# ANNUAL REPORT 2007

# TELE2 NETHERLANDS HOLDING N.V.

TELE2

NETHERLANDS HOLDING

## TABLE OF CONTENTS

Certain statements in this Annual Report 2007 are “forward-looking statements”. Such statements are based on the current expectations of the management of Tele2 Netherlands Holding N.V. only, and are subject to a number of risk factors and uncertainties, including but not limited to changes in technology and market requirements, continuity regarding the regulatory environment in our operating market via continued pro-competitive initiatives by regulators, decline in demand for the Company’s products or services, inability to timely develop and introduce new technologies, products and services, loss of market share, pressure on pricing resulting from competition, and inability to maintain certain marketing and distribution arrangements, which could cause the actual results or performance of the Company to differ materially from those described therein. For a more detailed description regarding the uncertainties affecting the Company, please refer to the section titled "Company Risk Factors".

## Introduction

Tele2 Netherlands Holding N.V. (in this document also referred to as "Tele2 Netherlands Holding", "Company" or "we") is a publicly traded company on Euronext Amsterdam under the symbol "TLNL". The company was formerly known as Versatel Telecom International N.V. and was renamed into Tele2 Netherlands Holding N.V. on November 26, 2007. News and information are available at http://www.tele2.nl/corporate.

All Tele2 Netherlands Holding reporting is in the English language.

Investors and financial analysts may contact the Tele2 Netherlands Holding Investor Relations department at ir-netherlands@tele2.com or +31 20 750 1000.

Tele2 Netherlands Holding N.V.

*Postal address:*
PO Box 22697
1100 DD Amsterdam-Zuidoost
The Netherlands

*Visiting address:*
Wisselwerking 58
1112 XS Diemen
The Netherlands

Tel: +31 20 750 1000
Fax: +31 20 750 1001
Website: www.tele2.nl/corporate

# MANAGEMENT REPORT

# Report and Recommendation of the Board of Supervisory Directors of Tele2 Netherlands Holding N.V. to the General Meeting of Shareholders

**General**

The annual accounts are accompanied by the annual report prepared by the Board of Management and by the information to be added in accordance with Article 392 section 1 of Book 2 of the Dutch Civil Code.

The annual accounts are accompanied by an unqualified auditor's opinion issued by Deloitte Accountants B.V., appointed by the General Meeting of Shareholders held on June 4, 2007, to audit the annual accounts 2007. The Board of Management and the Board of Supervisory Directors have signed the annual accounts.

In the year 2007, a number of changes in both composition and size of the Board of Supervisory Directors occurred. Until December 8, 2006, Messrs. J.P. Eschauzier, J.L. Bouma, and P.A. Wortel were members of the Board of Supervisory Directors by designation of the Enterprise Chamber of the court of appeals in Amsterdam (the "Enterprise Chamber") by means of its rulings of December 14 and December 21, 2005. These members, whom together constituted the Special Committee, collectively held the exclusive power to decide on material arrangements to be concluded between us and other group companies of Tele2 AB ("Tele2 AB Group"). The Special Committee members were appointed for the duration of the proceedings filed on behalf of certain minority shareholders with the Enterprise Chamber. Following the December 8, 2006 ruling of the Enterprise Chamber, Messrs. Eschauzier, Bouma and Wortel resigned as members of the Board of Supervisory Directors. However, in the interest of continuity in the Company's corporate governance, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel agreed with the Company that they would continue to act (with the endorsement of Tele2 AB) as special advisors, together constituting the Special Advisory Committee, until the closing of the acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. (the "Acquisitions") and the rights offering (the "Offering"). The acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and the associated rights offering were completed on March 6, 2007, as a consequence of which Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel resigned as per that date as members of the Special Advisory Committee. Messrs. J.L. Bouma and R.L. de Bakker were subsequently appointed as a member of our Board of Supervisory Directors on February 12, 2007, subject to the closing of the Acquisitions and the Offering, which occurred on March 6, 2007. During the annual general meeting of shareholders, held at June 4, 2007, the general meeting was requested to increase the number of Supervisory Directors from five to six members to further balance the workload of the existing members. This proposal was adopted and as a result, Mr. Nilsson was appointed as a sixth member effective 4 June, 2007. Mr. Nilsson, who also holds the position of CFO at Tele2 AB, assumed the position of chairman of the Board of Supervisory Directors in favor of Mr. Jarnheimer, who continues to act as a member to the Board of Supervisory Directors.

During the financial year 2007, the Board of Supervisory Directors held 11 meetings in the presence of the Board of Management. In particular, the medium and long-term strategy and the impact on the budget, the reversed take-over of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and associated rights offering, the sale of the Belgian activities, as well as the proceedings held before the Enterprise Chamber, required the attention of the Board of Supervisory Directors. Other important issues that were discussed were the financing of the Company's business, as well as the overall operational development of the Company. In addition, matters such as the performance of the Board of Management and the performance of various business units of the Company, the economic climate and risks involved in the telecommunications business were discussed. The Board of Supervisory Directors has drafted a meeting schedule for the financial year 2008.

During the financial year 2007, the Board of Supervisory Directors also met without the presence of the Board of Management, amongst other things, discussed its own performance, the relationship between the Board of Management and the Board of Supervisory Directors, the composition, the assessment and the remuneration of the Board of Management, the size, composition, expertise and remuneration of the Board of Supervisory Directors, as well as the matters referred to above, that required the particular attention of the Board of Supervisory Directors during 2007. In the view of the Board of Supervisory Directors, all Supervisory Directors are deemed independent within the meaning of the Dutch Corporate Governance Code (the "Code"). However, it is noted that although deemed independent under the Code, each of Messrs. Nilsson, Jarnheimer and Olsson are also Executives or Supervisory Directors of Tele2 AB, which as a result of the completion of the public offer of Tele2 Finance for all issued and outstanding shares of the Company and all issued and outstanding Convertible Notes (the "Tele2 Offers") became the Company's controlling shareholder.

The Board of Supervisory Directors has adopted rules for the Board of Management and for itself, which are published on the Company's website www.tele2.nl/corporate.

During the financial year 2007, the Special Advisory Committee held several meetings with the Board of Management to discuss all material arrangements between the Company and Tele2 AB group companies, including the reversed take-over of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and associated rights offering. In all these arrangements, the Company was represented by the three members of the Special Advisory Committee. The Special Advisory Committee resigned upon completion of the announced acquisition of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and the announced rights offering, which occurred on March 6, 2007. A detailed description of the material arrangements between the Company and Tele2 AB group companies can be found in the section "Related Party Transactions".

### Corporate Governance

During the financial year 2007, as in the previous financial year, the Board of Supervisory Directors spent considerable time on corporate governance. It worked in close co-operation with management on the continued implementation of the Code, more in particular on the formalization of Tele2 Netherlands Holding's corporate governance policy, including approval of material arrangements between the Company and Tele2 AB group companies, the remuneration policy and internal control systems. At the annual General Meeting of Shareholders held on May 18, 2005, the Company discussed its corporate governance policy with the General Meeting. The General Meeting of Shareholders then also approved the Company's corporate governance policy, which has not changed substantially since then. Should there be substantial changes in the future regarding the corporate governance structure or in the compliance with the Code, the Company will submit its corporate governance policy to the General Meeting of Shareholders again for discussion and approval.

## Committees of the Board of Supervisory Directors

### Audit Committee

At the Meeting of the Board of Supervisory Directors of December 11, 2000, an Audit Committee was established. The members of the Audit Committee during the year 2007 were Messrs. de Bakker, who acts as Chairman, and Svedberg, who recently resigned (see "Subsequent Event"). The Audit Committee makes recommendations to the Board of Supervisory Directors regarding audit, financial and related issues. It reviews the operating results of the Company with the Chief Financial Officer and the external auditors, considers the adequacy of internal controls and audit procedures and reviews non-audit services provided by the external auditors.

During the financial year 2007, the Audit Committee met four times with management and the external auditors present. The Audit Committee also met twice without management, but with the external auditors present. The Board of Supervisory Directors has adopted rules for the Audit Committee, which are published on the Company's website www.tele2.nl/corporate.

### Remuneration, Selection and Appointment Committee

At the Meeting of the Board of Supervisory Directors of December 11, 2000, a Remuneration Committee was established. The Company previously did not have a formal Selection and Appointment Committee. It decided to combine the functions of the Selection and Appointment Committee with the Remuneration Committee and as a result installed and appointed a Remuneration, Selection and Appointment Committee on July 30, 2004. The current members of the Remuneration, Selection and Appointment Committee are Messrs. Jarnheimer and Bouma. The Remuneration, Selection and Appointment Committee makes recommendations to the Board of Supervisory Directors on salaries and incentive compensation for the employees of the Company, including the members of the Board of Management. During the financial year 2007, particular attention was given to the remuneration of the current Board of Management. Furthermore, the bonuses for the financial year 2006 and the targets and bonus structure for the financial year 2007 were discussed.

During the financial year 2007, the Remuneration, Selection and Appointment Committee met twice without management being present. The Board of Supervisory Directors has adopted Rules for the Remuneration, Selection and Appointment Committee, which are published on the Company's website www.tele2.nl/corporate.

## Recommendation

This report is issued pursuant to Article 26 of the Articles of Association of the Company.

The Board of Supervisory Directors recommends the adoption of the annual accounts for the year 2007 to the General Meeting of Shareholders.

The year 2007 was a year full of events; during the year the operations of Tele2 (Netherlands) B.V. and Versatel Nederland B.V. were brought together. Furthermore, upon the acquisition of Tele2 Belgium N.V., the Belgian operations were divested. The Board of Supervisory Directors is pleased with the continued dedication and hard work of the Company's employees and would like to thank management and all employees for their support to the business. The Board of Supervisory Directors is looking forward to working with the Company's management and employees to meet the goals and challenges of 2008 and beyond.

Amsterdam, April 25, 2008

The Board of Supervisory Directors
of Tele2 Netherlands Holding N.V.

Mr. L. Nilsson Chairman

Mr. B.L.J. Jarnheimer

Mr. A. Olsson

Mr. J.L. Bouma

Mr. R.L. de Bakker

## CEO's Overview

### General

The year 2007 again showed to be a dynamic year. In January 2007, we announced the acquisition of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. With the acquisitions, which were completed in March 2007, we enhanced our product portfolio with a mobile service offering, based on a MVNO model. We also acquired a large CPS and mobile customer base. The acquisitions further allowed us to fully integrate the businesses of Tele2 (Netherlands) B.V. and former Versatel Nederland B.V.. In January 2008 we finalized this integration process by merging the two companies and renaming all entities into "Tele2".

In connection with the acquisitions, we also announced a rights offering intended to raise € 255 million, for purposes of funding the acquisitions and for general corporate purposes.

In August 2007, we announced the divestment of our Belgian operations. The sale was completed in October 2007 and resulted in a gain on divestment of € 32 million. After the completion of the divestment, our main target area has become The Netherlands.

### Consumer

Although the year-on-year revenue growth of 72.7% is largely the result of the contribution of Tele2 (Netherlands) B.V., the underlying organic growth in the consumer segment has also contributed significantly. Despite the highly competitive telecom market, we were able to realize a significant growth in our broadband customer base, resulting in the 'fastest grower' in the fourth quarter of 2007 (source: telecompaper). At the end of 2007, we recorded approximately 303,000 broadband customers.

During 2007 we also launched a wholesale line rental (WLR) product, whereby Tele2 Netherlands Holding takes over the subscription fee of the copper line and which enables customers to terminate their fixed line subscription with KPN. We have shown to be successful in upselling our CPS customers to our WLR product. Within our mobile segment, we continued the transition from low value prepaid to high value postpaid subscriptions. This strategy positively contributed to our financial performance. At the end of 2007, our mobile customer base recorded 566,000 customers.

During the year we again proved to be a leading innovator. We launched several theme channels for our IPTV product, such as Volkskrant TV, a channel that shows current news items. Furthermore, we launched several enhanced features for our interactive IPTV product, such as online gaming and a 'red button' functionality, allowing customers to instantly order products and services shown in TV commercials.

In September 2007, we also announced that we had signed a distribution agreement with Chellomedia. The distribution agreement allows us to broadcast the premium sports- and movie channels Sport 1 and Film 1 to our customers. In addition, we signed a distribution agreement with UPC and Zesko (a combination of Multikabel, Casema and @Home/Essent Kabelcom) for the further distribution of our football pay TV channel. With the distribution our audience increased significantly.

### Business

Also in the business segment we proved to be successful during 2007. We were able to attract some major corporate customers, like AVR- Van Gansenwinkel Group and DHL. For both customers we will provide, amongst others, a Virtual Private Network (IP-VPN) for multiple locations. The agreements have a value of approximately € 7 million and € 4 million, respectively. In the governmental segment we have become one of the leading suppliers and signed, for instance, a major contract with the Dutch police.

**Strategy**

The Company's strategy for 2008 is to continue to connect customers directly to our network, thereby improving margins. We also believe that providing multiple services over a single connection to a customer provides a competitive advantage in our target market and allows us to provide additional or enhanced services with limited incremental expenditures, which improves profitability and value for the consumer. The Company continues to focus on being a full (communication) service provider to business, residential and carrier customers offering a wide range of products.

**Stakeholders**

I would like to thank our customers, employees and suppliers for their dedication and support during 2007. We appreciate the loyalty that customers and suppliers have shown. We are very well aware that a continued customer focus is key for the further growth and profitability of our company and we will therefore continue to focus on customer satisfaction in the years to come. I would also like to use this opportunity to give my gratitude to our talented and hard working employees, who made it possible for Tele2 Netherlands Holding to improve its service delivery, to have satisfied customers and to maintain the position of price leader.

Amsterdam, April 25, 2008
Tele2 Netherlands Holding N.V.

Henrik Ringmar
CEO and Managing Director

## Description of Business

### Overview

Tele2 Netherlands Holding was incorporated under the laws of The Netherlands on October 10, 1995, as a private company with limited liability, referred to as *besloten vennootschap met beperkte aansprakelijkheid* or a B.V. The Company converted its legal structure from a B.V. to a public company with limited liability, referred to as *naamloze vennootschap* or a N.V., on October 15, 1998. The Company started as a switchless reseller of voice telecommunications services in The Netherlands. In 1998, the Company started the build-out of its broadband fibre network designed to provide high quality, broadband services over its own local access infrastructure to customers throughout its target market.

Tele2 Netherlands Holding N.V. is a holding company that conducts its business operations through its subsidiaries. Its principal directly and indirectly held subsidiaries are as follows:

| Name | Country of Incorporation | Percentage of Ownership |
|---|---|---|
| Versatel Nederland B.V. (1) | The Netherlands | 100% |
| Tele2 (Netherlands) B.V. (1) (2) | The Netherlands | 100% |

(1) Effective January 1, 2008, Versatel Nederland B.V. (as acquiring entity) and Tele2 (Netherlands) B.V. (as disappearing entity) merged within the meaning of Chapters 1, 2 and 3 of Part 7, Book 2 of the Dutch Civil Code, as a consequence of which Tele2 (Netherlands) B.V. ceased to exist. Subsequently, Versatel Nederland B.V. was renamed into Tele2 Nederland B.V.

(2) Tele2 (Netherlands) B.V. was acquired on March 6, 2007.

### Business

The Company is an alternative broadband telecommunications and media service provider in its target market of The Netherlands. Our objective is to become the leading alternative provider of communications services, including voice (fixed telephony and mobile communication services), data, Internet, video/television and value added services ("VAS"). The Company provides services to business and residential customers as well as other communications, data and Internet service providers in its target market. The Company serves these customers through two different types of access methods:

- **Direct Access Services.** High bandwidth services that are provided through direct connections to its network by way of Tele2 Netherlands Holding's own fibre, DSL technology, other copper access technologies, wireless technology or leased lines; and

- **Indirect Access Services.** Services that are provided through indirect connections to Tele2 Netherlands Holding's network by way of carrier pre-selection or its carrier select codes.

The Company's network in The Netherlands has been designed to pass through all the major business centres and to connect city centres, business parks and buildings along its route. The Company's network design consists of three fully integrated elements:

- **Backbone Infrastructure.** The Company's backbone infrastructure carries voice, data and internet traffic and supports all major protocols, including IP, ATM and Frame Relay. It extends to all major commercial and population centers in The Netherlands, including most interconnection points with PTTs, other telecommunications network operators and major internet exchanges;

- **Local Access Infrastructure**. Fiber optic business park rings, city rings and "near overlay sections" as well as DSL infrastructure, ISDN infrastructure, wireless infrastructure and points of presence allows the Company to connect customers directly to its network utilizing its own fiber, DSL and other copper-based technologies, wireless technology and leased lines on a cost effective basis; and

- **International Infrastructure.** The Company has established a dark fiber based international network extending its backbone infrastructure to the major interconnection and internet Exchange points in Western Europe. The Company has points of presence in Brussels, London, Paris, Frankfurt and Düsseldorf with extensive Synchronous Digital Hierarchy ("**SDH**") and IP connectivity to Amsterdam, Dortmund, Brussels, and its high bandwidth network in The Netherlands. The Company also has extended its network to New York City with capacity on AC-1 and AC-2 transatlantic cable systems to transport interconnect and internet traffic to and from the United States.

**Strategy**

Tele2 Netherlands Holding's objective is to become the leading alternative provider of communication services, including voice (fixed telephony and mobile communication services), data, Internet, video/television and VAS, to business and residential customers as well as other telecommunications, data and Internet service providers in its target markets. The principle elements of its strategy are:

- **Continue to Connect Customers to its Network.** The Company intends to continue to seek to directly connect as many customers as possible to its network using its own fibre, DSL technology, wireless technology, leased lines and other technologies to the extent such technologies become cost effective and available. The Company believes directly connected customers represent a long-term asset. In addition, we believe that we can better control the quality and profitability of our services and the amount and types of services that are provided to directly connected customers as opposed to indirectly connected customers;

- **Provide Bundled Services.** The Company intends to continue to provide bundled services (i.e. voice, data, Internet, video/television and VAS) over a single connection. We believe that providing multiple services over a single connection to a customer provides a competitive advantage in our target markets and allows us to provide additional or enhanced services with limited incremental expenditures, which improves profitability and value for the consumer. In addition, with the acquisition of Tele2 (Netherlands) B.V. the Company is now able to offer mobile products to expand our bundled service offering;

- **Maintain Focus on Targeted Customer Segments.** In each of its core markets, the Company aims to be a full service provider to business, residential and carrier customers. Prior to the construction of our infrastructure, we focused on providing indirect access services to small- and medium-sized businesses through indirect connections to our network by way of carrier pre-selection or carrier select codes services. However, since 1999, we have also been able to provide services to large businesses with more sophisticated service requirements. We believe we are well positioned to successfully compete in the bidding processes generally conducted for these larger customers as a result of our service capabilities and cost advantages associated with our dense local network. In addition, the Company intends to continue to pursue the small- and medium-sized business market with a bundled service offering. In order to appeal to the mass consumer market and generate a large volume of sales, we have primarily focused on the provisioning of broadband services over DSL technology. We also intend to continue to leverage our network to provide services to other creditworthy carriers;

- **Leverage its Existing Network.** In addition to the deployment of a dense backbone network and local access infrastructure network in The Netherlands, the Company has also made significant investments in Central Offices (“COs”) for the deployment of DSL infrastructure. As from December 31, 2007, we have approximately 315 COs operational in The Netherlands, covering an area that we estimate to represent approximately 65% of the Dutch households. As a result, we believe that we are well positioned to deliver local access services cost-effectively to a large segment of the business and residential market in The Netherlands; and

- **Focus on Superior Customer Service.** The Company strives to maintain a competitive advantage by providing superior customer service in terms of responsiveness, accuracy and quality. We believe that providing a high level of customer service is a key element to attracting and retaining customers. Therefore, we continue to invest in our customer care and operational support systems in order to provide a high level of service to our customers.

**New Initiatives**

During the first quarter of 2007, we re-branded, in furtherance to the re-branding of the residential operations which occurred in 2006, our business operations to “Tele2 Zakelijk”. All marketing campaigns have now been consolidated under the Tele2 brand name. In November 2007, we also renamed the holding company from “Versatel Telecom International N.V.” into “Tele2 Netherlands Holding N.V.”.

During 2007, the Company launched several enhanced features for its interactive IPTV product, such as online gaming and a ‘red button’ functionality, allowing customers to instantly order products and services shown in TV commercials.

In addition, the Company launched a Wholesale Line Rental (**“WLR”**) product, whereby Tele2 Netherlands Holding takes over the subscription fee on the copper line and which enables customers to terminate their fixed line subscription with the incumbent.

**Tele2 Netherlands’ Network**

The Company’s high bandwidth network has been designed and built to provide flexible, broadband local access services to major business customers and population centres in The Netherlands and to several international destinations. The Company’s network carries voice, data and Internet traffic and supports all major protocols, including Frame Relay, Asynchronous Transfer Mode (“ATM”), Ethernet and Internet Protocol (“IP”). In general, IP is the most efficient in transporting voice and data (including Internet and video/television services) and we believe IP will be dominant in the telecommunications industry for the foreseeable future. Therefore, the majority of the new technology investments in our network are related to our IP network. For example, the investments in our network related to the roll-out of multi-play services are fully IP-based.

The Company connects with the major Internet exchanges in Amsterdam, Frankfurt, Berlin, Brussels, London and Paris and has increased the number and quality of peering arrangements with carriers of IP-traffic to enhance its presence in the rapidly expanding European Internet services market.

The Company's network consists of the following integrated elements:

- **Backbone Infrastructure.** The Company’s backbone infrastructure carries voice, data and Internet traffic and supports all major protocols, including IP, ATM, Ethernet and Frame Relay. It extends to all major commercial and population centres in The Netherlands, including most interconnection points with PTTs, other telecommunications network operators and major Internet exchanges;

- **Local Access Infrastructure.** Fibre optic business park rings, city rings and “near overlay sections” as well as DSL infrastructure, ISDN infrastructure, wireless infrastructure and points of presence allow the Company to connect customers directly to its network utilising its own fibre, DSL and other copper-based technologies, wireless technology and leased lines on a cost effective basis; and

- **International Infrastructure.** The Company has established a dark fibre based international network extending its backbone infrastructure to the major interconnection and Internet Exchange points in Western Europe. The Company has points of presence in London, Paris, Frankfurt and Düsseldorf with extensive Synchronous Digital Hierarchy (“SDH”), Ethernet and IP connectivity to Amsterdam, Dortmund, Brussels, and its high bandwidth network in The Netherlands. The Company has also extended its network to New York City with capacity on AC-1 and AC-2 transatlantic cable systems to transport interconnect and Internet traffic to and from the United States.

As per December 31, 2007, the Company had a backbone infrastructure consisting of approximately 1,500 kilometres in The Netherlands. Additionally, as per December 31, 2007, the Company had local access infrastructure of approximately 1,100 kilometres in The Netherlands.

**Service Platforms**

Tele2 Netherlands Holdings' network incorporates service platforms to deliver each of the major service categories the Company offers or plans to offer. A digital circuit-switching platform delivers voice and ISDN services. A data communications platform based on ATM supports all major data protocols with high quality service. An IP platform supports the internet services the Company provides to end-users and its offering of outsourced services to ISPs and content providers. A SDH and Ethernet transmission platform provides highly reliable transmission capacity for the Company's other services and for capacity leased to other operators, service providers and customers. In parallel, the Company has an additional platform of IP equipment connected directly to fiber, which currently supports its internet and data services and the Company intends to eventually support all types of services, including voice. We believe that by integrating the functions of SDH, ATM and circuit switching, this IP platform will eventually provide a lower cost and a more flexible design than the traditional SDH transmission platform. Recently we have also upgraded to an Ethernet based next generation platform. Since March 2007, with the acquisition of Tele2 (Netherlands) B.V., we now also operate a MVNO network, allowing us to operate our own switches and interconnection points. The network capacity is leased from KPN.

**Network Management**

The Company monitors its network 24 hours a day, seven days a week, at its network operations centre. Its network operations centre is able to identify network interruptions as soon as they occur and allows the Company to re-route traffic to ensure high quality service. The network operations centre of the Company also has an uninterrupted power supply as well as redundant communications access and computer processors. The Company controls its own points of presence in The Netherlands, which allows the Company immediate access to its equipment and network for rapid service restoration when necessary.

The Company has a back-up network operations centre in the event one of its primary network operations centres is forced off-line. Its primary network operations centre for The Netherlands is located at its headquarters in Diemen.

**Sales and Marketing**

The Company markets its products and services under the "Tele2" brand name through several marketing channels, including database marketing, targeted telemarketing, brand and promotional advertising, direct mail, and through its sales force. In connection with the Tele2 Offers, Tele2 Finance and a subsidiary of Apax agreed that we would transfer the "Versatel" trademark and trade names, owned by the Company, for no consideration and we would receive an exclusive royalty free license to use such trademark and trade names for a period of three years following the Tele2 Offers in the Benelux. The Company agreed, after the settlement of the Tele2 Offers in 2005, with Apax that the trade name "Versatel" registered in Germany would be transferred to the Apax subsidiary (which was renamed into Versatel AG) and has subsequently done so. The "Versatel" trade name and associated domain names in other jurisdictions may be transferred in the future as well.

With the acquisition of the Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. the Company obtained the right to certain Tele2 trademarks (name and logo) registered in the Benelux. The Tele2 AB Group does not charge any royalty fee for the use of said trademarks. Prior to the completion of the Acquisitions, the Company used the Tele2 trademarks (name and logo) based on a sublicense from Tele2 (Netherlands) B.V. and free of charge.

The Company's sales force is comprised of direct sales personnel, telemarketers, independent sales agents and systems integrators. The Company's sales personnel makes direct calls to prospective and existing business customers, analyses business customers' usage and service needs and demonstrates how its services may improve customers' communications capabilities and costs. In addition, the Company has a telemarketing group that screens prospective customers and monitors existing call volumes to identify prospective customers.

**Customers**

The Company markets its services to business and residential customers through the retail channel basis and to other carriers and service providers through the wholesale channel.

***Business Customers***. The Company focuses particularly on public, business and industry segments that have required significant amounts of bundled voice, data and Internet services such as financial services and information technology sectors. Although the Company has historically sought to take advantage of opportunities in the under-served markets like the small- and medium-sized business segment, with the density of its high bandwidth network it began in 1999 to address the large corporate market as well.

***Residential Customers***. The Company offers its residential customers broadband Internet access and voice services, dial-up Internet access services, e-mail and certain web-hosting services to residential subscribers as well as general information content. In the second half of 2005, the Company launched a full triple-play service (voice, Internet and video services) to its customers.

***Carrier Customers***. The Company's carrier customers are global and regional network operators, ISPs and switchless resellers serving specific market segments in The Netherlands. The Company focuses primarily on high capacity and high volume customers. It believes that both alternative carriers and foreign PTTs that provide voice, data or Internet services in The Netherlands will require quality carrier services and high bandwidth services to develop their market position. As the Company's network has expanded, it has increased its marketing efforts in the carrier services segment to increase the use of its network and to capture additional revenues. Because many of the service providers to whom the Company provides carrier services have experienced financial difficulties, it actively monitors its credit exposure to these providers and it has taken steps to reduce this risk.

**Products and Services Offerings**

- ***Business Products and Services Offerings***

Since 2003 (and for certain products and services, earlier) the Company has offered the following products and services to business customers:

*Fixed Telephony*

The Company offers a full portfolio of fixed telephony services. This ranges from basic carrier (pre)select and ISDN connections on its own network infrastructure to VOIP and fully managed Private Branch Exchanges ("**PBXs**") solutions. These managed PBX solutions can also be based on the latest IP Telephony technology for voice and data integration. The fixed telephony services are complemented with 0800/0900 (free phone and premium rate) services, disaster fall back routing and customer reporting.

