators

Development of employees' skills: the employees of 3U HOLDING AG and their investments are a vital component of its capital. Their identification with the Company and their dedication to its goals are both crucial contributions to the success of the Company. A key factors fostering and increasing the potential of the employees is a high degree of individual responsibility.
Efficiency of business processes: Together with its investments, 3U HOLDING AG continuously develops internal processes with respect both to exploiting synergies arising from collaboration with the subsidiaries and to cost efficiency and quality improvement in all essential areas.

*Employees including temporary staff based on full-time equivalents (weighted quarterly figures, without the Management Board).

# Risk report

### Basis of the "3U-RICH" system

The risk policy of 3U HOLDING AG specifies the desired ratio of risk to opportunity and is thus closely linked to the Company's strategic objectives. Risk management serves the purpose of ensuring that the Company's objectives are met, that the Company is successful and that the cost of risk is reduced by avoiding or mitigating existing and potential risks, while simultaneously taking advantage of opportunities that arise. To meet legal and regulatory requirements and to achieve optimum corporate management – assisted by increased risk transparency and awareness – the Management Board has introduced a risk and opportunity management system appropriate to the size of the company, "3U-RICH". This groupwide risk management and early detection system covers not only the parent company but also the subsidiaries, potential developments of which may pose risks to the company as a going concern. For this reason, a systematic consideration of potential risks and the risk-conscious handling of them is a crucial expression of work to safeguard and determine the future in this highly dynamic market environment.

### Formulation of a risk management strategy

The Management Board determines a risk strategy, derived from the corporate objectives, that specifies basic conditions for risk management. On its basis, strategic measures are developed to achieve those objectives. Overall, the risk strategy aims to position the company as one that acts and takes risks on the basis of the opportunities for profit in a conscious and controlled manner. Its aim is not the avoidance of potential risks, but rather the creation of a scope of action that allows risks to be taken with full awareness of the risks and their context.

### Role, responsibility and reporting structure

The overall responsibility for the ability to function and effectiveness of the risk management system lies with the Management Board of 3U HOLDING AG. It is regularly informed by the central risk manager of the current risk situation as part of standardised monthly and quarterly reporting and a possible ad-hoc escalation process. The Management Board decides on the submissions from the risk management system and initiates any necessary measures, based on risk assumptions that have changed. It further informs the Supervisory Board.
The efficiency of the processes in the "3U-RICH" system and compliance with provisions and directives are regularly reviewed by the Supervisory Board.

### Methodology of risk management system

The risks of the Holding and its subsidiaries are recorded in the system's risk inventory in as complete and economically viable manner as possible so as to detect as early as possible any developments that pose a risk to the company as a going concern. The resulting risk portfolio of the 3U Group is based on the assessment of the possible extent of loss or negative deviation and the probability of a wide range of scenarios. The "3U-RICH" manual, developed by the company itself, describes the generally valid rules for the structural and procedural organisation of the risk and opportunity management system and, further, raises employees' awareness of possible risks. It describes all rules and measures for identifying, analysing, assessing, mitigating and controlling risk, as well as the monitoring system, which ensures timely detection of possible business risks and compliance with the measures initiated. Moreover, the "3U-RICH" system helps to detect and take advantage of opportunities in advance.

Because potential risks could occur in any business line, and thus in any subsidiary, of the 3U Group, the risk management system extends to all areas and departments.

The "3U-RICH" monitoring system meets the requirements of German law, as set out in the German Stock Corporation Act and the Corporate Control and Transparency Act, as well as international obligations as formulated in the Basel II accords.

**Early warning system**

For the risks identified in the risk inventory, risk indicators are determined that enable these risks to be monitored and assessed. The decentralised risk owners and central risk manager are responsible for constantly monitoring and assessing these risks on the basis of key operating and financial indicators.

## Significant current and future risks in the Group

Listed below are significant risks in the individual segments of the company, selected from the entirety of risks identified for the group, that could significantly affect the net assets, financial position and results of operations of the 3U Group if they were potentially to occur.
These risks will remain important in future. Experience from past risk inventories confirm this trend. They only vary in the amount of loss and probability of occurrence.

### Market and industry risks

Because 3U Group to date has invested solely in telecommunications, the current financial year is affected by the specific competition risks of the industry. The most important sector of our investments is the call-by-call market. The substitution of fixed lines by mobile communications may cause a drop in income. Mobile-to-mobile prices that are below those of fixed lines also present a risk for the call-by-call business. Regulated termination prices for calls to mobile phones may impact revenues and margins negatively.

DTAG loses approximately 2.5 million connections per year, which is causing call-by-call business to decline.

Fixed-line flat rates could render call-by-call unnecessary for fixed lines within Germany. Mobile flat rates that include calls to the mobile network pose a similar risk. Voice over IP (VoIP) and triple play technologies also pose a potential risk because flat-rate packages put pressure on per-minute charges.

### Operating risks — fixed line network telephony

Operating risks are of a more temporary nature and focus on possible downtimes and damage to technical systems, staff and processing capacity.

The services of 3U HOLDING AG's current subsidiaries are based on software applications and on information and telecommunication technologies. For this reason, IT availability and infrastructure are crucial to maintaining business operations and the performance of critical areas and processes. Corresponding system redundancies, timely replacement investments and regular maintenance keep this risk to a level customary in the particular market.

Highly qualified employees make a key contribution to the corporate development of the 3U Group. The absence or loss of the necessary knowledge or skills and experience within key positions of a company could threaten its ability to achieve its business objectives. A performance-oriented remuneration system, internal and external training measures and stock option programmes allow us to cultivate a deep loyalty and sense of attachment to the company in our skilled employees.
Employee management and development form the basis for a positive corporate culture. Outwardly as well, the corporate culture represents the customer-oriented nature and credibility of the company, as well as customers' confidence in it.

In order for business objectives to be achieved, they must be aligned with the business processes of the company. In addition, vertical or horizontal communication within the company must be effective and harmonise with the responsibilities assigned or the measures established. Operational and procedural requirements, functional descriptions and guidelines that are regularly reviewed and updated if necessary — also as part of quality management — form a foundation that will ensure this.

**Operating risks — broadband/IP**

In the broadband/IP segment which is also available for sale, the 3U Group is operating in a very competitive market. The aggressive pricing policies of competitors could negatively impact attainable margins and market share. Other key customers in this area could set up their own network infrastructure for strategic or economic reasons. Should the segment remain within the 3U Group, a downturn in revenues could result. This possibility is factored into the Management Board’s medium- and long-term planning to an extent deemed realistic. The risk of losing important customers in the network operator segment will be compensated for by increased revenue growth in other customer segments.

The broadband/IP segment is also focussing heavily on bringing business processes into alignment. During the 2007 financial year, the subsidiary LambdaNet Communications Deutschland AG in Hannover demonstrated its process capacity by successfully gaining ISO 27001 certification.

**Financial risks**

As a company represented on the market, 3U HOLDING AG is exposed to various risks. For this reason, corporate management centres on the aim of controlling and mitigating financial risks by generating reliable plans.

A significant financial risk is the risk of the concentration of revenues on a single important customer. This risk correlates with default risk, i.e. the risk that a contracting party to a financial transaction will not be able to meet its obligations, thereby exposing the 3U Group to financial loss. Moreover, purchasing, liquidity and market and interest rate fluctuation are among the important areas in which financial risk could arise.

The possible occurrence of these potential risks is counteracted by a receivables and liquidity management system implemented throughout the group, which ensures that sufficient liquidity for business operations is available at all times.

**Regulatory risks**

Certain segments of the German telecommunications market are subject to federal regulation. Associated with this are comprehensive rights of intervention in pricing on the part of authorities. According to the Telecommunications Act, the Federal Network Agency may impose requirements on companies that possess “significant market power” governing the services they offer on these markets. This presents a risk for 3U TELECOM GmbH.

For call delivery to German mobile networks, 3U TELECOM GmbH pays what are known as termination fees. These are to be paid either to the mobile network operator itself or to other operators over whose networks calls are delivered. Until 2006, the fees due for this were not regulated and were contractually agreed.

With the regulatory orders of 30 August 2006, the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Rail determined that the German mobile network operators T-Mobile Deutschland GmbH, Vodafone D2 GmbH, E-Plus Mobilfunk GmbH & Co. KG and $O_2$ (Germany) GmbH & Co. OHG were market powers with respect to termination in their own networks and that the termination fees were subject to the ex ante approval requirement. On the basis of this decision, the BNetzA subsequently ordered termination fees that were lower than those the mobile network operators had previously agreed upon with their contracting parties.

The mobile network carriers took legal action against the regulatory orders of 30 August 2006. On 2 April 2008, the Federal Administrative Court upheld the regulatory orders of 30 August 2006.

The appealed regulatory orders of 30 August 2006 represent the adjudicatory basis for the subsequent fee approvals. Had the judgments on appeal upheld the ruling of the Cologne Administrative Court, they would have rendered the fee orders illegal because the adjudicatory basis would no longer have applied. It would then have been possible for the illegal fee orders to be suspended by the BNetzA, also retroactively.

This would have given the mobile network operators the opportunity to retroactively charge fees that were higher than the regulated fees. Despite the court's examination, the regulated fees represented the basis for charges to mobile network operators, since the appeals against the regulatory orders had no suspensive effect. 3U TELECOM GmbH also lowered the prices it charged its wholesale partners and end customers for termination in mobile networks. The lower prices for wholesale partners became subject to the condition of subsequent billing according to the outcome of the case. Subsequent billing of our own end customers, however, was not possible.

The Management Board accounted for this risk by reporting contingent liabilities of € 3.70 million. In the absence of any other reliable estimates of the amount of an eventual obligation, the maximum risk was used as a basis. For eventual subsequent debits to 3U customers, contingent assets of € 0.9 million were established. The risk of enforceability and recoverability of these claims was recognised using a 30 % discount.

The aforementioned risk no longer applies since the Federal Administrative Court handed down its decision of 2 April 2008. The Management Board no longer expects any subsequent debits of higher contractually agreed fees on the part of the contracting parties, which are now regulated. The decision of the Federal Administrative Court establishes value. For this reason, the reporting of contingent liabilities and assets as at 31 December 2007 persists. The 3U Group will continue to be exposed to risks arising from regulation. However, no concrete risks are foreseeable at this time.

**Other risks**

Since the second quarter of 2007, the broadband/IP segment has been held for sale for strategic reasons. Since the fixed-line telephony sector refocused on call-by-call and wholesale business in mid-2006, LambdaNet will no longer be needed in terms of operations by the 3U Group. The aim of the ongoing negotiations is to find a long-term investor for this sector that will continue and further expand its successful operations. After the disposal, investments of the 3U Group operating in fixed line network telephony will continue to use LambdaNet's network infrastructure for call-by-call and wholesale services. Long-term and cost-efficient contracts to this effect have been made with LambdaNet. No sale has yet been possible. Should the sales process not end in success and should business operations continue, contrary to the expectations of the Management Board, the running depreciation and amortisation for the consumption of economic benefits, ceased since the second half of 2007, amounting to roughly € 3.4 million, would have to be made up in the 2008 fiscal year.
Moreover, a € 4.2 million cash outflow occasioned by the scheduled repayment of LambdaNet's credit lines would be expected in the 3U Group during the 2008 fiscal year.

**Financial risks**

As a result of the Group's realignment, the management of investments will become more important. In addition to the risk areas listed under the Telecommunication segment, risks associated with investment decisions are of particular importance in this respect. The use of investment criteria will minimise the probability of this risk.

- In the case of investments in innovative technologies, such technologies must be distinctive and convincing and afford a substantial, defensible advantage from the point of view of both technology and competition. They must be able to develop outstanding customer benefit and unique selling propositions, and show clearly identifiable market potential.
- In the case of investments in companies to be restructured, emphasis is laid on mid-sized enterprises in production-oriented areas and industry-related services.
- Every investment must offer the prospect of an above-average return on investment in line with the estimated risk and be based on a carefully researched and convincing business plan.
- Regardless of the investment, the target company must possess intact assets, for example products, customer base or expertise. They must show significant potential for improvement in processes and organisation and have the potential both to achieve a secure market position following the restructuring and to earn cashflows and profits that are sustainable over the long term.
- The exit perspective should be between four to five years. Alternatively, a "buy and build" strategy with long-term orientation may be considered.

## Extension of the “3U-RICH” system

3U HOLDING AG is currently working on implementing the 8th EU Directive (EU-SOX) and bringing it into line with the special needs of the new business as a management and investment company, and then implementing it within the “3U-RICH” system.

## Opportunities for 3U HOLDING AG

The strategic realignment as a management and investment company sets the course for earning attractive returns and increasing the value of the company.

On successful sale of LambdaNet, further funds will flow into the 3U Group and enable the company to operate successfully as an investment company.

In the fixed-line telephony segment, 3U Group has taken the right steps toward creating a stable, profit-oriented foundation in a difficult market environment.

A consistent focus on earnings, combined with the realisation of earnings potential in the areas of wholesale and premium services – particularly in the call-by-call service sector, is proving fruitful. The figures of the past financial year confirm this.

Within the next three to five years, 3U HOLDING AG intends to develop into a successful, high-profile investment company with an appropriately risk-balanced investment portfolio.

## Overall assessment of risk position

Based on the material risks described, it can be assumed that the net assets, financial position and results of operations of the 3U Group have the potential, both today and in future, of being significantly impaired. However, taking all of the known facts and circumstances into account, no risks are currently present that could endanger the foreseeable future of the 3U Group as a going concern. Our “3U-RICH” system allows conceivable risks to be detected in a timely manner and thus assists in controlling risk. However, risks may arise in future due to erroneous assumptions which could then deviate from the company’s projections.

# Significant events following the end of the financial year

## Restructuring of the Management Board

At 31 December 2007, Roland Thieme withdrew as planned from the Management Board of 3U HOLDING AG. In future it will only comprise two members. Roland Thieme will not only continue to work as director of all fixed line network telephony investment operations, he holds full power of attorney for 3U HOLDING AG and, as a member of the LambdaNet Supervisory Board, has a decisive voice in business development.

## Contingent liabilities and assets

With the judgement of the Federal Administrative Court on 2 April 2008, the contingent liabilities and assets in connection with the rulings of the BNetzA described in the risk report (Risks from regulation) no longer apply. Please refer to the statements on the risks from regulation.

# Outlook

## Economic outlook

According to the Association of German Banks, the economy will lose some of its momentum after its boom during 2006 and 2007. The German economy will grow at rates of 1.6 % and 1.8 % in 2008 and 2009 respectively.
The job market will continue its positive trend. The Association predicts a further drop of 0.4 million in the number of unemployed individuals.