*Mobile*

The Company offers a mobile data and voice service based on an ESP (Enhanced Service Provider) arrangement with KPN (formerly Telfort). These services are specifically tailored for the business market and offered on a stand alone basis as well as in combination with fixed voice services and fixed data services. The combination with the fixed services allows greater functionality and lower costs for the Company. Since March 2007, with the acquisition of Tele2 (Netherlands) B.V., we now also operate a MVNO network, allowing us to operate our own switches and interconnection points. The network capacity is also leased from KPN.

*Data*

The Company offers data network solutions to its customers. These can be point-to-point or meshed networks and based on SDH transmission, Ethernet transmission or IP-VPN (Virtual Private Network).

The IP-VPN offering is versatile in its applications. For example, in the retail sector this service can be used for security, narrowcasting (since the first quarter of 2006), EFT (PIN) payments as well as for connecting IT systems. The data network solutions can be complemented with managed LAN (local area network) services and secure gateways to the public internet. Data center facilities are available for Tele2 Netherlands Holdings' customers that require floor space for servers and network equipment.

*Internet & Hosting*

The Company offers a wide range of internet access services based on ADSL, ADSL2+ (since the third quarter of 2005), SDSL, SHDSL and fiber network infrastructure up to 1 Gbps. As a solution for connecting websites or servers to the internet, the Company offers shared and dedicated hosting services with e-mail and domain names. Streaming services are available for high bandwidth or narrowcast applications.

- ***Carrier Products and Services***

Since 2003 (and for certain products and services, earlier) the Company offers the following products and services to carrier customers:

*Leased Circuits*

The Company's leased circuit service offering is delivered on its own network and provides digital connectivity between specified end points within The Netherlands and selected international locations. Its leased circuit service is designed to carry high bandwidth, high quality voice, data, video/television and Internet traffic. The Company's leased circuit is available using SDH clear channel connections with bandwidth options from 2 Mb/s up to 2.5 Gbps.

*vPoP ("**Virtual Point of Presence**")*

The Company's vPoP service provides the dial-in service needed to support large scale internet access. The Company's vPoP service provides the opportunity for ISPs and remote users to dial in at a centrally placed server at local rates, using local dial-in numbers. With the utilization of this service, there is no need to use several geographical Points of Presence ("**PoPs**"). The dial-in numbers can be accessed from all analogue connections (via modem, up to 56 Kbps) and digital connections (with ISDN 64/128 Kbps) throughout The Netherlands.

*Co-location*

The co-location service offered by the Company is designed to meet the specific needs of new carriers, established carriers, and ISPs. Its co-location service offers a flexible portfolio of options which are customized to meet individual requirements. These options include facility provision, maintenance services, and communication services. The Company's co-location service is available throughout The Netherlands and Belgium at 35 locations including the Data Centers in key Dutch and Belgian cities and selected international locations such as London, Paris, Dortmund, Dusseldorf and Frankfurt. Major interconnection points on its network allow connection to national and international carriers thereby ensuring route diversity at competitive rates.

*CPSH ("**Carrier (Pre)select Hosting**")*

The C(P)SH service provides the switching capacity needed to support switch-less resellers with communications services. Basic services are automatic provisioning of reseller customers CLI's to enable basic telephony and daily call data record ("**CDR**") delivery for credit checking, fraud management and billing. The reseller is able to operate as a 'stand alone' service provider using its own C(P)S code 16xy/10xyz in the residential and/or business markets.

*Wavelengths*

The Company's optical network provides ultra-high metropolitan and long-haul transmission capacity and end-to-end optical switching, supporting key requirements of the next generation internet. The

Company adopts and deploys an all-optical mesh network architecture within and between major European cities to accommodate the growth of bandwidth demand and enable new IP applications and differentiated IP services, such as high-bandwidth streaming media and Internet content distribution.

*Internet Uplink*

The Company's internet uplink service is a high-quality internet transit service aimed to serve its customers' network capacity requirements. Its internet uplink service offers ISPs and corporate and telecom operators connectivity throughout Europe, the United States, and the rest of the world. The Company has established direct connectivity to the major European internet exchanges based on an owned 'IP over fiber' backbone, handling traffic by 'peering' agreements and selected partners for the exchange of traffic. The Company's internet uplink aims to transport high traffic volumes at competitive rates with the minimal investment for the customer.

*International Call Termination and Origination Services*

In order to meet the general service requirements of emerging carriers and wholesale service providers, the Company offers a comprehensive portfolio of call termination and originating services. The connectivity options of the Company support international call termination and originating as well as national call termination and originating in The Netherlands. These services are delivered over network architecture consisting of the latest transmission and switching technology.

- ***Residential Products and Services***

*Fixed Telephony*

Since March 2007, with the acquisition of Tele2 (Netherlands) B.V., the Company offers both carrier select and carrier pre select (CPS) services to residential customers on a large scale. In the first quarter of 2007, the Company also began to offer Wholesale Line Rental (WLR) which enables customers to terminate their fixed line subscription with the incumbent.

*Mobile*

Since March 2007, with the acquisition of Tele2 (Netherlands) B.V., we now also operate a MVNO network, allowing us to operate our own switches and interconnection points. The Company offers multiple mobile services, such as pre-paid, postpaid subscriptions, SMS and MMS. The network capacity is leased from KPN, our largest competitor in the Netherlands.

*Internet Access Services*

Since 2001 the Company offers Internet access services (both ADSL and dial-up narrowband) to residential customers. Its current DSL Internet access service offerings range in speeds from 1 Mbit/s up to 20 Mbit/s.

*Dual-play*

Since the first quarter of 2006, the Company offers DSL internet access in combination with a telephony service (which the Company refers to as "dual-play") under the product name "Tele2 Compleet". This service offering enables residential customers to cancel their traditional fixed telephony subscription with KPN in The Netherlands.

*Multi-play*

Since the first quarter of 2006, the Company offers DSL internet access in combination with telephony and video/television services (which the Company refers to as "multi-play"), which initially began with Eredivisie football and subsequently included regular television channels. This service consists of a maximum of 20Mbit ADSL connection, fixed telephony and video/television services. It currently delivers more than 50 television and radio channels, hundreds of movies, live Eredivisie football, online gaming and "*Uitzending gemist"* delay television.

**Customer Service**

The Company's goal is to maintain an advantage over its competitors in its target markets by providing superior customer service. It believes that providing a high level of customer service is a key element to establishing customer loyalty and attracting new customers. It has dedicated customer service representatives who initiate contact with its customers on a routine basis to ensure customer satisfaction and market new products. Customer service representatives are available 24 hours a day, 7 days a week. In addition, the Company provides detailed monthly billing statements and monthly call management reports that identify savings to customers and enable them to manage their telecommunications expenditures more effectively.

**Competition**

In The Netherlands, the Company competes primarily with the national PTT, KPN Telecom N.V. As the former monopoly provider of telecommunications services, KPN has an established market presence, fully built networks and financial and other resources that are substantially greater than those of the Company. In addition, KPN owns and operates significant portions of the infrastructure, which the Company must currently access to provide its services. The Company estimates that KPN still controls the vast majority of the telecommunications market, including the market with respect to DSL-based services for the residential market and relatively new products like IP-VPN for the business market.

The following table sets forth the Company's main competitors in the areas of business, residential and carrier services:

| Market | The Netherlands |
|---|---|
| Business | KPN Telecom (incl. Getronics)<br>Colt Telecom<br>Verizon<br>BT<br>The Network Factory (Vodafone) |
| Residential | KPN Telecom<br>T-Mobile / Orange<br>UPC<br>Essent/Casema/Multi-kabel<br>BBNed (Alice) |
| Carrier | KPN Telecom<br>Colt Telecom<br>BT<br>BBNed<br>Verizon |

**Intellectual Property**

The Company has registered several trademarks such as "Tele2", "Versatel" and "Tele2-Versatel" in The Netherlands and Belgium and in several other European countries. The Company has obtained rights to the Internet domain name www.tele2.nl and several related domain names, and it continues to look at opportunities to register other valuable domain names. In connection with the Tele2 Offers, Tele2 Finance and a subsidiary of Apax agreed that the Company would transfer the "Versatel" trademark and trade names for no consideration and it would receive an exclusive royalty free license to use such trademark and trade names in the Benelux for a period of three years following the Tele2 Offers. The Company agreed, after the settlement of the Tele2 Offers in 2005, with Apax that the trade name "Versatel" registered in Germany would be transferred to them and has subsequently done so.

The "Versatel" trade name and associated domain names in other jurisdictions may be transferred in the future as well.

The Company operated its residential Internet service under the “Zon” name from September 1999 until December 2004, and has trademark registrations regarding the Zon name and logo. Sun Microsystems has contested its use of the Zon name and the Company had discussions with them regarding the use of the Zon name prior to terminating its use in December 2004. Currently the Company is not engaged in any discussions with Sun Microsystems regarding the Zon name. There can be no assurance that Sun Microsystems will not elect to further contest our past use of the Zon name, nor that our applications will be successful, or that the Zon name and logo will not be successfully attacked by third parties alleging prior rights or that the trademark is otherwise invalid**.**

**Legal Proceedings**

On December 24, 2007, Tele2 AB acquired an additional 16% in our outstanding share capital from a group of minority shareholders. These minority shareholders also agreed to cancel all court proceedings that had been initiated against the Company following completion of the public offer by Tele2 Finance in 2005. Such proceedings have consequently all been terminated.

In October 2000, the Company was informed by the public prosecutor in The Netherlands of potential civil and criminal tax liabilities relating to certain employee stock options granted prior to the initial public offering of the Company in July 1999. Although the Company had consulted with its Dutch tax advisors and the Dutch tax authorities prior to issuing these options and although the Company believes the tax treatment of these options was correct, it agreed with the public prosecutor on a payment of € 3.0 million. This payment was made in the fourth quarter of 2001, whereby all criminal charges were dropped, without any admission of guilt by the Company.

In June 2002, the Company received an additional assessment Wage Tax of € 14.6 million (excluding late payment interest) from the Dutch tax authorities regarding the valuation of the aforementioned employee stock options. The Company lodged an objection against the assessment, and the Dutch tax authorities took a negative decision to this objection in January 2003. It then lodged an appeal at the Amsterdam Court of Appeals. In December 2005, the Court ruled against the Company. It filed for appeal in cassation at the Supreme Court in The Hague in January 2006. On December 21, 2007, the Supreme Court ruled negatively on the appeal in cassation. As a result, the Company had to take a provision of approximately € 17.5 million (including late payment interest) in the fourth quarter of 2007. The Company is pursuing possibilities to reduce the financial impact.

In November 2006, the lessor of the building of the Company at the Hullenbergweg 101, Amsterdam Zuidoost, Verwaltung Fünfunddreissigste IFH Geschlosssener Immobilienfonds für Holland ("IFH") initiated summary proceedings against the Company in the Subdistrict Section of the District Court of Amsterdam. IFH demanded that the Company would be prohibited from vacating the part of the premises at Hullenbergweg 101 and from moving its corporate headquarters to the new building it rents at Wisselwerking 58, Diemen, The Netherlands. In December 2007, the Company reached a settlement agreement with the new owners. In exchange for a one time monetary payment of € 5.5 million, the new owner has agreed to prematurely terminate the lease agreements, has agreed to cancel all court proceedings and has allowed the Company to vacate the building at the Hullenbergweg. See also section "Provision for Idle Building".

The Company has filed complaints in the past with the European Commission, with the OPTA and the Minister of Transport and Waterways in The Netherlands as part of our regulatory strategy. We also make routine filings with the regulatory agencies and governmental authorities in the countries in which we operate.

Further to the above, the Company is from time to time involved in routine litigation in the ordinary course of business.

**Property**

The Company has leased office space in The Netherlands. The Company (and its subsidiaries Tele2 Nederland B.V.) uses these locations primarily as office space and for technical support to its network.

As at the date of this annual report 2007, the head office of the Company is located at the following address:

| Address | Expiration date of lease |
|---|---|
| Wisselwerking 58, 1112 XS, Diemen, The Netherlands | December 31, 2019 |

The lease agreement for the Company's corporate head quarters has been entered into for a period of 13 years lasting until December 31, 2019 and will automatically renew for a period of 5 years, subject to the Company giving notice of termination before December 31, 2018. The lease agreement does not require the Company to physically occupy the Diemen building. The Company has reached a settlement agreement with the owner of its former head office located at the Hullenbergweg 101 in Amsterdam. See section "Legal Proceedings" for a summary of these proceedings.

## Regulatory

In Europe, the traditional system of PTT monopoly ensured the development of wide access to telecommunications services. However, it also restricted the growth of high-quality and competitively priced voice and data services. The liberalization of the European telecommunications market was intended to address these market deficiencies by ending the monopolies of the PTTs, allowing new telecommunications service providers to enter the market and increase competition within the European telecommunications market.

The current regulatory framework in the European Union and, in particular, in the country in which the Company provides its services is briefly described below. There can be no assurance that future regulatory, judicial and legislative changes will not have a material adverse effect upon the Company's business, that national or international regulators or third parties will not raise material issues with regard to the Company's compliance or alleged non-compliance with applicable regulations, or that any changes in applicable laws or regulations will not have a material adverse effect on the business and financial and operating results of the Company.

The current regulatory framework in The Netherlands is provided by the Dutch Telecommunications Act of 2004. The Dutch Telecommunications Act contains provisions for public electronic communications service or network providers. One of these provisions gives public electronic communications service or network providers' a kind of 'right of way' ('*gedoogplicht*'), subject to certain conditions, thereby facilitating the construction of the Company's network. OPTA is the Dutch supervisory authority. OPTA's main tasks include ensuring compliance with the telecommunications laws and regulations in The Netherlands, to register providers and resolving disputes among providers, such as disputes regarding interconnection rates.

OPTA also analyses the market position of the providers. If OPTA concludes that a provider has significant market power, OPTA imposes obligations upon this provider. OPTA has concluded that all providers, including the Dutch subsidiary of the Company, Versatel Nederland B.V. (as of January 1, 2008 renamed to "Tele2 Nederland B.V."), have significant market power with respect to the relevant market for call termination of individual public telephone networks provided at a fixed location (market 9). The relevant product market consists of the termination of the Company's geographical numbers and its 088-numbers. Therefore OPTA has imposed on the Company and all other relevant providers' access regulation, transparency regulation and tariff regulation. The tariffs of the Company are regulated on a delayed reciprocity basis which is based on KPN's tariffs that are regulated on a wholesale price cap basis.

Since the end of 2000, the Company, BT, Verizon, and Priority have cooperated in the informal Association of Competitive Telecom Operators ("ACT"). In 2004, Orange and BBned joined ACT. The parties take regulatory actions with respect to issues of common interest and seek to contribute to providing regulatory incentives to increase the competition in the telecommunications market.

For information regarding the Dutch Regulatory environment, please visit the website of OPTA at www.opta.nl.

## Description of the Company and the Shares

The description set forth below is a summary of material information relating to the Company and its share capital, including summaries of certain provisions of the articles of association of the Company in effect on the date hereof. This summary does not purport to be complete and is qualified in its entirety by reference to the full text of the articles of association of the Company. The full text of the articles of association, in Dutch and English, is published on the Company's website www.tele2.nl/corporate.

### General

The Company was incorporated on October 10, 1995, as a Dutch private company with limited liability ('*besloten vennootschap met beperkte aansprakelijkheid*'). The Company converted its legal structure from a private company with limited liability to a public company with limited liability ('*naamloze vennootschap*') on October 15, 1998. The Company has its corporate seat in Amsterdam, The Netherlands and is registered under number 33272606 with the Trade Register of the Chamber of Commerce and Industries of Amsterdam, The Netherlands. The Company's principal executive offices are located at Wisselwerking 58, 1112 XS Diemen, The Netherlands and its telephone number is: +31 20 750 1000.

The articles of association of the Company were last amended by a notarial deed executed on November 26, 2007 before Mr. P.H.N. Quist, a civil law notary, practising in Amsterdam. With this last amendment, the Company was renamed into Tele2 Netherlands Holding N.V. The General Meeting of Shareholders may resolve to amend the articles of association. Rights attached to the Company's shares may be changed by means of an amendment of our articles of association.

### Corporate Purpose

Pursuant to Article 3 of the Company's articles of association, our corporate purposes are:

- to participate in, and to finance (including to provide security for the debts of third parties) to manage and supervise other enterprises and companies;
- to render services to other enterprises and companies; and
- to do all that is connected with the above all to be interpreted in the broadest sense.

### Share capital

The Company's authorized share capital pursuant to the articles of association amounts to € 30,000,000 consisting of 1,500,000,000 Ordinary Shares with a nominal value of € 0.02 each. Holders of fully paid-up shares are not subject to or liable for any further capital calls by the Company.

A total of 942,388,462 Ordinary Shares were issued, fully paid and outstanding at December 31, 2007, following completion of the rights offering on March 6, 2007 as a result of which 418,839,316 new ordinary shares were issued.

### Rights of conversion and share options

In May and November 1998 the Company issued warrants in accordance with its first and second high yield offerings. During 2007, no warrants were exercised. At December 31, 2007, 53,135 warrants are outstanding, giving rights to purchase an aggregate of 2,212,672 ordinary shares at an exercise price of € 0.37 per ordinary share (recalculated following the closing of the rights offering). Unless exercised early, the warrants will expire by their terms on May 15, 2008.

On October 22, 2004, the Company issued convertible notes for an aggregate principal amount of € 125 million (the "Convertible Note(s)"). The Convertible Notes mature on October 28, 2011. The Convertible Notes are convertible into an aggregate of 178,571,428 ordinary shares at a conversion price of € 0.70 per share at December 31, 2007. As a result of the closing of the rights offering, the conversion price has been adjusted.

**Ordinary Shares and pre-emptive rights**

Holders of Ordinary Shares are entitled to one vote per Ordinary Share. Ordinary Shares may be issued pursuant to a resolution of the General Meeting of Shareholders or the shareholders at a General Meeting of Shareholders may grant the authority to issue shares in the share capital of the Company to another corporate body of the Company for a period of up to five years.

On June 4, 2007, the General Meeting delegated to the Board of Management, for a period of two years, beginning from June 4, 2007, therefore until June 4, 2009, subject to the prior approval of the Board of Supervisory Directors, the authority to resolve to grant rights to subscribe for - or to issue ordinary shares up to a maximum of 20% of the total number of shares included in our authorized capital.

Holders of Ordinary Shares have pre-emptive rights to subscribe for new issues of Ordinary Shares in proportion to their holdings, without prejudice to the provisions in the law and except in relation to (a) issues of Ordinary Shares to employees of the Company or employees of group companies of the Company, and (b) issues of Ordinary Shares for non-cash consideration. Pre-emptive rights with respect to the Ordinary Shares may be restricted or excluded by a resolution of the General Meeting of Shareholders or by the corporate body designated by the General Meeting of Shareholders. A resolution of the General Meeting of Shareholders as referred to in the preceding sentence must be approved by a majority of at least two-thirds of the votes cast at the General Meeting of Shareholders, in the event shareholders holding less than 50% of the issued capital of the Company are represented at the General Meeting of Shareholders.

On June 4, 2007, the General Meeting of Shareholders delegated to the Management Board, for a period of two years, beginning from June 4, 2007 until June 4, 2009, subject to the prior approval of the Board of Supervisory Directors, the authority to exclude or restrict the pre-emption rights pertaining to the (rights to subscribe for) ordinary shares which can be granted or issued pursuant to the authority delegated to the Board of Management on such date.

**Reduction of Share Capital**

Under the Company's articles of association, the General Meeting of Shareholders may resolve to reduce our issued and outstanding share capital by cancelling the Company's ordinary shares, or by amending the articles of association to reduce the nominal value of our shares. If less than 50% of the Company's issued share capital is present or represented at such General Meeting of Shareholders, the decision to reduce our share capital requires a majority of at least two-thirds of the votes cast.

**Dividends and Other Distributions**

The Company may only make distributions to its shareholders in so far as its shareholders' equity exceeds the sum of the paid-in and called-up share capital plus the reserves as required to be maintained by Dutch law or by the Company's articles of association. Under the Company's articles of association, the Board of Management determines, subject to the prior approval of the Board of Supervisory Directors, which part of any profit will be reserved. After reservation by the Board of Management of any profit, the remaining profit shall be at the disposal of the General Meeting of Shareholders.

The Company may only make a distribution of dividends to its shareholders after the adoption of the Company's statutory annual accounts demonstrating that such distribution is legally permitted. The Board of Management is permitted however, subject to certain requirements and subject to approval of the Board of Supervisory Directors, to declare interim dividends without the approval of the General Meeting of Shareholders.

Claims to dividends and other distributions not made within five years from the date that such dividends or distributions became payable will lapse and any such amounts will be considered to have been forfeited to us ('*verjaring'*).

## Acquisition of Shares in Our Capital

The Company may acquire its own fully paid shares at any time for no consideration (‘*om niet’*), or, subject to certain provisions of Dutch law and the Company’s articles of association, if (i) the Company’s shareholders' equity, does not fall below the sum of called-up and paid-in share capital and any statutory reserves, (ii) the Company and its subsidiaries would thereafter not hold shares or hold a pledge over the Company’s shares with an aggregate nominal value exceeding 10% of our issued share capital, and (iii) the Board of Management has been authorized thereto to by a General Meeting of Shareholders.

Authorization from the General Meeting of Shareholders to acquire the Company’s shares must specify the number and class of shares that may be acquired, the manner in which shares may be acquired and the price range within which shares may be acquired. Such authorization will be valid for no more than 18 months.

On June 4, 2007, the General Meeting of Shareholders authorized the Board of Management to acquire shares in the Company’s capital up to the maximum permitted by law and for a price not exceeding 110% of the average of the closing price of the Company’s shares according to the Official Price List (‘*Officiële Prijscourant’*) of Euronext Amsterdam on the five consecutive trading days immediately preceding the date of purchase. The authorization was granted for a period of 18 months from the date of the annual general meeting of shareholders and therefore until December 4, 2008.

Any shares the Company holds in its own capital may not be voted or counted for voting quorum purposes.

## Major Shareholders

Under the Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an interest in the capital or voting rights of the Company must immediately give written notice to the AFM by means of a standard form, if, as a result of such acquisition or disposal, the percentage of capital interest or voting rights held by such person meets, exceeds or falls below the following thresholds: 5.0%, 10.0%, 15.0%, 20.0%, 25.0%, 30.0%, 40.0%, 50.0%, 60.0%, 75.0% and 95.0%. Once in every calendar year, every holder of an interest in the Company’s share capital or voting rights of 5.0% or more must renew its notification to reflect changes in the percentage held in the Company’s share capital or voting rights, including changes as a consequence of changes in the Company’s total issued share capital.

The following table sets forth information regarding the beneficial ownership of the Ordinary Shares of the Company, by each beneficial holder of 5% or more of the Ordinary Shares, as reported with the AFM under the Financial Supervision Act, or otherwise known to the Company. All holders of ordinary shares are entitled to one vote per ordinary share. There are no cumulative voting rights.

| Name of beneficial holder | % of shares outstanding |
|---|---|
| Tele2 AB (through subsidiaries)………… | 98.80% (1)(2)(3) |

(1) On November 1, 2006, Tele2 AB notified the AFM under the Financial Supervision that it, through its subsidiaries, held 80.29% of the outstanding shares in the Company. Taking into account (i) the aggregate number of 349,164,120 shares acquired by Tele2 AB in the context of the rights offering and (ii) the purchase by Tele2 AB of an additional 16% of the Company’s outstanding share capital as made public on December 24, 2007, Tele2 AB has confirmed to us that they own approximately 98.8% of the Company’s outstanding ordinary shares as per December 31, 2007.

(2) The notified percentage is not on a fully diluted basis. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 AB owns 99.0%, as per December 31, 2007, of the Company’s outstanding ordinary shares on a fully diluted basis.

(3) On December 24, 2007, both Centaurus Alpha Master Fund Limited and Amber Capital LP notified the AFM that they were no longer holding shares in the Company.

## Company Risk Factors

Set forth below are certain of the risks that may affect our business, financial condition or/and results of operations.

***We have a history of losses and an accumulated deficit that may continue in the future and that may adversely impact our business and our shareholders.***

For the year ended December 31, 2007, we had a net loss from continuing operations of € 80.2 million. For the year ended December 31, 2006 (on a comparable basis, excluding our Belgian operations which were sold in October 2007), we had a net loss from continuing operations of € 74.3 million. As per December 31, 2007, we had an accumulated deficit of € 1,770 million. We expect to continue to incur further operating losses for the foreseeable future. We cannot assure you that we will attain profitable operations in the future.

Our history of net losses and accumulated deficit may make it difficult for us to raise additional debt or equity financing to the extent needed for our continued operations or for any expansion we may plan in the future, particularly if we are unable to attain and maintain profitable operations in the future. Consequently, future losses may have a material adverse effect on our business and results of operations.

***We are the subject of various legal proceedings which could have a material adverse effect on our business.***

We are involved in routine litigation from time to time in the ordinary course of business. Since 2005, we have also been involved in proceedings before the Enterprise Chamber, although such proceedings have recently been terminated.

We are currently involved in a dispute with the Dutch tax authorities relating to our operations. See the section "Legal Proceedings" for a description of this dispute. Our ongoing legal proceedings and dispute with the tax authorities may result in us incurring substantial costs and negative publicity, thereby forcing our management to devote substantial time to these matters instead of our operations. An adverse resolution of any of these matters may result in negative publicity for us and could result in our making payments or suffering the imposition of requirements or restrictions that may have a material adverse effect on our business and results of operations.

***In 2005, we began to rollout an ADSL2+ network for the delivery of multi-play services (voice, internet and video/television) to the residential market in The Netherlands. We believe multi-play services will continue to be a core growth driver of our business in the future, and a failure to sell these services in the manner we had planned could have a material adverse effect on our business and results of operations.***

As a result of the acquisition in 2005 of the live pay-TV rights for the Eredivisie football league, we accelerated our plans to rollout an ADSL2+ network for the delivery of multi-play services (voice, internet and video/television). We invested a total of € 194.9 million in capital expenditures in 2005 in The Netherlands, a significant portion of which was used to upgrade our IP network, investments in soft switches, media farms and customer premises equipment (including set-top-boxes and multimedia modems for the rollout). Additionally, we have spent € 90.9 million in total capital expenditures in 2007 in The Netherlands. These expenditures are primarily directly related to signing up new customers and content for our product offering. As part of our multi-play services, we have entered the television and video market where competition is fierce. Although we have spent significant amounts of money on our ADSL2+ network rollout and product offering, we cannot guarantee that we will continue to sell / deliver quality products, including digital media solutions (e.g. television and video), and a failure to do so could hinder our ability to earn a positive return on our investments which, in turn, may have a material adverse effect on our business and results of operations.

***In 2006, we launched a dual-play on-net product (internet and voice) to the residential market in The Netherlands; failure to be successful in winning new customers with this product could have a material impact on our business.***

In 2006, we launched a dual-play on-net product (internet and voice) for the residential market in The Netherlands to target mass market basic telecommunications users. In addition, we launched this product as a means to facilitate the future take-up of our triple-play product. Failure to be successful at winning new customers and/or eventually up-selling these customers to our triple-play services may have a material adverse effect on our business and results of operations.

***KPN's announced plans to build "fiber to the curb" in order to offer VDSL services could have a material adverse effect on us.***

KPN, our largest competitor in The Netherlands, has announced plans to upgrade its infrastructure by building "fiber to the curb" in order to deliver VDSL services to its customers. This plan includes the rollout of sub loop unbundling services. As part of this upgrade to VDSL services, KPN has announced it plans to migrate to an all IP platform and terminate its current MDF-based network starting in 2009 and finishing by 2011. Recently, KPN has indicated that it will most likely delay the start of said migration. Our DSL-based services that we offer our business and residential customers are based on KPN's current MDF network. Although we have reached a bilateral agreement with KPN on the continued use of most of the MDF's, the extent to which KPN will be able to implement its plan and its impact on us will depend on the outcome of upcoming decisions by the Dutch Postal and Telecommunications Authority ('*Onafhankelijke Post en Telecommunicatie Autoriteit'*, or "**OPTA**"). At this time, there is no clarity regarding the future of the regulatory regime, and we have received no assurances from OPTA regarding their conclusions.

As the position of OPTA with respect to KPN's plans is uncertain, there are many potential outcomes and presently we are unable to determine what impact KPN's plan will have on us. If KPN is allowed to terminate (the majority of) its current MDF network, potential impacts include an inability to provide our customers with our current DSL services portfolio, which could require us to purchase capacity on KPN's fiber network or undertake building fiber to the curb ourselves. If we purchase capacity from KPN there can be no assurances that the terms of such agreements will be commercially favorable to us and will not adversely impact our business and profits from our DSL services portfolio. If we elect to build fiber to the curb with KPN we will require a significant amount of additional capital. Ultimately the decisions of OPTA with respect to KPN's announced plans and KPN's success in implementing their plan could have a material adverse effect on our business, results of operations and financial condition.

***Several members of our senior management have departed from us. These departures or a failure to replace members of our senior management, or any delay in doing so, could adversely impact our business.***

In 2006 and 2007 several members of our senior management have departed from us. We rely to a significant extent on the abilities and experience of our senior management. The impact of the departure of any member of our senior management will, in part, depend on our ability to recruit a replacement with similar experience and credibility. In addition, the impact of the departure of more than one member of senior management within a relatively short time frame may affect the continuity of our management and result in the diversion of our management's focus. The departures of several members of our senior management in 2006 and 2007 or a failure to find qualified replacements for departing members of our senior management, or any delay in doing so, may have a material adverse effect on our business.

***The loss of, or failure to attract, key personnel could adversely affect our growth and future success of our business.***

A significant part of our success depends on the continued employment of our key employees other than our senior management. We will need to continue to hire additional qualified technical, sales and marketing, and support personnel to successfully implement our business plan. Because there is strong competition for qualified personnel in our industry in Europe, the limited availability of qualified individuals could become an issue in our future. The loss of key employees or the inability by us to identify, attract and retain other necessary qualified personnel may have a material adverse effect on our business and results of operations.

***In The Netherlands, the national regulatory authority (OPTA) has imposed additional regulatory obligations on KPN, requiring KPN to provide us with network access and capacity and other services on a cost-oriented basis. If the national regulatory authority decides to reduce or remove any of these obligations or does not enforce such obligations to the fullest extent permitted, we could face increased costs or unavailability of certain services, which could have a material adverse effect on our business.***

The national regulatory authority, OPTA, has required KPN to:

- provide us with access to partial private circuits, which we use to provide high volume voice, data, and multimedia transmissions to certain customers;

- provide us with access to unbundled local loops, which we rely on to provide our DSL technology products and services to our customers;

- provide us with interconnection services between their fixed network, which we use to carry voice traffic from our customers to customers of KPN and to terminate traffic sent from KPN and mobile operators to our customers; and

- allow their network customers to select us to carry all of their calls, (which is known as "**carrier preselection**"), including the offer of Wholesale Line Rental ("**WLR**"), a product offered by PTTs to other communication providers, with which we can offer subscriptions to PSTN and ISDN2. WLR enables other communications providers to offer both line rental and calls to end-users over the PTT's local network. This usually means that the end-user no longer has a contractual relationship with PTT and is billed solely by the WLR provider.

In addition, KPN is required to offer us the above products and services on a cost-oriented basis and at certain quality standards. As cable operators begin to provide telecommunications services, KPN has asserted that they should become subject to less regulation so as to level the competitive landscape with cable operators that have typically been subject to less regulation than traditional telecommunications companies.

Partial or total repeal or amendment of the regulations or regulatory policies underpinning the above requirements, or a failure by the regulatory authority to enforce such regulations or policies to the fullest extent permitted, could affect the pricing, quality, or availability of our products and services that rely on access to products supplied by KPN and may have a material adverse effect on our business and results of operations.

***The high level of competition in the Dutch residential mobile market may have a material impact on the profitability of our service offerings in this market.***

The residential mobile market in The Netherlands is extremely competitive with three large mobile network operators competing for market share along with numerous other re-sellers of mobile services. The residential mobile business of Tele2 (Netherlands) B.V. is based on the difference between wholesale rates for network access we purchase from KPN pursuant to Tele2 (Netherlands) B.V.'s existing MVNO contract (or, in the future, from any other mobile network operator pursuant to MVNO contracts) and the retail rates that we offer our customers. In the event retail rates decrease due to increased competition or other mobile providers lower their prices offered to customers in order to gain market share, the profitability of our Dutch mobile business could be negatively impacted and our ability to compete in this market could be decreased. This may have a material adverse effect on our business and results of operations.

***Our current Eredivisie contract, which was core to the launch of our multi-play services in The Netherlands, expires in June 2008 and there is no guarantee that we will be able to renew a similar contract or obtain the rights on commercially acceptable terms.***

In 2005, we entered into a contract with Eredivisie C.V. under which contract we are able to distribute the live matches of the Eredivisie football league for pay television purposes. This contract is currently subject to a bidding process for renewal, and we can provide no guarantee that we will be successful in renewing a similar contract on commercially acceptable terms. Should we not be able to renew the contract, we may lose the right to provide our customers with the ability to watch Eredivisie football, which could, in turn, increase churn as our current customers migrate to other providers who can provide that service. A significant churn of our customer base as a result of non-renewal of the right to broadcast Eredivisie football or failure to obtain a commercial contract on acceptable terms to offer our customers the service on a resale basis could adversely affect our business and results of operations.

***We cannot assure you that the recent decline we have experienced in certain variable costs will continue to decline or that such variable costs will not increase in the future.***

We have experienced a decline in the variable costs associated with minutes of communications traffic on a per minute basis as a result of several factors, including: (a) the incremental build out of our network, which increases the number of points we interconnect with KPN and the number of carriers with which we interconnect, (b) the increase of minutes we originate and terminate, which leads to higher volume discounts available to us, (c) more rigorous implementation of the European Community directives requiring cost-based termination rates and leased line rates and (d) the emergence of new telecommunications service providers and the construction of new transmission facilities, which results in increased competition. However, there can be no assurance that this trend of decreasing variable costs will continue or that the factors that have contributed to this decline will not change or disappear. If reductions in variable costs do not outpace reductions in our non-subscription revenues or if variable costs increase, we may experience a substantial reduction in our margins on minutes of communications traffic which, in absence (i) a significant increase in billable minutes of traffic carried, (ii) an increase of charges for other services, or (iii) a shift in the mix of subscription and variable revenues to more subscription revenues, would have a material adverse effect on our business and results of operations.

***We may encounter delays and operational problems if we are unable to acquire key equipment from our major suppliers.***

We are dependent on third-party suppliers of hardware and software components. Although we attempt to maintain a number of vendors for each product, a failure by a supplier to deliver quality products timely or our inability to develop alternate sources as required could result in delays that could have a material adverse effect on our business and our financial and operating results. If one or more of our suppliers of key equipment were to discontinue its operations or refuse to deal with us on favorable terms, this may have a material adverse effect on our business and the results of our operations.

In particular, the operation of our network depends upon obtaining adequate supplies of DSL equipment and support services on a timely basis. Although we work with multiple vendors for our DSL equipment, including Samsung and UTStarcom, reliance on specific vendors in specific markets could have a material impact on our business. For example, we have chosen Samsung as our primary supplier of technical equipment for our triple-play rollout in The Netherlands. Samsung has provided the soft switch, media farm and customer premises equipment (including set-top-boxes and multimedia modems). If Samsung fails to continue to timely deliver a quality product, this could seriously impact the continued rollout of our triple-play products.

***We may not be able to successfully renew or extend contracts with several major customers that generate significant amounts of revenue for us.***

We have entered into contracts with several large customers with respect to our business products and service offerings. In aggregate, and in some cases individually, these contracts contribute to a significant part of our total revenue. Each of these contracts has varying expiration dates and renewal terms. Our failure to renew the contracts with one or more of our major customers, or a reduction in their utilization of our products and services, could have a material adverse effect on our business and results of operations.

***The further development of our DSL-based services may pose significant technical and operational challenges.***

The further development of our DSL-based services may pose significant technical and operational challenges. Some of the risks we face in establishing a successful DSL-based service offering include:

- our ability to succeed in securing access to the unbundled local loops (copper lines) that connect each DSL end-user to our equipment located in the central offices of KPN. In particular, KPN must cooperate with us for (i) the provision and maintenance of transmission facilities and (ii) the use of its technology, including any new technologies that KPN rolls out, such as possible VDSL and capabilities to meet certain telecommunications needs of our customers and to maintain our service standards;

- our ability to identify, access, and provide services to customers in our target markets;

- our ability to automate the provisioning of DSL-based services;

- our ability to provide for timely and accurate billing for our services;

- technical issues related to DSL technology, such as quality of service problems with our bundled voice and internet product over one copper line; and

- our ability to implement new DSL technologies (i.e., ADSL and ADSL2+ as well as VDSL) or upgrade our existing infrastructure to ensure that our products remain attractive to the market and our cost levels competitive.

The market for DSL-based services is very competitive, and technological improvements continue to alter the operating landscape through the introduction of new products and services. In addition, competitors who offer, or are in the process of developing, competing technologies may prove to be more successful than companies that offer DSL-based services.

***Our business could be disrupted by the failure to effectively and efficiently operate our network or IT infrastructure. This failure could be due to physical loss of, damage to, or penetration of any of our major sites or networks or for any other reason.***

Our business is dependent on sophisticated electronic equipment that supports all of the various aspects of our operations. If our equipment were to be subject to a maintenance failure, power loss, or damage from construction work, fire, smoke, water, natural disaster, terrorism or other catastrophe, it would not be able to pass traffic over our network. If such an incident occurred at one of our major sites or to our network, it could cause significant disruption to our business or our customers' business. In the event that such losses are not covered by insurance, we may not have the capital to make necessary equipment repairs or replacements. In some cases, valuable customer data may be lost and significant customer relationships adversely affected.

Although our computer systems are protected by firewalls, they are vulnerable to damage or disruption by malicious human acts. Our computer systems could be disrupted by our failure to maintain them adequately or by viruses or hackers gaining access to our systems and valuable private customer information. We cannot guarantee that our precautionary and backup systems and plans will be effective in mitigating and preventing such risks. Our insurance may not provide adequate protection in certain circumstances. Sustained or repeated system failures that interrupt our ability to provide services to customers or otherwise meet our business obligations in a timely manner could adversely affect our reputation and result in a loss of customers and demand for our products and services. In such circumstances, we may also be subject to litigation as a result of compromised customer information.

***Network interruptions or service slowdowns caused by local or global system failures may result in reduced user traffic, reduced revenue and loss of reputation.***

Our ability to operate our businesses depends significantly upon the performance of our technical infrastructure. The demand for capacity on our network has increased enormously in recent years. We have had to, and continue to, contend with shortages of transmission, switching and interconnection capacity as a result of strong growth in demand for capacity, particularly with respect to IP and internet usage. These capacity problems have led (and any future problems may lead) to increased scrutiny by our regulators. Specifically, internet traffic has caused serious problems in our telephony network, including a notably sharp increase in failed connections during busy periods for a portion of the network.

Our technical infrastructure is also vulnerable to damage or interruption from floods, fires, power loss, telecommunication failures, and similar events. It is also subject to break-ins, sabotage, intentional acts of vandalism, and similar misconduct. The occurrence of a natural disaster or other unanticipated problems at our facilities or any other damage to or failure of our systems could result in interruptions in our service. System failures, including failure of our network and the networks used by our suppliers, hardware or software failures or computer viruses, could also affect the quality of our services and cause temporary service interruptions, resulting in customer dissatisfaction and reduced traffic and revenue.

***We may need to obtain additional capital in order to fund our operations and to expand our operations to take advantage of business opportunities.***

Historically, we have relied upon cash from our financing activities to fund most of the cash requirements of our operating and investing activities. Although we have been able to generate some cash from our operating activities in the past, there is no assurance we will be able to continue to do so in the future. We believe that our continued operations, operating strategy, and competitiveness could be dependent on securing additional sources of liquidity through debt and/or equity financing.

Apart from our related party loan with Tele2 Europe S.A, we currently do not have any commitments for additional financing. Our outstanding Convertible Notes, which are all, due to an internal transfer within the Tele2 AB Group, owned by Tele2 Europe S.A. (previously Tele2 Finance), also restrict our ability to incur additional indebtedness. Therefore, Tele2 AB (through subsidiaries), as our controlling shareholder and Tele2 Europe S.A., owner of our Convertible Notes, may exercise influence over any future financing we may undertake. There can be no guarantee that we will obtain additional financing or that the terms will be acceptable to us.

Any future financing may cause significant dilution to our existing shareholders. Any debt financing or other financing of securities senior to our ordinary shares may include financial and other covenants that will restrict our flexibility. At a minimum, we expect these covenants to include restrictions on our ability to pay dividends on our ordinary shares. Any failure to comply with these covenants may have a material adverse effect on our business and results of operations.

***Our failure to manage growth could adversely affect our business.***

As we look to grow our business through both organic investments and through acquisitions, there will be additional demands on our resources, network infrastructure, and employees. Our ability to manage future growth, should it occur, will depend on our ability to:

- control costs;
- manage our billing and other operational support systems ("OSS");
- expand internal management, technical, information and accounting systems; and
- attract and retain additional qualified personnel.

In addition, the success of any potential acquisition will be based on our ability to integrate the business within our existing operations. The integration process consists of, among others, migrating systems (billing, customer care, IT, OSS), network infrastructure, and human capital migration. If we fail to implement any of these measures at a pace that is consistent with the growth of our business, the expansion of our customer base and service offering could be adversely affected. Additionally, we may not be able to successfully attract, train and manage additional employees. As a result, customers could experience delays in connection of service and/or lower levels of customer service, which, in turn, may have a material adverse effect on our business and results of operations.

***The products that we recently introduced or intend to introduce in the near future may not be as successful as we expect them to be.***

We expect to derive a significant amount of revenues from new products and services that we recently introduced or that we intend to introduce in the near future. If we experience delays in the rollout of these products and services, or if these new products and services are not as successful as we expect them to be, this could have a material adverse effect on our business and our financial and operating results. One such example is our dual-play (voice and internet) and our triple-play (voice, internet data and VAS) products which we expect to be the core growth drivers for our residential business in the future. Additionally, traditional non-telecom companies such as Google and Skype have entered the traditional telephony market and offer competitive voice services to its customers by utilizing VoIP technology which is less expensive than traditional phone companies' services. Failure to adapt our current products to compete with these new entrants may have a material adverse effect on our business and results of operations.

***We may have difficulties in upgrading and protecting our network and retaining its connectivity and quality.***

The value of our network depends on our continued ability to provide high-quality telecommunications services by upgrading our systems and protecting our network from external damage. As we grow, the timing and implementation of these upgrades will become more important. We cannot guarantee that the quality and availability of our services will not be disrupted because of our inability to make timely or error-free upgrades to our network.

In addition, a portion of our backbone and international network consists of indefeasible rights of use ("**IRUs**" or '*onvervreemdbare gebruiksrechten'*). In the event that the companies with which we have entered into these agreements experience financial difficulties, we may lose connectivity across a portion of our network, or experience a downgrade in the quality of service that we can provide to our customers who benefited from that connectivity. The occurrence of either of these events may have a material adverse effect on our business and results of operations.

***We may not have full legal ownership of certain parts of our network.***

Pursuant to two decisions of June 6, 2003 by the Dutch Supreme Court, a cable television network is considered an "immovable asset". These judgments also have an effect on the ownership of telecommunication networks that have been acquired by us but do not affect the ownership of telecommunication networks that have been built by us. Approximately 10% of our networks have been acquired by us. New legislation has become effective as per February 1, 2007 that requires us to register the acquired parts of our network with the Land Registry Office within two years. Based on these judgments and this new law, the transfer of such networks can only be accomplished by registering a copy of a notarial deed to that effect with the Land Registry Office. If we do not comply with these formalities, we will only have the beneficial ownership of the acquired parts of our network, rather than legal title, and with respect to parts of our network that we have transferred, we may have only transferred beneficial ownership and not legal title.

***We may be subject to transfer taxes on purchased and sold ducts in The Netherlands and to annual real estate taxes on parts of our network.***

In past years, ducts ('*kabelbeschermbuizen*)' in The Netherlands have been transferred under the assumption that communications networks were movable assets, therefore without observing the legal formalities required for a transfer of immovable assets. As a consequence, no real property transfer tax ('*overdrachtsbelasting'*) was paid on acquired ducts. In addition, value-added tax (VAT) treatment of transactions involving ducts took place under the assumption that ducts are movable assets. Effective January 1, 2006 new legislation ('*Wet op de belastingen van rechtsverkeer'*) was enacted providing an exemption for real property transfer tax for acquired networks (including ducts). The new legislation had retro-active effect as of June 6, 2003 (the date of the two decisions of the Dutch

Supreme Court). For the period prior to June 6, 2003, the Dutch Ministry of Finance promised not to pursue the collection of real property transfer tax. However, the new legislation does not give any clarity on the VAT consequences of transactions involving ducts. VAT legislation is based on EU Directives and applies its own set of rules as to what is movable and immovable.

The decision of the Dutch Supreme Court of June 6, 2003 may also result in the annual levying of municipal real estate tax (‘*onroerendezaakbelasting’*) on parts of the network (see the following item).

Should we have to pay any of said taxes, this may have a material adverse effect on our business and results of operations.

***We may be subject to municipal taxes for unused telecommunications ducts in public land.***

In order to liberalize the telecommunications market in The Netherlands, the Dutch national government adopted legislation to enable operators to build their own network. As a result, local authorities have to permit operators to build and lay their telecommunications cables ("rights of way"). We have built an extensive network in The Netherlands that consists of ducts that are in use or reserved for maintenance, future expansion or held for sale. The Dutch national government has adopted a bill that leads to the situation that local authorities and other landowners are no longer obligated to permit the presence of empty or unused ducts in land after a certain period of time. This period of time will end on January 1, 2018 for existing empty or unused ducts and ten years (the initial legislative proposal assumed 4 years) after building new empty or unused ducts for these empty or unused ducts. In addition, some municipalities are in the process of developing (or have developed) local ordinances in order to impose municipal taxes (‘*precarioheffing’*) on telecommunications ducts that are in public land and are currently empty or unused. Based on this national legislation and based on these (proposed) local ordinances we may also be forced to remove such telecommunications ducts if they were to be empty or unused and if the relevant aforementioned time period has expired. If this were to take effect, it may have a material adverse effect on our business and results of operations.

***The further development and implementation of our operational support and billing systems may pose significant technical and operational challenges.***

Sophisticated operational support and billing systems are vital to our ability to grow, to provide services, to bill and to receive payments from customers, to reduce our credit exposure, and to monitor costs. We have planned and budgeted enhancements to our operational support and billing systems to handle the growth in the size and complexity of our business, our customer base, and our product portfolio. The enhancements, development, and implementation of our operational support and billing systems are very complex and time-consuming. These processes may therefore pose significant technical and operational challenges that may have a material adverse effect on our business and results of operations.

***If we lose or are unable to obtain licenses necessary for our operations or expansion, we may not be able to carry on parts of our current or planned businesses.***

We are in many cases only permitted to provide telecommunications services and operate networks under licenses granted by competent authorities in each country. All of these licenses are issued for a limited period of time and may not be renewed, or, if they are renewed, their terms may be changed. These licenses contain a number of requirements regarding the way we conduct our business, as well as regarding network quality and coverage. Failure to meet these requirements could result in fines or other sanctions including, ultimately, revocation of licenses. We may be required to obtain licenses where we wish to expand into new areas of businesses and we cannot guarantee that we will be able to obtain these licenses.

***Rapid changes in the way telecommunications and media services are delivered may make it necessary to impair some of our property, plant and equipment and intangible assets.***

The telecommunications industry is constantly changing as new access technologies continue to be rolled out by our competition. For instance, KPN has announced the roll-out of its VDSL strategy as well as its digital terrestrial television ("**DTT**") offering via Digitenne. Additionally, in other countries, WiMax services and fixed/mobile dual voice solutions are being offered. Should these new access technologies become the industry standard, or should our customers demand the improved functionality that these services can offer compared to our existing technology, our assets, both property, plant and equipment and intangible, may not be as valuable as we had thought. This related impairment of our assets may have a material adverse effect on our business and results of operations.

***We are effectively controlled by Tele2 AB, whose interests may differ from those of our other shareholders.***

At December 31, 2007 Tele2 AB holds, through its subsidiaries, an aggregate of 931,212,092 of our ordinary shares, representing 98.8% of our outstanding ordinary shares on an actual basis. In addition, Tele2 Europe S.A. (after an intra-group assignment by Tele2 Finance) owns all our Convertible Notes, which, as of December 31, 2007 are convertible into an aggregate of 178,571,428 of our ordinary shares at a conversion price (recalculated after the rights offering completed on March 6, 2007) of € 0.70. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 AB owns 99.0% of our outstanding ordinary shares on a fully diluted basis as per December 31, 2007. Tele2 AB may increase its ownership of ordinary shares if it would elect to convert the Convertible Notes. Because we are effectively controlled by Tele2 AB, any action we take requires their consent. As a result, investors may not be able to exercise as much influence over our business as they might otherwise. In addition, under Dutch law, shareholders that hold at least 95.0% of our share capital may be able to (but are not required to) institute proceedings against our other shareholders for a transfer of their shares to such shareholder.

Apart from Tele2 AB's indirect majority ownership, three of the five current members of our Board of Supervisory Directors, are also members of Tele2 AB's senior management. So long as Tele2 AB controls our business, it may pursue corporate actions that may conflict with interests of our other shareholders or otherwise delay, deter, or prevent corporate actions that may be favored by our other shareholders, including any potential changes of control. As a result of such actions, the market price of our ordinary shares could decline, or shareholders may not receive a premium for their shares in connection with a change of control of us.

***We recently announced the intention to terminate the listing of our ordinary shares on Euronext Amsterdam, which adversely affects the liquidity of our remaining outstanding shares.***

In the offer memorandum dated September 14, 2005 relating to the Tele2 Offers (the "Offer Memorandum"), we, along with Tele2 AB, expressed the intention for Tele2 AB to obtain all of our issued and outstanding shares and to subsequently terminate the listing of our ordinary shares on Euronext Amsterdam. On 22 April, 2008 we announced that we had applied for, and obtained approval for a de-listing of our ordinary shares from Euronext Amsterdam (also see "Subsequent Events"). In connection with the de-listing, the Company also announced that it would offer to repurchase any and all ordinary shares that remain outstanding through open market purchases, against € 0.79 per share and ending on the close of business on May 20, 2008. Following de-listing of our ordinary shares on Euronext Amsterdam, which will occur on May 21, 2008, the liquidity, marketability and/or value of our ordinary shares will be adversely affected.

***We may in the future seek to issue additional equity securities, which would cause holders of our ordinary shares to face the risk of dilution of these ordinary shares.***

We may seek to raise funds in the future through equity offerings, which could cause dilution for our existing shareholders. The sale of newly-issued ordinary shares could have a negative impact on the trading price of our ordinary shares and could increase the volatility in the trading price of our ordinary shares.

Our Board of Management, pursuant to a delegation of authority by the General Meeting of Shareholders in effect until June 4, 2009 has the authority to grant rights to subscribe for or to issue ordinary shares up to a maximum of 20% of our total authorized share capital and to exclude or restrict the pre-emption rights pertaining to then outstanding ordinary shares. Thus, our shareholders interests could be diluted in the future, without the further approval of the General Meeting of

Shareholders, if our Board of Management, after approval of our Board of Supervisory Directors, uses its authority to issue or grant rights to subscribe for additional shares.

***It is unlikely that dividends will be paid in the foreseeable future.***

Other than a dividend paid in connection with the sale of our German operations, we have historically not paid dividends to our shareholders. We currently intend to retain any future earnings to finance operations, expand our network, repay outstanding obligations, and finance future acquisitions. Therefore, we do not expect to pay any dividends in the foreseeable future. In addition, we are generally prohibited by law from paying dividends except from retained earnings or other distributable reserves.

## Consolidated Selected Financials

Following are selected financial data of Tele2 Netherlands Holding N.V. as of and for the years ended December 31, 2007 and 2006. The selected financial data should be read in conjunction with the section titled “Management Discussion and Analysis of Operations” and our historical financial statements and the related notes thereto included elsewhere herein.

(Currency – thousands of euros)

| **Statement of operations:** | **2007** | **2006** |
|---|---|---|
| Revenues | 582,406 | 337,308 |
| Direct cost of revenues | 303,971 | 139,004 |
| Selling, general and administrative | 197,823 | 128,949 |
| Depreciation and amortization | 139,080 | 127,493 |
| Total Operating expenses | 640,874 | 395,446 |
| Operating loss | (58,468) | (58,138) |
| Interest and other income (expense), net | (23,668) | (18,353) |
| Currency exchange (losses) gains, net | 717 | 154 |
| Credit/(charge) from income tax | 1,228 | 2,056 |
| Result from continuing operations | (80,191) | (74,281) |
| Result from discontinued operations | 15,667 | (25,867) |
| Result for the period | (64,524) | (100,148) |
| Net result per share: | | |
| Basic | (0.07) | (0.19) |
| Diluted | (0.07) | (0.19) |
| **Selected balance sheet data:** | | |
| Cash | 38,676 | 87,821 |
| Working capital (excluding cash) | (72,550) | (140,732) |
| Equity | 247,481 | 60,614 |
| **Cash flow data:** | | |
| Net cash provided by operating activities | 14,464 | 59,793 |
| Net cash used in investing activities | (198,100) | (108,969) |
| Net cash provided by (used) in financing activities | 134,491 | 30,448 |
| **Additional Information:** | | |
| EBITDA [1] | 80,621 | 69,355 |
| Capital expenditures | 90,923 | 83,728 |

(1) EBITDA consists of earnings (loss) before interest and other expense, interest and other income, income taxes, depreciation and amortization. EBITDA is a non-IFRS measure.

NOTE:
The income statement data has been represented in order to reflect the operations of the Company in Belgium as discontinued operations. Only the income statement data related to continuing operations is presented in the figures above.

Under IFRS the results of discontinued operations (if material and distinct) are presented on the face of the statement of operations as a single amount comprising the net result of the discontinued operation. This requires separate reporting of net profit from continuing operations and the net profit from discontinued operations, with comparative statement of operations data re-presented if in the current period an activity qualifies as discontinued.