In view of the most recent rise in energy and food prices, the inflation rate will be slow in its decline. The Association expects that at 2.2 %, the average for the year will be similar to that of the previous year.

Assuming that wage agreements will be orientated toward stability, growth rates of 1.4 % and 1.6 % are expected for private consumption in 2008 and 2009 respectively. Thus consumption by private households will be slightly below the predicted development of the overall economic environment. Even so, these are the highest growth rates since 2001.

## Outlook for telecommunications

Predatory competition is still on the rise. Bitter competition will force prices on the market to continue declining. Further volume growth will not be sufficient to allow revenues and profits to continue rising at a significant rate.

For the investments of 3U HOLDING AG, the 2008 financial year is again set to be shaped by consolidation into profitable business areas such as call-by-call and wholesale/resale. Its aim is to increase earnings despite a difficult market environment and the loss-making offers of competitors intended to win over customers. However, with their multi-brand strategy and a large user base, the subsidiaries find themselves very well positioned in the call-by-call business to continue operations, even over the long term, amid difficult market conditions. Once again during the 2008 financial year, vigorous tariff management will allow the 3U Group to gain market share at the cost of competitors in a declining market.

## Future growth potential through strategic realignment

The strategy of 3U HOLDING AG has fundamentally changed as a result of its 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 sectors of innovative technologies and corporate restructuring. Also in view of the experience gleaned from the restructuring and optimisation measures carried out at the 3U Group in the last two years, the Company is very well positioned for the investment business. The Management Board's own contacts and opportunities and its links to a wide network of experts will ensure that future investments are identified. Initial equity investments will be made over the course of 2008. The existing asset situation and the streamlined cost structure create a financial backdrop that will allow us to operate successfully in the investment business.

In the corporate restructuring sector, the interest of 3U HOLDING AG is centred on struggling companies and those with the potential to perform better. The restructuring of such companies and their associated return to profitability considerably improve the prospect of a significant increase in value for these investments.

Within the next three to five years, 3U HOLDING AG intends to develop into a high-profile and successful investment company with a correspondingly risk-balanced investment portfolio.

## Sale of LambdaNet

In connection with the strategic realignment, the decision was made in June 2007 to sell LambdaNet Communications Deutschland AG. However, the financial market crisis has delayed the completion of a satisfactory sale. Purchase offers currently being examined are above the carrying value of LambdaNet. Further financing of LambdaNet is included and covered in the financial planning of 3U Holding AG for 2008. Ongoing discussions are being held with interested investors toward the end of completing the sale of LambdaNet in 2008 at a satisfactory price.

## Outlook for 3U HOLDING AG

A look at business development shows that a systematically results-oriented approach allowed 3U HOLDING AG to significantly improve its earnings and even exceed expectations in continued service sectors.

In view of the development of the call-by-call market outlined, the Management Board anticipates external sales of € 67.5 million for the 3U HOLDING AG investments combined in the fixed-line telephony segment in 2008. This would mean a decline against 2007 sales of approximately 11 %. This trend is characterised by sales declining in the call-by-call area, with sales moving up at the same time for wholesale and value-added services.
For continued operations a net result of the year of € 1.5 million and an EBITDA of € 1.4 million is anticipated. Despite the volatility of the call-by-call market, a forecast for the 2008 financial year is possible. However, it is more difficult to assess the medium-term trend. Even so, the 3U HOLDING AG Management Board anticipates a positive development for the 2009 financial year. However, due to the volatility of the relevant market, it considers that the market development may impact negatively.

Initial investments to be made during the 2008 financial year will focus on innovative technologies and corporate restructuring. Because they are not classified as telecommunications, they will be reported in separate segments. Any forecasts for this area would be premature.
The objective of all activities is to increase the enterprise value of the 3U Group on a sustained basis for both shareholders and employees. The positive development of the 3U share price is expected to reflect the success of these efforts. On the basis of the now stabilised business operations of the subsidiaries in the fixed-line network telephony segment, the acquisition of further equity investments will present good opportunities to generate above-average share price performance.

With respect to the estimates and expectations set out here, we must point out that actual future events may differ considerably from the expectations regarding probable development.

Marburg, April 2008

The Management Board

Michael Schmidt Oliver Zimmermann

# Consolidated Financial Statements

# Consolidated balance sheet as of 31 December 2007 (IFRS)

| Assets<br>3U Group (in T€) | Notes to the consolidated financial statements | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| | | | |
| **Non-current assets** | | **3,806** | **74,679** |
| Intangible assets | [2.3.7] [2.3.8] [6.11] | 950 | 8,010 |
| Property, plant and equipment | [2.3.9] [6.1.2] | 1,940 | 38,880 |
| Financial assets* | [6.1.3] | 64 | 24,948 |
| Other non-current assets | | 0 | 683 |
| Prepaid network rentals – non-current | | 852 | 2,158 |
| | | | |
| **Current assets** | | **96,115** | **32,738** |
| Inventories | | 0 | 102 |
| Trade receivables | [2.3.20] [6.3] [6.12] | 9,305 | 13,603 |
| Other current assets | [2.3.11] [6.4] | 1,015 | 2,287 |
| Current financial assets | [2.3.10] [6.12] | 2,000 | 0 |
| Cash and cash equivalents | [2.3.10] [6.5] [6.12] | 32,446 | 13,979 |
| Prepaid network rentals – current | | 0 | 2,767 |
| Assets held for sale (Disposal groups) | [2.3.20] [7] | 51,349 | 0 |
| | | | |
| **Total assets** | | **99,921** | **107,417** |

*This includes CityDial GmbH (associated company) with T€ 64 (previous year: T€ 96)

| Shareholders' equity and liabilities 3U Group (in T€) | Notes to the consolidated financial statements | 31 December 2007 | 31 December 2006 |
|---|---|---|---|
| | | | |
| **Shareholders' equity** | [6.6] | **42,043** | **41,365** |
| Issued capital (Conditional capital T € 4,560; previous year: T€ 4,560) | [6.6.1] | 46,842 | 46,842 |
| Capital reserve | | 21,499 | 21,379 |
| Revaluation reserve | [6.6.3] | 0 | 1,115 |
| Retained earnings | | -27,989 | -24,133 |
| Net income/loss | | 1,641 | -3,856 |
| Adjustment item for currency difference | | -9 | -7 |
| **Total shareholders' equity attributable to the shareholders of 3U HOLDING AG** | | **41,984** | **41,340** |
| **Minority interests** | [6.6.4] | **59** | **25** |
| | | | |
| **Non-current provisions and liabilities** | | **103** | **32,788** |
| Non-current provisions | [2.3.15] [6.10] | 103 | 4,642 |
| Non-current liabilities due to banks | [6.7] | 0 | 10,137 |
| Non-current lease liabilities | [6.7] | 0 | 17,879 |
| Other non-current liabilities | | 0 | 5 |
| Network rentals received – non-current | [6.11] | 0 | 125 |
| | | | |
| **Current provisions and liabilities** | | **57,775** | **33,264** |
| Current provisions | [6.10] | 1,416 | 2,973 |
| Current tax provisions relating to income tax | | 2,150 | 2,025 |
| Current liabilities due to banks | [6.7] | 0 | 3,870 |
| Trade payables | [2.3.10] [6.8] [6.12] | 9,998 | 18,424 |
| Current lease liabilities | [6.7] | 0 | 2,041 |
| Other current liabilities | [2.3.10] [6.9] [6.12] | 1,268 | 1,276 |
| Network rentals received – current | [6.11] | 0 | 2.655 |
| Liabilities held for sale (disposal groups) | [2.3.20] [7] | 42,943 | 0 |
| | | | |
| **Total shareholders' equity and liabilities** | | **99,921** | **107,417** |

# Consolidated income statement (IFRS)

| 3U Group (in T€) | Notes to the consolidated financial statements | Financial year 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|---|---|---|
| | | | |
| Sales | [2.3.1] [5.1] | 75,703 | 87,702 |
| Cost of sales | [2.3.2] [5.2] | -64,125 | -78,069 |
| **Gross profit** | | **11,578** | **9,633** |
| | | | |
| Selling expenses | [5.3] | -1,828 | -4,710 |
| General and administrative expenses | [5.4] | -8,474 | -9,098 |
| Other operating income | [5.5] | 2,971 | 7,478 |
| Other operating expenses | [5.5] | -721 | -3,267 |
| Amortisation of customer base/goodwill | [2.3.7] [2.3.14] | 0 | -155 |
| **Earnings from continued operations before interest and taxes** | | **3,526** | **-119** |
| | | | |
| Interest income | [2.3.1] [5.7] | 840 | 866 |
| Interest expenses | [2.3.5] [5.7] | -177 | -331 |
| Income from investments (equity method) | [2.21] [6.1.3] | -31 | 6 |
| **Earnings from continued operations before income tax** | | **4,158** | **422** |
| | | | |
| Income tax expense | [2.3.6] [5.8] | 17 | 229 |
| **Earnings from continued operations before minority interests** | | **4,175** | **651** |
| | | | |
| Earnings from discontinued operations | [7] | -2,501 | -4,491 |
| **Net income/loss** | | **1,674** | **-3,840** |
| **Share of net income/loss attributable to minority interests** | | **33** | **16** |
| **Share of net income/loss attributable to 3U HOLDING AG shareholders** | | **1,641** | **-3,856** |

| 3U Group (in T€) | Notes to the consolidated financial statements | Financial year 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|---|---|---|
| | | | |
| **Earnings per share from continued operations** | | | |
| Earnings per share, basic (in €) | [5.9] | 0.09 | 0.01 |
| Earnings per share, diluted (in €) | [5.9] | 0.08 | 0.01 |
| | | | |
| **Earnings per share total** | | | |
| Earnings per share, basic (in €) | [5.9] | 0.04 | -0.08 |
| Earnings per share, diluted (in €) | [5.9] | 0.03 | -0.08 |
| | | | |
| **Earnings per share from discontinued operations** | | | |
| Earnings per share, basic (in €) | [5.9] | -0.05 | -0.09 |
| Earnings per share, diluted (in €) | [5.9] | -0.05 | -0.09 |

# Cash flow statement (IFRS)

| 3U Group (in T€)<br>[Notes to the consolidated financial statements section 8] | 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|---|---|
| | | |
| **Net income/loss** | **1,641** | **-3,856** |
| | | |
| Depreciation/write-ups of fixed assets | 7,878 | 16,805 |
| Increase/decrease of provisions and valuation allowances | 199 | -1,729 |
| Profit/loss on disposal of non-current assets | -1,668 | -2,556 |
| Increase/decrease in inventories and trade receivables | 932 | 3,108 |
| Increase/decrease in trade accounts payable | -1,264 | -5,001 |
| Changes to other receivables | 1,543 | 1,195 |
| Changes to other payables | -1,236 | -3,535 |
| Change in network rentals prepaid and received | 294 | 81 |
| Income tax payments | -39 | 46 |
| Other non-cash changes | 23 | 658 |
| **Cash flows from operating activities*** | **8,303** | **5,216** |
| **Of which: Cash flows from operating activities from continued operations** | **2,467** | **3,320** |
| **Of which: Cash flows from operating activities from discontinued operations** | **5,836** | **1,896** |
| | | |
| Inflows from disposals of non-current assets | 29 | 19 |
| Outflows for investments in property, plant and equipment | -4,398 | -4,323 |
| Inflows from disposals of intangible assets | 0 | 43 |
| Outflows for investments in intangible assets | -203 | -370 |
| Inflows from disposals of financial assets | 26,078 | 25,854 |
| Outflows from additions to financial assets | -1,730 | -23,554 |
| **Cash flows from investing activities** | **19,776** | **-2,331** |
| **Of which: Cash flows from investing activities from continued operations** | **22,128** | **867** |
| **Of which: Cash flows from investing activities from discontinued operations** | **-2,352** | **-3,198** |
| | | |
| **Sum carried forward** | **28,079** | **2,855** |

*Cash flow from operating activities includes interest payments made of T€ 144 (previous year: T€ 330).
Cash flow from operating activities includes interest payments received of T€ 477 (previous year: T€ 499).

| 3U Group (in T€) | Notes to the consolidated financial statements | 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|---|---|---|
| | | | |
| **Sum carried forward** | | **28,079** | **2,855** |
| | | | |
| Outflows from the repayment of bonds and (finance) loans | | -3,678 | -3,644 |
| Repayment of lease liabilities | | -1,752 | -381 |
| **Cash flows from financing activities** | | **–5,430** | **–4,025** |
| **Of which: Cash flows from financing activities from continued operations** | | **0** | **0** |
| **Of which: Cash flows from financing activities from discontinued operations** | | **–5,430** | **–4,025** |
| | | | |
| **Increase/reduction in cash and cash equivalents** | | **22,649** | **-1,140** |
| | | | |
| Changes to cash and cash equivalents from changes to the scope of consolidation | | -79 | -159 |
| | | | |
| Cash and cash equivalents at beginning of period from continued operations | | 7,930 | 3,902 |
| Cash and cash equivalents at beginning of period from discontinued operations | | 6,049 | 11,376 |
| **Cash and cash equivalents at beginning of period** | | **13,979** | **15,278** |
| | | | |
| Cash and cash equivalents at end of period from continued operations | | 32,446 | 7,930 |
| Cash and cash equivalents at end of period from discontinued operations | | 4,103 | 6,049 |
| **Cash and cash equivalents at end of period** | [2.3.12] | **36,549** | **13,979** |

# Statement of changes in equity (IFRS)

| 3U Group (in T€) | Issued capital | Capital reserve | Reserve for currency differences | Revaluation reserve |
|---|---|---|---|---|
| **As of 1 Jan 2006** | **46,842** | **20,901** | **–11** | **2,213** |
| Consolidated profit | 0 | 0 | 0 | 0 |
| Stock options | 0 | 478 | 0 | 0 |
| Revaluation securities | 0 | 0 | 0 | -1,098 |
| Changes taken directly to equity | 0 | 0 | 4 | 0 |
| **As of 31 Dec 2006** | **46,842** | **21,379** | **–7** | **1,115** |

| 3U Group (in T€) | Issued capital | Capital reserve | Reserve for currency differences | Revaluation reserve |
|---|---|---|---|---|
| **As of 1 Jan 2007** | **46,842** | **21,379** | **–7** | **1,115** |
| Consolidated profit* | 0 | 0 | 0 | 0 |
| Stock options | 0 | 120 | 0 | 0 |
| Revaluation securities | 0 | 0 | 0 | 593 |
| Income from the disposal of securities | 0 | 0 | 0 | -1,708 |
| Changes taken directly to equity | 0 | 0 | -2 | 0 |
| **As of 31 Dec 2007** | **46,842** | **21,499** | **–9** | **0** |