## Management Discussion and Analysis of Operations

### Overview

The Company is an alternative broadband communication service provider in The Netherlands. Our objective is to become the leading alternative provider of telecommunication services, including voice, data, Internet, video/television and VAS services. The Company provides services to business and residential customers as well as other telecommunications, data and Internet service providers in its target markets. The Company serves these customers through two different types of access methods:

- **Direct Access Services.** High bandwidth services that are provided through direct connections to its network by way of the Company's own fibre, DSL technology, other copper access technologies, wireless technology or leased lines; and

- **Indirect Access Services.** Services that are provided through indirect connections to the Company's network by way of carrier pre-selection or its carrier select codes.

Our growth is driven by our focus on providing bundled services to business and residential customers as well as servicing the carrier market. Historically, we have focused on providing services to small- and medium-sized businesses. However, over the past few years, as we continued to expand our service offering and local access network we have also been able to provide services to larger businesses with more sophisticated service requirements. Additionally, we have also been able to serve the residential market. We continually strive to develop new products and services, which we are able to provide to both existing and new customers. We believe providing a bundled service offering comprised of voice, data, Internet video/television and media services over DSL technology will be crucial to increasing our market share in both the small- and medium-sized business and residential markets. Another key component of our growth is our continued focus on leveraging our network. We have invested in developing a dense network in our target markets, which allows us to rapidly connect customers to our network and to provide multiple services through a single connection. Currently, we focus on connecting customers to our network primarily through our own fiber, DSL technology, other copper access technologies, wireless technologies and leased lines. Once a customer is connected to our network, we can generally expand services to such customer without incurring substantial additional investments.

### *Revenues*

Generally, our services can be characterized as voice (fixed telephony and mobile communication services), data, Internet services video/television and VAS services. As such, we derive our revenues from both minutes of communications traffic carried by our network, which are variable by customer from period to period (generally voice), non-subscription revenues and fixed monthly fees for services provided to our customers (generally Internet, data, video/television and VAS services). We allocate our revenues to the period in which the traffic was generated. The composition of our customer base, service offerings and geographical focus has continued to evolve as a result of the further development of our network and acquisitions and the expansion of our product offering. As a result of these key factors, we have significantly increased the portion of our revenues generated from fixed monthly fees and expanded our customer base to include larger customers.

Historically, we have priced our variable communications services, in particular voice, at a discount to KPN and expect to continue this pricing strategy as we expand our operations. In general, prices for communications services have decreased over the last several years, both for voice traffic as well as for data and Internet services. These price reductions have an adverse impact on revenues and margins. Currently, our data and Internet services continue to be priced at competitive market levels, but are less influenced by the pricing power of the incumbent operators.

A substantial portion of our revenues are subscription revenues, attributable to fixed monthly fees, primarily through the provision of data and Internet services such as internet connectivity, local area network to local area network ("LAN-to-LAN") interconnect services, IP-VPN and internet web-hosting and media services, including access to television channels. Our variable revenues are generated by minutes of communications billed for voice telephony services originated by our customers, terminating voice telephony traffic to customers directly connected with our network and the termination of dial-up Internet traffic onto our network for our own dial in customers and other Internet service providers. The Company's consumer division generates revenues from the termination of minutes of traffic onto our network as described above. Additionally, we generate revenues by providing broadband Internet access and voice services over DSL technology for a fixed monthly fee. As from August 2005, the Company also generates additional revenues by providing triple-play services, consisting of voice, internet access and video/television services. Since March 6, 2007, as a result of the acquisition of Tele2 (Netherlands) B.V., we also generate substantial revenues from our mobile product offering.

***Customers***

Historically, we generated our revenues from small- and medium-sized business customers. Beginning in 1999, we started to generate revenues from larger customers. Currently we service large customers such as Van Gansewinkel Group, UWV, CWI, ABN AMRO, Dutch Railroads (NS), Oad Group, DHL, the Dutch Police and the Ministry of Justice in The Netherlands. We will continue to participate in bidding processes for large customers and believe we are well positioned to be awarded contracts as a result of our network and service offerings.

We will continue to focus on securing and provisioning customers that can be directly connected to our network utilizing our own fiber, DSL technology, other copper-based access technologies, wireless technology or leased lines. We believe these customers represent a long-term asset and provide the best economic return on our dense local access network. Also, with the introduction of ISDN voice and dedicated Internet services over DSL to the business community, as well as the launch of a broadband Internet, voice and media products to the residential market in The Netherlands, we expect an increase in the number of customers we provision over DSL technology.

As our network has expanded, we have increased our ability to provide other carriers with telecommunications services, which will maximize the use of our network. We actively monitor our credit exposure to other carriers and we have taken steps to reduce this risk in the past. We currently provide services such as leased lines, transmission, IP uplink, co-location services and voice origination to other service providers.

We market our services on a retail basis to business and residential customers and on a wholesale basis to other carriers and service providers.

- *Business Customers*. We focus particularly on business and industry segments that require significant amounts of bundled voice, data and internet services such as financial services and information technology sectors. Although we have historically sought to take advantage of opportunities in the under-served markets like the small- and medium-sized business segment, with the density of our high bandwidth network, we began in 1999 to address the large corporate market as well.

- *Residential Customers*. We offer our residential customers broadband internet access, dial-up internet access, e-mail and certain web-hosting services, voice services, video/television services as well as general information content. In August 2005, we launched a multi-play service (a combined voice, internet and video/television services offering) to our customers and have since then expended the offering. With the acquisition of Tele2 (Netherlands) B.V. in March 2007, we also offer a variety of mobile services, such as pre-paid, post-paid, SMS and MMS.

- *Carrier Customers*. Our carrier customers are global and regional network operators, ISPs and switchless resellers serving specific market segments. We focus primarily on high capacity and high volume customers. We believe that both alternative carriers and foreign PTTs that provide voice, data or internet services in The Netherlands will require quality carrier services and high bandwidth services to develop their market position. As our network has expanded, we have increased our marketing efforts in the carrier services segment to increase the use of our network and to capture additional revenues. Because many of the service providers to whom we provide carrier services have experienced financial difficulties, we actively monitor our credit exposure to these providers and we have taken steps to reduce this risk.

### *Direct cost of revenues*

Our costs of revenues are comprised of fixed network costs from third party suppliers and variable costs associated with the origination and termination of minutes of communications traffic and supply of broadband services. To date, our fixed network costs have primarily consisted of leased lines for sections of our backbone network, leased lines for directly connecting customers to our network, leased copper lines for DSL services, fees to other Internet service providers for the termination of Internet traffic, interconnection charges, subsidized customer equipment (including mobile handsets), value added services from suppliers, subscription charges, content costs and the production costs associated with Eredivisie football. Origination and termination costs represent the cost of carrying minutes of communications traffic from our customers to our network and from our network to the final destination, respectively.

We are experiencing a reduction in the costs as a percentage of the total associated with leased lines as we replace leased lines with our own local access and backbone network. However, we do not expect to eliminate all costs related to leased lines as we continue to deploy leased lines to directly connect customers to our network in order to either accelerate such customer's connection to our network on an interim basis (in which case we subsequently replace the leased line with our own fiber), or to connect a customer for whom it is not economically viable to directly connect to our own backbone. It may not be economically viable to directly connect a customer to our own backbone due to such customer's low transaction volumes or such customer is located too far from our network.

As a percentage of revenue, we expect fixed network costs in the long run to decline due to the continuing build out of our local access network, technological improvements, realization of economies of scale, further liberalization of the European telecommunications market and increased availability of transmission capacity. However, price declines for our own services and the increase of our revenue from lower margin residential services, will partly offset this decline. During 2007 and 2006 we experienced an increase in fixed network costs due to the fixed charges for content and the production costs associated with Eredivisie football. Furthermore, with the acquisition of Tele2 (Netherlands) B.V. we also incurred network costs for operating an MVNO.

We have experienced a decline in the variable costs associated with minutes of communications traffic on a per minute basis for several factors, including: (a) the incremental build out of our network, which increases the number of points we interconnect with KPN, as applicable, and the number of carriers with which we interconnect, (b) the increase of minutes we originate and terminate, which leads to higher volume discounts available to us, (c) more rigorous implementation of the European Community directives requiring cost-based termination rates and leased line rates and (d) the emergence of new telecommunications service providers and the construction of new transmission facilities, which results in increased competition. However, there can be no assurance that the trend of decreasing variable costs will continue. If reductions in variable costs do not in fact outpace reductions in variable revenues, we may experience a substantial reduction in our margins on minutes of communications traffic which, absent a significant increase in billable minutes of traffic carried, increased charges for other services, or a shift in the mix of subscription and variable revenues to more subscription revenues, would have a material adverse effect on our business and financial results.

### *Selling, General and Administrative Expenses*

Selling, General and Administrative expenses ("SG&A") consists of wages and salaries, social securities, pension cost, advertising and marketing expenses, occupancy and other cost of revenues.

### *Depreciation and Amortization*

We capitalize and depreciate our property, plant and equipment, including switching and transmission equipment, routers, fiber optic cable and rights of use, over periods ranging from 3 to 20 years taking residual values into account. The development of our network, including construction, indefeasible rights of use (IRU's), and equipment, will require capital expenditures resulting in larger depreciation charges in the future. Self-manufactured assets include all direct expenses incurred (e.g., work contracted out, direct labor and material cost). The amortization of licenses starts from the date that the services are actually offered under the license until the license expires. Goodwill is not amortized.

Property, plant and equipment and goodwill are tested annually for impairments. The Company reviews regularly its property, plant and equipment and intangible assets for impairment at each balance sheet date and when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The amortization period of the residential mobile customer base, capitalized due to the acquisition of Tele2 (Netherlands) B.V., is four years.

***Other Significant Non-Recurring Items***

*Acquisition of Tele2 subsidiaries and rights offering*
On January 26, 2007, the Company announced its intention to acquire Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. from Tele2 AB for € 200 million in aggregate (on a cash-and-debt free basis and subject to certain adjustments) and to raise € 255 million in a rights offering, the proceeds of which would be fully guaranteed by Tele2 AB, for purposes of funding the acquisitions and for general corporate purposes.

On February 12, 2007 the Company's shareholders approved, amongst other resolutions, the acquisition of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V., as well as the associated rights offering.

On March 6, 2007, the Company successfully closed the rights offering and the acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. As a result, in total 418,839,316 new ordinary shares were issued.

*Transfer shares Belgian subsidiaries to KPN*
On October 1, 2007, the Company sold and transferred the shares of its Belgian subsidiaries Versatel Belgium N.V. and Tele2 Belgium N.V. to KPN. Subsequently, the Company repaid an amount of € 125 million under the related party loan with Tele2 Finance, while at the same time securing a standby facility from Tele2 Europe S.A. in the amount of € 200 million for general corporate purposes (also see "Related Party Transactions"). The divestment resulted in a gain on disposal of € 32 million.

*Wage tax claim*
On December 21, 2007, the Company announced that the Supreme Court had ruled negatively on the appeal in cassation which was filed in connection with a dispute with the tax authorities concerning the valuation for tax purposed of stock options which were issued to employees prior to the public offering of the Company in July 1999. As a result, a tax assessment will have to be paid, which is estimated to be € 17.5 million (including late payment interest), for which no provision had been made. The Company is pursuing possibilities to reduce the financial impact.

*Lease Agreement for Corporate Headquarters*
In February 2008 the corporate headquarters of the Company moved to Wisselwerking 58, Diemen, The Netherlands. In December 2007, the Company reached a settlement agreement with the (new) owner of the building at the Hullenbergweg 101, Amsterdam-Zuidoost. In exchange for a one time monetary payment of € 5.5 million, the owner has agreed to prematurely terminate the lease agreements, has agreed to cancel all court proceedings and has allowed the Company to vacate the building at the Hullenbergweg. Also see section "Legal Proceedings and – Property".

***Subsequent Events***

Effective January 1, 2008, Versatel Nederland B.V. (as acquiring entity) and Tele2 (Netherlands) B.V. (as disappearing entity) merged within the meaning of Chapters 1, 2 and 3 of Part 7, Book 2 of the Dutch Civil Code, as a consequence of which Tele2 (Netherlands) B.V. ceased to exist. Subsequently, Versatel Nederland B.V. was renamed into Tele2 Nederland B.V.

On January 25, 2008, the Company announced that it had been informed by the Enterprise Chamber of the Amsterdam Court of Appeal that the pending proceedings had ended. As a result, no investigation into the affairs (*"enquête"*) of the company will be held. In addition, the Company has recently been informed that also the pending nullification proceedings and cassation proceedings (also see – Legal Proceedings) have all ended.

On April 22, 2008, the Company announced that it had applied for, and obtained, approval for a de-listing of its ordinary shares and convertible notes due 2011 from NYSE Euronext ("Euronext Amsterdam"). In connection with the de-listing, the Company also announced that it would offer to repurchase any and all ordinary shares that remain outstanding through open market purchases, against € 0.79 per share and ending on the close of business on May 20, 2008. Effective May 21, 2008, the Company's ordinary shares and Convertible Notes will be de-listed.

On April 25, 2008, the Company also announced the resignation of Mr. Svedberg as member of the Supervisory Board.

### *Results from Operations*

#### The year ended December 31, 2007 compared to the year ended December 31, 2006

The results of the Company have been re-presented in order to reflect the operations of the Belgium operations as discontinued due to the divestment of our Belgian operations on October 1, 2007. Only the data related to continued operations are presented in this section. The 2006 revenue and expense lines now include inter-company amounts that were eliminated in the presentation of prior annual reports and therefore may differ from prior year disclosures.

*Revenues from continuing operations* increased by € 245.1 million to € 582.4 million for the year ended December 31, 2007 from € 337.3 million for the year ended December 31, 2006, representing an increase of 72.7 percent.

The increase in revenues originates from both the business and residential segment. In the business and carrier segment, the growth has been driven by continued efforts to sell on-net services. The strong organic growth in our residential segment, is mainly due to an increase of our broadband customer base (as a result of, amongst others, a laptop campaign) and a significant contribution of wholesale line rental (WLR) to our fixed telephony services. Furthermore, revenues from continuing operations 2007 includes the revenues from Tele2 (Netherlands) B.V. as per the acquisition date, 6 March 2007.

On December 31, 2007, the Company had approximately 303,000 residential DSL customers (including ADSL2+) an increase of 40.9 percent compared to the 215,000 customers at year end 2006. During 2007 the Company continued to upgrade existing residential DSL customers to higher-end ADSL 2+ services.

With regard to our Multi Play Products the Company recorded approximately 93,000 orders during 2007. At year-end 2007, the Company had provisioned approximately 225,000 orders over ADSL 2+ compared to approximately 132,000 customers at year end 2006, representing an increase of 70.5 percent.

As a result of the acquisition of Tele2 (Netherlands) B.V. the Company acquired 589,000 mobile customers as from March 6, 2007. At December 31, 2007, the mobile subscriber base decreased 4.0 percent to 566,000 subscribers compared to March 31, 2007. Within the mobile segment, the Company continued the transition from low value prepaid to high value postpaid subscriptions.

The CPS (Carrier Pre Select) subscriber base declined, as expected, from acquisition date (March 6, 2007; 613,000 customers) with approximately 147,500 subscribers to a total of approximately 465,500 subscribers at December 31, 2007. The decline has partly been offset by continued efforts to build a WLR customer base, enabling higher ARPU and extended customer lifetime of the residential CPS customer base.

*Direct cost of revenues from continuing operations* increased by € 165.0 million to € 304.0 million for the year ended December 31, 2007 from € 139.0 million for the year ended December 31, 2006, representing an increase of 118.7%.

The gross margin as a percentage of revenues in 2007 decreased compared to 2006 from 58.8 percent to 47.8 percent. The decrease is primarily the result of the acquisition of Tele2 (Netherlands)

B.V. The gross margins on the products of Tele2 (Netherlands) B.V. are generally lower than those of the (on-net) products that are offered by the Company.

*Selling, general and administrative expenses from continuing operations* increased by € 68.9 million to € 197.8 million for the year ended December 31, 2007 from € 128.9 million for the year ended December 31, 2006, representing an increase of 53.5%. The decrease as a percentage compared to 2006 is primarily the result of the acquisition of Tele2 (Netherlands) B.V. which acquisition was completed on March 6, 2007. Furthermore, included in selling, general and administrative expenses from continuing operations for the year ended December 31, 2007 is an one-time wage tax charge of € 13.3 million (excluding interest) relating to a tax assessment in connection with a dispute with the tax authorities concerning the valuation for tax purposes of stock options issued in 1999.

The Company's marketing expenditures for 2007 were € 52.7 million versus € 15.6 million in 2006. As of March 6, 2007, the marketing expenditures also include the marketing efforts of Tele2 (Netherlands) B.V. In addition, marketing expenditures include sales acquisition costs, like mobile handsets, telemarketing. In specific an amount of € 7.9 million of marketing costs were recognized in the fourth quarter of 2007 related to two laptop campaigns.

Included in selling, general and administrative expenses from continuing operations for the year ended December 31, 2006 is a one-time reorganization expense of € 6.0 million relating to a reduction of approximately 200 jobs in The Netherlands to cover employee termination costs. The SG&A expenses of 2006 also include a one-time idle building expense of € 5.6 million relating to existing lease obligations after entering into a lease agreement for a new corporate headquarters in The Netherlands.

*Depreciation and amortization expenses from continuing operations* increased by € 11.6 million to € 139.1 million for the year ended December 31, 2007 from € 127.5 million for the year ended December 31, 2006. Depreciation of property, plant and equipment for continuing operations decreased to € 93.1 million for the year ended December 31, 2007 from € 97.7 million for the year ended December 31, 2006. This decrease mainly relates to a change in accounting estimates as of January 1, 2007 resulting in a change of the depreciation period from one to three years for set top boxes, multimedia modems and related one-off expenses. Amortization of intangible assets increased to € 45.9 million for the year ended December 31, 2007 from € 29.8 million for the year ended December 31, 2006. The increase relates to the amortization of capitalized customer base (€ 17.0 million). The customer base is capitalized as a result of the Purchase Price Allocation (also see note 4 Business Combination) in connection with the acquisition of Tele2 (Netherlands) B.V.

*Interest and other income from continuing operations* decreased by € 0.3 million to € 3.0 million for the year ended December 31, 2007, from € 3.3 million for the year ended December 31, 2006.

*Interest and other expense from continuing operations* increased by € 5.1 million to € 26.7 million for the year ended December 31, 2007, from € 21.6 million for the year ended December 31, 2006. Included in the interest expense 2007 is an one-time expense for late payment interest related to the wage tax assessment (see before) of € 4.2 million.

*Currency exchange result, net from continuing operations*, was a gain of € 0.7 million for the year ended December 31, 2007, from a gain of € 0.2 million for the year ended December 31, 2006. The gain relates to the exchange result on US dollar denominated cash and supplier payables.

*Income tax credit / (charge) from continuing operations* was an income tax credit of € 1.2 million for the year ended December 31, 2007 compared to an income tax credit of € 2.1 million for the year ended December 31, 2006.

*Result for the period from discontinued operations* for the year ended December 31, 2007 reflects the positive results from the Belgium activities until October 1, 2007 amounting to € 15.7 million, compared to a loss of € 25.9 million in 2006. On October 1, 2007 the Company sold its Belgium activities to KPN, by means of a sale and transfer of all of its shares in Versatel Belgium N.V. and Tele2 Belgium N.V.

***Liquidity and Capital Resources***

As of December 31, 2007, we had negative working capital (excluding cash and cash equivalents) of € 72.6 million compared to € 140.7 million as of December 31, 2006. In the future we expect our working capital to increase. This is due to, among other things, the growth of our core business.

As of December 31, 2007, our cash and cash-equivalents balance amounted to € 38.7 compared to € 87.8 million as of December 31, 2006.

Net cash provided by operating activities was € 14.5 million for the year ended December 31, 2007, compared to net cash provided by operating activities of € 59.8 million for the year ended December 31, 2006.

Net cash used in investing activities was € 198.1 million for the year ended December 31, 2007, consisting of capital expenditures of € 101.8 million, including €90.9 million for the Netherlands. The capital expenditures primarily relates to expenditures from the increase of on net customer base for the residential as well as business and carrier market in The Netherlands. An amount of € 196.5 relates to the investments in Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. by the Company. The net receipt from disposal of divestments relates to the disposal of our Belgian operations.

Net cash used in investing activities was € 109.0 million for the year ended December 31, 2006, including capital expenditures of € 109.0 million. It primarily relates to expenditures from the roll-out of our multi-play product.

Net cash provided by financing activities was € 134.5 million for the year ended December 31, 2007, compared to net cash used in financing activities of € 30.4 million for the year ended December 31, 2006. The net cash provided by financing activities for the year ended December 31, 2007, relates to proceeds from the share offering for the amount of € 251.4 million and net redemption of the related party loan of € 116.9 million.

## Directors and Officers, Management and Employees

The members of the Board of Supervisory Directors and the Board of Management of the Company and other executive officers of the Company and their respective ages and positions are set forth below.

**Board of Management**

The Board of Management currently has the following two members

| Name | Age | Nationality | Position | Member Since | Term |
|---|---|---|---|---|---|
| H. Ringmar | 39 | Swedish | Chief Executive Officer | March 6, 2007 | Indefinite |
| E.J. van Rooijen | 37 | Dutch | Chief Financial Officer | February 12, 2007 | Indefinite |

Mr. Borgklint, our former CEO, indicated on November 2, 2006 that he would resign at either the closing of the Acquisitions and the Offering or May 1, 2007, whichever date occurred earlier. As the Acquisitions and the Offering were closed on March 6, 2007, Mr. Borgklint's resignation was effective March 6, 2007.

**Biographies**

*H. Ringmar (Chief Executive Officer)*

Mr. H. (Henrik) Ringmar (1969) was appointed on February 12, 2007 as our Chief Executive Officer and a member of our Management Board, subject to the resignation of Mr. Borgklint. Mr. Borgklint resigned on March 6, 2007. Mr. Ringmar has been appointed to our Management Board for an indefinite period of time.

Since 1998, Mr. Ringmar held various positions within the Tele2 AB Group such as Vice President of Tele2, CEO of Tele2 Norge AS, CEO of Svenska UMTS-nät AB. His last position prior to his appointment to our Management Board was CEO of Procure IT Right, a subsidiary of Tele2 AB. Prior to joining the Tele2 AB Group, Mr. Ringmar worked at Kinnevik (1996–1997), Tetra Pak Mexico and ABN AMRO Bank. He holds a Masters Degree in Business Administration from the Stockholm School of Economics. Mr. Ringmar currently also acts as a member of the board of supervisory directors of Lund IP Products.

*E.J. van Rooijen (Chief Financial Officer)*

Mr. E.J. (Ernst-Jan) van Rooijen (1970) is our Chief Financial Officer since April 1, 2006 and member of our Management Board since February 12, 2007. He has been appointed to our Management Board for an indefinite period of time.

Mr. Van Rooijen has been with the Company since February 2000 in various positions. Prior to his appointment as Chief Financial Officer, he acted as Finance Director of Versatel Nederland B.V. Before joining us in 2000, he was Finance Manager at Facilicom International (1998-2000), an international carrier, and Controller at telecommunication network solution and mobile phone supplier, Ericsson Telecommunicatie (1995-1998). Mr. Van Rooijen holds a Masters Degree in Business Economics from the Erasmus University in Rotterdam, The Netherlands. Mr. Van Rooijen does not hold other board memberships.

The business address of the Board of Management is Tele2 Netherlands Holding N.V., Wisselwerking 58, 1112 XS Diemen, The Netherlands.

**Board of Supervisory Directors**

The Board of Supervisory Directors is currently composed of the following five members:

| Name | Age | Nationality | Position | Member Since | Resignation date(1) |
|---|---|---|---|---|---|
| L. Nilsson | 50 | Swedish | Chairman | June 4, 2007 | 2011 |
| B.L.J. Jarnheimer | 47 | Swedish | Member | October 14, 2005 | 2009 |
| A. Olsson | 38 | Swedish | Member | February 12, 2007 | 2010 |
| J.L. Bouma | 73 | Dutch | Member | March 6, 2007 | 2011 |
| R.L. de Bakker | 56 | Dutch | Member | March 6, 2007 | 2010 |

(1) According to a rotation schedule that has been drawn up by the Board of Supervisory Directors.

Our registered address serves as the business address for all members of the Board of Supervisory Directors.

**Biographies**

*L. Nilsson (Chairman)*

Mr. L. (Lars) Nilsson, (1957) has been a member of our Board of Supervisory Directors since June 4, 2007. Mr. Nilsson acts as Chairman of our Board of Supervisory Directors. Mr. Nilsson will resign in 2011 in accordance with the rotation schedule adopted by the Board of Supervisory Directors.

Mr. Nilsson is currently Chief Financial Officer of Tele2 AB in Stockholm, Sweden. Prior to joining Tele2 AB, from 2000 until April 2007, Mr. Nilsson was the Executive Vice President and Chief Financial Officer of Axfood AB, a large food retailer in Scandinavia and listed on the Stockholm stock exchange. Before 2000, Mr. Nilsson worked for the Fritidsresegruppen, Sweden, an holiday tour package supplier which is now part of the TUI group, for Aros Fondkommission, a stock broker firm, and for ABB Financial Services. Mr. Nilsson currently has no other supervisory board memberships. Mr. Nilsson holds a Master Degree in Economics from the Linköping University, Sweden.

*B.L.J. Jarnheimer (member)*

Mr. B.L.J. (Lars Johan) Jarnheimer (1960) has been a member of our Board of Supervisory Directors since October 14, 2005. Mr. Jarnheimer will resign in 2009 in accordance with the rotation schedule adopted by the Board of Supervisory Directors.

Mr. Jarnheimer is currently President and CEO of Tele2 AB and has been in this position since 1999. Mr. Jarnheimer's previous experience includes, Managing Director of SAAB Opel, Scandinavia, Baltics & Russia from 1997-1998, CEO of Comviq GSM AB of Sweden from 1992-1997, Managing Director of Z-TV in Sweden from 1991-1992, Marketing & Sales Director of SARA Hotels in Sweden from 1990-1991, Marketing Director of H&M in Sweden from 1984-1990 and Project Manager at IKEA Germany from 1982-1984. Mr. Jarnheimer holds management board positions at MTG Modern Times Group AB and Arvid Nordquist AB in Sweden. He further holds a supervisory board position at INGKA Holding B.V. (parent company of IKEA Group of Companies) in The Netherlands. Mr. Jarnheimer holds a Master Degree in Economics & Business Administration from the Lund & Växjö Universities in Sweden.

*A. Olsson (member)*

Mr. A. (Anders) Olsson (1969) has been a member of our Board of Supervisory Directors since February 12, 2007. Mr. Olsson will resign in 2010 in accordance with the rotation schedule adopted by the Board of Supervisory Directors.

Mr. Olsson is currently an Executive Vice President of Tele2 AB and has been in this position since 2006. Mr. Olsson has been working for Tele2 AB since 1997 where he has held the positions of COO and CEO of Tele2 Germany and Market Area Director Central Europe. Mr. Olsson holds a position in several management boards of local companies within the Tele2 AB Group. Mr. Olsson currently holds no external management board positions and currently has no other supervisory board memberships. Mr. Olsson holds a Master Degree in Economics & Business Administration from Uppsala University in Sweden.

*J.L. Bouma (member)*

Mr. J. L. (Joop) Bouma (1934) was appointed as a member of our Board of Supervisory Directors on February 12, 2007. His appointment was subject to the closing of the Acquisitions and the Offering, which occurred on March 6, 2007. Mr. Bouma was a member of our Board of Supervisory Directors and its Special Committee by designation of the Enterprise Chamber since December 14, 2005. Since December 8, 2006 and until the closing of the Offering and the Acquisitions, he was a member of the Special Advisory Committee (see further down in this section). Mr. Bouma has been appointed to the Board of Supervisory Directors as a member which is independent in relation to Tele2 AB. Mr. Bouma will resign in 2011 in accordance with the rotation schedule adopted by the Board of Supervisory Directors.