*Thereof T€ -2,501 from discontinued operations

| | Retained earnings | Share of net income/loss attributable to 3U HOLDING AG shareholders | Share of shareholders' equity attributable to 3U HOLDING AG shareholders | Minority interests | Total shareholders' equity |
|---|---|---|---|---|---|
| | **-24,133** | **0** | **45,812** | **9** | **45,821** |
| | 0 | -3,856 | -3,856 | 16 | -3,840 |
| | 0 | 0 | 478 | 0 | 478 |
| | 0 | 0 | -1,098 | 0 | -1,098 |
| | 0 | 0 | 4 | 0 | 4 |
| | **-24,133** | **-3,856** | **41,340** | **25** | **41,365** |

| | Retained earnings | Share of net income/loss attributable to 3U HOLDING AG shareholders | Share of shareholders' equity attributable to 3U HOLDING AG shareholders | Minority interests | Total shareholders' equity |
|---|---|---|---|---|---|
| | **-27,989** | **0** | **41,340** | **25** | **41,365** |
| | 0 | 1,641 | 1,641 | 34 | 1,675 |
| | 0 | 0 | 120 | 0 | 120 |
| | 0 | 0 | 593 | 0 | 593 |
| | 0 | 0 | -1,708 | 0 | -1,708 |
| | 0 | 0 | -2 | 0 | -2 |
| | **-27,989** | **1,641** | **41,984** | **59** | **42,043** |

# Development of Group fixed assets 2007 (IFRS)

| 3U Group (in T€) | Acquisition and production cost | | | | |
|---|---|---|---|---|---|
| | As of 1 Jan 2007 | Additions | Disposals* | Reclassi-fications | As of 31 Dec 2007 |
| | | | | | |
| **I. Intangible assets** | | | | | |
| 1. Concessions, industrial property rights and similar rights and assets and licences to such rights and assets | 8,987 | 190 | 5,457 | 28 | 3,747 |
| 2. Customer base | 13,990 | 0 | 11,031 | 0 | 2,959 |
| 3. Goodwill | 8,970 | 0 | 334 | 0 | 8,636 |
| **Total intangible assets** | **31,947** | **190** | **16,822** | **28** | **15,342** |
| | | | | | |
| **II. Property, plant and equipment** | | | | | |
| 1. Land and buildings including buildings on third party land | 976 | 8 | 9 | 105 | 1,080 |
| 2. Technical equipment and machines | 68,575 | 1,809 | 65,249 | -13 | 5,122 |
| 3. Other equipment, plant and office equipment | 1,981 | 95 | 984 | -47 | 1,045 |
| 4. Constructions in progress | 1,563 | 70 | 1,560 | -73 | 0 |
| **Total property, plant and equipment** | **73,095** | **1,982** | **67,802** | **-28** | **7,247** |
| | | | | | |
| **III. Financial assets** | | | | | |
| 1. Investments | 96 | 0 | 32 | 0 | 64 |
| 2. Investment securities | 16,852 | 0 | 16,852 | 0 | 0 |
| 3. Other loans | 8,000 | 0 | 8,000 | 0 | 0 |
| **Total financial assets** | **24,948** | **0** | **24,884** | **0** | **64** |
| | | | | | |
| **Total fixed assets** | **129,990** | **2,172** | **109,508** | **0** | **22,653** |

*Assets held for sale and other disposals

| Accumulated depreciation | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|
| As of 1 Jan 2007 | Additions* | Disposals** | Reclassi-fications | As of 31 Dec 2007 | As of 31 Dec 2007 | As of 31 Dec 2006 |
| | | | | | | |
| | | | | | | |
| 6,609 | 924 | 4,196 | 10 | 3,347 | 400 | 2,378 |
| 8,908 | 1,004 | 6,953 | 0 | 2,959 | 0 | 5,082 |
| 8,420 | 0 | 334 | 0 | 8,086 | 550 | 550 |
| **23,937** | **1,928** | **11,483** | **10** | **14,392** | **950** | **8,010** |
| | | | | | | |
| | | | | | | |
| 142 | 29 | 1 | 102 | 272 | 808 | 834 |
| 32,630 | 5,702 | 34,053 | -77 | 4,202 | 920 | 35,945 |
| 1,443 | 219 | 794 | -35 | 833 | 212 | 538 |
| 0 | 0 | 0 | 0 | 0 | 0 | 1,563 |
| **34,215** | **5,950** | **34,848** | **-10** | **5,307** | **1,940** | **38,880** |
| | | | | | | |
| | | | | | | |
| 0 | 0 | 0 | 0 | 0 | 64 | 96 |
| 0 | 0 | 0 | 0 | 0 | 0 | 16,852 |
| 0 | 0 | 0 | 0 | 0 | 0 | 8,000 |
| **0** | **0** | **0** | **0** | **0** | **64** | **24,948** |
| | | | | | | |
| **58,152** | **7,878** | **46,331** | **0** | **19,699** | **2,954** | **71,838** |

*Depreciation for the period

**Depreciation on assets held for sale and other disposals

# Development of Group fixed assets 2006 (IFRS)

| 3U Konzern (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. Property, plant and equipment** | | | | | |
| 1. Land 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. Constructions in progress | 85 | 1,506 | 0 | -28 | 1,563 |
| **Total property, plant and equipment** | **71,824** | **4,323** | **3,047** | **-5** | **73,095** |
| **III. Financial 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 financial assets** | **24,996** | **24,858** | **24,906** | **0** | **24,948** |
| **Total fixed assets** | **128,435** | **29,551** | **27,996** | **0** | **129,990** |

| Accumulated depreciation | | | | | | Carrying amounts | |
|---|---|---|---|---|---|---|---|
| As of 1 Jan 2006 | 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

# Notes to the consolidated financial statements for the 2007 financial year

## 1 General information about the Group

3U HOLDING AG (subsequently also referred to as 3U or the Company), headquartered in Marburg, was founded in 1999 as a result of the 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.

On 31 October 2007, the name of the Company was changed from 3U TELECOM AG to 3U HOLDING AG on the basis of a resolution by the Annual General Meeting on 28 August 2007. On 29 December 2006, in accordance with the resolution by the extraordinary General Meeting on 15 January 2007, the object of the Company was changed to the management of its own assets, the acquisition, management and sale of investments in German and foreign companies as well as the supply of management and advisory services and other services for subsidiaries and associated companies and third parties. The business areas managed by 3U HOLDING AG up to this point were hived off to 3U TELECOM GmbH with effect from 1 January 2007.

The business activities of 3U HOLDING AG and its subsidiaries are asset management and 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 and valuation methods

## 2.1 Accounting principles

Consolidated financial statements of 3U HOLDING AG for the 2007 financial year were compiled in accordance with the accounting standard 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 2007 were observed and the interpretations of the International Financial Reporting Committee (IFRIC) were also applied.

In addition to the income statement, the balance sheet and the cash flow statement, changes in shareholders' equity were also shown. The income statement is compiled in accordance with the cost of sales method.

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

Consolidated financial statements of 3U HOLDING AG were compiled in accordance with Article 315a of the HGB (German Commercial Code).

Consolidated financial statements were compiled in euros. The figures are stated in the consolidated financial statements in thousand euros (T€) and were rounded to whole T€. For reasons related to the calculations, rounding differences amounting to +/– one unit (€, % etc.) may occur.

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. They 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 2007.

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

**Newly applied standards**
3U took account of all standards and interpretations issued by the IASB, which were in force as of 31 December 2007. The Company also applied the following standards, amendments to standards and interpretations prematurely:

IFRS 8 Operating Segments. IFRS 8 replaces IAS 14, Segment Reporting. This standard requires companies to report financial and descriptive information about their reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of a company for which discrete financial information is available, which are reviewed regularly the company's most senior management (chief operating decision maker) to assess its performance and to make decisions about how resources are to be allocated. In general, financial information must be reported on the basis of internal management. It will allow the management to assess the performance of operating segments and to decide how resources are to be allocated to the operating segments. IFRS 8 is to be applied to financial years beginning on or after 1 January 2009. 3U has opted to apply IFRS 8 prematurely, starting with the first quarter of 2007. Please refer to the segment reporting for details of its effect.

In August 2005, the IASB published the standard IFRS 7 Financial Instruments: Disclosures. IFRS 7 replaces IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions as well as parts of IAS 32 Financial Instruments: Disclosures and Presentation, which relate to disclosure requirements. The new standard requires information on the significance of financial instruments for companies' net assets, financial position and the results of their operations. IFRS 7 also contains new requirements with regard to the qualitative and quantitative reporting of risks associated with financial instruments. The new standard, IFRS 7, which is to be applied to financial years beginning on or after 1 January 2007, will increase the amount of information provided on financial instruments.

Application of the amendment to IAS 1 published in August 2005 is compulsory for the first time for financial years beginning on or after 1 January 2007. This amendment will result in new disclosure requirements, which are supposed to allow those reading the financial statements to assess the objectives, methods and processes of capital management. Application of the amendment for the first time has not had any effect on the net assets, financial position and results of operations or cash flow of 3U.

In November 2005, the International Financial Reporting Interpretations Committee (IFRIC) published the interpretation IFRIC 7 Applying the Restatement Approach under IAS 29 Reporting in Hyperinflationary Economies. In May 2006, the European Union included IFRIC 7 in European law. IFRIC 7 states that in the period in which the country whose currency is the functional currency of the reporting company becomes hyperinflationary, the provisions of IAS 29 must be applied as if the country had always been a hyperinflationary country. As a consequence, non-monetary items, which were valued at cost, are to be corrected retrospectively from the date on which these items were recognised for the first time; in the case of other non-monetary items, the adjustments are undertaken from the date on which the rectified carrying amounts for the items in question were established. The application of this interpretation has not had any effect on the net assets, financial position and results of operations or cash flow of 3U.

In January 2006, the IFRIC published the interpretation IFRIC 8 Scope of IFRS 2 on the scope of IFRS 2, which regulates the accounting of share-based payments. The interpretation clarifies the fact that IFRS 2 is to be applied to agreements where the company makes payments for no or inadequate consideration. IFRIC 8 is to be applied for the first time to financial years beginning on or after 1 May 2006. The application of this interpretation has had no effect on the net assets, financial position and results of operations or cash flow of 3U.

In March 2006, the IFRIC published the interpretation IFRIC 9 Reassessment of Embedded Derivatives. In September 2006, the European Union included IFRIC 9 in European law. The interpretation clarifies certain aspects of the treatment of embedded derivatives in accordance with IAS 39 Financial Instruments: Recognition and Measurement and answers the question as to whether the assessment that an embedded derivative is to be accounted for separately from the underlying agreement is only required when the agreement is concluded or on an ongoing basis. According to IFRIC 9, a reassessment is inadmissible unless the cash flows associated with the agreement are significantly changed by an amendment to the terms of the agreement. In this case, a reassessment is required. The rules of IFRIC 9 are to be applied to financial years beginning on or after 1 June 2006. Application of this interpretation has had no effect on the net assets, financial position and results of operations or cash flow of 3U.

In August 2006, the IFRIC published the interpretation IFRIC 10 Interim Financial Reporting and Impairment. The interpretation looked at questions relating to unscheduled depreciation in the interaction of IAS 34 (Interim Financial Reporting), IAS 36 (Impairment of Assets) and IAS 39 (Financial Instruments). IFRIC 10 clarifies the fact that impairment losses on goodwill and certain financial instruments, which may not be written up in accordance with IAS 39, may not be reversed on a subsequent reporting date. IFRIC 10 is to be applied for the first time to financial years beginning on or after 1 November 2006. Application of this interpretation has had no material effect on the net assets, financial position and result of operations or cash flow of 3U.

**New accounting standards that have not yet been applied**

In September 2007, the IASB issued a revised version of IAS 1 Presentation of Financial Statements. According to the new regulations, all non-owner changes in equity are either to be presented in a single statement of comprehensive income or in two separate statements with an income statement previously separated from the statement of comprehensive income. The new version of IAS 1 is applicable to financial years beginning on or after 1 January 2009. Application is intended for the first time for the year it comes into effect. Application of this standard does not have any implications for the net assets, financial position and results of operations or cash flow of 3U.

In March 2007, the IASB published the revised IAS 23 Borrowing Costs. The main difference from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The new version of IAS 23 is to be applied to financial years beginning on or after 1 January 2009. Application is intended for the first time for the year it comes into effect. Application of this standard does not have any implications for the net assets, financial position and results of operations or cash flow of 3U.

In November 2006, the IFRIC published the interpretation IFRIC 11 Group and Treasury Share Transactions. IFRIC 11 deals with specific forms of share-based remuneration and discusses their respective allocation to equity-settled or cash-settled transactions. According to IFRIC 11, the granting of options to shares in the parent company to employees of a subsidiary is to be viewed as a cash-settled transaction in the annual financial statements of this subsidiary, if it is not the parent company but the subsidiary which grants the share options. IFRIC 11 is to be applied retrospectively to financial years beginning on or after 1 March 2007. Application is intended for the first time for the year it comes into effect. Application of this interpretation will not have any implications for the net assets, financial position and results of operations or cash flow of 3U.

In November 2006, the IFRIC published the interpretation IFRIC 12 Service Concession Arrangements. The scope of IFRIC 12 is limited to accounting for service licences and deals solely with agreements with public sector licensors. Application of IFRIC 12 is compulsory for financial years beginning on or after 1 January 2008. Application is intended for the first time for the year it comes into effect. Application of this interpretation will not have any implications for the net assets, financial position and results of operations or cash flow of 3U.

## 2.2 Consolidation principles

### 2.2.1 Scope and method of consolidation

The consolidated financial statements of 3U HOLDING AG for the 2007 financial year include twelve (previous year: 16) German and foreign subsidiaries, in which 3U directly or indirectly holds the majority of the voting rights.

The capital consolidation is based on the acquisition method (revaluation method). The parent company's acquisition costs are offset against the pro rata fair value of the subsidiary's equity at the time of acquisition. The assets and liabilities and contingent liabilities of the subsidiary, which are recognised at their fair values, take the place of the acquisition costs. Any surplus acquisition costs above the share in the fair values of the identified assets and liabilities acquired by the parent company are recognised as goodwill.

Initial consolidation takes place with effect from the day on which 3U Holding 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.

Subsidiaries are deconsolidated from the date on which they are no longer controlled. Please refer to "3 Scope of consolidation".

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 HOLDING 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.

CityDial GmbH, Germany, is the only associated company included in the consolidated financial statements.

### 2.2.2 Foreign currency changes

The assets and liabilities of foreign companies included are converted into euro in accordance with the functional currency concept. 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.

The conversion rates for foreign currencies are as follows:

| | Exchange rate on the reporting date (€ 1 in foreign currency units) | | Average rate for the year (€ 1 in foreign currency units) | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| US currency | 1.4762 | 1.3193 | 1.3703 | 1.2558 |
| CZK currency | 26.620 | 27.495 | 27.803 | 28.368 |

### 2.2.3 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. 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. Aggregate cash flows from the purchase and sale of subsidiaries or other business units are reported separately and classified as investing activities. In accordance with IAS 7, a distinction is made between cash flows from operating, investing activities and financing activities.

### 2.2.4 Use of estimates and assumptions

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. Assumptions and estimates are mainly applied in stipulating the useful lives of fixed assets, in measuring receivables, in calculating discounted cash flows as part of impairment tests and in creating provisions. Management's estimates are based on experience and other assumptions, which are considered appropriate under the circumstances given. The actual amounts may deviate from these estimates and assumptions. Estimates and assumptions are reviewed on an ongoing basis.

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.

Each balance sheet date, 3U establishes whether there are any indications that non-financial assets are impaired. Goodwill is reviewed at least once a year and if there are any indications of impairment.
To estimate the useful life, management must estimate the likely future cash flow from the asset or cash-generating unit and select an appropriate discount rate to calculate the present value of this cash flow.

3U classifies the assets and liabilities of LambdaNet Communications Deutschland AG, 3U TELECOM GmbH, Austria, and 3U TELECOM Inc., USA, as held for sale and reports them separately in the balance sheet.
The management is assuming as at the date of this report that the expected sales proceeds, less costs of disposal, will cover as a minimum the carrying amounts of the companies.

During the 2007 financial year the management changed its previous estimate of usefull life of property, plant and equipment. Previously, an average useful life of eight years was established for infrastructure and systems engineering in the broadband/IP segment. For the most part, use would end in the 2008 financial year. However, because the asset may have an economic benefit extending well beyond the 2008 financial year, the underlying useful lives were increased to match the longer useful economic life. In 2007, the impact from the extension of the useful life would have generated a positive effect of T€ 3,176 as a result of lower depreciation. As LambdaNet is accounted for in line with IFRS 5 as held for sale, no depreciation was taken in the second half of 2007. In the event that the planned disposal of the broadband/IP segment does not meet with success, the running depreciation and amortisation of the second half of 2007 amounting to € 3.4 million would have to be made up in 2008 financial year. The change in useful lives will first reduce by the amount of T€ 498 and then in the next seven years increase depreciation and amortisation.

## 2.3 Recognition and measurement principles

### 2.3.1 Basic principles of income realisation

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.

Fees from services are recognised as soon as the service is supplied and it is sufficiently probable that economic benefit from the transaction will accrue to the company. Sales, which are not connected with operational business, are reported under other operating income.

In the value-added services business area, telecommunication services are supplemented by another service and both services are invoiced to the end customer. The most common are telephone value-added services supplied by third parties where a telephone call is connected using special service numbers. The additional service is invoiced via the connection fees. These numbers are particularly suitable for services that can be supplied by telephone and charged according to the length of the call such as support, information or advisory services. In the 3U Group, (special) numbers of this kind can be connected, operated and referred as part of value-added services and the resulting fees invoiced to the customer and supplier monthly on the basis of the minutes spent. In addition, bilateral business models are established with suppliers with the business volume generated from call-by-call (purchase and sale of telephone minutes). Revenues are realised on the basis of invoices issued to Deutsche Telekom AG (DTAG) for calls. DTAG invoices the end customer for the calls. With other providers of value-added services, 3U has in most cases arranged minute-based reimbursements that are also credited as they were invoiced to DTAG.

Interest income is recognised using the effective interest rate method at the time it accrues. The effective interest rate is the interest rate with which anticipated future inflows are discounted over the term of the financial asset to the net carrying amount of this asset.

### 2.3.2 Cost of sales

The cost of sales encompasses the total cost of acquisition or manufacture of the products and services sold in the reporting year. In addition to the direct costs such as material and staff costs, it also comprises 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 Research and development costs

Research costs are recognised as expenses in the income statement when they are incurred. Development costs are capitalised, if the development costs can be reliably established, the product or process is technically and economically feasible and future economic benefit is probable. In addition, 3U must have the intention and sufficient resources to complete the development and to use or sell the asset. No development costs have accrued to date.

### 2.3.5 Interest expenses

Interest expenses are recognised using the effective interest rate method at the time they are incurred. The effective interest rate is the interest rate with which the expected future outflows are discounted over the term of financial liabilities to the net carrying amount of these liabilities.

### 2.3.6 Income taxes

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

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

### 2.3.7 Goodwill

Goodwill resulting from capital consolidation is not amortised in accordance with IFRS 3. Goodwill recognised on the balance sheet is assessed once a year for its economic benefit and for declines in value and more frequently if there are indications of declines in value (impairment test) and in the event of a decline in value is written down to its recoverable amount.

Please refer to the comments under 2.3.14.

### 2.3.8 Other intangible assets

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. Intangible assets are measured at cost less scheduled depreciation and impairments.

Depreciating intangible assets are written down over a useful life of three to five years.

Customer bases reported under intangible assets are written down on a straight-line basis over eight years.

Again, please refer to the comments under 2.3.14.

### 2.3.9 Property, plant and equipment

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 and subsequent acquisition costs as well as the present value of restoration obligations. 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.

The costs of restoration obligations are individually assessed per location when the obligation arises on conclusion of the contract and capitalised; they are checked to see whether they are up-to-date very year and adjusted if necessary.

Please refer to the comments under 2.3.13.

### 2.3.10 Financial instruments

#### Financial assets

For the purposes of IAS 39, financial assets are classified as loans and receivables and as available-for-sale financial assets. Available-for-sale financial assets are included under the item current financial assets promissory notes. On initial recognition, available-for-sale financial assets are measured at fair value. The Company stipulates the classification of its financial assets when they are initially recognised and reviews this allocation at the end of each financial year. Following initial recognition, available-for-sale financial assets are measured at fair value with gains or losses being posted to the revaluation reserve in equity. At the time the financial asset is derecognised or at which an impairment in the financial asset is identified, the cumulative gain or loss posted in equity is recognised as profit or loss in the income statement.

In the case of regular way sales and purchases of financial assets, they are reported on the trading date, i. e. the date on which the Company entered into the commitment to buy the asset. Regular way purchases or sales are sales or purchases of financial assets, which prescribe delivery of the assets within a period set by market rules or conventions.

Financial assets, which were classified as loans or receivables, are measured at amortised cost less impairments whereby the Company uses the effective interest rate method. Impairments of trade receivables and other receivables are recognised on separate value adjustment accounts.

The fair value of financial investments traded on organised markets is established by reference to the bid price listed on the stock exchange on the balance sheet date.

#### Cash and cash equivalents

This item includes all cash and cash equivalents that have a residual term of fewer than three months at the time of acquisition or investment. Cash and cash equivalents are measured at amortised cost.

#### Trade receivables

Trade receivables do not bear interest and are stated at their nominal amount or their fair value on the balance sheet date and measured at amortised cost using the effective interest rate method.

#### Impairments to financial instruments

If there are objective and substantial indications of impairment in relation to financial assets classified as loans and receivables and financial investments held to maturity, an impairment test is made as to whether the carrying value of the expected future cash flows exceeds the present value of a comparable financial asset discounted at the current market yield. Should this be the case, the asset will be written down by the difference. Indications of an impairment include a material deterioration in creditworthiness, a particular breach of contract, the substantial probability of insolvency or another form of financial restructuring on the part of the debtor or the disappearance of an active market.

If the reasons for unscheduled depreciation previously undertaken no longer apply, the assets will be written up accordingly – but not beyond the cost of acquisition.

**Derecognition**
The Group will only derecognise a financial asset if the contractual rights to cash flows from a financial asset expire or it assigns the financial asset and all risks and opportunities associated with title to the financial asset to a third party.

**Financial liabilities**
Financial liabilities relate to original liabilities. Original liabilities are stated in the consolidated balance sheet if 3U has a contractual obligation to assign cash and cash equivalents or other financial assets to another party. An original liability is initially recognised at the fair value of the consideration received or at the value of the cash and cash equivalents less transaction costs incurred. Liabilities are subsequently measured at amortised cost using the effective interest rate method.

Liabilities under finance leases are stated at the present value of the rental or lease instalments at the time the lease is concluded. In subsequent periods, the principle repaid in the rental and lease instalments lead to a reduction of the liability.

Financial liabilities are derecognised if the contractual obligations are settled, cancelled or expire.

### 2.3.11 Other current assets

The other current financial assets included in the balance sheet comprise 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.

Foreign currency receivables are converted at the rate on the reporting date. Changes in value linked to exchange rates are recognised in income in accordance with IAS 21.23.

### 2.3.12 Cash and cash equivalents

Cash and cash equivalents refer to all near-liquid assets, which have a residual term of fewer than three months at the date of acquisition or investment. Cash and cash equivalents are measured at amortised cost.

They include fixed deposits, some of which are deposited as collateral.

### 2.3.13 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.

Assets held within the framework of a finance lease are initially recognised as the Group's assets at their fair value at the beginning of the lease, or if this is lower, at the present value of the minimum lease payments. The assets are depreciated over the term of the lease or the shorter useful life of the leased asset. The matching liability to the lessor is to be shown within the balance sheet as a commitment under a lease.

Lease payments are divided into interest expense and repayment of the lease commitment in such a way that the interest on the remaining liability remains constant. Interest expenses are recognised directly in the income statement.

Lease payments under operating leases are recognised as expenses on a straight-line basis over the term of the lease unless another systematic basis corresponds more closely to the temporal consumption of benefits for the lessee.

### 2.3.14 Impairment of non-financial assets

3U will check goodwill for possible impairment in accordance with the Group's accounting regulations at least once a year. Determination of the recoverable amount of a line of business to which goodwill was allocated is associated with estimates by management. The Company determines these figures using valuation methods based on discounted cash flows. These discounted cash flows are based on three-year forecasts, which build on financial plans approved by the management. The cash flow forecasts take account of past experience and are based on management's best estimate of future developments. Cash flows beyond the planning period are extrapolated without growth rates. The calculation of fair value less the cost of sales and the useful value is based, in essence, on the following assumptions:

| | |
|---|---|
| Risk-free interest rate: | 4.06 % |
| Market risk premium: | 7.14 % |
| Beta factor: | 0.79 |
| Capitalisation interest rate: | 9.2 % |

These premises and the underlying methodology can have a considerable impact on the respective figures and finally on the amount of a possible impairment in goodwill.

The property, plant and equipment and other 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.

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 immediately. If write-ups are required in accordance with IAS 36, they are recognised in income.

The newly established recoverable amount is written up. However, it is not to be written up beyond the amount that would have been its carrying amount if it had not declined in value previously.

Non-current assets classified as available-for-sale are stated at the lower of their carrying amount or fair value less sales costs.

### 2.3.15 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.

### 2.3.16 Deferred tax assets

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. Deferred tax assets are recognised to the extent that it is likely that there will be taxable earnings available against which the deductible temporary difference can be applied. 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 tax assets on benefits from unused tax loss carryforwards are capitalised to the extent that it can be assumed with sufficient probability that the respective company can generate sufficient taxable income in future.

In accordance with IAS 12.47, deferred taxes are calculated on the basis of tax rates which are valid at the time of realisation or will apply in future. Deferred taxes are recognised as tax income or expense in the income statement unless they relate to items recognised directly in equity without any impact on profit or loss.

Deferred tax assets and liabilities are netted off, if they relate to income taxes collected from the same tax office and the Group intends to settle its current tax assets and liabilities on a net basis.

### 2.3.17 Other non-financial liabilities

Other non-financial liabilities encompass tax liabilities, liabilities to employees and other miscellaneous 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.

### 2.3.18 Employee participation programme

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.

On each balance sheet date, the Group has to review its estimates regarding the number of equity instruments which will vest. The effects of changes in the original estimates are, if available, to be recognised in the income statement over the remaining period until they vest with a corresponding adjustment to the reserve for benefits to employees settled through equity instruments.

The method stated above is applied on the share-based remuneration with compensation on the basis of equity instruments.

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

### 2.3.19 Comparative figures

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

### 2.3.20 Held-for-sale assets and liabilities (disposal groups)

Non-current assets and liabilities or disposal groups are classified as held-for-sale if the related carrying amount is overwhelmingly realised through a sale transaction and not through continuing use. This condition is only viewed as fulfilled if the sale is highly likely and the asset (or the disposal group) is available for immediate sale in its current state. The Management Board must have agreed to a sale. At the same time, it must be assumed that this will, in principle, lead to a completed sale being reported within a year of a classification of this kind. Non-current assets (and disposal groups), which are classified as held-for-sale, are measured at the lower of their carrying amount or fair value less sale costs.

With regard to discontinued operations, please refer to the explanations under 7.

## 3 Scope of consolidation

Fully consolidated, included subsidiaries:

| Company | Registered office | Country | Issued capital | | Share held by 3U HOLDING AG |
|---|---|---|---|---|---|
| 010017 Telecom GmbH | Marburg | Germany | 25,000 | EUR | 100 % |
| 010060 Telecom GmbH | Marburg | Germany | 25,000 | EUR | 100 % |
| 3U TELECOM GmbH | Marburg | Germany | 1,000,000 | EUR | 100 % |
| 3U TELECOM GmbH | Vienna | Austria | 250,000 | EUR | 100 % |
| 3U TELECOM INC. | Henderson (NV) | USA | 0 | USD | 70 % |
| Discount Telecom S&V GmbH | Marburg | Germany | 25,000 | EUR | 100 % |
| fon4U Telecom GmbH | Marburg | Germany | 25,000 | EUR | 100 % |
| LambdaNet Communications Deutschland AG | Hannover | Germany | 7,300,000 | EUR | 100 % |
| LambdaNet Communications Austria GmbH | Vienna | Austria | 35,000 | EUR | 100 % |
| LambdaNet Communications s.r.o. | Mestec Kralove | Czech Republic | 100,000 | CZK | 100 % |
| LineCall Telecom GmbH | Marburg | Germany | 25,000 | EUR | 100 % |
| OneTel Telecommunication GmbH | Marburg | Germany | 3,025,000 | EUR | 100 % |

Company included at equity:

| Company | Registered office | Country | Issued capital | | Share held by 3U HOLDING AG |
|---|---|---|---|---|---|
| CityDial GmbH | Meckenheim | Germany | 150,000 | EUR | 50 % |

## Deconsolidation of 3U TELECOM SARL, France

The Group concluded a sales agreement on 30 November 2006 for the sale of 3U TELECOM SARL, France, which provides telecommunication services in the fixed-line segment in France. The sale was carried out in context of the fundamental restructuring of the Group. The deconsolidation was completed on 1 January 2007, as the company was no longer controlled by 3U HOLDING AG from this point.