Mr. Bouma is a professor emeritus in business economics at the University of Groningen, The Netherlands where he worked from 1966 until 1999 (*inter alia* in the field of corporate finance, corporate governance and accounting). Since 1976, he has been a member of the Royal Dutch Academy of Sciences (Koninklijke Nederlandse Akademie van Wetenschappen). Mr. Bouma holds a number of other supervisory board positions including at the following companies; Albron B.V. in De Meern, The Netherlands (business catering); Burgfonds Holding B.V. in Zaltbommel, The Netherlands (administration & development of real estate); Cordial Beheer en Registergoederen B.V. in Winschoten, The Netherlands (holding company of producers of adhesives); Intereffekt Investment Funds in Joure, The Netherlands (investment funds); Koop Europe Holding B.V. in Groningen, The Netherlands (international contracting company); O. de Leeuw Holding B.V. in Zwolle, The Netherlands (wholesale company in rolling mills & tools); Mere N.V. in Lochem, The Netherlands (investment fund); and SNS Reaal N.V. in Utrecht, The Netherlands (financial services).

*R.L. de Bakker* (*member*)

R.L. (Robert) de Bakker (1950) was appointed as a member of our Board of Supervisory Directors on February 12, 2007. His appointment was subject to the closing of the Acquisitions and the Offering, which occurred on March 6, 2007. Mr. de Bakker has been appointed to the Supervisory Board as a member which is independent in relation to Tele2 AB. Mr. de Bakker will resign in 2010 in accordance with the rotation schedule adopted by the Board of Supervisory Directors.

From 2001 until 2005, Mr. de Bakker was Chief Financial Officer and member of the Executive Board of ASM International N.V. in Bilthoven, The Netherlands, a producer of semiconductor equipment listed on NASDAQ and Euronext Amsterdam. Prior to joining ASMI, from 1987 until 2000, Mr. de Bakker was Chief Financial Officer and member of the Executive Board of NKF Holding N.V., Delft, The Netherlands, an energy cable and telecommunications company that was acquired by Draka Holding N.V. in 1999. Before 1987 Mr. de Bakker worked for Fluor Daniel B.V. in Haarlem, The Netherlands and London, U.K., for Rijn Schelde Verolme Shipyards N.V. (RSV) in Rotterdam, The Netherlands and for Bank of America NT & SA, in Hamburg, Germany.

Mr. de Bakker is currently a member of the supervisory board of Kendrion N.V. (Zeist, The Netherlands), an industrial company listed at Euronext Amsterdam, member of the conseil d'administration (non-executive board member) of SPIE Benelux S.A. (Brussels) and Chairman of the Supervisory Board of SPIE Nederland B.V., (Breda) electrical installation companies that are part of the French SPIE Group, member of the Supervisory Board of WCC (Went Computing Consultancy Group) (Utrecht), and an independent board member of the Stichting Continuïteit TomTom (Amsterdam). In addition he is a director of several privately held subsidiaries of UK and Irish parent companies, residing in the Netherlands. In the non-profit sector he acts as vice-chairman of the board of trustees of Stichting Laurens ( Rotterdam ) engaged in the care for elderly people and as member of the board of trustees of Stichting Raamwerk (Noordwijkerhout ) active in the care for mentally and/or physically handicapped persons. Mr. de Bakker holds a MBA degree from the Amos Tuck School of Business Administration, Dartmouth College in Hanover, New Hampshire, United States, and a degree in business administration from the Erasmus University in Rotterdam, The Netherlands.

**Special Advisory Committee**

Until December 8, 2006, Messrs. J.P. Eschauzier, J.L. Bouma, and P.A. Wortel were members of our Board of Supervisory Directors by designation of the Enterprise Chamber by means of its rulings of December 14, 2005 and December 21, 2005. These members, whom together constituted the "**Special Committee"**, collectively held the exclusive power to decide on material arrangements to be concluded between us and other group companies of Tele2 AB. The Special Committee members were appointed for the duration of the proceedings filed on behalf of certain minority shareholders with the Enterprise Chamber. Following the December 8, 2006 ruling of the Enterprise Chamber, Messrs. Eschauzier, Bouma and Wortel resigned as members of the Board of Supervisory Directors. However, in the interest of continuity in our corporate governance, they agreed, with the endorsement of Tele2 AB, to continue to act as special advisors, together constituting our "**Special Advisory Committee"**, until the closing of the Acquisitions and the Offering. Consequently, we agreed not to enter into material transactions with Tele2 AB or its subsidiaries unless we received the approval of Messrs. Eschauzier, Bouma, and Wortel. Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel ceased to act as members of the Special Advisory Committee, on March 6, 2007, the date on which the closing of the Acquisitions and the Offering occurred.

**Biographies Special Advisors**

*J.P. Eschauzier (special advisor)*

Mr. J.P. (Jean Pierre) Eschauzier (1941) worked from 1969 until 2002 as a lawyer. From 2002 until 2005 he acted as honorary judge at the District Court of The Hague in The Netherlands.

*J.L. Bouma (special advisor)*

For Mr. Bouma's curriculum vitae, see "Board of Supervisory Directors – Biographies".

*P.A. Wortel (special advisor)*

Mr. P.A. (Piet) Wortel (1934) started his career in 1962 as chartered accountant. In 1970 he became partner at the legal predecessor of Ernst & Young and from 1972 until 1980 he worked as founding partner at the legal predecessor of Ernst & Young in Düsseldorf, Germany. From 1981 until 1994 he was Vice Chairman and later Chairman of the Board of the legal predecessor of Ernst & Young, and from 1989 until 1994 member of the Executive Committee and the Management Council of Ernst & Young International. Following that, Mr. Wortel worked as non-judicial member of the Enterprise Chamber until 2004. Mr. Wortel holds two other supervisory board positions: at SHB Havenpool B.V. in Rotterdam, The Netherlands and at Wolff Cinemagroep Utrecht B.V. in Utrecht, The Netherlands. In the latter board Mr. Wortel acts as chairman. Until 2006, Mr. Wortel also was chairman of the supervisory board of Waarborg voor Platina, Goud en Zilver N.V. in Gouda, The Netherlands.

**Board Practices**

*Board of Supervisory Directors*

Under Dutch corporate law and the articles of association of the Company, the management of the Company is entrusted to the Board of Management (*statutaire directie*) under the supervision of the Board of Supervisory Directors (*Raad van Commissarissen*). Under Dutch corporate law, supervisory directors cannot at the same time be managing directors of the same company. The primary responsibility of the Board of Supervisory Directors is to supervise the policies pursued by the Board of Management and the general course of affairs of the Company and its business. In fulfilling their duties, the members of the Board of Supervisory Directors are required to act in the best interests of the Company and its stakeholders.

Pursuant to the articles of association, the Board of Supervisory Directors is appointed by the general meeting of shareholders and must consist of at least three members. Resolutions of the Board of Supervisory Directors require the approval of a majority of the members. The Board of Supervisory Directors meets each time this is deemed necessary by one of its members. Every retiring Supervisory Director may be re-appointed.

During the 2006 annual general meeting of shareholders, held on June 4, 2007, the general meeting decided to increase the number of Supervisory Directors from five to six members to further balance the workload of the existing members of the Board of Supervisory Directors.

A member of the Board of Supervisory Directors may at any time be suspended or dismissed by the general meeting of shareholders. The members of the Board of Supervisory Directors will receive such remuneration as determined by the general meeting of shareholders.

None of the members of the Board of Supervisory Directors of the Company have an employment agreement with the Company, as such is not allowed under Dutch law.

The Board of Supervisory Directors has adopted rules for itself, which are published on the Company's website www.tele2.nl/corporate.

*Board of Management*

The current Board of Management consists of Mr. Ringmar, who's appointment became effective March 6, 2007 and Mr. Van Rooijen, whose appointment became effective February 12, 2007. Both current members of the Board of Management have been appointed for an indefinite term.

Mr. Borgklint, our former CEO, indicated on November 2, 2006 that he would resign at either the closing of the Acquisitions and the Offering or May 1, 2007, whichever date occurred earlier. As the Acquisitions and the Offering were closed on March 6, 2007, Mr. Borgklint's resignation was effective March 6, 2007.

The management of the Company is entrusted to the Board of Management under the supervision of the Board of Supervisory Directors. The articles of association provide that the Board of Management may lay down further rules and regulations with respect to its procedures and internal organisation if the Board of Supervisory Directors so determines these rules requires the prior approval of the Board of Supervisory Directors. In addition, the Company's articles of association provide that certain resolutions of the Board of Management require prior approval of the Board of Supervisory Directors. The Board of Supervisory Directors may identify additional resolutions, which require their prior approval.

The general meeting of shareholders appoints the members of the Board of Management.

The general meeting of shareholders has the power to suspend or dismiss members of the Board of Management. The Board of Supervisory Directors also has the power to suspend members of the Board of Management. If a member of the Board of Management is temporarily prevented from acting, the remaining members of the Board of Management shall temporarily be responsible for the management of the Company. If all members of the Board of Management are prevented from acting, a person appointed by the Board of Supervisory Directors (who may be a member of the Board of Supervisory Directors) will be temporarily responsible for the management of the Company. The compensation and other terms and conditions of employment of the members of the Board of Management are determined by the Board of Supervisory Directors.

The Board of Supervisory Directors has adopted rules for the Board of Management, which are published on the Company's website www.tele2.nl/corporate

## Committees of the Board of Supervisory Directors

*Audit Committee*

At the Meeting of the Board of Supervisory Directors of December 11, 2000, an Audit Committee was established. During the financial year 2007, the members of the Audit Committee were Messrs. De Bakker, who acts as Chairman, and Svedberg, who recently resigned (see "Subsequent Events"). The Audit Committee makes recommendations to the Board of Supervisory Directors regarding audit, financial and related issues. It reviews the operating results of the Company with the Chief Financial Officer and the external auditors, considers the adequacy of internal controls and audit procedures and reviews non-audit services provided by the external auditors.

During the financial year 2007, the Audit Committee met four times with management and the external auditors present. The Audit Committee also met without management, but with the external auditors present.

The Board of Supervisory Directors has adopted rules for the Audit Committee, which are published on the Company's website www.tele2.nl/corporate.

*Remuneration, Selection and Appointment Committee*

At the Meeting of the Board of Supervisory Directors of December 11, 2000, a Remuneration Committee was established. The Company did previously not have a formal Selection and Appointment Committee. It decided to combine the functions of the Selection and Appointment Committee with the Remuneration Committee and as a result installed and appointed a Remuneration, Selection and Appointment Committee on July 30, 2004. The current members of the Remuneration, Selection and Appointment Committee are Messrs. Jarnheimer and Bouma. The Remuneration, Selection and Appointment Committee makes recommendations to the Board of Supervisory Directors on salaries and incentive compensation for the employees of the Company, including the members of the Board of Management. Particular attention was given to the remuneration of the current Board of Management.

During the financial year 2007, the Remuneration, Selection & Appointment Committee met two times without management being present. The Board of Supervisory Directors has adopted rules for the Remuneration, Selection & Appointment Committee, which are published on the Company's website www.tele2.nl/corporate.

## Transactions with Members of the Board of Supervisory Directors and the Board of Management

The Company has not entered into transactions with one or more members of its Board of Management or Board of Supervisory Directors or their family members (which, for these purposes, include husbands, registered spouses, persons having a durable common household with and family members in the second degree) or companies in which they hold, directly or indirectly, a share interest of 5% or more, except for the transactions described herein.

## Conflict of interest Members of the Board of Supervisory Directors and the Board of Management

The Company is a group company of Tele2 AB, which, via its subsidiaries, holds approximately 98.8% of our outstanding ordinary shares on an actual basis and 99.0% on a fully-diluted basis (assuming the conversion by Tele2 AB of all of the Convertible Notes that it owns). Messrs. Nilsson, Jarnheimer and Olsson are all part of Tele2 AB's senior management, and each holds several management board positions within subsidiaries of the Tele2 AB group. So long as Tele2 AB controls our business, it may pursue corporate actions that may conflict with interests of our other shareholders or otherwise delay, deter or prevent corporate actions that may be favored by our other shareholders, including any potential changes of control. See also "Risk Factors – We are effectively controlled by Tele2 AB, whose interests may differ from those of our other shareholders".

Other than the aforementioned, and except as disclosed in "Related Party Transactions", we are not aware of any potential conflicts of interest between the private interests or other duties of the members of our current and appointed Board of Management or Board of Supervisory Directors and their duties and responsibilities to us.

## Compensation

*Board of Supervisory Directors*

The aggregate compensation for the Board of Supervisory Directors of the Company as a group for the financial year 2007 was € 302,762 compared to € 231,000 in 2006.

During the 2006 annual general meeting of shareholders, held on June 4, 2007, the general meeting approved the proposed remuneration (per annum) of the Supervisory Directors Messrs. Nilsson, Jarnheimer, Svedberg (who recently resigned) and Olsson. Prior to June 4, 2007, the Supervisory Directors who also hold a position at Tele2 AB, did not receive any compensation.

As a result of a ruling on December 14, 2005 by the Enterprise Chamber of the Amsterdam Court of Appeal three additional members were appointed to the Board of Supervisory Directors of the Company. On December 21, 2005, the Enterprise Chamber announced it had appointed Messrs. Bouma, Eschauzier and Wortel as such. The remuneration for these three additional members payable pursuant to the Enterprise Chamber decree was fixed at € 250 per hour. Following the December 8, 2006 ruling of the Enterprise Chamber, Messrs. Eschauzier, Bouma and Wortel resigned as members of the Board of Supervisory Directors. However, in the interest of continuity in the Company's corporate governance, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel agreed with the Company and with the endorsement of Tele2 AB, that they would continue to act as special advisors, together constituting the Special Advisory Committee, until the closing of the acquisitions of Tele2 (Netherlands B.V) and Tele2 Belgium N.V. and the rights offering. The Company agreed with them to pay the same amount (€ 250 per hour) for their services as members of said Special Advisory Committee. The acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and the associated rights offering were closed on March 6, 2007, as a consequence of which Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel resigned as per that date.

The following table sets out certain information relating to the compensation of the Board of Supervisory Directors and member of the Special Advisory Committee for the years ended December 31, 2007 and 2006:

| *(amounts in euro)* | **Remuneration 2007**[7] | **Remuneration 2006** |
|---|---|---|
| **Supervisory Directors and members of the Special Advisory Committee** | | |
| Lars Nilsson (Chairman) [1][6].......................... | 60,000 | - |
| Lars-Johan Jarnheimer (Vice-Chairman) [6] ... | 40,000 | - |
| Johnny Svedberg [6] [8]................................... | 40,000 | - |
| Anders Olsson [2][6]……………………………. | 40,000 | - |
| Robert de Bakker [2]………………………….. | 40,000 | |
| Joop Bouma [3]............................................... | 51,548 | 65,500 |
| *Resigned during 2007:* | | |
| Håkan Zadler [4] ………………………………. | n/a | - |
| Jean Pierre Eschauzier [5] …………………... | 19,247 | 97,750 |
| Pieter Wortel [5] ……………………………... | 11,967 | 67,750 |
| Total.............................................................. | 302,762 | 231,000 |

[1] Mr. Nilsson was appointed as member of our Board of Supervisory Directors as per June 4, 2007. Prior to that date, Mr. Nilsson was not engaged or employed by us, and consequently did not receive any remuneration from us in relation to 2006.

(2) Mr. Olsson was appointed as member of our Board of Supervisory Board as per February 12, 2007. Mr. de Bakker was appointed as member of our Supervisory Board effective March 6, 2007. Prior to such date, neither Mr. Olsson nor Mr. de Bakker were engaged or employed by us, and consequently neither of them received any remuneration from us in relation to 2006.

(3) Mr. Bouma was initially appointed by the Enterprise Chamber of the Amsterdam Court of Appeal as per December 14, 2005, resigned as per December 8, 2006 (as a result of the Enterprise Chamber ruling dated December 8, 2006) and subsequently continued to act as special advisor until March 6, 2007. Mr. Bouma has been (re)appointed to our Board of Supervisory Directors effective March 6, 2007.

(4) Mr. Zadler resigned as a member of our Board of Supervisory Directors on January 26, 2007.

(5) Messrs. Eschauzier and Wortel resigned as a member of our Special Advisory Committee effective March 6, 2007.

(6) During the 2006 annual general meeting of shareholders, held on June 4, 2007, the general meeting approved the proposed remuneration (per annum) of the Supervisory Directors Messrs. Nilsson, Jarnheimer, Svedberg and Olsson. Prior to June 4, 2007, these Supervisory Directors, who also hold a position at Tele2 AB, did not receive any compensation.

(7) The remuneration is calculated per annum as of the date of appointment and is paid out in 2008. Mr. Bouma also received an amount of € 11,548 for work performed as a member of the Special Advisory Committee until March 6, 2007, which was paid out in 2007.

(8) Mr. Svedberg resigned as a member of our Board of Supervisory Directors on April 25, 2008.

**Board of Management**

At the annual general meeting of shareholders held on May 18, 2005 a new remuneration policy was adopted by the general meeting and introduced. The remuneration package of the Board of Management comprises of a base salary, a short term incentive (bonus), a long term incentive and a pension allowance.

The bonus component of the total compensation is based on targets achieved, compared to a set of specific measurable targets agreed between the Managing Director and the Board of Supervisory Directors at the start of the year. These targets were based on revenue growth, EBITDA and free cash flow for the year 2007.

The total aggregate compensation of the members of the Board of Management in 2007 was € 723,618.The following table sets out the compensation paid by the Company to Messrs. Ringmar and Van Rooijen for the years ended December 31, 2007 and December 31, 2006. As Mr. Ringmar was appointed as CEO and member to the Board of Management effective March 6, 2007, he did not receive any compensation from the Company during the year 2006. Mr. Van Rooijen was appointed to the Board of Management as per February 12, 2007. Prior to his appointment he already served as the CFO of the Company and thus received compensation from the Company during the year 2006.

| *(amounts in euro)* | **Salary** | **Pension** | **Bonus(1)** | **Other(2)** | **Total** |
|---|---|---|---|---|---|
| Henrik Ringmar (CEO) 2007……………….. | 297,000 | 44,550 | 80,040 | 33,150 | 454,740 |
| 2006……………..... | - | - | - | - | - |
| Ernst Jan van Rooijen (CFO) 2007……………….. | 204,585 | 23,865 | 40,428 | - | 268,878 |
| 2006……………..... | 121,852 | 5,214 | 101,492 | - | 230,464 |

(1) An actual bonus disclosed in a specific year relates to the performance in that year, but are paid out in the following year. During 2007, Mr. Van Rooijen also received an amount of € 18,076 relating to the bonus of the year 2006.
(2) During 2007, Mr. Ringmar received certain allowances, which includes a compensation of 6 months rent (in the amount of € 19,200), for moving from Sweden to Amsterdam.

The remuneration of the former member of the Board of Management is provided in the following table.

| *(amounts in euro)* | **Salary** | **Pension** | **Bonus(1)** | **Other** | **Total** |
|---|---|---|---|---|---|
| Per Borgklint | | | | | |
| 2007……………….. | 75,329 | 15,066 | 30,132 | - | 120,527 |
| 2006……………..... | 289,170 | 60,726 | 63,033 | - | 412,929 |

(1) An actual bonus disclosed in a specific year relates to the performance in that year, but are paid out in the following year.

On November 2, 2006, Mr. Borgklint indicated that he would resign at either the closing of the Acquisitions and the Offering or 1 May 2007, whichever date occurred earlier. As the Acquisitions and the Offering were closed on March 6, 2007, Mr. Borgklint's resignation was effective March 6, 2007. No severance payment was agreed upon as a consequence of Mr. Borgklint's departure.

**Shareholdings**

The Supervisory Directors did not hold any shares or options in the Company as per December 31, 2007 and 2006.

No shares or options in the Company were held as per December 31, 2007 by the members of the Board of Management.

**Share Options**

No options on shares of the Company have been granted to any of our Supervisory Directors or members of our Board of Management during the financial year 2007.

In connection with the settlement of the Tele2 Offers, the Company cancelled and settled all option plans previously in existence, as well as any options outstanding under such plans in 2005.

As we are a group company of Tele2 AB, the members of the Board of Management have been offered and participate in a share option program in respect of shares in the capital of Tele2 AB.

**Works Councils**

There is a works council at the level of the Dutch operating company. The works council was established in May 2002.

The Company considers its relations with the works council to be good.

**Employees**

As per December 31, 2007, the Company had 708 (full-time equivalent) employees (2006: 638). None of the employees of the Company is represented by a labor union or covered by a collective bargaining agreement, and the Company has never experienced a work stoppage. The Company considers its employee relations to be good.

The following table sets forth the average number of full-time equivalents for continuing operations:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| The Netherlands………………. | 688 | 689 | 859 |

On March 6, 2007, the Company acquired Tele2 (Netherlands) B.V. The average number of full-time employees of this company is included in the table above as per the acquisition date.

On October 1, 2007, the Company sold and transferred the shares of its Belgian operating entities to KPN. Consequently the employees of the Belgian operating entities transferred to KPN and are not included in the table above (also excluded in the comparatives).

## Remuneration policy of the Board of Management

This report has been prepared by the Remuneration, Selection and Appointment Committee ("the Committee") on behalf of the Board of Supervisory Directors.

The Board of Supervisory Directors establishes the remuneration of the individual members of the Board of Management, in accordance with the Board of Management remuneration policy, as adopted at a General Meeting of Shareholders upon the proposal of the Board of Supervisory Directors. The Board of Supervisory Directors presents to the General Meeting of Shareholders for approval any scheme providing for the remuneration of the members of the Board of Management in the form of shares or options.

**Remuneration policy**

As from 2005, a new remuneration policy was introduced, which was subsequently amended by a resolution of the annual General Meeting of Shareholders held on June 21, 2006 (abolishment of a long term incentive) and a resolution of the annual General Meeting of Shareholders held on June 4, 2007 (change of the target benefit pension age).

The policy aims to attract, motivate and retain highly qualified executives to the Board of Management. The remuneration package aims to reflect our strategic short- and long-term performance goals.

**Remuneration structure**

Under our current remuneration policy, the remuneration package of the Board of Management comprises a base salary, a short-term incentive (bonus) and a pension arrangement. The remuneration policy aims at a balance of around 40% fixed and 60% variable pay, which is what the Board of Supervisory Directors believes to be in line with market practice.

The level and structure of the remuneration package of the Board of Management is determined in light of our strategic ambitions and market comparisons. The Board of Supervisory Directors holds the discretionary right to emphasize either the short-term incentive or the long-term incentive if deemed appropriate, in order to reflect our strategic and operational focus.

For market comparisons, a specific labor market peer group is defined. The peer group reflects the relevant Continental European labor market in which we compete for highly qualified executives. The peer group consists of seventeen companies of which seven are Dutch multinational companies and eleven Continental European companies. The companies are selected based one or more of the following criteria: headquartered in The Netherlands, Germany or Belgium, engaged in telecommunications, IT, media or publishing activities, active in the high-tech industry and pursuing aggressive growth strategy in the Dutch, German or Belgian market.

*The labor market peer group of the Company consists of the following companies:*

Arcor (Germany)
ASM International (The Netherlands)
ASML (The Netherlands)
Belgacom (Belgium)
Endemol (The Netherlands)
Freenet (Germany)
KPN (Mobile) (The Netherlands)
Mobilcom (Germany)
Mobistar (Belgium)
Neuf Telecom (France)
QSC (Germany)
Reed Elsevier (The Netherlands)
RTL Group (Luxembourg)
Tele2 AB (Sweden)
UGC Europe (The Netherlands)
United Internet (Germany)
Wolters Kluwer (The Netherlands)

The compensation data of the CEO and CFO position of Reed Elsevier, RTL Group, Tele2 AB and Wolters Kluwer are excluded from the market comparison. The remuneration comparisons are scaled to reflect a similar size of the Company, a technique commonly used by independent remuneration experts. The companies listed above that are no longer in existence are not taken into consideration when determining remuneration.

The Board of Supervisory Directors aims to bring total remuneration levels of the Board of Management broadly in line with median market levels.

*Base salary*

Base salary levels of the Board of Management should be broadly in line with the lower quartile level of the labor market peer group.

*Short-term incentive*

The short-term incentive is a key component of the total remuneration of the Board of Management. At target performance could result in a bonus of 85% of base salary. In the event performance exceeds expectations to a considerable extent, a maximum bonus of up to 200% of base salary could be rewarded. The short-term incentive is linked to financial performance criteria (75%) and individual performance criteria (25%). For 2007, the financial performance criteria were defined as revenue growth, EBITDA and free cash flow. The corresponding targets are not disclosed as these qualify as commercially sensitive information. The Board of Supervisory Directors holds the discretionary right to alter (the weighting of) these criteria and targets annually.

*Pension arrangement*

A defined contribution pension scheme is applicable to the Board of Management. The contribution amounts to a maximum of 20% of base salary. The target pension benefit age is 65. It was increased to 65 from the previous age of 60 because of the new Pension Act ('*Pensioenwet').* During the annual General Meeting of Shareholders held at June 4, 2007, a resolution to increase the target pension benefit age was adopted.

*Loans*

As a policy, the Company does not grant any personal loans, guarantees or the like to the Board of Management. There are currently no loans outstanding to the Board of Management.

*Employment contracts*

The current Board of Management consists of Mr. Ringmar, whose appointment became effective March 6, 2007 and Mr. Van Rooijen, whose appointment became effective February 12, 2007.

The employment agreement with Mr. Ringmar, our Chief Executive Officer, provides for a base salary of € 324,000 per year including holiday allowance (but excluding a bonus of up to 40% of such amount to be awarded by, and at the discretion of the Board of Supervisory Directors). In addition, Mr. Ringmar is entitled to a fixed pension contribution of 15% of his annual base salary (including holiday allowance). Mr. Ringmar's pension is included in the Tele2 AB pension scheme and such contributions are recharged to us. The employment agreement has been entered into for an indefinite period of time and provides for a notice period of 12 months upon termination by the Company. The employment agreement does not contain a (pre-determined) severance arrangement and is therefore aligned with the relevant provisions of the Dutch Corporate Governance Code. Mr. Ringmar does not hold any shares or options in the Company at December 31, 2007, nor has he been granted any share options in the Company during the year 2007.

The employment agreement with our Chief Financial Officer Mr. Van Rooijen provides for a base salary of € 213,840 per year including holiday allowance (but excluding a bonus of up to 35% of such amount to be awarded by, and at the discretion of the Board of Supervisory Directors). In addition, Mr. Van Rooijen is entitled to a fixed pension contribution of 12% of his annual base salary (including holiday allowance). The employment agreement has been entered into for an indefinite period of time and provides for a notice period of 6 months upon termination by the Company. The employment agreement does not contain a (pre-determined) severance arrangement and is therefore aligned with the relevant provisions of the Dutch Corporate Governance Code. Mr. Van Rooijen does not hold any shares or options in the Company at December 31, 2006, nor has he been granted any share options in the Company during the year 2007.

Mr. Borgklint, our former Chief Executive Officer indicated on November 2, 2006 that he would resign at either the closing of the Acquisitions and the Offering or 1 May 2007, whichever date occurred earlier. As the Acquisitions and the Offering were closed on March 6, 2007, Mr. Borgklint's resignation became effective on March 6, 2007.

The employment contract of Mr. Borgklint was entered into for an indefinite period of time with Tele2 (Netherlands) B.V., at that time still a group company of Tele2 AB, and provided for a notice period of twelve months upon termination by Tele2 (Netherlands) B.V.. In the event of a dismissal by Tele2 (Netherlands) B.V., Tele2 (Netherlands) B.V. would not recharge any severance payment Mr. Borgklint would be entitled to, to the Company, exceeding one year's base salary. Mr. Borgklint combined his position as Chief Executive Officer and member of our Board of Management with the position of Market Area Director UK & Benelux within the Tele2 AB Group. Accordingly, (Netherlands) B.V. recharged former Versatel 85% of Mr. Borgklint's total compensation. Mr. Borgklint's remuneration consisted of a base salary of € 340,200, a bonus of 40% and a fixed pension contribution of 21% of his annual base salary. No severance payment was agreed upon as a consequence of Mr. Borgklint's departure.

## Corporate Social Responsibility

The Company regards corporate social responsibility as an integral part of its operations, part of the way of doing business. We are a company that is committed to the community in the regions in which we operate. The Company's services contribute significantly to the economy by providing innovative data and communication solutions for the information society resulting in employment opportunities in The Netherlands. The Company provides indispensable products and services in the everyday lives of people and companies. We are conscious of our position in the community and recognize the expectations that exist in this regard.

### Shareholders

The Company is committed to applying the principles of good corporate governance, aiming for an effective and transparent management structure with the right division of responsibilities between executive and regulatory functions. All shareholders have equal rights and entitlements. The section on corporate governance provides a comprehensive review of the Company's relationship with its shareholders.

### Customers

The Company is always looking for distinctive solutions that will better meet its customers' telecommunications needs. The foundation of our business is trust, honesty and integrity. These are preconditions for a good relationship with the customer. To this end the Company introduced a number of company-wide clear customer values: Reliable, Customer-focused and Driven and with these values we strive towards operational excellence. After the settlement of the Tele2 Offers, the Company also introduced certain values used within the Tele2 Group: flexibility (listen to customers' needs and adapt quickly), openness (coherence, straight answers and a simple organization), cost-consciousness (careful with expenditures and questioning all costs). To achieve and maintain operational excellence, the entire organization is involved. It coordinates our company processes, systems and departments to optimize our services. In that line we have obtained several quality system certificates. In The Netherlands, since 2002, we have been certified with the NEN-EN-ISO 9001:2000 certificate for a quality management system and the ISO/IEC 27001:2005 certificate for an information security management system.

The Company's Security and Quality Program does not stop with our certifications. We continuously check, control and improve all security and quality standards and procedures, and will continue to do so in the future.

Our ICT professionals and a separate dedicated quality team continually review and report on the Company's ICT infrastructure security processes, procedures and implemented technology to ensure that any recommendations for enhancement are carried out to the same high standards.

### People at Tele2 Netherlands Holding

The Company's future depends on the quality and motivation of its personnel. The Company's corporate values continue to apply in full to the relationship between the Company and its employees and to the relationship between employees. One of the premises of the Company's HR policy is that its staff's knowledge, skills and ongoing development are essential ingredients of the Company's long-term success. Thanks to the renewed HR-policy as a result of the reorganization announced in May 2006, managers received clear guidelines and are encouraged to make greater differentiations in the annual job performance interviews, to identify and develop employees with management and leadership potential. More than in the past, these yearly reviews will have an effect in terms of employee career opportunities.

At December 31, 2007 the Company employed 739 people in The Netherlands (as of October 1, 2007 the Belgian operations are no longer part of the group as a result of the sale to KPN). This equates to 708 employees, measured in terms of FTE's (full time equivalents) at December 31, 2007.

The tables below provide detail breakdowns of our employees:

| *FTE* | **January 1, 2007** | **December 31, 2007** | **Movement** |
|---|---|---|---|
| The Netherlands | 638 | 708 | 11.0% |
| **Total** | 638 | 708 | 11.0% |

| *Headcount*<br>*The Netherlands* | **January 1, 2007** | **December 31, 2007** | **Movement** |
|---|---|---|---|
| Men | 530 | 577 | 8.9% |
| Women | 134 | 162 | 20.9% |
| **Total** | 664 | 739 | 11.3% |

**Environment**

The Company aims to raise its environmental performance to a socially responsible level and to keep it at that level. Its goal is to comply with the provisions prescribed by environmental legislation and regulations at the very least and to anticipate future legislation. The Company's environmental policy is focused on further improving our energy efficiency and reducing waste. As part of our environmental management policy cartridges and packing material are recycled, paper is printed on both sides and the Company will further improve the separation of waste.

**Other social responsibilities**

The Company donated football shirts regained from its sponsorship of the KNVB and 17 Eredivisie football clubs for charity purposes.

## Internal Risk Management and Control Systems

The design and operation of the Company's internal risk management and control systems are part of the tasks and responsibilities of our management. The purpose of these systems is to enable the significant risks to which the Company is exposed to be optimally managed. Such systems can never provide absolute assurance regarding achievement of corporate objectives, or entirely prevent material errors, losses, fraud and the violation of laws or regulations from occurring.

In order to comply with our obligations in the area of risk management and internal control, we have already in the past started the implementation of several measures. The most important measures are:

- Annual strategic evaluations of our business;
- Establish and authorize the annual budget, including monthly forecast updates;
- Monthly and quarterly financial reporting and review;
- Frequent review meetings with senior management to evaluate the operations;
- Accounting manual to standardize the accounting process;
- Strict guidelines for investments and contracts;
- Powers of attorney and authority procedures;
- The quality management system NEN-EN-ISO 9001:2000 and information security management system ISO/IEC 27001:2005 in The Netherlands;
- Further implementation of the Dutch corporate governance code.

After concluding the review of the control environment and the relevant risks, to which the Company is exposed, the implementation of internal risk management and control systems kicked off during 2005. The risk management and control systems are based on the process standards on internal control as described in the COSO Framework. In developing and establishing comprehensive risk management and control systems, the control activities surrounding the reliability of financial reporting have been the primal point of focus.

The Company's risk management and control systems include the following business and support processes:

- Financial statement closing and reporting
- Business development plan and budgeting
- Revenue and receivables
- Purchase and procurement
- Tax
- Treasury and cash management
- Fixed assets
- Human resources and payroll
- IT and network operations and development.

For all operational and support processes the key controls have been defined and for the financial processes all key controls have been assessed and gap analyses have been performed, providing a solid basis for risk assessment, and enabling further structuring and formalizing the risk and control activities to comply with the needs and changes of the Company.

For an overview of the Company Risk factors, see section "Company Risk Factors".

## In Control Statement

The Board of Management is responsible for the design, implementation and operation of the Company's risk management and internal control systems. These comprise policies, processes, tasks, behaviors and other aspects of the Company that, taken together, facilitate the achievement of objectives and prevent or ensure early identification of potential material errors and losses and misrepresentation of circumstances.

Our risk management and internal control systems can, however, never provide absolute assurance regarding the achievement of corporate objectives, or entirely prevent material errors, losses, fraud or violation of laws or regulations from occurring.

As part of our risk management and internal control systems, we have performed internal audits throughout the year. We continue to focus on further improving our risk management and internal control systems. Over the next few years, we will therefore continue to implement and monitor the minimum control standards for all relevant business processes, as well as procedures for recurrent risk and control assessments, and a reporting structure on the assessment of results.

Taking into account the above-mentioned constraints, our risk management and internal control systems give a reasonable degree of certainty during the year that the financial reporting does not contain material inaccuracies. The above-mentioned risk management and internal control systems also provide insight into the extent to which strategic and operational objectives are realized and laws and regulations are complied with.

Amsterdam, April 25, 2008

Board of Management
Mr. Henrik Ringmar, CEO
Mr. Ernst Jan van Rooijen, CFO

## Corporate Governance

### General

On December 9, 2003, the Dutch Corporate Governance Committee, also known as the *Tabaksblat* Committee, released the Dutch Corporate Governance Code (the **"Code"**). The Code contains 21 principles and 113 best practice provisions for management boards, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditors, disclosure, compliance and enforcement standards. A copy of the full text of the Code can be obtained through www.corpgov.nl. Dutch companies admitted to trading on a government recognized stock exchange, whether in The Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code that are addressed to the Board of Management or Board of Supervisory Directors and, if they do not apply them, to explain the reasons why. The Code provides that if a company's General Meeting of Shareholders explicitly approves the corporate governance structure and policy and endorses the explanation for any deviation from the best practice provisions, such company will be deemed to have applied the Code. On May 18, 2005, the General Meeting of Shareholders approved our corporate governance structure and policy, including non-compliance with some of the provisions. Should there be substantial changes in the future regarding the corporate governance structure and in the compliance with the Code, we will submit our corporate governance policy to the General Meeting of Shareholders again for discussion and approval.

As per January 1, 2005 the Company expanded its website with a corporate governance section. On this section the following documents can be found: Rules of the Board of Management, Rules of the Board of Supervisory Directors, a profile of the Board of Supervisory Directors, Rules of the Audit Committee, Rules of the Remuneration, Selection and Appointment Committee, the Company's Business Principles, a Whistleblower Policy and our Code of Conduct regarding insider trading.

The following overview sets out the Company's corporate governance policy to the extent the Company does not comply with the respective principle or best practice provision of the Code.

The best practice provisions not to be applied by us are:

**In relation to the Board of Management**

- **II.1.1: The Provision(s) regarding the term of appointment for members of the Board of Management**

  Mr. H. Ringmar and Mr. Van Rooijen (and previously Mr. Borgklint), were both appointed to the Board of Management for an indefinite period of time. Given that, as a result of the settlement of the Tele2 Offers, we have become a group company of Tele2 AB, for such time as we remain a group company of Tele2 AB, we do not intend to appoint members to the Board of Management for a fixed period of time. Given that in the past we have reserved our rights on the application of best practice provision II.1.1, under these circumstances we do not feel that this position is a substantial change regarding compliance with the Code that will be submitted for approval at the General Meeting of Shareholders.

- **II.2.6: The Provision(s) regarding regulations concerning ownership of and transactions in securities other than securities issued by us and by the Board of Management**

  Pursuant to article 4 of the Rules of the Board of Management, each member of the Board of Management is required to behave very scrupulously and avoid any (potential) conflict of interest or the appearance of any (potential) conflict of interest as much as possible. There are no specific trading limitations or reporting requirements for securities of other listed companies. A member of the Board of Management should disclose to our compliance officer if there have been any (potential) conflicts of interest related to securities of other listed companies.

- **II.2.7: The Provision(s) regarding the maximum remuneration of members of the Board of Management in the event of a dismissal**

  Our former Chief Executive Officer Mr. Borgklint, who indicated on November 2, 2006 that he would resign at either the closing of the Acquisition and announced rights offering or May 1, 2007, had an employment contract with Tele2 (Netherlands) B.V., which was at the time not part of our group. The amounts payable there under were (for the larger part) reimbursed by us. We, however, agreed not to reimburse Tele2 (Netherlands) B.V. for severance payments in the event of a dismissal by Tele2 (Netherlands) B.V., exceeding one year's base salary. Mr. Borgklint and Tele2 (Netherlands) B.V. did not agree upon any severance payment as a consequence of his departure. As a result of the closing of the Acquisition and the rights offering, Mr. Borgklint departed on March 6, 2007.

**In relation to the Board of Supervisory Directors**

- **III.5, III.5.10-13: The Provision(s) regarding the Remuneration Committee and the Selection and Appointment Committee**

  At the meeting of the Board of Supervisory Directors of December 11, 2000 a Remuneration Committee was established. We previously did not have a formal Selection and Appointment Committee. Due to the size of the Board of Supervisory Directors, it was decided to combine the functions of the Selection and Appointment Committee with the Remuneration Committee, and as a result installed and appointed a Remuneration, Selection and Appointment Committee on July 30, 2004.

- **II.7.3: The Provision(s) regarding regulations concerning ownership of and transactions in securities other than securities issued by us, by the Board of Supervisory Directors.**

  Pursuant to article 15 of the Rules of the Board of Supervisory Directors, each member of the Board of Supervisory Directors is required to behave very scrupulously and avoid any (potential) conflict of interest or the appearance of any (potential) conflict of interest as much as possible. There are no specific trading limitations or reporting requirements for securities of other listed companies. A member of the Board of Supervisory Directors should disclose to our compliance officer if there have been any (potential) conflicts of interest related to securities of other listed companies.

**In relation to the shareholders and the General Meeting of Shareholders**

- **IV.1, IV.1.7: The Provision(s) regarding Proxy voting and Registration Date**

  We believe it is in our best interest that as many shareholders as possible take part in the decision-making process at General Meetings of Shareholders. At the 2001 annual General Meeting of Shareholders, we expressed our intention to introduce the possibility of expanding voting by proxy and of improving communication among shareholders ("expanded proxy voting") through the Dutch Communication Channel for shareholders (*Stichting Communicatiekanaal Aandeelhouders*). Since then however, we concluded that the costs associated with expanded proxy voting, as offered by the Dutch Communication Channel for shareholders, were very high. Also, we have taken into consideration that the number of participants to the Dutch Communication Channel for shareholders is limited.

  With interest, we have taken notice of the recently introduced law for the promotion of the use of electronic communications means in the decision making process at General Meetings of Shareholders. We believe that this new law will build an important foundation for the implementation of expanded proxy voting and are still assessing if and to what extent we can or should implement the new law.

  In view of the aforementioned, we have not yet offered our shareholders the opportunities of expanded proxy voting. We will, however, reconsider the implementation of expanded proxy voting on an annual basis.

- **IV.3.1: The Provision(s) regarding shareholder access to all meetings with analysts and (institutional) investors**

  The Code's guidelines regarding the provision of information to and logistics of the General Meeting of Shareholders provide for shareholders' access to all meetings with analysts, investors and institutional investors, either via web casting or via telephone lines. We ensure that all material information about us that is made public is shared on an equal and public basis through press releases and/or press conferences. However, we believe that costs and operational practicalities associated with facilitating all shareholders to follow all scheduled or unscheduled meetings with analysts and (institutional) investors would be disproportionate and will therefore exclude one-on-one meetings. As we already ensure that all material information about us that is made public is shared on an equal and public basis through press releases and/or press conferences, these one-on-one meetings will not result in new material information being shared unequally amongst investors.

**Decision Article 10 European Take-over Directive**

Sections b, d, e, f, g, j and k of article 1 of the Decision Article 10 Take-over Directive (*Besluit artikel 10 overnamerichtlijn*) do presently not apply. For sections a, c, h and i of article 1 of said decision reference is made to the relevant paragraphs throughout this annual report (Description of the shares - Directors and Officers, Management and Employees - Remuneration Policy of the Board of Management).

## Related Party Transactions

Following the settlement of the Offers by Tele2 Finance, all transactions between the Company and Tele2 AB group companies have been entered into on arm's length basis and complies with best practice provisions II. 3-2 through II.3-4 and III.6.3 of the Code. Until December 8, 2006, all material arrangements between the Company and Tele2 AB group companies were subject to approval by the three members of the Special Committee. As from December 8, 2006 and until their resignation on March 6, 2007, all material arrangements between the Company and Tele2 AB Group companies were subject to approval by the three members of the Special Advisory Committee and have since then been subject to approval of Messrs. De Bakker and Bouma, our members of the Board of Supervisory Directors that are independent in relation to Tele2 AB.

The following table shows information on "Related Party Transactions" entered into during 2007. The table only relates to The Netherlands and includes transactions entered into between the Company and Tele2 (Netherlands) B.V. until March 6, 2007.

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Related party revenues | 5,086 | 4,333 |
| Related party costs | (23,793) | (45,476) |
| Related party interest expenses | (12,944) | (12,124) |
| Total related party transactions | (31,651) | (53,267) |

The following is a narrative description of "Related Party Transactions" between the Company and Tele2 AB group companies, other than Tele2 (Netherlands), which company became part of our group as per March 6, 2007 and Tele2 Belgium N.V., which company has been divested as per October 1, 2007. The transactions between the Company and Tele2 (Netherlands) B.V. and Tele2 Belgium N.V., entered into prior to joining the group respectively departing the group, have been effected on an arm's lengths basis and comply with best practice provisions II. 3-2 through II.3-4 and III.6.3 of the Code.

It should be noted that most of the below mentioned transactions have been entered into in connection with the acquisition of Tele2 (Netherlands) B.V. in March 2007 and were intended to (i) facilitate the transition of the operations of Tele2 (Netherlands) B.V. to us, and to (ii) deliver the necessary ongoing support for the continuation of operations of Tele2 (Netherlands) B.V.

### Network

The Company (through its subsidiaries) has signed interconnection agreements with other Tele2 AB group companies within Europe for the onwards transmission or termination of voice traffic (local, international and mobile destinations). The amount of traffic sent and received by the Company depends on actual customer usage and on the rates used by the Company respectively by Tele2 AB group companies for the different destinations.

Through Tele2 (Netherlands) B.V. the Company has access to the international mobile roaming agreements that Comviq (a Swedish mobile network operator owned by Tele2 AB) possesses. The Company is also able to utilize the Multi-media messaging service ("**MMS**") and short messaging service ("**SMS**") platform as well as the General Packet Radio Service ("**GPRS**") and Wireless Application Protocol ("**WAP**") services offered by Comviq, for its mobile customers in The Netherlands. In addition, our subsidiary Tele2 (Netherlands) B.V. utilizes a framework agreement that Tele2 AB has negotiated with a supplier of a content billing platform for mobile phone users. Our mobile customers are able to download ringtones and pictures on their handset with the use of said platform.

The Company delivers telecommunication services to a Tele2 AB Group related company called Transcom, which provides call center activities in the north of the Netherlands.

The company is connected to the so-called Eurocore IP network that Tele2 AB operates throughout Europe. Due to scale advantages Tele2 AB is able to negotiate competitive prices from its suppliers. The amount invoiced by Tele2 AB depends on the amount of IP traffic sent.

Our Dutch operations were previously connected to the Arbinet Exchange in New York through an international leased line. The Arbinet Exchange is a virtual trading floor for international minutes/capacity. By using the existing connection between Tele2 UK and Arbinet UK in London, we no longer have to pay for the use of the international leased line. The costs of sharing the Tele2 UK connection to Arbinet UK are (re)charged to us.

**IT**

The Tele2 AB Group has centralized most of its billing activities for the different Tele2 AB subsidiaries in Latvia. We utilize these billing services for the different products offered by our subsidiary Tele2 (Netherlands) B.V. The billing services include mediation and fraud detection. In addition, we use a pre-paid billing platform that Tele2 AB purchased. The platform enables, amongst other things, mobile customers to renew their pre-payment credit. The Company also uses certain other systems for its mobile product offering (specifically for SMS, WAP, MMS, prepaid, etc.) that are being operated by Tele2 AB out of Sweden.

Through our subsidiary Tele2 (Netherlands) B.V., we use a trouble ticket system called "ARS Remedy" developed by Tele2 AB and mainly used for customer care purposes. The costs are user based.

Furthermore, we use a preselection ordering system used by the Tele2 AB Group called "CAPAS". The system is centrally operated by a team in Sweden and Germany. Through our subsidiary Tele2 (Netherlands) B.V., we also use a number portability platform provided by Tele2 AB. In addition, we use a system called "Porthandler" developed by Tele2 AB, enabling us to in- and out port mobile phone numbers.

In addition, we use a management information system (DART data warehouse) and a marketing information system (MIS) centrally operated out of Sweden.

Through our subsidiary Tele2 (Netherlands) B.V., we use a system called Inter Carrier Accounting System ("**ICS**"). The system is used by the Tele2 AB Group to monitor, record and analyze traffic between Tele2 AB and other carriers. ICS is configured with the necessary network information and rate tables. The service includes reporting and invoicing information to be able to assess invoices from other operators and create invoices to be issued to these other operators.

Tele2 AB delivers certain Network Operational Center support to our subsidiary Tele2 (Netherlands) B.V. The Network Operational Center monitors several services such as: fixed telephony (voice switches), dial-up internet access (routers, switches, RADIUS, modem pools, etc.) and e-mail (DNS, e-mail servers, peering arrangements, RIPE etc). The services are delivered based on actual costs. We also use a tool developed by the Tele2 AB Group to manage traffic statistics in its network. The administration is centralized in Sweden.

In order to benefit from the database functionality that the e-mail program Lotus Notes offers and which has been tailored for Tele2 AB, we have migrated to the Lotus Notes program used by Tele2 AB. As Tele2 AB has negotiated more favorable terms, we have purchased the licenses through Tele2 AB.

Through our subsidiary Tele2 (Netherlands) B.V., we utilize IT support offered within the Tele2 AB Group. The services include the delivery of firewalls, LAN monitoring and capacity and fault management. A separate entity within the Tele2 AB Group (UNI2 AB) delivers PC support, server maintenance and certain IT consulting services. The services also include the delivery and maintenance of Lotus Notes licenses. In addition, Tele2 AB services the maintenance of certain databases and applications within Lotus Notes.

Last, we use mailboxes (including storage on mail servers), centrally hosted in Sweden, for certain customers.

**Operational**

Several of our employees provide services to Tele2 AB group companies, mainly in the area of marketing, human resources, information technology, and tax. These costs are recharged to Tele2 AB group companies on a pro-rata basis for services rendered. Also, certain Tele2 AB employees deliver services to us. These costs are being recharged to us on a pro-rata basis for services rendered.

We have outsourced certain call center and credit collection activities to a Tele2 AB related group company, called Transcom. The amounts charged to us are based on market prices.

**Financial**

Following the settlement of the Tele2 Offers, we entered into a related party loan agreement with Tele2 Finance, repayable in 2010 and bearing an interest rate equal to Euribor (or such other rate as notified by Tele2 Finance) plus 1.25%. During 2007 we and Tele2 Finance agreed to amend the related party loan. As of October 1, 2007, the related party loan bears an interest rate equal to 3-months Euribor plus 1.25%. The repayment date remained the same. Due to an internal assignment within the Tele2 AB Group, the related party loan is currently held by Tele2 Europe S.A. Subsequent to the sale of our Belgian subsidiaries on October 1, 2007, we repaid an amount of € 125 million under the related party loan with Tele2 Europe S.A. As of December 31, 2007, the amount repayable under this loan, including interest, totaled € 61.0 million. In addition, we secured a standby facility in the amount of € 200 million for general corporate purposes.

Pursuant to the Tele2 Offers, Tele2 Finance purchased all of our outstanding Convertible Notes and continues to own all of such debt. In October 2007, Tele2 Finance assigned the Convertible Notes (together with the related party loan referred to above) to Tele2 Europe S.A. The total interest expense incurred for the year ended December 31, 2007 for the related party loan agreement and the Convertible Notes is € 12.9 million.

We have been included on the insurance policies of Tele2 AB for public liability insurance, property insurance, directors and officers liability insurance, and travel insurance. With respect to our ICT Professional Indemnity Insurance relating to certain customers, we maintained our local insurance.

In order to minimize restrictions on our cash, Tele2 Finance has issued a bank guarantee on our behalf for a total amount of € 14.6 million in relation to proceedings pending with the Dutch tax authorities regarding the wage tax claim (see section "Description of Business—Legal Proceedings"). and a guarantee in the amount of € 15.2 million as a security of our payment obligations under our license agreement with the Eredivisie C.V.

The guarantee issued for the benefit of the Eredivisie C.V. (€ 15.2 million) has been cancelled in the course of 2007. We are currently discussing with the Dutch tax authorities the cancellation (and amount) of the guarantee issued for the benefit of them.

We have agreed with Tele2 Finance that to the extent an amount is claimed under either of the two bank guarantees and the bank debits such claimed amount to the account of Tele2 Finance, such amount will be added to the principal amount of our related party loan agreement under the same conditions that apply to our related party loan agreement with Tele2 Finance, which has subsequently been assigned to Tele2 Europe S.A..

**Other**

More details on the financial impact of the related party transactions on the financial statements of Tele2 Netherlands Holding can be found and are further disclosed in note 27 to the Financial Statements under "Related Parties".