The deconsolidation of 3U TELECOM SARL, France, resulted in a book loss of T€ 143, which is calculated as follows:

| (In T€) | 1 Jan 2007 |
|---|---|
| | |
| Intangible assets | 64 |
| Financial assets | 1,274 |
| Trade receivables | 73 |
| Other receivables | 93 |
| Other assets | 115 |
| Banks balances and cash in hand | 79 |
| **Assets of subsidiary on deconsolidation** | **1,698** |
| | |
| Provisions | 21 |
| Trade payables | 75 |
| Other liabilities and deferred income | 5 |
| **Liabilities of subsidiary on deconsolidation** | **101** |
| | |
| **Net assets of subsidiary** | **1,597** |
| | |
| Proceeds from disposal | 1,454 |
| | |
| **Result of deconsolidation** | **–143** |

As provision for onerous contracts were recognised in 2006, the deconsolidation does not affect earnings in 2007.

# 4 Segment reporting

In its consolidated financial statements for the year ending 31 December 2007, 3U reports on its fixed-line telephony segment, which comprises call-by-call products, pre-selection, value-added and wholesale termination services.

In addition, 3U is also involved in the broadband/IP segment. Because of its focus on call-by-call and wholesale business in the fixed-line telephony segment, the broadband/IP segment, which is legally combined in LambdaNet Communications Deutschland AG (subsequently also LambdaNet), no longer ranks as the 3U Group's core business. It was therefore decided for strategic reasons to sell LambdaNet in 2007. This is why the broadband/IP segment is shown as held for sale.

As a result of the planned sale of the subsidiaries 3U TELECOM GmbH, Austria, and 3U TELECOM Inc., USA, these are shown as discontinued operations. They were previously managed in the fixed-line telephony segment.

## Segment sales and segment results

### Segment reporting 2007 (figures in T€)

| | External sales* | Internal sales* | Total sales* | Cost of sales* | Earnings |
|---|---|---|---|---|---|
| **Continued segments** | | | | | |
| Fixed-line telephony | 102,800 | 952 | 103,752 | -91,147 | 3,526 |
| | | | | | |
| **Reconciliation financial statements** | | | | | |
| Intrasegmental consolidations | -27,097 | -952 | -28,049 | 27,022 | |
| Interest income | | | | | 840 |
| Interest expenses | | | | | -177 |
| Result from investments (equity method) | | | | | -31 |
| **Total operating business (earnings before income tax in the earnings' column)** | **75,703** | **0** | **75,703** | **-64,125** | **4,158** |
| | | | | | |
| Taxes | | | | | 17 |
| | | | | | |
| **Segments held for sale** | | | | | |
| Broadband/IP | 33,175 | 1,196 | 34,371 | -28,537 | -2,669 |
| Operations of the fixed-line network telephony segment held for sale | 5,057 | 2,419 | 7,476 | -6,735 | 168 |
| **Total segments/operations held for sale** | **38,232** | **3,615** | **41,847** | **-35,272** | **-2,501** |
| | | | | | |
| **3U HOLDING Group** | | | | | **1,674** |

* The information on continued segments relates to consolidated figures, while the disclosures for the segments/operations held for sale are non-consolidated disclosures.

**Segment reporting 2006 (figures in T€)**

| | External sales* | Internal sales* | Total sales* | Cost of sales* | Earnings |
|---|---|---|---|---|---|
| **Continued segments** | | | | | |
| Fixed-line telephony | 122,271 | 311 | 122,582 | -111,094 | -119 |
| | | | | | |
| **Reconciliation financial statement** | | | | | |
| Intrasegmental consolidations | -34,569 | -311 | -34,880 | 33,025 | |
| Interest income | | | | | 866 |
| Interest expenses | | | | | -331 |
| Result from investments (equity method) | | | | | 6 |
| **Total operating business (earnings before income tax in the earnings' column)** | **87,702** | **0** | **87,702** | **-78,069** | **422** |
| | | | | | |
| Taxes | | | | | 229 |
| | | | | | |
| **Segments held for sale** | | | | | |
| Broadband/IP | 35,899 | 1,281 | 37,180 | -35,808 | -4,934 |
| Operations of the fixed-line network telephony segment held for sale | 5,761 | 1,826 | 7,587 | -6,532 | 443 |
| **Total segments/operations held for sale** | **41,660** | **3,107** | **44,767** | **-42,340** | **-4,491** |
| | | | | | |
| **3U HOLDING Group** | | | | | **-3,840** |

*The information on continued segments relates to consolidated figures, while the disclosures for the segments/operations held for sale are non-consolidated disclosures.

The Management Board of 3U stipulates sales and the consolidated segment result before financing and income taxes as major performance indicators for a segment's business success, since it considers them crucial to a sector's success. The interest income and expense shown in the segment report are virtually exclusively attributable to 3U HOLDING AG, which is why further allocation to the fixed-line telephony segment was waived. The results of discontinued operations, namely broadband/IP, include interest expenses of T€ 2,517 (previous year: T€ 2,803) and interest income of T€ 125 (previous year: T€ 279).

In the item reconciliation financial statements, the 3U Group reports issues, which are, by definition, not components of the segment result. The business relations between areas of operating business are eliminated under consolidation. Interest income stems from the investment of cash and cash equivalents, which are not to be allocated to the segments. In essence, interest expenses are based on tax payments. Income taxes are not included in the segment result either since tax expenses can only be attributed to legal units.

The figures in the line operating business correspond to the figures in the consolidated income statement from continued operations before income taxes.

The following cash flow data were produced for the 3U Group (all amounts in T€):

| | **Fixed-line telephony** | **Broadband/IP (held for sale)** | **Fixed-line telephony (held for sale)** |
|---|---|---|---|
| Cash flows from operating activities | 2,467 | 5,581 | 255 |
| Cash flows from investing activities | 22,128 | -2,288 | -64 |
| Cash flows from financing activities | 0 | -5,430 | 0 |

For the purposes of monitoring earnings power and allocating resources between the segments, the Management Board scrutinises the material, intangible and financial assets allocated to the individual segment. Goodwill was allocated to the segments subject to reporting requirements.

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| | | |
| **Assets** | | |
| Continued segment | | |
| Fixed-line telephony | 19,830 | 29,918 |
| Broadband/IP segment held for sale | | |
| Discontinued operations in the broadband/IP segment | 50,063 | 51,367 |
| Operations in the fixed-line telephony segment held for sale | | |
| Discontinued operations in the fixed-line telephony segment | 1,286 | 1,184 |
| | | |
| **Total segment assets** | **71,179** | **82,469** |
| Assets not allocated | 28,742 | 24,948 |
| | | |
| **Total consolidated assets** | **99,921** | **107,417** |
| | | |
| **Liabilities** | | |
| Continued segment | | |
| Fixed-line telephony | 14,935 | 18,040 |
| Broadband/IP segment held for sale | | |
| Discontinued operations in the broadband/IP segment | 41,930 | 47,131 |
| Operations in the fixed-line telephony segment held for sale | | |
| Discontinued operations in the fixed-line telephony segment | 1,013 | 881 |
| | | |
| **Total segment liabilities** | **57,878** | **66,052** |
| | | |
| Reconciliation (shareholder's equity) | 42,043 | 41,365 |
| **Total consolidated liabilities/shareholder's equity** | **99,921** | **107,417** |

The investment in City Dial GmbH included at equity and fixed deposits (shares in fund assets last year) are not allocated to any segment.

The uniform Group accounting policies and methods of calculation were applied in the segment reporting. Although disposals were not treated differently from one business area to the other, the assets and liabilities held for sale (disposal groups) were subject to measurement according to IFRS 5 since the plan for disposal was approved and on initiation of its implementation. As a matter of principle, income between business areas is generated at prices that would be agreed with third parties. Administrative services are calculated as cost allocations.

| (In T€) | Depreciation and amortisation | | Capital expenditure | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| Continued segment | | | | |
| Fixed-line telephony | 926 | 1,359 | -1,659 | -1,436 |
| Broadband/IP segment held for sale | | | | |
| Discontinued operations in the broadband/IP segment | 6,896 | 15,407 | -2,878 | -3,208 |
| Operations in the fixed-line telephony segment held for sale | | | | |
| Discontinued operations in the fixed-line telephony segment | 57 | 39 | -64 | -49 |

Sales of principal services

| (In T€) | 2007 | 2006 |
|---|---|---|
| | | |
| **Areas within the continued fixed-line telephony segment** | | |
| Of which open-call-by-call | 42,634 | 40,867 |
| Of which call-by-call | 3,395 | 6,263 |
| Of which pre-selection | 1,830 | 4,599 |
| Of which value-added services | 1,889 | 408 |
| Of which wholesale | 24,475 | 32,241 |
| Other | 1,480 | 3,324 |
| **Total fixed-line telephony segment** | **75,703** | **87,702** |
| | | |
| **Areas of the discontinued broadband/IP segment** | | |
| Of which network operators | 21,261 | 24,954 |
| Of which ISP | 6,491 | 6,275 |
| Of which business customers | 6,619 | 5,952 |
| **Total discontinued broadband/IP segment** | **34,371** | **37,180** |

In the past financial year, the 3U Group realised sales with one single customer amounting to 10.9 % of total sales. These sales were generated in the fixed-line telephony segment. There are also other customers in the fixed-line telephony segment with which substantial sales are realised. However, in each case the respective sales are well below 10 % of total sales.

**Geographical information**

| (In T€) | 2007 | 2006 |
|---|---|---|
| **Fixed-line telephony** | **75,703** | **87,702** |
| Of which in Germany | 75,538 | 86,125 |
| Of which in Europe | 82 | 375 |
| Of which in the USA | 83 | 1,202 |

# 5 Notes on the consolidated income statement

## 5.1 Sales

Sales generated from activities as a provider of telecommunications are reported without sales tax and net of discounts granted. The income is recognised by way of invoicing after performance of telecommunications services.

## 5.2 Cost of sales

In essence, cost of sales comprise expenses for origination and termination services, supply charges for interconnection points and leased lines, pro rata staff costs, costs for 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 (PoP, PoI or technical sites), telephone expenses and expenses for repairs and other costs.

## 5.3 Selling expenses

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

## 5.4 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.

## 5.5 Other operating income and expenses

Other operating income (T€ 2,971) includes the following items:

| (In T€) | 2007 | 2006 |
|---|---|---|
| Effect of deconsolidating subsidiaries | 0 | 1,415 |
| Reversal of provisions | 308 | 798 |
| Income from receivables written down | 10 | 59 |
| Income from reminder fees | 204 | 687 |
| Income from the disposal of investment securities | 1,381 | 2,511 |
| Other income | 731 | 1,903 |
| Income from benefits in kind | 97 | 105 |
| Income from waiving receivables | 240 | 0 |
| **Total** | **2,971** | **7,478** |

Other operating expenses (T€ 721) includes the following items:

| (In T€) | 2007 | 2006 |
|---|---|---|
| Effects of the deconsolidation of subsidiaries | 0 | 1,524 |
| Losses from the disposal of non-current assets | 0 | 10 |
| Provisions not allocated to functional expenses | 172 | 1,043 |
| Other expenses | 273 | 690 |
| Change resulting from presentation of held for sale | 107 | 0 |
| Losses on receivables | 169 | 0 |
| **Total** | **721** | **3,267** |

No research and development costs were incurred.

## 5.6 Additional notes on the consolidated income statement

**Staff costs**

The average number of employees was:

| | 2007 | 2006 |
|---|---|---|
| Sales | 48 | 49 |
| Administration | 23 | 25 |
| Operations/IT | 53 | 72 |
| Technology/system development | 32 | 37 |
| **Total** | **156** | **183** |

Of which 90 employees in the broadband/IP segment held for sale during the 2007 financial year.

Staff costs comprise the following:

| (In T€) | 2007 | 2006 |
|---|---|---|
| Salaries and wages | 9,447 | 10,532 |
| Social security contributions | 1,326 | 1,559 |
| Expenditure on pensions/support | 54 | 91 |
| **Total** | **10,827** | **12,182** |

Of this figure, staff costs of T€ 6,561 were attributable to the previously existing broadband/IP segment in the 2007 financial year.

Social security contributions include not only employer payments into legal pension and health insurance schemes but also expenditure for equalisation tax and for fees paid to the employers' liability insurance association. The cost of employers' payments to legally required pension schemes in the fixed-line network telephony segment totalled T€ 258; the cost for LambdaNet was T€ 425.

**Depreciation and amortisation**

Amortisation on intangible assets and depreciation on property, plant and equipment amounted to T€ 7,909 (previous year: T€ 16,805) and are reported under cost of sales. The reduction in depreciation and amortisation compared with the previous year is the result of discontinuing the broadband/IP segment and the activities in the fixed-line telephony segment in Austria and the USA, which are classified as held for sale.

## 5.7 Interest income, similar income and expenses

This item relates to current and loan accounts as well as receipt of the gain on the disposal of financial assets held for sale recognised in equity (T€ 327, previous year: T€ 359).

| (In T€) | 2007 | 2006 |
|---|---|---|
| | | |
| Income from investment securities | 327 | 359 |
| Other interest income | 513 | 507 |
| **Interest income** | **840** | **866** |
| | | |
| Interest expense on loans | 0 | -32 |
| Interest expenses for restoration costs | -2 | -1 |
| Interest expenses for current account | -114 | -12 |
| Other financial expenses | -61 | -280 |
| **Interest expenses** | **-177** | **-331** |
| | | |
| **Total** | **663** | **535** |

## 5.8 Income taxes

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

| (In T€) | 2007 | 2006 |
|---|---|---|
| Current income tax expenses | -17 | -229 |
| Deferred tax assets | 0 | 0 |
| **Total** | **-17** | **-229** |

3U HOLDING AG and its German subsidiaries are subject to corporation and trade tax. In 2006 and 2007, income was subject to corporation tax of 25 % plus a 5.5 % solidarity surcharge. Trade tax amounted to around 19 % of taxable income in 2006 and 2007 and was deductible in the calculation of corporation tax income. As a result, a combined income tax rate of 38 % was applied for Germany.

The aggregate tax rate mentioned above will fall to 32 % from 2008 as a consequence of the German corporation tax reform. In essence, this fall reflects the reduction in the corporation tax rate from 25 % to 15 % and the reduction in trade tax to 16 %. The reduction in the tax rate has already been taken into account in calculating the German companies' deferred tax assets and liabilities.