# FINANCIAL STATEMENTS

# Tele2 Netherlands Holding N.V.

## Consolidated Financial Statements

Consolidated balance sheet

at December 31, 2007

(Currency – thousands of euros)

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Intangible assets | 5 | 206,503 | 47,886 |
| Property, plant and equipment | 6 | 289,107 | 389,271 |
| Financial assets | 7 | 1,062 | 1,144 |
| Total non current assets | | 496,672 | 438,301 |
| **Current assets** | | | |
| Inventory | 8 | 1,648 | - |
| Trade | 9 | 75,652 | 43,964 |
| Unbilled revenues | | 38,483 | 24,008 |
| Other receivables and prepaid expenses | 10 | 8,343 | 4,144 |
| | | 124,126 | 72,116 |
| Cash and cash equivalents | 11 | 38,676 | 87,821 |
| Total current assets | | 162,802 | 159,937 |
| Total assets | | 659,474 | 598,238 |
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Common stock, euro 0.02 par value | | 18,848 | 10,471 |
| Additional paid-in capital | | 1,998,781 | 1,755,767 |
| Accumulated deficit | | (1,770,148) | (1,705,624) |
| Total equity | 12 | 247,481 | 60,614 |
| **Non current liabilities** | | | |
| Deferred income tax liability | 13 | 25,318 | 5,421 |
| Long term debt | 14 | - | 10,813 |
| Related party long term senior notes | 15, 27 | 105,787 | 101,276 |
| Related party long term loan | 16, 27 | 61,035 | 177,935 |
| Provision for idle building | 17 | 415 | 4,500 |
| Other non current liabilities | 18 | 22,762 | 24,831 |
| Total non current liabilities | | 215,317 | 324,776 |
| **Current liabilities** | | | |
| Related party payables | 27 | 4,535 | 36,813 |
| Trade and other payables | | 69,616 | 50,769 |
| Income tax payable | | 22 | 52 |
| Accrued liabilities | 19 | 84,701 | 83,515 |
| Unearned revenue | | 37,802 | 41,699 |
| Total current liabilities | | 196,676 | 212,848 |
| Total equity and liabilities | | 659,474 | 598,238 |

## Consolidated statement of operations

for the year ended December 31, 2007

(Currency – thousands of euros)

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **Revenues** | 20 | 582,406 | 337,308 |
| **Operating expenses** | | | |
| Direct cost of revenues | | 303,971 | 139,004 |
| Wages and salaries | 21, 22 | 38,136 | 45,146 |
| Social securities | | 3,746 | 4,335 |
| Pension cost | | 1,122 | 1,310 |
| Advertising and marketing expenses | | 52,723 | 15,598 |
| Depreciation of property, plant and equipment | 6 | 93,134 | 97,661 |
| Amortization of intangible assets | 5 | 45,946 | 29,832 |
| Occupancy | 17 | 13,808 | 16,828 |
| Other cost of revenues | 23 | 88,288 | 45,732 |
| Total operating expenses | | 640,874 | 395,446 |
| Operating result | | (58,468) | (58,138) |
| **Financial income and expense** | | | |
| Interest and other income | | 3,011 | 3,269 |
| Interest and other expense | | (26,679) | (21,622) |
| Currency exchange gain | | 717 | 154 |
| Total financial income and expense | 24 | (22,951) | (18,199) |
| Result before income taxes | | (81,419) | (76,337) |
| Income tax credit | 13 | 1,228 | 2,056 |
| Result for the period from continuing operations | | (80,191) | (74,281) |
| Result for the period from discontinued operations | 25 | 15,667 | (25,867) |
| Result for the period | | (64,524) | (100,148) |
| Result attributable to: | | | |
| Equity holders of the parent company | | (64,524) | (100,148) |
| Earnings per share: | | | |
| Basic | 26 | (0.07) | (0.19) |
| Diluted | 26 | (0.07) | (0.19) |
| Net result from continued operations per common share: | | | |
| Basic | 26 | (0.09) | (0.14) |
| Diluted | 26 | (0.09) | (0.14) |
| Net result from discontinued operations per common share: | | | |
| Basic | 25 | 0.02 | (0.05) |
| Diluted | 25 | 0.02 | (0.05) |

Consolidated cash flow statement

for the year ended December 31, 2007

(Currency – thousands of euro)

| | Notes | 2007 | 2006 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Result for the period from continuing operations ............................. | | (80,191) | (74,281) |
| Result from activities prior to discontinuance .................................. | | 15,667 | (25,867) |
| | | (64,524) | (100,148) |
| *Adjustments to reconcile result for the period to net cash provided in operating activities* | | | |
| Depreciation and amortization ........................................................ | 6,7 | 152,623 | 143,962 |
| Gain on disposal of business .......................................................... | 25 | (32,345) | - |
| Net book value of property, plant and equipment and intangible assets sold................................................................ | | - | 575 |
| Amortization finance cost ................................................................ | | 107 | 391 |
| Deferred income tax movement ...................................................... | 13 | (1,228) | (2,056) |
| Non cash-portion of interest and other income ................................ | | 4,404 | 3,812 |
| *Changes in current assets and current liabilities* | | | |
| Trade accounts receivable................................................................ | | (18,431) | (13,182) |
| Inventory........................................................................................... | | 3,878 | - |
| Other receivables and prepaid expenses ........................................ | | 21,064 | 20,720 |
| Accounts payable ............................................................................ | | (14,541) | (16,918) |
| Related party payables..................................................................... | | (32,278) | 36,813 |
| Unearned revenue............................................................................ | | (3,897) | (4,479) |
| Accrued liabilities, net....................................................................... | | (368) | (9,697) |
| Net cash provided by operating activities ........................................ | | 14,464 | 59,793 |
| **Cash flows from investing activities** | | | |
| Capital expenditures......................................................................... | | (101,786) | (109,009) |
| Net receipt from the disposal of investments................................... | 25 | 100,172 | - |
| Acquisition of business, net of cash ................................................ | 4 | (196,486) | - |
| Cash receipt from sale of property, plant and equipment and intangible fixed assets................................................................ | | - | 40 |
| Net cash used in investing activities ................................................ | | (198,100) | (108,969) |
| **Cash flows from financing activities** | | | |
| Proceeds from share offering, net of expenses ............................... | | 251,391 | - |
| Proceeds under capital lease obligations ........................................ | | - | - |
| Proceeds/(redemption) of short term loans...................................... | | - | (3,926) |
| Proceeds from lease incentive.......................................................... | 17 | - | 26,900 |
| Net proceeds from related party long term loan............................... | 16 | (116,900) | 7,280 |
| Refund of capital tax......................................................................... | | - | 194 |
| Net cash (used in)/provided by financing activities ........................... | | 134,491 | 30,448 |
| Net decrease in cash and cash equivalents...................................... | | (49,145) | (18,728) |
| Cash and cash equivalents, beginning of the year ........................... | | 87,821 | 106,549 |
| Cash and cash equivalents, end of the year..................................... | | 38,676 | 87,821 |

| | | |
|---|---|---|
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION: | | |
| Cash paid for – Interest as part of cash flows from operating activities.......... | 602 | 467 |
| - Interest as part of cash flows from financing activities........... | 4,844 | 4,844 |
| - Income taxes as part of cash flows from operating activities. | - | 332 |
| Cash interest received as part of cash flows from operating activities ........... | 2,841 | 3,008 |

Consolidated statement of changes in equity

for the year ended December 31, 2007

| (Currency – thousands of euros) | Number of Shares | Issued and Paid-in Capital | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|---|---|---|---|---|
| Balance January 1, 2006 | 523,549,146 | 10,471 | 1,755,573 | (1,605,476) | 160,568 |
| Result for the period | | - | - | (100,148) | (100,148) |
| Refund capital tax | | - | 194 | - | 194 |
| Balance December 31, 2006 | 523,549,146 | 10,471 | 1,755,767 | (1,705,624) | 60,614 |
| Result for the period | | - | - | (64,524) | (64,524) |
| Proceeds from new share issues | 418,839,316 | 8,377 | 247,114 | - | 255,491 |
| Costs of share issues | | - | (4,100) | - | (4,100) |
| Tax calculated for costs of share issues | | - | - | - | - |
| Balance December 31, 2007 | 942,388,462 | 18,848 | 1,998,781 | (1,770,148) | 247,781 |

Notes to consolidated financial statements

at December 31, 2007

(Currency – thousands of euros)

## 1 General

Tele2 Netherlands Holding N.V. ("Tele2 Netherlands Holding", "Group", "Company" or "we"), incorporated in Amsterdam on October 10, 1995, provides international and national telecommunication services in The Netherlands.

Our corporate purposes are:

- to participate in, and to finance (including to provide security for the debts of third parties) to manage and supervise other enterprises and companies;
- to render services to other enterprises and companies; and
- to do all that is connected with the above all to be interpreted in the broadest sense.

## 2 Significant Accounting Policies

### a) General

The consolidated financial statements of Tele2 Netherlands Holding N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in the process of applying the Company's accounting policies. Actual results may differ from these estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 28 Critical Accounting Estimates and Judgments.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. Furthermore the accounting policies have been applied consistently by Group entities.

### b) Changes in accounting policies

The Company did not change any accounting policy except for the adoption of new and revised Standards.

### c) Adoption of new and revised Standards

**Standards and Interpretations effective in the current period**
The Company has adopted all new and revised IFRSs and IFRIC interpretations, which are effective for annual reporting periods beginning on January 1, 2007.

In the current year, the Company has adopted IFRS 7 'Financial Instruments: Disclosures', which is effective for annual reporting periods beginning on or after January 1, 2007 and the consequential amendments to IAS 1 'Presentation of Financial Statements'.

IFRS 7 requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. These relevant disclosures are included throughout the financial statements. There has been no effect on the financial position or results. Comparative information has been revised where required.

IAS 1, `Presentation of Financial Statements' requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The relevant disclosures are included throughout the financial statements.

Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the period beginning January 1, 2007 and ending December 31, 2007. The Company adopted the following relevant interpretations.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. The adoption of this interpretation does not have any impact on the Company's financial statements.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognized in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Company's financial statements.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007, but are not relevant to the operations of the Group:

- IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies'; and
- IFRIC 9, 'Re-assessment of embedded derivatives'.

**Early adoption of Standards and Interpretations**

The Company did not early adopt IFRIC 11, 'IFRS 2 – Group and treasury share transactions' (effective March 1, 2007). IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities should be accounted for as equity settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation could have an impact on the Company's disclosures in the financial statements due to the granted options over the parent's shares (Tele2 AB) to management. The Company is currently assessing the expected impact of said requirement.

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after January 1, 2008 or later periods, but the Group has not early adopted them.

IAS 23, 'Borrowing Costs'. A revised IAS 23 'Borrowing costs' was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. The revision of the standard will have an impact on the Group's accounts as borrowing costs on qualifying assets are currently not capitalized.

IFRS 8, 'Operating segments ' (effective January 1, 2009). IFRS 8 replaces IAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as used for internal reporting purposes. The Group will apply IFRS 8 as of January 1, 2009. The Company is currently assessing the expected impact of said requirement.

IFRIC 12, 'Service concession arrangements' (effective January 1, 2008). This standard is not relevant for the Company and therefore will have no impact on the Company's accounts.

IFRIC 13 'Customer Loyalty Programs' (effective for accounting periods on or after July 1, 2008). IFRIC 13 requires customer loyalty programs to be accounted for as 'multiple element revenue transactions'. Any consideration received in the initial sales transaction should be allocated between the sale of services and the discount entitlements that are earned by the customer. The revision of the standard will have no impact on the Group's accounts because the Company does not have customer loyalty programs.

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective January 1, 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Company will apply IFRIC 14 as of January 1, 2008. The Company does not expect this requirement to have an impact on the Company's accounts, because we have only defined contribution plans

### d) Foreign Currency Transactions

The Company's functional currency is the euro. Transactions involving other currencies are converted into euro using the exchange rates that are in effect at the time of the transactions. At the balance sheet date, monetary assets and liabilities, which are denominated in other currencies, are adjusted to reflect the current exchange rates. Gains or losses resulting from foreign currency re-measurements are reflected in the accompanying consolidated statement of operations.

### e) Intangible Assets

**Goodwill**

Goodwill originating from the acquisition of a subsidiary represents the difference of the fair value, the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary at the date of the acquisition. When the fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities exceeds the cost of acquisition (so-called "negative goodwill") the excess is recognized directly in the statement of operations.

Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

**Intangible assets acquired separately**

Intangible assets acquired are reported separately at cost less accumulated amortization and accumulated impairment losses. Amortization is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method is reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Intangible assets acquired in a business combination**

Intangible assets acquired in a business combination are identified and recognized separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, as intangible assets acquired separately.

**Amortization and estimated useful lives**

Intangible assets, excluding goodwill and intangibles with an indefinite useful live, are amortized on a straight-line basis over their estimated useful lives. The estimated useful lives are:

| | |
|---|---|
| Customer base | 4 years |
| Licenses | 1 - 3 years |

The amortization for licenses starts from the date that the services are actually offered under the license.

**Intangible assets with an indefinite useful live**

Intangible assets with an indefinite useful live, excluding goodwill, are recognized at cost less accumulated impairment losses. Intangible assets with an indefinite useful live are tested annually for impairment.

The intangible assets with an indefinite useful live are:

Trade Name

**f) Property, Plant and Equipment**

Property, plant and equipment are stated at the acquisition cost, less straight-line depreciation and identified impairment. The depreciation is calculated on the basis of acquisition cost less residual value and the estimated useful life of the related asset. The useful lives and residual values are re-assessed every year.

The estimated useful lives are:

| | |
|---|---|
| Leasehold improvements | 5 - 10 years |
| Telecommunications equipment | 3 - 20 years |
| Other property, plant and equipment | 3 - 5 years |

Self-manufactured assets include all direct expenses incurred (e.g. work contracted out, direct labor, and material cost). Indirect expenses, which can be attributed to this activity, are also capitalized. Depreciation is calculated using the straight-line method over the estimated useful life, taking into account residual values.

**g) Impairment of Property, Plant and Equipment and Intangible Assets excluding goodwill**

The Company reviews its property, plant and equipment and intangible assets for impairment at each balance sheet date and when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the recoverable amount is estimated to be less than the carrying amount of an asset, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

### h) Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments under operating leases (net of any incentives received from the lessor) are charged to the statement of operations on a straight-line basis.

Property, plant and equipment operated by the Company where the Company has substantially all the risks and rewards of ownership are classified as a financial lease. Financial leases are capitalized at the lower of the fair value of the property, plant and equipment and the present value of the minimum lease payments at the start of the contract. The related debt is presented under long term debt. The short term portion is presented under accrued liabilities as short-term portion of long term debt. Property, plant and equipment acquired under a financial lease are depreciated over the shorter of the asset's useful life and the lease term.

### i) Financial Assets

Financial assets include investments and long-term receivables. Financial assets are stated at fair value.

### j) Business Combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange of control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Business Combinations) are recognized at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations).

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after measurement, the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured as the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

### k) Inventory

Inventories of materials and supplies are valued in accordance with the first-in, first-out principle at the lower of acquisition value and net realizable value. The Company's inventories essentially relates to sales stock, which consist of SIM cards and mobile handsets.

### l) Accounts Receivable

Accounts receivable are stated at face value, less an allowance for impairment for expected credit losses as a result of future events. An allowance for impairment for expected credit losses as a result of future events is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The impairment is recognized in the statement of operations within 'other cost of revenues'.

### m) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, and other short term highly liquid investments with original maturities of three months or less.

### n) Income Tax and Deferred Income Tax

The Company accounts for income tax under the assets and liability method that requires recognition of deferred tax assets and liabilities for the expected future income tax consequences of transactions that have been included in the financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the temporary differences between the financial statement and income tax bases of assets, liabilities and carry forwards using enacted tax rates in effect for the year in which differences are expected to reverse or the carry forwards are expected to be utilized. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available.

### o) Related Party Long Term Senior Notes

The related party long term senior notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the equity component is estimated using the Company's market interest rate for equivalent non-convertible senior notes. This amount is recorded as a liability on an amortized cost basis until extinguished upon conversion or at maturity of the senior notes. The difference between proceeds of the issue of the senior notes and the fair value assigned to the liability component, representing the embedded conversion option, is denominated as the equity component. The equity component is recognized and included in the equity, net of corporate income tax effects.

Issue costs are apportioned between the liability and equity components of the senior notes based on their relative carrying amounts at the date of issue. The portion related to the equity component was deducted from the equity component. The portion related to the liability component was capitalized and included in the liability component and amortized over the life time of the liability. The interest expense on the liability component is calculated using the effective interest method.

### p) Long Term Debt, Related Party Loan and Non Current Liabilities

Long term debt, related party long term loan and non current liabilities are measured at amortized cost using the effective interest method.

### q) Provisions

Provisions are recognized for the actual obligations, existing at the balance sheet data and arising from past events, for which it is probable that an outflow of resources embodying economic benefits will be required, which can be reasonably estimated. If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects, where appropriate, the risks specified to the liability. Where discounting is used, the carrying amount of the provision increases in each period to reflect the passage of time and is recognized as borrowing cost.

Present obligations under onerous contracts are recognized and measured as a provision. An onerous contract is considered to exist where the Company has a contract where unavoidable costs of meeting the obligations exceed the economic benefits to be received under it.

Provisions for restructuring are recognized when the Company has a detailed formal plan for the restructuring that has been communicated to affected parties.

### r) Other Assets and Liabilities

All other assets and liabilities are stated at the amounts at which they were acquired or incurred, unless disclosed otherwise.

### s) Recognition of Operating Revenues

Operating revenues are stated net of discounts and value added taxes and are recognized when the service is rendered or assets are sold and collectability is probable. Invoices sent and cash received in advance of services rendered is recorded as unearned revenue. One-off connection fees and other initial fees, in general invoiced at the start of the contract, are deferred to unearned revenue and are recognized over the estimated customer relationship period. Direct cost of revenues is recorded in the same period as the revenue is recorded. The direct cost relating to one-off connection fees and other initial fees are deferred to property, plant and equipment and depreciated over the estimated customer relationship period. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. The arrangement consideration must then be allocated among the separate units of accounting based on their relative fair values. The Company has entered into alliances and revenue share arrangements with third parties for content and other voice services. Determining whether the Company is the principal or the agent in these transactions depends on the fact of each arrangement. When the Company is identified as the principal in the transaction the revenue is recorded as the gross proceeds billed, net of any discounts. When the Company is identified as an agent the net commission earned is recorded as revenue. Specifically, the Company's policies are as follows:

**Voice Revenues**
Operating revenues derived from providing various telecommunication services to customers include the following:

- *General Voice services:* the Company primarily generates revenues from voice services through carrier select, dial around, least cost routing, ISDN, VOIP and call termination services. Revenues are measured in terms of subscription costs and traffic minutes processed and are recognized in the period in which the connection is provided.

- *Toll-free (0800) and premium dial-in services:* the Company offers Toll-free (0800) and premium dial-in services. For Toll-free services revenues are measured in terms of traffic minutes passed through to the customer and are recognized in the period in which these minutes are passed through. For premium dial-in services the Company collects per minute fees and passes a portion of these fees on to a local content provider.

- *Mobile Voice services:* with the acquisition of Tele2 (Netherlands) B.V. the Company also generates a significant amount of revenues from mobile voice services, such as SIM only, post-paid subscriptions and pre-paid. Revenues are measured in terms of subscription costs and traffic minutes processed and are recognized in the period in which the services is provided.

**Data Revenues**
Operating revenues derived from providing various data services to customers include the following:

- *Direct Access services:* the Company provides high bandwidth services to business and residential customers and other local telecom and Internet service providers that are directly connected to its network. Invoices sent and cash received prior to services being rendered is recorded as unearned revenue and recognized ratably over the period of the specific arrangement.

- *Data Centers and Central Office Facilities services:* the Company provides co-location, telehousing and interconnect facilities services. Revenues related to these services are recognized ratably during the period in which these services are provided.

**Internet Revenues**
Operating revenues derived from providing various Internet services to business and residential customers include revenues from Dedicated Internet Connectivity, IP-Based Electronic Transaction services, Web and ISP hosting services and Television and Video services. Revenues from these services are recognized in the period in which these services are provided.

**Other Carrier Services Revenues**
Operating revenues derived from other Carrier Service Revenues relate to transactions where the Company has sold infrastructure to other carriers.

### t) Pension Cost

Pension cost relate to the cost of a defined contribution scheme. Contributions for pensions are directly charged to the statement of operations and are presented under pension cost.

### u) Borrowing cost

All borrowing costs are recognized as an expense when incurred.

### v) Discontinued Operations

The results of discontinued operations (if material and distinct) are presented on the face of the statement of operations as a single amount comprising the net result of the discontinued operations. This requires separate reporting of net profit from continuing operations and the net profit from discontinued operations, with comparative statement of operations data re-presented if in the current period an activity qualifies as discontinued.

### w) Cash flow Statement

The cash flow statement is derived from the statement of operations and other changes between the opening and closing balance sheets, eliminating the effect of currency translation differences and taking acquisitions into account. The cash flow movements from discontinued operations, included in the cash flow statement, are presented in the note 4 discontinued operations. Movements in provisions for assets have been included under the item provided for.

The cash balances of sold group companies are offset with the cash proceeds from sale of these subsidiaries. The cash balances of purchased group companies are offset with the cash used for acquisitions of these subsidiaries.

## 3 Principles of Consolidation

The accompanying consolidated financial statements include the operations of the following subsidiaries as from December 31, 2007:

| Name | Legal Seat | Percentage Ownership |
|---|---|---|
| Versatel Nederland B.V. | Amsterdam, The Netherlands | 100% |
| Tele2 (Netherlands) B.V. | Nieuwe Meer, The Netherlands | 100% |
| Versatel Finance B.V. | Amsterdam, The Netherlands | 100% |
| Bizztel Telematica B.V. | Leeuwarden, The Netherlands | 100% |
| Versatel Internet Group N.V. | Amsterdam, The Netherlands | 100% |
| Versatel Internet B.V. | Amsterdam, The Netherlands | 100% |
| Versatel 3G N.V. | Amsterdam, The Netherlands | 100% |
| Versapoint N.V. | Amsterdam, The Netherlands | 100% |
| Versapoint GmbH | Dortmund, Germany | 100% |
| Versatel Internetdiensten B.V. | Amsterdam, The Netherlands | 100% |

The consolidated financial statements include the accounts of Tele2 Netherlands Holding N.V. and all entities in which the Company has a controlling voting interest (“Subsidiaries”). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of these Subsidiaries are included from the respective dates of acquiring control by the Company and excluded when this control ended during 2007. All intercompany transactions have been eliminated in full on consolidation.

On March 6, 2007, the Company acquired Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. The results of Tele2 (Netherlands) B.V. are included as of that date. On October 1, 2007, the Company sold and transferred the shares of its Belgian subsidiaries Versatel Belgium N.V. (and indirectly Compath N.V and Burns & Perkins N.V.) and Tele2 Belgium N.V. to KPN Mobile International B.V. (see note 29 Major Transactions). As a result, the Belgian activities are represented as discontinued operations.

On May 21, 2007, the shares of the dormant entity Versapoint S.A.S. were transferred to Group Hoche S.A., a trust company located in France.

Effective January 1, 2008, Versatel Nederland B.V. (as acquiring entity) and Tele2 (Netherlands) B.V. (as disappearing entity) merged within the meaning of Chapters 1, 2 and 3 of Part 7, Book 2 of the Dutch Civil Code, as a consequence of which Tele2 (Netherlands) B.V. ceased to exist. Subsequently, Versatel Nederland B.V. was renamed into Tele2 Nederland B.V. Also, effective January 1, 2008, all entities carrying the "Versatel" name were renamed into "Tele2".

## 4 Business Combinations

On March 6, 2007, the Company completed the acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. With the acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V., the Company obtained a large residential (mobile) customer base and has since then been able to offer mobile products, based on an MVNO model, in the residential and business markets.

The fair value of the identifiable assets and liabilities of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were:

| *(euro thousands)* | **Pre-acquisition carrying amounts** | **Fair value adjustments** | **Recognized values on acquisition** |
|---|---|---|---|
| Intangible assets | 943 | 99,109 | 100,052 |
| Property, plant and equipment | 11,150 | (1,200) | 9,950 |
| Deferred tax assets | 20,311 | (16,705) | 3,606 |
| Inventory | 5,526 | - | 5,526 |
| Trade and receivables | 13,256 | - | 13,256 |
| Other current assets | 36,050 | - | 36,505 |
| Cash and cash equivalents | 8,267 | - | 8,267 |
| Deferred tax liabilities | - | (24,731) | (24,731) |
| Trade and other payables | (33,388) | 569 | (32,819) |
| Accrued liabilities | (24,419) | - | (24,419) |
| Net identifiable assets and liabilities | 37,696 | 57,042 | 94,738 |
| Goodwill on acquisition | | | 110,013 |
| Purchase consideration | | | 204,751 |

The total purchase consideration of € 204.8 million includes € 0.9 million of acquisition costs directly attributable to the purchase of the combination.

| | |
|---|---|
| Purchase consideration settled in cash | 204,751 |
| Less: cash and cash equivalents acquired | 8,267 |
| Cash outflow on acquisition | 196,484 |

The revenue from continuing operations would have been € 621.9 million if the combination had taken place at the beginning of the year. The revenue from Tele2 Belgium N.V. is not included due the disposal on October 1, 2007. Due to the integrated nature of the activities and the disposal of the Belgian operations it is impracticable to disclose the acquiree's profit or loss since the acquisition date included in the profit and loss of the combination.

The Company acquired the customer base and customer relationships of Tele2 (Netherlands) B.V. as part of the acquisition. These assets are recognized for the amount of € 81.6 million with an estimated useful live of four years.

With the acquisition of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V., the Company obtained the right to certain Tele2 trademarks (name and logo) registered in the Benelux. The Tele2 AB Group does not charge the use of the trademarks with a royalty fee so the use can be seen as a favorable contract. The right to use the Tele2 trademarks has been valued at € 17.5 million using the income approach.

The Company revalued the deferred tax asset, as carried pre acquisition, from € 20.3 million to € 3.6 million. The pre acquisition deferred tax asset of Tele2 (Netherlands) B.V. relates to losses carried forward. The deferred tax assets is revaluated as a result of (i) the alignment with the accounting treatment of the Company for the recognition of deferred tax assets and (ii) the legal merger between Tele2 (Netherlands) B.V. and Versatel Nederland B.V., which was effectuated on January 1, 2008. (see note 13 deferred tax and income tax). The remainder of the tax asset after revaluation equals the 2007 tax charge of Tele2 (Netherlands) on a stand-alone basis.

The deferred tax liability, recognized for an amount of € 24.7 million, relates to the fair value adjustments (in connection with the acquisition of Tele2 (Netherlands) B.V.), as the fair value adjustments have not been recognized for tax purposes. The deferred tax liability is calculated by multiplying the fair value adjustments (excluding goodwill and deferred tax asset) with the corporate income tax rate of 25.5%.

The Company also acquired the customer base and customer relationships of Tele2 Belgium N.V. as part of the Acquisitions. These assets are not separately recognized from goodwill due to the disposal of the Belgium operations before year end and before the completing of the purchase price allocation (see note 25 discontinued operations).

The goodwill of € 110.0 million comprises the fair value of mutual synergies expected to arise after the acquisition at Versatel Nederland B.V. and Tele2 (Netherlands) B.V.

## 5 Intangible Assets

The movement in intangible fixed assets is as follows:

| | 2006 | | |
|---|---|---|---|
| *(euro thousands)* | **Goodwill** | **Licenses** | **Total** |
| Book value January 1 | 4,574 | 73,401 | 77,975 |
| Disposals | - | (257) | (257) |
| Amortization | - | (29,832) | (29,832) |
| Book value December 31 | 4,574 | 43,312 | 47,886 |
| Original cost | 4,781 | 87,663 | 92,444 |
| Accumulated amortization | (207) | (44,351) | (44,558) |
| Book value December 31 | 4,574 | 43,312 | 47,886 |

| (euro thousands) | 2007 Goodwill | Customer base | Trade name | Licenses | Total |
|---|---|---|---|---|---|
| Book value January 1 ........... | 4,574 | - | - | 43,312 | 47,886 |
| Acquisitions through business combinations | 110,013 | 81,609 | 17,500 | 943 | 210,065 |
| Discontinued operations ....... | (5,374) | - | - | - | (5,374) |
| Amortization ......................... | - | (17,002) | - | (29,072) | (46,074) |
| Book value December 31 ..... | 109,213 | 64,607 | 17,500 | 15,183 | 206,503 |
| Original cost .......................... | 109,420 | 81,609 | 17,500 | 88,606 | 297,135 |
| Accumulated amortization .... | (207) | (17,002) | - | (73,423) | (90,632) |
| Book value December 31 ..... | 109,213 | 64,607 | 17,500 | 15,183 | 206,503 |

At year end 2007 the goodwill primarily relates to the acquisition of Tele2 (Netherlands) B.V. for the amount of € 104.8 million. The goodwill also includes goodwill relating to the buy-out of minority shareholders in Zon Nederland N.V. in 2003 and goodwill relating to the acquisition of XtraNed Nederland B.V. in 2004.

The goodwill for discontinued operations relates to the disposal of the Belgian operations, which was effectuated on October 1, 2007 (see note 25 discontinued operations).

The customer base is capitalized through business combinations as refer to in note 4 Business Combinations. The Company acquired the customer base and customer relationships of Tele2 (Netherlands) B.V. as part of the acquisition. These assets are recognized for an amount of € 81.6 million with an estimated useful live of four years. The amortization is based on the straight-line method.

The recognition of the trade name relates to the right to use the trade name of Tele2. This right is capitalized for an amount of € 17.5 million through the allocation of the purchase price for the Tele2 subsidiaries. The useful live of the capitalized trade name is estimated to be indefinite.

The licenses mainly relate to broadcasting rights of the Eredivisie, which were acquired in 2005 for the duration of 3 years. Licenses are stated at the acquisition costs, less straight-line amortization and impairment. The amortization is calculated on the basis of acquisition cost and contractual terms using the straight-line method to allocate the cost of licenses over their estimated useful lives.

The Company tests annually whether intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. Goodwill, the customer base and trade name are subject to an impairment test. The Company determined at December 31, 2007 and December 31, 2006 that intangible assets were not impaired. No indications or triggering events occurred to require more frequent testing.