Effective 1 January 2005, 3U HOLDING 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.

Effective 1 January 2007, 3U HOLDING AG, as the controlling company, entered into a control and profit transfer agreement with 3U TELECOM GmbH, 010017 Telecom GmbH and Discount Telecom S&V GmbH. After being approved by the Annual General Meeting, these profit transfer agreements were recorded in the commercial register at the end of 2007.

With the exception of the USA, the tax rate used for foreign companies is 38 %. A tax rate of 33 % is applied in the USA.

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 taxes and the actual tax expenses reported in these annual financial statements:

| | 2007<br>T€ | 2007<br>% | 2006<br>T€ | 2006<br>% |
|---|---|---|---|---|
| | | | | |
| EBT from continued operations | 4,158 | 100.0 | 422 | 100.0 |
| | | | | |
| Consolidated tax rate (38 %) | | | | |
| | | | | |
| National tax income/expense | 1,580 | 38.0 | 160 | 38.0 |
| Tax-exempt income/ non-deductible expenses | -729 | -17.4 | -639 | -151.4 |
| Benefit from a previously unrecognised tax loss | -1,040 | -25.0 | 262 | 62.1 |
| Effect from the tax change | 171 | 4.1 | 0 | 0 |
| Tax burdens and benefits from effects not relating to the period and previous years impacting this year | -17 | -0.4 | 0 | 0 |
| Miscellaneous | 18 | 0.4 | -12 | -2.8 |
| **Total (profit)** | **-17** | **-0.4** | **-229** | **-54.3** |

## 5.9 Earnings per share

Earnings per share correspond with the profit from continued operations and the profit from discontinued operations, which can be apportioned to the ordinary shareholders of 3U HOLDING AG, or the profit (after tax), divided by the weighted average number of shares outstanding during the financial year. 3U calculates earnings per share (fully diluted) on the assumption that all share options are exercised.

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

| | 2007 | 2006 |
|---|---|---|
| | | |
| **Earnings (in T€)** | **1,641** | **-3,856** |
| **Basis for basic earnings per share (share in net profit for period of parent company's shareholders)** | **1,641** | **-3,856** |
| **Basis for diluted earnings per share** | **1,641** | **-3,856** |
| | | |
| **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 (in €) | 0.04 | -0.08 |
| Earnings per share, diluted (in €) | 0.03 | -0.08 |
| | | |
| **Earnings per share from continued operations** | | |
| Earnings per share, basic (in €) | 0.09 | 0.01 |
| Earnings per share, diluted (in €) | 0.08 | 0.01 |
| | | |
| **Earnings per share from discontinued operations** | | |
| Earnings per share, basic (in €) | -0.05 | -0.09 |
| Earnings per share, diluted (in €) | -0.05 | -0.09 |

# 6 Notes on the consolidated balance sheet

## 6.1 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.

### 6.1.1 Intangible assets

The carrying amounts of intangible assets are as follows:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Concessions, industrial property rights and similar rights and assets and licences to such rights and assets | 400 | 2,378 |
| Customer base | 0 | 5.082 |
| Goodwill | 550 | 550 |
| **Total** | **950** | **8,010** |

Intangible assets acquired for a consideration were measured at cost less straight-line amortisation. This relates primarily to software licenses for transfer and IT technology. Amortisation of intangible assets is recognised in the cost of sales.

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 HOLDING 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.

The recognition of LambdaNet as "Assets held for sale" (disposal groups) caused the lower carrying amount of the customer base (T€ 4.078) to be reclassified at 1 July 2007. As from this date, the customer base is no longer amortised on a straight-line basis.

The goodwill from the acquisition of OneTel Telecommunication GmbH was allocated to OneTel Telecommunication GmbH for the purpose of the impairment test of the cash-generating unit.

The recoverable amount of this unit was determined with the help of the value in use calculation based on cash flow forecasts from the budget approved by the management for a period of three years and a discount rate of 9.2 % p. a. (2006: 11.2 % p. a.). No growth rates were assumed in this connection. The Management Board carried out a sensitivity analysis; it is of the opinion that even if the basic assumptions change within the framework of realistic scenarios, the cumulative carrying amount of the cash-generating unit will exceed its cumulative recoverable amount. Accordingly the recoverable amount corresponds to its value in use. Please refer to our comments under 2.3.14.

### 6.1.2 Property, plant and equipment

Please refer to the consolidated statement of changes in assets for the carrying amounts of property, plant and equipment.

### 6.1.3 Financial assets

#### Available-for-sale assets

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Fair value | 0 | 24,852 |

The previous year's securities represent financial investments in bonds and listed shares, which were to generate income for the Group from dividend income, interest income and trading income. They had no fixed due date and, in some cases, no fixed interest rate. In the past financial year, 3U sold all its fund units and invested the free liquidity in fixed-term and call deposits.

#### Investments accounted for using the equity method

As of 31 December 2007, CityDial GmbH, Meckenheim, was the only company accounted for using the equity method. The summary financial information for this investment accounted for using the equity method is as follows:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Total assets | 110 | 182 |
| Total liabilities | 18 | 28 |
| Sales | 41 | 102 |
| Profit/loss after tax | -62 | 6 |

The carrying amount has evolved as follows:

| | |
|---|---|
| As of 1 January 2007: | 96 T€ |
| Pro rata share of net result for the year: | -32 T€ |
| As of 31 December 2007: | 64 T€ |

CityDial GmbH's balance sheet date is 31 December 2007.

There are no unrecognised shares in the losses of CityDial GmbH. There are no restrictions on the associated company's ability to transfer financial resources in the form of cash dividends or repayments of loans or subsidies to the shareholders.

## 6.2 Deferred tax assets

Deferred taxes were calculated by taking temporary differences into account using the liability method in accordance with IAS 12. For Germany, a combined income tax rate of 32 % was applied. The tax rate used for the US is 33 % and for Austria 25 %.

In financial year 2007, the future realisation of existing tax loss carryforwards was reassessed based on revised business plans. On the basis of anticipated future profits in individual subsidiaries with which a tax group has been created, the Company assumes that it will be able to make partial use of the tax loss carryforwards. For this reason, deferred tax assets were formed for the parent company on the basis of recoverable loss carryforwards.

3U HOLDING 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). In the reporting year, deferred tax liabilities were offset against deferred tax assets on loss carryforwards in the amount of T€ 912. The deferred tax liabilities are allotted entirely to the provision.

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€ 70,549 (previous year: T€ 71,046) for corporation tax and T€ 63,145 (previous year T€ 65,933) for trade tax and primarily relate to LambdaNet. Tax loss carryforwards relate to Germany.

## 6.3 Trade receivables

Trade receivables are composed as follows:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Trade receivables from third parties | 11,850 | 20,793 |
| Valuation allowances | -2,545 | -7,190 |
| **Total** | **9,305** | **13,603** |

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

The Group writes off trade receivables, which have been outstanding for more than two years or where a debt collection agency has stated that they are unrecoverable. The procedure is supported by past experience, which indicates that, in principle, no payment can be expected if trade receivables have been outstanding for more than two years.

In determining the value of trade receivables, account is taken of every change in creditworthiness from the time the credit period was granted until the balance sheet date. There is no significant concentration of credit risk since the customer base is broad. Accordingly, the Management Board is convinced that no provisions above and beyond the impairment charges already recognised are required.

The impairment charges include individual write-downs on trade receivables amounting to T€ 276 (previous year: T€ 4,883) where insolvency proceedings have been instigated against the debtors. The recognised impairment is the result of the difference between the carrying amount of the receivable and the present value of the anticipated liquidation proceeds. The Group has no collateral for these balances.

The carrying amount of trade receivables is the fair value.

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 uncollectible 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.

## 6.4 Other current assets

Other current assets comprise the following:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Receivables from tax refunds | 696 | 1,332 |
| Cost-free IP transit | 0 | 123 |
| Deposits | 32 | 243 |
| Fixed-term deposits for guarantees | 0 | 20 |
| Loans to former employees | 381 | 381 |
| Valuation allowances on loans | -219 | -219 |
| Others | 125 | 407 |
| **Total** | **1,015** | **2,287** |

Other financial assets include promissory notes with a term of up to one year.

The carrying amount of other assets is the fair value.

Please see Section 6.3 for information about default risk.

## 6.5 Cash and cash equivalents

The item cash and cash equivalents contains cash and short term deposits with an original term of three months or less. The carrying amount of these assets is their fair value.

Please see Section 6.3 for information about default risk.

## 6.6 Shareholders' equity

### 6.6.1 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.

**Authorised capital**
At the Annual General Meeting on 13 May 2004, the Management Board was authorised, subject to approval by the Supervisory Board, to increase the share capital by up to € 23,421,120.00 in return for contributions in cash or in kind on one or more occasions up to 12 May 2009, whereby shareholders' subscription rights may be excluded.

**Contingent capital**
The Company has contingent capital of € 4,560,000.00. The contingent capital is to be used to grant subscription rights to members of the Management Board, executives and employees of the Company.

### 6.6.2 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 € 4,560,000.00 (€ 912,000.00 before the stock split on 6 July 2004) for issuing stock options to members of the Management Board, executives and employees in the context of a stock option plan and authorised the Management Board accordingly. With the approval of the Supervisory Board, the Management Board made use of this authorisation on 20 August 2003 and established a stock option plan for 2003. The 2003 stock option plan has a term of five years. The non-transferable option rights can be exercised after a two-year qualifying period on 21 August 2005 at the earliest and no later than 20 August 2008.

The following are beneficiaries:

Group 1: Members of the company'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 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 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 per share.

In total, T€ 0 was recognised as staff costs for the 2003 stock option plan for financial year 2007 (previous year: T€ 0).

Of the 866,250 options granted within the framework of this programme, a total of 99,530 options had lapsed as at 31 December 2006 and 31 December 2007. No new commitments were made within the framework of this programme.

In the 2007 financial year, no options were exercised from this programme.

**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 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.

In total, T€ 120 was recognised as staff costs for the 2004/2005 stock option plan for the 2007 financial year (previous year: T€ 478). This includes a fluctuation rate of 15 %.

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

Of the 2,206,000 options issued within the framework of this programme, a total of 146,500 options had lapsed on 31 December 2006 and a total of 344,500 options on 31 December 2007. No new commitments were made within the framework of this programme.

In the 2007 financial year, no options were exercised from this programme.

#### 6.6.3 Revaluation reserve

The revaluation reserve resulted from the measurement of funds at fair value and the deferred tax liabilities from additions to securities taken directly to equity. When revalued financial investments are sold, the portion of the revaluation reserve attributable to these is realised and recognised in the income statement. Funds were sold in the reporting year.

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| As of the beginning of the year | 1,115 | 2,213 |
| Increase/reduction from the revaluation of available-for-sale financial assets | 593 | -1,098 |
| Profit transferred to the income statement following sale | -1,708 | 0 |
| **As of the end of the year** | **0** | **1,115** |

#### 6.6.4 Minority interests

The minority interests amounted to T€ 59 (previous year: T€ 25).

### 6.7 Financial liabilities

Financial liabilities of the previous year generally refer to overdraft facilities and lease liabilities.

Financial liabilities comprise the following:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Liabilities due to banks | 0 | 14,007 |
| Lease liabilities | 0 | 19,920 |
| **Total** | **0** | **33,927** |

By classifying the assets and liabilities of LambdaNet as "held-for-sale", its liabilities to banks and lease liabilities were also reclassified. Please refer to the information under 7.

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. It is to be repaid as follows: T€ 4,935 (2008) and T€ 5,245 (2009).

Moreover, internal credit lines for the fixed-line network telephony segment are secured with € 4.3 million.

## 6.8 Trade payables

The carrying amount of trade payables is their fair value.

Trade payables are due within one year.

## 6.9 Other current liabilities

Other current liabilities comprise the following:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Social security contributions | 0 | 95 |
| Other taxes | 661 | 185 |
| Provisions of a liability nature | 525 | 578 |
| Payroll | 26 | 127 |
| Other liabilities | 56 | 291 |
| **Total** | **1,268** | **1,276** |

Provisions of a liability nature primarily comprise staffing obligations.

## 6.10 Provisions

Provisions comprise the following:

| (In T€) | 31 Dec 2007 Current | 31 Dec 2006 Non-current | 31 Dec 2007 Current | 31 Dec 2006 Non-current |
|---|---|---|---|---|
| Tax provisions | 2,150 | 0 | 2,025 | 0 |
| Restoration obligations | | 103 | | 4,642 |
| Litigation risks | 1,223 | 0 | 1,228 | 0 |
| Staff provisions | 28 | 0 | 577 | 0 |
| Other | 165 | 0 | 1,168 | 0 |
| **Total** | **3,566** | **103** | **4,998** | **4,642** |

The development is presented as follows:

| (In T€) | As of 1 Jan 2007 | Addition of accrued interest | Transfers | Utilisation | Allocation | Reversal | As of 31 Dec 2007 |
|---|---|---|---|---|---|---|---|
| Tax provisions | 2,025 | 98 | 0 | 0 | 27 | 0 | 2,150 |
| Restoration obligations | 4,642 | 0 | -4,539 | 0 | 0 | 0 | 103 |
| Litigation risks | 1,228 | 0 | 0 | -5 | 0 | 0 | 1,223 |
| Staff provisions | 577 | 0 | 0 | -570 | 28 | -7 | 28 |
| Other | 1,168 | 0 | -608 | -259 | 165 | -301 | 165 |
| **Gesamt** | **9,640** | **98** | **-5,147** | **-834** | **220** | **-308** | **3,669** |

Staff provisions from previous years were created to cover severance payments. Amounts included in the previous year were shown under miscellaneous other this year.

In essence, transfers relate to transfers into "liabilities held for sale".

## 6.11 Network rentals received

The item relates to deferred sales from the receipt of network rentals.

## 6.12 Reporting on financial instruments

Breakdown of carrying amounts in the balance sheet according to the measurement categories of IAS 39/IFRS 7.8

| 2006 (in T€) | Cash and cash equivalents | Trade receivables | Other financial assets | Liabilities |
|---|---|---|---|---|
| | | | | |
| Loans and receivables | 13,979 | 13,603 | 0 | 0 |
| Held-to-maturity assets | 0 | 0 | 8,000 | 0 |
| | | | | |
| Financial liabilities measured at their residual carrying amount | 0 | 0 | 0 | 19,699 |
| | | | | |
| **Total** | **13,979** | **13,603** | **8,000** | **19,699** |

| 2007 (in T€) | Cash and cash equivalents | Trade receivables | Other financial assets | Liabilities |
|---|---|---|---|---|
| | | | | |
| Loans and receivables | 32,446 | 9,305 | 0 | 0 |
| Held-to-maturity assets | 0 | 0 | 2,000 | 0 |
| | | | | |
| Financial assets measured at their residual carrying amount | 0 | 0 | 0 | 11,266 |
| | | | | |
| **Total** | **32,466** | **9,305** | **2,000** | **11,266** |

The fair value of cash and cash equivalents, current receivables and liabilities corresponds approximately to the carrying amount. This is primarily because of the short term of instruments of this kind.

## 6.13 Contingent liabilities and other financial obligations

As at 31 December the following financial obligations remain:

| (In T€) | 31 Dec 2007 | 31 Dec 2006 |
|---|---|---|
| Within one year | 3,865 | 3,938 |
| Between one and five years | 7,831 | 10,608 |
| After five years | 906 | 1,135 |
| **Total** | **12,602** | **15,681** |

The purchase commitments included in the other financial obligations occurring within a year amount to T€ 145 (previous year: T€ 44).

Lease agreements relate to offices, technical space and cars. The agreements concerned have a remaining term of 1 to 10 years. Rental lease payments in 2007 amounted to T€ 3,290.

Fixed-term deposits in the amount of € 3.00 million have been pledged as collateral for credit lines of LambdaNet. Moreover, a letter of credit from 3U HOLDING AG is available for the entire outstanding amount of the loan. As at 31 December 2007, the loan amount equals € 10.18 million. Internal credit lines of 3U are subject to a € 4.3 million restriction on disposal because they are pledged as collateral.

3U HOLDING AG has issued a letter of comfort for financial obligations up to a maximum of € 80,000 until 31 December 2008 to Telekom Austria for 3U TELECOM GmbH, Vienna. 3U HOLDING AG has issued a letter of comfort for financial obligations up to a maximum of € 52,627 until 31 December 2008 to Mobilkom Austria AG for 3U TELECOM GmbH, Vienna.

## 6.14 Legal disputes and contingent liabilities

The operations of 3U Group result in various legal disputes. With regard to the uncertainty of the outcome of these proceedings, there is the possibility of a negative impact on future operating results. This is why provisions for unsettled legal disputes totalling T€ 1,223 were created for existing legal disputes entailing a maximum total risk of T€ 1,505.

For call delivery to German mobile networks, 3U TELECOM GmbH pays what are known as termination fees. These are to be paid either to the mobile network operator itself or to other operators over whose networks calls are delivered. Until 2006, the fees due for this were not regulated and were contractually agreed.

With the regulatory orders of 30 August 2006, the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Rail (BNetzA) determined that the German mobile network operators T-Mobile Deutschland GmbH, Vodafone D2 GmbH, E-Plus Mobilfunk GmbH & Co. KG and $O_2$ (Germany) GmbH & Co. OHG were market powers with respect to termination in their own networks and that the termination fees were subject to the ex ante approval requirement. On the basis of this decision, the BNetzA subsequently ordered termination fees that were lower than those the mobile network operators had previously agreed upon with their contracting parties.

The mobile network carriers took legal action against the regulatory orders of 30 August 2006.
On 2 April 2008, the Federal Administrative Court upheld the regulatory orders of 30 August 2006.

The appealed regulatory orders of 30 August 2006 represent the adjudicatory basis for the subsequent fee approvals. Had the judgments on appeal upheld the ruling of the Cologne Administrative Court, they would have rendered the fee orders illegal because the adjudicatory basis would no longer have applied. It would then have been possible for the illegal fee orders to be suspended by the BNetzA, also retroactively.

This would have given the mobile network operators the opportunity to retroactively charge fees that were higher than the regulated fees.

The Management Board accounted for this risk by reporting contingent liabilities of € 3.70 million. In the absence of any other reliable estimates of the amount of an eventual obligation, the maximum risk was used as a basis. For eventual subsequent debits to 3U customers, contingent assets of € 0.9 million were established. The risk of the enforceability and recoverability of these claims was recognised using a 30 % discount.

The aforementioned risk no longer applied once the Federal Administrative Court handed down its decision of 2 April 2008. The Management Board no longer expects any subsequent higher contractually agreed remuneration on the part of the contracting parties which are now regulated. The decision of the Federal Administrative Court is non-adjusting in nature. For this reason, the reporting of contingent liabilities and assets as at 31 December 2007 persists. The 3U Group will continue to be exposed to risks arising from regulation. However, no concrete risks are foreseeable at this time.

# 7 Assets and liabilities held for sale (disposal groups) and discontinued operations

## 7.1 Plan to sell LambdaNet Communications Deutschland AG

On 21 June 2007, the Management Board announced its intention of selling its subsidiary LambdaNet Communications Deutschland AG. LambdaNet operates in the broadband/IP segment. The planned sale will take place in the course of the reorientation of the 3U Group. 3U is actively looking for a buyer for LambdaNet and hopes to be able to conclude the sale by mid-2008.

The income components to be attributed to the discontinued business area recognised in the income statement are listed below. The comparative figures regarding earnings and the cash flows from discontinued business areas were adjusted to take account of the business areas classified as discontinued in the current period.

| **Income statement (in T€)** | **1 Jan–31 Dec 2007** | **1 Jan–31 Dec 2006** |
|---|---|---|
| | | |
| Sales | 34,371 | 37.180 |
| Other operating income | 1,445 | 6.838 |
| Current expenses | -38,250 | -48.950 |
| **Earnings before tax** | **–2,434** | **–4,932** |
| | | |
| Taxes | -235 | -2 |
| **Total earnings** | **–2,669** | **–4,934** |

If the company had been reported as continued operation, ongoing depreciation for wear and tear on fixed assets of € 3.4 million would have accrued in the second half of 2007. Should, contrary to the expectations of the Management Board, it not be possible to conclude the sales process successfully, this depreciation will have to be made up in the 2008 financial year.

| **Cash flows from discontinued business areas (in T€)** | **2007** | **2006** |
|---|---|---|
| Net cash flows from operating activities | 5,581 | 2,369 |
| Net cash flows from investing activities | -2,288 | -3,189 |
| Net cash flows from financing activities | -5,430 | -4,025 |
| **Total net cash flows** | **–2,137** | **–4,845** |

| Assets held for sale (in T€) | 31 Dec 2007 |
|---|---|
| Property, plant and equipment | 16,926 |
| Assets under finance lease | 17,697 |
| Other non-current assets | 6,237 |
| Current assets | 9,203 |
| **Total** | **50,063** |

| Liabilities held for sale (in T€) | 31 Dec 2007 |
|---|---|
| Expensed, non-current leased liabilities | 16,010 |
| Other non-current liabilities | 5,236 |
| Expensed, current liabilities | 2,158 |
| Other current liabilities | 18,526 |
| **Total** | **41,930** |

Long-term leases for glass fibre networks amounting to T€ 17,697 (previous year: T€ 17,321) were capitalised in property, plant and equipment in the discontinued business area. The leases are based on a normal useful life of 10 to 15 years on average. 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.

Moreover, the capitalised customer base accounts for T€ 4,078 of other non-current assets. In the first half of the 2007 financial year, the customer base was written down by T€ 1,004.

Depreciation included in the loss from the discontinued business area amounted to T€ 6,917 in the first half of 2007.

Assets held for sale were classified at the lower carrying amount at 1 July 2007.

The remaining terms of the finance lease liabilities are as follows:

| (In T€) | 31 Dec 2007 | | |
|---|---|---|---|
| | Nominal value | Less discount amount | Present value minimum lease instalments |
| Remaining term of up to 1 year | 3,207 | 1,049 | 2,158 |
| Remaining term of 1–5 years | 11,872 | 2,881 | 8,991 |
| Remaining term of more than 5 years | 8,371 | 1,352 | 7,019 |
| **Total** | **23,450** | **5,282** | **18,168** |

| (In T€) | 31 Dec 2006 | | |
|---|---|---|---|
| | Nominal value | Less discount amount | Present value minimum lease instalments |
| Remaining term of up to 1 year | 2,759 | 668 | 2,091 |
| Remaining term of 1–5 years | 12,386 | 2,848 | 9,538 |
| Remaining term of more than 5 years | 10,565 | 2,274 | 8,291 |
| **Total** | **25,710** | **5,790** | **19,920** |

The fair value of finance lease liabilities corresponds approximately to their carrying amount.

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

The fibre network lease agreements with the supplier GasLINE contain price adjustment clauses.
The amounts are subject to an escalation factor on half-yearly payment dates. In the case of lease payments, these are calculated using the producer price index for industrial goods, while in the case of service fees, they are calculated using the wage cost index. Payments recognised as expense in the income statement amounted to T€ 2,776 in the 2007 financial year.

Please refer to 6.13 "contingent liabilities and other financial obligations" with regard to the total for future minimum lease payments and their corresponding present values.

All technical equipment and office equipment were pledged as collateral for LambdaNet's bank loan.
As of 31 December 2007, their carrying amount was T€ 14,249.

Liabilities include liabilities to banks amounting to T€ 10,330.

## 7.2 Discontinued operations in the fixed-line telephony segment

In the course of re-orientating the Group, the Management Board has entered into sales negotiations regarding its shares in 3U USA and Austria. The sales negotiations are expected to be concluded by mid-2008. Classification in accordance with IFRS 5 was effectiv 31 December 2007.

### 7.2.1 3U TELECOM Inc., USA

The income components to be attributed to discontinued activities recognised in the income statement are listed below. The comparative figures regarding earnings and the cash flows from the discontinued business areas were adjusted to take account of the business areas classified as discontinued in the current period.

| **Income statement (in T€)** | **1 Jan–31 Dec 2007** | **1 Jan–31 Dec 2006** |
|---|---|---|
| | | |
| Sales | 4,552 | 4,776 |
| Other operating income | 28 | 109 |
| Current expenses | -4,400 | -4,576 |
| **Earnings before tax** | **180** | **309** |
| | | |
| Taxes | -69 | -85 |
| **Total earnings** | **111** | **224** |

| **Cash flows from discontinued business areas (in T€)** | **2007** | **2006** |
|---|---|---|
| Net cash flows from operating activities | 96 | -505 |
| Net cash flows from investing activities | -64 | -3 |
| Net cash flows from financing activities | 0 | 0 |
| **Total net cash flows** | **32** | **-508** |

| Assets held for sale (in T€) | 31 Dec 2007 |
|---|---|
| Property, plant and equipment | 86 |
| Other non-current assets | 52 |
| Current assets | 610 |
| **Total** | **748** |

| Liabilities held for sale (in T€) | 31 Dec 2007 |
|---|---|
| Other current liabilities | 559 |
| **Total** | **559** |

3U expects the sale to be concluded in the second quarter of 2008.

Depreciation included in earnings from discontinued activities amounts to T€ 35.

#### 7.2.2 3U TELECOM GmbH, Austria

Income components to be attributed to the discontinued business area recognised in the income statement are listed below. The comparative figures regarding earnings and the cash flows from the discontinued business areas were adjusted to take account of the business areas classified as discontinued in the current period.

| Income statement (in T€) | 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|---|---|
| | | |
| Sales | 2,924 | 2,810 |
| Other operating income | 6 | 34 |
| Current expenses | -2,859 | -2,529 |
| **Earnings before tax** | **71** | **315** |
| | | |
| Taxes | -14 | -96 |
| **Total earnings** | **57** | **219** |

| Cash flows from discontinued business areas (in T€) | 2007 | 2006 |
| --- | --- | --- |
| Net cash flows from operating activities | 159 | 32 |
| Net cash flows from investing activities | 0 | -6 |
| Net cash flows from financing activities | 0 | 0 |
| **Total net cash flows** | **159** | **26** |

| Assets held for sale (in T€) | 31 Dec 2007 |
| --- | --- |
| Property, plant and equipment | 6 |
| Other non-current assets | 88 |
| Current assets | 444 |
| **Total** | **538** |

| Liabilities held for sale (in T€) | 31 Dec 2007 |
| --- | --- |
| Other current liabilities | 454 |
| **Total** | **454** |

3U expects the sale to be completed in the second quarter of 2008.

Depreciation included in earnings from discontinued activities amounts to T€ 1.

## 8 Notes to the cash flow statement

Cash and cash equivalents comprise bank balances and cash in hand.

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.

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€ 2,467 (previous year: T€ 3,320) from operating activities in continued operations.

Cash flow from investing activities in continued operations amounted to T€ 22,128 (previous year: T€ 867) and cash flow from financing activities in continued operations amounted to T€ 0 (previous year: T€ 0).

In total, cash and cash equivalents amounted to T€ 22,649 (before changes to the scope of consolidation).

Of the cash and cash equivalents reported at the end of the period amounting to T€ 36,549, there is a restriction on the disposal of a total of T€ 7,300.

# 9 Other information

## 9.1 Capital management

The Group manages its capital with the aim of maximising the earnings of those involved in the Company by optimising the ratio of equity to borrowed funds. In so doing, it ensures that all Group companies can operate as going concerns.

As of 31 December 2007 and 2006, reported equity and total assets amounted to:

| | 31 Dec 2007 | 31 Dec 2006 | Change |
|---|---|---|---|
| | | | |
| Equity in T€ | 42,043 | 41,365 | 678 |
| Equity in % of total capital | 42.08 % | 38.51 % | 3.57 %-points |
| | | | |
| Borrowed capital in T€ | 57,878 | 66,052 | –8,174 |
| Borrowed capital in % of total capital | 57.92 % | 61.49 % | -3.57 %-points |
| | | | |
| **Total capital (equity plus borrowed capital) in T€** | **99,921** | **107,417** | **–7,496** |

Equity comprises total capital, the Group's reserves and minority interests. Borrowed capital is defined as non-current and current financial liabilities, provisions and miscellaneous liabilities.

## 9.2 Financial risks

On the basis of its normal business activities, the 3U Group is exposed to only minor foreign currency, interest rate and credit risks, which could have an impact on its net assets, financial position and results of operations. Where necessary, it also uses derivative financial instruments to manage these risks.
No derivative financial instruments were used in the 3U Group in the past financial year.

The following sections examine the individual risks and risk management.

**Foreign currency risk**
Foreign currency risks exist, in particular, if receivables, liabilities, cash and cash equivalents and planned transactions exist or occur in a currency other than the Company's local currency.

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. In the reporting year, derivatives did not have to be used to hedge foreign currency risks.

On the balance sheet date, 31 December 2007, the carrying amount of the Group's monetary assets and liabilities in foreign currencies were attributable to discontinued activities in the fixed-line telephony segment and comprised the following:

| | |
|---|---|
| Assets: | T€ 748 |
| Liabilities: | T€ 559 |

The Group is mainly exposed to the risk of the USD exchange rate changing.

**Default risk**
3U is exposed to a credit risk to the effect that assets could be impaired if counterparties fail to comply with their obligations. To minimise credit risk, transactions are only concluded with debtors of undoubted creditworthiness and only up to a maximum of a preset risk limit.

Default risks are in line with the normal market risks and appropriate valuation allowances are made.
The Group is not exposed to any major credit risk from one counterparty or a group of counterparties with similar characteristics. The Group defines counterparties as having similar characteristics if related companies are involved.

The differing rates by which overdue receivables are written down are primarily dependent on how long they have been outstanding and the degree of success in recovering them. Experience has shown that receivables that are outstanding for more than 365 days are irrecoverable and they are written off.

### Liquidity/refinancing risk

In essence, the 3U Group's liquidity risk remains the same as in the previous year, namely that it might not be able to comply with its financial obligations. Financial planning instruments are implemented throughout the Group to monitor and control liquidity. The planning horizon is one year.

The Group may make use of credit lines. As of the balance sheet date, the total amount of unused credit at its disposal stood at € 5.3 million (previous year: € 5.3 million). 3U expects that it will be able to fulfil its other obligations from operating cash flow and from the inflow of maturing financial assets. Furthermore, 3U assumes that it will be able to maintain its present ratio of borrowed funds to equity.

### Interest risk

Most of 3U's interest bearing liabilities carry fixed rates. Changes to market interest rates would only have an impact here if these financial instruments were accounted for at fair value. Since this is not the case, fixed rate financial instruments are not exposed to any interest rate risks for the purposes of IFRS 7.

The risk of rising interest on bank loans is monitored on a timely basis.

## 9.3 Related parties

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

| | |
|---|---|
| Michael Schmidt | Lahntal<br>Chief Technology Officer of 3U HOLDING AG |
| Roland Thieme | Lahntal<br>Chief Technology Service Officer of 3U HOLDING AG (until 31 December 2007)<br>Supervisory Board or Advisory Board mandates:<br>Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hannover |
| Oliver Zimmermann | Berlin<br>Chief Financial Officer of 3U HOLDING AG |

Total remuneration of the Management Board granted in 2007 amounted to T€ 791 (previous year: T€ 718). In the reporting year, former members of the Management Board received remuneration amounting to T€ 300 (previous year: T€ 265).

| Name | Fixed remuneration in T€ | Variable remuneration in T€ |
|---|---|---|
| Michael Schmidt | 231 | 53 |
| Roland Thieme (until 31 December 2007) | 201 | 0 |
| Oliver Zimmermann | 226 | 80 |

No stock options were issued to members of the Management Board in the 2007 and 2006 financial years.

It has been agreed with the members of the Management Board Michael Schmidt and Roland Thieme that in the event of their leaving, they will receive their fixed annual salary and bonus pro rata temporis for a period of six months following their departure. The agreement shall apply to the member of the Management Board leaving the Company's active service a) as a result of death; b) in the event of long-term disability; c) because the Company has neither extended his current contract of employment nor offered to conclude a new contract of employment on terms that are at least as favourable as the existing one although the member of the Management Board has not given it any good cause not to do so or d) at the end of the year in which the Member of the Management Board has his 65th birthday. In the event of his death, payment will be made to his surviving dependants. In the event of the contract being cancelled or his being dismissed for good cause, he will not be entitled to any ongoing payment of his remuneration.

In addition expenses for remuneration offering long term incentive of T€ 14 (previous year: T€ 168) were incurred.

All remuneration for Management Board activities was made by 3U HOLDING 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 2008 financial year. The loan paid to the member of the Management Board Roland Thieme in the pervious year of T€ 371 was repaid in 2007. Interest was charged on the loan at 4.5 % p. a.

Shares held by the Management Board and the Supervisory Board as of 31 December 2007:

| Name | Shares | Stock options 2003 | | Stock options 2004/2005 | |
|---|---|---|---|---|---|
| | | Number | Value in €* | Number | Value in €* |
| Michael Schmidt (Management Board) | 8,299,995 | 124,360 | 111,924 | 165,000 | 84,150 |
| Roland Thieme (Management Board) | 2,508,330 | 124,360 | 111,924 | 165,000 | 84,150 |
| Oliver Zimmermann (Management Board) | 59,584 | | | | |
| Hubertus Kestler (Supervisory Board until 6 Aug 2007) | 130,000 | | | | |
| Gerd Simon (Supervisory Board) | 10,000 | | | | |

*Value when granted

The stock options may only be exercised after the expiry of set blocking periods (vesting period). Their value is spread over the vesting periods and recognised as expense in the respective financial year. The expenses attributable to the 2007 and 2006 financial years are shown in the following table.

| Name | Function | Expenses relating to components offering long term incentive in T€ | |
|---|---|---|---|
| | | 2007 | 2006 |
| Michael Schmidt | Management Board | 7 | 42 |
| Roland Thieme | Management Board | 7 | 42 |
| Berth Hausmann (until 30 Sep 2006) | Management Board | 0 | 42 |
| Burkhard von Ehren (until 31 Dec 2005) | Management Board | 0 | 42 |
| **Total** | | **14** | **168** |

As of 31 December 2007, all outstanding options are exercisable.

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

| | |
|---|---|
| Hubertus Kestler | Frankfurt am Main<br>Lawyer and notary, KMO Kestler Mielert Otto, Frankfurt am Main<br>Chairman of the Supervisory Board of 3U HOLDING AG until 6 August 2007<br>Other Supervisory Board or Advisory Board mandates:<br>Chairman of the Supervisory Board of LambdaNet Communications Deutschland AG, Hannover until 6 August 2007<br>Member of the Supervisory Board of AXG Investmentbank AG, Frankfurt am Main since 25 June 2007 |
| Ralf Thoenes | Düsseldorf<br>Lawyer, Altenburger, Düsseldorf<br>Deputy Chairman of the Supervisory Board of 3U HOLDING AG until 6 August 2007, subsequently Chairman of the Supervisory Board<br>Other Supervisory Board or Advisory Board mandates:<br>Deputy Chairman of the Supervisory Board of LambdaNet Communications Deutschland AG, Hannover until 10 August 2007, subsequently Chairman of the Supervisory Board |
| Gerd Simon | Bad Homburg vor der Höhe<br>Industrial Engineer<br>Member of the Supervisory Board of 3U HOLDING AG, from 7 August 2007 Deputy Chairman of the Supervisory Board<br>Other Supervisory Board or Advisory Board mandates:<br>Member of the Supervisory Board of Elabs AG, Frankfurt am Main<br>Member of the Supervisory Board of LambdaNet Communications Deutschland AG, Hannover; from 10 August 2007 Deputy Chairman of the Supervisory Board |
| Peter Coch | Frankfurt am Main<br>Business Economist<br>Appointed to the Supervisory Board on 7 August 2007 |

The Supervisory Board remuneration for 2007 amounted to T€ 111 (T€ 111 of which for 3U HOLDING AG, previous year: T€ 123)

| **Name** | **Fixed remuneration in T€** | **Meeting fees in T€** |
|---|---|---|
| Hubertus Kestler (until 6 Aug 2007) | 7 | 13 |
| Ralf Thoenes | 9 | 28 |
| Gerd Simon | 6 | 33 |
| Peter Coch (since 7 Aug 2007) | 2 | 13 |

Remuneration for services by Supervisory Board members exceeding the remuneration of the Supervisory Board provided for by the Articles of Association amounted to T€ 188 in total and was composed as follows:

| | | |
|---|---|---|
| Hubertus Kestler (KMO Kestler Mielert Otto): | Legal consulting | T€ 163 |
| Ralf Thoenes (Altenburger): | Legal consulting | T€ 25 |

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

## 9.4 Events after the balance sheet date

With the judgement of the Federal Administrative Court on 2 April 2008, the contingent liabilities and assets in connection with the regulatory orders of the BNetzA described under 6.14 no longer apply. We refer to the comments in 6.14.

## 9.5 Auditor's fees

The auditor's fees for financial year 2007 are:

| | |
|---|---|
| Statutory audit of the annual financial statements | T€ 170 |
| Other services | T€ 2 |
| Total | T€ 172 |

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

The Management Board and Supervisory Board of 3U HOLDING AG have submitted the declarations prescribed by Article 161 of the German Stock Corporation Act (AktG) and have made them available to their shareholders.

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

In accordance with Article 41 (2) sentence 1 WpHG, by way of a 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 Holding AG (SCN 516790) as of 1 April 2002.

In accordance with Article 41 (2) sentence 1 WpHG, by way of a 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 HOLDING AG (SCN 516790) as of 1 April 2002.

## Additional information

The following companies owned by 3U HOLDING AG are making use of the exemptions permitted in Article 264 (3) HGB:

- 3U TELECOM GmbH, Marburg
- OneTel Telecommunication GmbH, Marburg
- Discount Telecom S&V GmbH, Marburg
- 010017 Telecom GmbH, Marburg
- fon4U Telecom GmbH, Marburg
- LineCall Telecom GmbH, Marburg

## Date of approval of the financial statements for publication

The Management Board of 3U HOLDING AG approved the consolidated financial statements to be forwarded to the Supervisory Board on 22 April 2008. The Supervisory Board is responsible for examining the consolidated financial statements and for declaring that it approves the consolidated financial statements.

Marburg, 25 April 2008

The Management Board

Michael Schmidt | Oliver Zimmermann

# Responsibility statement



We warrant that to the best of our knowledge that, in accordance with the accounting principles to be applied, the consolidated financial statements convey a true and accurate picture of the Group's net assets, financial position and results of operations and that the Group's business development including its results and its position including the major risks and opportunities inherent in its probable development are described truthfully and accurately in the Group Management Report.

Marburg, 25 April 2008

The Management Board

Michael Schmidt | Oliver Zimmermann

# Auditor's report

We have audited the consolidated financial statements prepared by 3U HOLDING AG (until 31 October 2007: 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 2007. 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, 25 April 2008

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

| | |
|---|---|
| Wagenseil | Riedmann |
| Wirtschaftsprüfer | Wirtschaftsprüfer |

# Further Information

# Membership in other supervisory bodies

## Mandates of the Management Board

**Roland Thieme**

*Within the Group:*

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

## Mandates of the Supervisory Board

**Hubertus Kestler**
*Within the Group:*
- Chairman of The Supervisory Board, LambdaNet Communications Deutschland AG, Hannover (until 6 August 2007)

*External:*
- Member of the Supervisory Board of AXG Investmentbank AG, Frankfurt am Main (since 25 June 2007)

**Gerd Simon**
*Within the Group:*
- Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hannover (Deputy Chairman of the Supervisory Board since 10 August 2007)

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

**Ralf Thoenes**
*Within the Group:*
- Member of the Supervisory Board, LambdaNet Communications Deutschland AG, Hannover (Deputy Chairman until 10 August 2007, Supervisory Board Chairman since 10 August 2007)

# Financial calendar

- Publication of report on Q1 2008
  27 May 2007
- 2008 Annual General Meeting
  6 August 2008
- Publication of report on Q2 2008
  26 August 2008
- Publication of report on Q3 2008
  25 November 2007
- Analysts' conference
  December 2008

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# Glossary

**Break even**
Profit threshold.

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

**Cash flow from financing activities**
Includes inflows from borrowing or outflows from repayment of a loan, other liabilities to banks and interest liabilities from finance leases as well as outflows of funds for dividend payments and inflows/outflows arising from capital increases/decreases.

**Cash flow from investment activities**
Outflows for the acquisition or inflows from the disposal of intangible assets, property, plant and equipment and investment assets, and of subsidiaries.

**Cash flow from operating activities**
Change in liquid funds from the company's actual business operations (for example, the sale of products, the purchase of materials and of goods and services, and other moneys paid out in operations) and from other operations not classifiable as investment or financing activities.

**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**
The German Corporate Governance Code represents important legal provisions for the management and monitoring of German companies listed on stock exchanges (corporate governance) and contains internationally and nationally recognised standards for good and responsible corporate management. The Code is intended to ensure that the German corporate governance system is transparent and enforceable. It is intended to build the confidence of international and national investors, customers, employees and the public in the management and monitoring of German companies listed and publicly traded on stock exchanges.

**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 tax assets**
Future tax relief or tax burdens resulting when the recognition of asset and liability positions in the commercial and tax balance sheets diverge, but the difference is reversed over time (temporary differences). When deferred taxes are recognised, the effective tax expense resulting from the tax balance sheet is adjusted to the divergent net income according to commercial law. In addition, deferred taxes are recognised for future utilisation of tax loss carryforwards to the extent that there is a good likelihood of offsetting.

**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.

**EBIT**
Earnings before interest and taxes.

**EBITDA**
Earnings before interest, taxes, depreciation and amortisation.

**EBT**
Earnings before taxes.

**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).

**Free Float**
Shares which are publicly traded.

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

**IFRS**
International Financial Reporting Standards.

**Market capitalisation**
Term for the current market value of a company.
It is calculated by multiplying the number of shares by the share price. Market capitalisation provides an indication of the price to be paid or realised for all shares of a company that are in circulation. However, it must be noted that large-scale acquisitions/disposals of shares can lead to an upwards or downwards trend in share prices.

**Return on equity**
**Return on equity (ROE)**
Ratio of net profit for the year to capital utilised.

**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**
Finanzkennzahl. Financial ratio indicating the relation of the consolidated result to sales.

**Risk management**
Systematic method for identifying and assessing potential risks and for selecting and implementing measures to deal with risk.

**Scope of consolidation**
Group of subsidiaries in a group which are included in the consolidated financial statements.

# Imprint

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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 HOLDING 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 HOLDING 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 HOLDING 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 HOLDING AG in accordance with the German Commercial Code (HGB) or IFRS. It should be noted that the figures for 3U HOLDING 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.

# 3U Group

## Subsidiaries of 3U HOLDING AG in Germany

**010017 Telecom GmbH**
Neue Kasseler Straße 62 F
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**3U TELECOM GmbH**
Neue Kasseler Straße 62 F
35039 Marburg

**Discount Telecom S&V GmbH**
Neue Kasseler Straße 62 F
35039 Marburg

**fon4U Telecom GmbH**
Neue Kasseler Straße 62 F
35039 Marburg

**LambdaNet Communications Deutschland AG**
Günther-Wagner-Allee 13
30177 Hannover

**LineCall Telecom GmbH**
Neue Kasseler Straße 62 F
35039 Marburg

**OneTel Telecommunication GmbH**
Neue Kasseler Straße 62 F
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