## 6 Property, Plant and Equipment

The movement in property, plant and equipment is as follows:

| | 2006 | | | | |
|---|---|---|---|---|---|
| *(euro thousands)* | **Leasehold Improvements** | **Telecommunications equipment** | **Other equipment** | **Construction in progress** | **Total** |
| Book value January 1, 2006 | 705 | 378,078 | 8,824 | 38,243 | 425,850 |
| Additions/Transfers | 110 | 80,785 | 8,057 | (11,083) | 77,869 |
| Disposals | - | (318) | - | - | (318) |
| Depreciation | (198) | (108,774) | (5,158) | - | (114,130) |
| Book value December 31, 2006 | 617 | 349,771 | 11,723 | 27,160 | 389,271 |
| Original cost | 14,865 | 1,378,766 | 137,278 | 27,160 | 1,558,069 |
| Accumulated depreciation | (14,248) | (1,028,995) | (125,555) | - | (1,168,798) |
| Book value December 31, 2006 | 617 | 349,771 | 11,723 | 27,160 | 389,271 |

| | 2007 | | | | |
|---|---|---|---|---|---|
| *(euro thousands)* | **Leasehold Improvements** | **Telecommunications equipment** | **Other equipment** | **Construction in progress** | **Total** |
| Book value January 1, 2007 | 617 | 349,771 | 11,723 | 27,160 | 389,271 |
| Acquisitions through business combination | - | 7,184 | 2,766 | - | 9,950 |
| Discontinued operations | (295) | (69,489) | (2,101) | - | (71,885) |
| Additions/Transfers | 480 | 73,495 | 6,469 | (11,998) | 68,446 |
| Depreciation | (181) | (98,519) | (7,976) | - | (106,676) |
| Book value December 31, 2007 | 621 | 262,442 | 10,881 | 15,162 | 289,106 |
| Original cost | 9,975 | 908,962 | 118,524 | 15,162 | 1,052,623 |
| Accumulated depreciation | (9,354) | (646,520) | (107,643) | - | (763,517) |
| Book value December 31, 2007 | 621 | 262,442 | 10,881 | 15,162 | 289,106 |

The Company entered into agreements for IRU's ('Irrevocable Rights of Use') on fiber optic cable and network capacity that were paid for in advance. These IRU agreements are typically for a 15 to 20 year period and have no restrictions on use or no bargain purchase options at the end of the terms. The IRU agreements are presented as telecommunications equipment. The amortization charge applicable to capital leases is included in depreciation of property, plant and equipment. As per December 31, 2007 a net book value of € 18.3 million (2006: € 21.6 million) was included for IRU's.

In 2007 the Company changed the estimated useful life of set top boxes, multimedia modems and related one-off expenses. The (previous) depreciation period of one year has been increased to three years. The change is classified as a change in accounting estimates and has a positive effect of € 8 million for the period ended December 31, 2007. The Company changed the estimated useful live of these assets based on the increase of the average customer relationship period.

The Company tests annually whether property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in note 2. The Company determined at December 31, 2007 and December 31, 2006 that property, plant and equipment were not impaired. No indications or triggering events occurred to require more frequent testing.

## 7 Financial Assets

At year end 2007 the financial fixed assets relate to long term receivables. The movement of the long term receivables is as follows:

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Long term receivables at January 1 | 1,144 | 1,240 |
| Transfer to other receivables and prepaid expenses | (82) | (96) |
| Long term receivables at December 31 | 1,062 | 1,144 |

The long term receivables relate to prepayments regarding operation and maintenance charges for acquired leased infrastructure.

On November 1, 2007, Cedron Holding B.V., a 5 percent (past) investment of the Company, was liquidated. The Company was dormant and therefore already valued at nil (2006; € 0). The liquidation did not result in any gain or loss for 2007.

## 8 Inventory

The Company's inventory includes sales stock, which consist of SIM cards and mobile handsets.

## 9 Trade Accounts Receivable

Trade accounts receivable as presented under current assets mature within one year. It is non-interest bearing and generally has a 14 - 90 days' term. The amount includes a provision for doubtful debts that has been determined by reference to past default experience. The carrying amount of trade accounts receivable approximates its fair value.

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Gross trade accounts receivable on December 31 | 89,394 | 51,848 |
| Doubtful debt provision at December 31 | 13,742 | 7,884 |
| Net trade accounts receivable on December 31 | 75,652 | 43,964 |
| | | |
| Doubtful debt provision at January 1 | 7,884 | 8,522 |
| Additions to provision | 5,546 | 4,570 |
| Additions through business combinations | 12,108 | - |
| Discontinued operations | (7,796) | - |
| Utilization of provision | (4,000) | (5,208) |
| Doubtful debt provision at December 31 | 13,742 | 7,884 |

The average credit period on sales of services is 12 days for residential customers and 30 days for business customers. No interest is charged on the trade receivables. The Company has provided fully for all residential customer receivables over 60 days because historical experience is such that receivables that are past due beyond 60 days have generally a high risk of non-collectability. Trade receivables overdue, for residential customers under 60 days, carrier and the business customers, are provided for based on estimated irrecoverable amounts for the sale of services, determined by reference to past default experience.

Before accepting any new mobile customers, the Company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

In addition, over 95% of the consumer market pays by direct debit. Therefore the credit risk is limited.

The carrying amounts of the Company's Trade and other receivables are denominated in euro.

As per 31 December 2007, the aging analysis of trade and other receivables is as follows:

| | Total | Not due for payment | < 30 days | 30-60 days | >60 days |
|---|---|---|---|---|---|
| 2007 | 75,652 | 14,104 | 27,125 | 12,306 | 22,117 |

## 10 Other receivables and prepaid expenses

Other receivables and prepaid expenses include:

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Prepaid expenses...................................................... | 6,693 | 3,987 |
| Value added tax ........................................................ | 780 | - |
| Other receivables ...................................................... | 870 | 157 |
| Other receivables and prepaid expenses ................. | 8,343 | 4,144 |

As per December 31, 2006, value added tax was a liability of € 0.8 million and was classified as accrued liabilities.

## 11 Cash and Cash Equivalents

Cash and cash equivalents are primarily denominated in euro, although an amount equivalent to € 0.2 million (2006: € 0.6 million) is denominated in US dollars. The carrying amount approximates the fair value.

## 12 Equity Attributable to Equity Holders of the Parent

For a breakdown of the equity attributable to equity holders of Tele2 Netherlands Holding N.V. reference is made to the consolidated statement of changes in equity.

On March 6, 2007, the Company successfully completed a rights offering as a result of which 418,839,316 new ordinary shares were issued.

The authorized capital of the Company is € 30,000,000 consisting of 1,500,000,000 ordinary shares of which 942,388,462 shares are issued and outstanding at December 31, 2007 and 523,549,146 shares at December 31, 2006. Holders of fully paid-up shares are not subject to or liable for any further capital calls by the Company.

In May and November 1998, the Company issued warrants in accordance with the Company's first and second high yield offerings. During 2007 and 2006 no warrants were exercised. As of December 31, 2007, 53,135 warrants are outstanding, giving rights to purchase an aggregate of 2,212,672 ordinary shares at an exercise price of € 0.37 per ordinary share (recalculated as a result of the closing of the rights offering). Unless exercised earlier, the warrants will expire on May 15, 2008.

On October 22, 2004, the Company issued convertible notes for an aggregate principal amount of € 125 million. The Convertible Notes mature on October 28, 2011. The Convertible Notes are convertible into an aggregate of 178,571,428 ordinary shares at a conversion price of € 0.70 per share as of December 31, 2007. As a result of the closing of the rights offering, the conversion price has been adjusted.

## 13 Deferred Tax and Income Tax

The Company and its subsidiaries Versatel Nederland B.V., Bizztel Telematica B.V., Versatel 3G N.V., Versatel Internet Group N.V., Versatel Finance B.V. and Versatel Internetdiensten B.V. constitute a fiscal unity in The Netherlands. As such, the Company and these subsidiaries are taxed on a consolidated basis. The Company and these subsidiaries are jointly and severally liable for corporate income tax.

In general, a Dutch holding company may benefit from the so-called "participation exemption". The participation exemption is a facility in the Dutch Corporate Income Tax Act 1969 (CITA 1969), which allows for a tax-exempt receipt of any proceeds (e.g. dividends and capital gains) derived from or in relation to qualifying domestic and foreign subsidiaries. Conversely, (capital) losses related to such subsidiaries are generally non-deductible.

**Note on DTA from net operating losses**

As from December 31, 2007 the Company's total tax losses carried forward, including those of Tele2 (Netherlands) B.V., amount to € 323 million (2006: € 245 million). As of January 1, 2007 tax losses can be carried forward for a period of nine years. This implies that the carry forward losses will expire between 2012 and 2016 depending on the year during which these losses were created. The effective 2007 corporate tax rate in The Netherlands is 25.5% (2006: 29.1%).

*Sale Belgian Operations*

On October 1, 2007 the Company successfully closed the sale of Versatel Belgium N.V. and Tele2 Belgium N.V. to KPN Mobile International B.V. The tax losses carried forward attributable to Versatel Belgium N.V. amounted to € 53 million as per December 31, 2006.

**Note on DTA from provisions, timing differences and tax covenant**

The deferred tax asset from provisions, timing differences and tax covenants as per December 31, 2007 mainly relates to the difference in valuation of the economic ownership of a part of the mobile customer base (€ 15.3 million; see also the note on the acquisition of Tele2 (Netherlands) B.V. below) and the difference in valuation of telecom equipment (€ 9 million).

At the end of December 2005, the Company reached a covenant with the tax authorities covering fiscal years up to and including 2002. One of the items resulting from this covenant is the amortization rate of certain fixed assets (for tax purposes only) resulting in additional tax losses carried forward of € 130 million that will become available in five equal annual installments starting from fiscal year 2003. The last portion of € 26 million (with a tax effect of € 6.6 million) has been recognized for fiscal purposes in 2007.

**Note on DTL**

As of December 31, 2007, the Company's deferred tax liability amounts to € 25.3 million (2006: € 5.4 million), which amount relates to the deferred tax liability on the equity component on the Company's issuance of convertible senior notes in October 2004 and the deferred tax liabilities on the valuation of certain assets (i.e. customer base and trade name) related to the purchase price allocation following the acquisition of Tele2 (Netherlands) B.V. (see note business combination). The liability will result in income tax credits over the life of these convertible senior notes and these assets. In 2007, the income tax credit amounts to € 4.8 million (2006: € 2.1 million).

**Note acquisition Tele2 (Netherlands) B.V.**

On March 6, 2007 the Company acquired 100% of the outstanding share capital of Tele2 (Netherlands) B.V. (and Tele2 Belgium N.V. The tax losses carried forward of Tele2 (Netherlands) B.V. as per December 31, 2006 amounted to € 78.9 million. During 2007, Tele2 (Netherlands) B.V. utilized € 74.1 million of its tax losses carried forward. Of this utilization, € 60 million relates to a taxable profit made on a transfer of the economic ownership of a part of the mobile customer base of Tele2 (Netherlands) B.V. to the group company Versatel Nederland B.V., just prior to the legal merger between these companies (see also note 34 of the subsequent events). At the level of Versatel Nederland B.V. the acquired economic ownership of a part of the customer base is depreciable for tax purposes in a period of 10 years on a straight line basis. For more information about the acquisition of Tele2 (Netherlands) B.V. reference is made to note 4 (business combination).

**Note on valuation allowance**

In assessing the valuation of deferred tax assets, the Company evaluates to what extent and when such assets may be realized. The realization of deferred tax assets is dependent upon the Company's capability to generate future taxable income available to offset against said loss carry forwards. Given the uncertainty of future taxable income, the Company has recorded a valuation allowance equal to the total deferred tax assets as of December 31, 2007. The valuation allowance will be reduced at such time as the Company believes that there is substantial evidence that the deferred tax assets will be realized in the near future. A corporate income tax rate for The Netherlands of 25.5% (2006: 25.5%) has been applied to the deferred tax asset and the valuation allowance.

**Deferred tax assets and liabilities**

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| *Deferred tax assets* | | |
| Deferred tax assets from net operating losses .................. | 82,408 | 80,636 |
| Deferred tax assets from provisions, timing differences and tax covenant ...................................................................... | 25,664 | 8,369 |
| Less: valuation allowance .................................................. | (108,072) | (89,005) |
| Total deferred tax assets | - | - |
| *Deferred tax liabilities* | | |
| Tax liability customer base ................................................ | 16.475 | - |
| Tax liability trade name ...................................................... | 4.463 | - |
| Tax liability related party senior notes ............................... | 4.380 | 5,421 |
| Total deferred tax liability .................................................. | 25,318 | 5,421 |
| Net deferred tax liability ..................................................... | 25,318 | 5,421 |

The movement in the deferred tax asset is as follows:

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| *Deferred tax assets from net operating losses* | | |
| As per beginning of the year | 80,636 | 53,021 |
| Additions through business combinations | 20,124 | - |
| Usage deferred tax asset Tele2 (Netherlands) B.V. for profit for the year | (3,606) | - |
| Usage deferred tax asset Tele2 (Netherlands) B.V. for transfer customer base | (15,300) | - |
| Net operating tax losses for the year for continuing operations | 18,449 | 37,195 |
| Adjustment to prior years net operating losses | 82 | (734) |
| Disposals | (17,977) | - |
| Change in income tax rate | - | (8,846) |
| Total deferred tax assets from net operating losses | 82,408 | 80,636 |
| *Deferred tax assets from provisions, timing differences and tax covenant* | | |
| As per beginning of the year | 8,369 | 15,568 |
| Tax covenant with Dutch tax authorities | (6,630) | (7,566) |
| Provision for idle building | (234) | 1,549 |
| Tax depreciable customer base | 15,300 | - |
| Difference in depreciation period | 8,860 | - |
| Change in income tax rate | - | (1,182) |
| Total deferred tax assets from provisions, timing differences and tax covenant | 25,665 | 8,369 |
| Valuation allowance | (108,072) | (89,005) |
| Net deferred tax liability | - | - |

The movement in the deferred tax liability is as follows:

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| As per beginning of the year | 5,421 | 7,477 |
| Additions through business combinations | 24,731 | - |
| Income tax charge (credit) – release | (4,834) | (1,291) |
| Income tax charge (credit) – change in income tax rate | - | (765) |
| Total deferred tax liability | 25,318 | 5,421 |

The difference between the income tax expense provided in the consolidated financial statements and the expected income tax charge at statutory rates related to the Company's corporate and foreign subsidiary operations for the years ended December 31, 2007 and 2006 is reconciled as follows:

**Income tax**
*(euro thousands)*

| | 2007 | 2006 |
|---|---|---|
| Expected income tax charge (credit) at the weighted average statutory rate of 25.5% (2006: 30%).................. | (20,762) | (31,005) |
| Participation exemption on sale discontinued operations | (435) | (895) |
| Tax covenant with the Dutch tax authorities.................... | (6,630) | - |
| Usage deferred tax asset Tele2 (Netherlands) B.V. ........ | (15,300) | - |
| Tax depreciable customer base ..................................... | 15,300 | - |
| Difference in depreciation period .................................... | 8,860 | - |
| Expenses new share issuance ....................................... | (1,046) | - |
| Change in income tax rate............................................... | - | 10,028 |
| Other.................................................................................. | 336 | (600) |
| Valuation allowance......................................................... | 18,449 | 20,416 |
| Total income tax charge (credit) ...................................... | (1,228) | (2,056) |

## 14 Long term debt

The long term debt consists of supplier financing. This is debt to suppliers where the credit term is deferred beyond normal credit terms. Interest expense on the long term debt is calculated at the Company's refinancing rate using the effective interest method.

At December 31, 2007 the long term debt is completely due in 2008 and therefore presented as short term liability.

The redemption schedule of the supplier finance for 2006 is as follows:

| *(euro thousands)* | 2006 Long term debt |
|---|---|
| 2008 ................................................................................... | 15,250 |
| Total long term debt .......................................................... | 15,250 |
| Less amount representing interest................................... | (4,437) |
| Total long term debt .......................................................... | 10,813 |

The short term portion of the long term debt is included in the accrued liabilities. Reference is made to note 19.

## 15 Related Party Long Term Senior Notes

On October 22, 2004, the Company issued 3.875% convertible senior notes for € 125 million due 2011.

The convertible senior notes mature in seven years from the date of issue to the nominal value of € 125 million or can be converted into common shares of the Company at a (recalculated) conversion price of € 0.70 at any time from and including December 8, 2004 to the earlier of October 19, 2011 and the fourteenth day prior to any date fixed for redemption by the Company. The conversion price has been recalculated as a result of the closing of the rights offering on March 6, 2007.

The fair value of the liability component was determined at issuance of the convertible senior notes. The fair value of the liability component, included in long term senior notes, was calculated using the Company's market interest rate for equivalent non-convertible senior notes. The residual amount, representing the value of the equity conversion component, is included in equity, net of deferred income tax.

On October 14, 2005, Tele2 Finance B.V. (a group company of Tele2 AB) acquired all the issued and outstanding 3.875% convertible senior notes. As from October 2007, Tele2 Finance assigned the convertible senior notes to Tele2 Europe S.A.

The movement in the related party long term senior notes is as follows:

| *(euro thousands)* | 2007 | 2006 |
|---|---|---|
| Liability component at January 1 ...................................... | 101,276 | 97,073 |
| Interest expense................................................................ | 4,844 | 4,844 |
| Interest paid...................................................................... | (4,844) | (4,844) |
| Interest accreted............................................................... | 4,511 | 4,203 |
| Liability component at December 31 ................................ | 105,787 | 101,276 |

Interest accreted on the related party long term senior notes is calculated using the effective interest method by applying the effective interest rate of 4.7% to the liability component. The fair value of the liability component of the related party long term senior notes at December 31, 2007 amounts to € 104.7 million.

## 16 Related Party Long Term Loan

The Company has entered into a related party loan agreement with Tele2 Finance B.V. totaling € 189.4 million, which is repayable in 2010. In 2007 the Company repaid € 125.0 million as part of a refinancing and subsequent to the sale of the Belgian operations. The related party loan bears an interest rate equal to 3-months Euribor plus 1.25%. Due to an internal assignment within the Tele2 AB Group, the related party loan is currently held by Tele2 Europe S.A. The movement in the related party long term loan is as follows:

| *(euro thousands)* | 2007 | 2006 |
|---|---|---|
| **Related party long term loan** | | |
| Beginning of the year ................................................ | 177,935 | 170,655 |
| Repayments of loans ................................................ | (125,000) | - |
| Interest charged ........................................................ | 8,100 | 7,280 |
| Related party long term loan at December 31 ........... | 61,035 | 177,935 |

In order to minimize restrictions on available cash, Tele2 Finance B.V. ("Tele2 Finance") has issued a bank guarantee on behalf of the Company for a total amount of € 14.6 million in relation to proceedings pending with the Dutch tax authorities regarding the wage tax claim. In addition, the Company secured a standby facility from Tele2 Europe S.A. in the amount of € 200.0 million to fund its general corporate purposes.

The Company agreed with Tele2 Finance that to the extent an amount is claimed under the bank guarantee and the bank debits such claimed amount to the account of Tele2 Finance will be added to the principal amount of the related party loan agreement of the Company under the same conditions that apply to its related party loan agreement with Tele2 Finance.

## 17 Provision for Idle Building

In 2006, the Company reached an agreement to move its corporate headquarters to a building in Diemen, The Netherlands, starting from 2007 onwards. The Company moved its headquarters in February 2008. With the lessor of the Hullenbergweg, The Netherlands, the Company reached a settlement for the remaining lease obligations until March 2010. The additional charge is presented under occupancy in the statement of operations. A part of the Hullenbergweg is subleased to third parties and still provisioned for the difference between the lease receivables and lease obligations until March 2010.

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Provision at January 1 | 6,713 | - |
| Transfer from accrued liabilities | - | 1,497 |
| Amounts charged to the statement of operations | 2,000 | 5,586 |
| Amounts utilized during the year | (3,053) | (468) |
| Accrued interest | 238 | 98 |
| Provision at December 31 | 5,898 | 6,713 |
| Current portion | 5,483 | 2,213 |
| Non current portion | 415 | 4,500 |

The current portion of the idle building provision is presented as short term portion of provisions as disclosed in note 16.

The remaining nominal lease obligations for this idle building at December 31, 2007 are € 1.5 million and are included in rent and operating lease commitments as disclosed in note 30.

## 18 Other Non Current Liabilities

In 2006, Tele2 Netherlands Holding reached an agreement to move its corporate headquarters to a building in Diemen, The Netherlands, starting from 2007 onwards. As a result of signing a new long-term lease until December 2019, the Company received a cash payment of € 26.9 million from the lessor. This cash payment will be recognized as a reduction of operating lease expense, reflected as occupancy expense in the consolidated statement of operations, on a straight-line basis. The lease incentive will be recognized over the contract period until December 2019.

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Accrued lease incentive at January 1 | 26,900 | - |
| Amounts received | - | 26,900 |
| Amounts utilized during the year | (2,069) | - |
| Accrued lease incentive at December 31 | 24,831 | 26,900 |
| Current portion – part of current liabilities | 2,069 | 2,069 |
| Non current portion – part of non-current liabilities | 22,762 | 24,831 |

The short-term portion of the lease incentive, which amounts to € 2.1 million, is presented as short-term portion of long term liabilities as disclosed in note 19.

## 19 Accrued Liabilities

Accrued liabilities include:

| *(euro thousands)* | 2007 | 2006 |
|---|---|---|
| Payroll tax and social securities | 19,108 | 1,926 |
| Value added tax | - | 799 |
| Short term portion of long term liabilities | 14,813 | 40,776 |
| Short term portion of provisions | 7,552 | 3,172 |
| Capital expenditure accruals | 659 | 2,780 |
| Compensation accruals | 7,106 | 8,781 |
| Network and traffic cost accruals | 20,133 | 9,935 |
| Other accrued liabilities | 15,330 | 15,346 |
| Accrued liabilities | 84,701 | 83,515 |

At December 31, 2007, value added tax was a receivable of € 0.8 million and was classified as other receivables and prepaid expenses.

The 2007 payroll tax and social securities includes the wage tax claim in the amount of € 17.5 million including late payment interest.

## 20 Segment Information

The Company's primary reporting format is its business segment and its secondary format is its geographical segment. The business segment is determined by the operational segment: business, residential and carrier services. The Company's geographical segments are determined by the location of the Company's assets and operations. The Company currently only provides communication services in The Netherlands. Until October 1, 2007 the Company also provided these services in Belgium.

**Primary segmentation by business segment**
The Company's primary reporting format is its operational segments: business, residential and carrier services.

*(euro thousands)*

| | Continued Operations | | Discontinued Operations | |
|---|---|---|---|---|
| **Statement of operations** | 2007 | 2006 | 2007 | 2006 |
| Business | 190,604 | 194,068 | 18,668 | 27,492 |
| Residential | 325,362 | 77,409 | 56,913 | 40,344 |
| Carrier services | 66,439 | 65,831 | 20,367 | 29,385 |
| **Total Revenue** | **582,406** | **337,308** | **95,948** | **97,221** |
| Operating result | (58,468) | (58,138) | (15,866) | (24,802) |

Due to the integrated nature of our activities a meaningful allocation of assets, other costs, amortization and depreciation, finance costs and income tax expenses between services per customer type is not presented here.

**Secondary segmentation by geographical segment**
Until October 1, 2007 the Company was active in two geographical segments, The Netherlands and Belgium. As of October 1, 2007 the Company is only active in The Netherlands.

*a) Revenues*

Generally, our services can be characterized as voice (fixed telephony and mobile communication services), data, Internet services video/television and VAS services. As such, we derive our revenues from both minutes of communications traffic carried by our network, which are variable by customer from period to period (generally voice), non-subscription revenues and fixed monthly fees for services provided to our customers (generally Internet, data, video/television and VAS services). We allocate our revenues to the period in which the traffic was generated. The composition of our customer base, service offerings and geographical focus has continued to evolve as a result of the further development of our network and acquisitions and the expansion of our product offering. As a result of these key factors, we have significantly increased the portion of our revenues generated from fixed monthly fees and expanded our customer base to include larger customers.

Historically, we have priced our variable communications services, in particular voice, at a discount to KPN and expect to continue this pricing strategy as we expand our operations. In general, prices for communications services have decreased over the last several years, both for voice traffic as well as for data and Internet services. These price reductions have an adverse impact on revenues and margins. Currently, our data and Internet services continue to be priced at competitive market levels, but are less influenced by the pricing power of the incumbent operators.

A substantial portion of our revenues are subscription revenues, attributable to fixed monthly fees, primarily through the provision of data and Internet services such as internet connectivity, local area network to local area network ("LAN-to-LAN") interconnect services, IP-VPN and internet web-hosting and media services, including access to television channels. Our variable revenues are generated by minutes of communications billed for voice telephony services originated by our customers, terminating voice telephony traffic to customers directly connected with our network and the termination of dial-up Internet traffic onto our network for our own dial in customers and other Internet service providers. The Company's consumer division generates revenues from the termination of minutes of traffic onto our network as described above. Additionally, we generate revenues by providing broadband Internet access and voice services over DSL technology for a fixed monthly fee. The Company also generates additional revenues by providing triple-play services, consisting of voice, internet access and video/television services. Since March 6, 2007, as a result of the acquisition of Tele2 (Netherlands) B.V., we also generate substantial revenues from our mobile product offering.

We also make a distinction between revenues generated through customers that are directly connected to our network (commonly referred to as "on-net" revenues), and revenues generated through customers that are not directly connected to our network (commonly referred to as "off-net"-customers). On-net customers can be connected to our network through our own fiber, DSL technology, other copper access technologies, wireless technologies or leased lines.

*b) Direct cost of revenues*

Our costs of revenues are comprised of fixed network costs from third party suppliers and variable costs associated with the origination and termination of minutes of communications traffic and supply of broadband services. To date, our fixed network costs have primarily consisted of leased lines for sections of our backbone network, leased lines for directly connecting customers to our network, leased copper lines for DSL services, fees to other Internet service providers for the termination of Internet traffic, interconnection charges, subsidized customer equipment, value added services from suppliers, subscription charges, content costs and the production costs associated with Eredivisie football. Origination and termination costs represent the cost of carrying minutes of communications traffic from our customers to our network and from our network to the final destination, respectively.

*c) Selling, General and Administrative Expenses*

SG&A expenses are comprised primarily of wages and salaries, social securities expense, pension cost, advertising and marketing expenses, occupancy and other costs of revenues. Occupancy is expense related to office space and points-of-presence rents we occupy. Other costs of revenue include such expense as staff expenses, dealer commissions, helpdesk and call center costs, and general expenses.

*d) Property, plant and equipment*

Due to the integrated nature of our activities a meaningful breakdown of property, plant and equipment between services per customer type is not presented here.

## 21 Personnel

The average number of personnel in full time equivalents for continuing operations:

| | 2007 | 2006 |
|---|---|---|
| Netherlands | 688 | 689 |

## 22 Board of Supervisory Directors and Board of Management

**Compensation**

*Board of Supervisory Directors*

The aggregate compensation for the Board of Supervisory Directors of the Company as a group for the financial year 2007 was € 302,762 compared to € 231,000 in 2006.

During the 2006 annual general meeting of shareholders, held on June 4, 2007, the general meeting approved the proposed remuneration (per annum) of the Supervisory Directors Messrs. Nilsson, Jarnheimer, Svedberg (who recently resigned, see “Subsequent Events”) and Olsson. Prior to June 4, 2007, the Supervisory Directors who also hold a position at Tele2 AB, did not receive any compensation.

As a result of a ruling on December 14, 2005 by the Enterprise Chamber of the Amsterdam Court of Appeal three additional members were appointed to the Board of Supervisory Directors of the Company. On December 21, 2005, the Enterprise Chamber announced it had appointed Messrs. Bouma, Eschauzier and Wortel as such. The remuneration for these three additional members payable pursuant to the Enterprise Chamber decree, was fixed at € 250 per hour. Following the December 8, 2006 ruling of the Enterprise Chamber, Messrs. Eschauzier, Bouma and Wortel resigned as members of the Board of Supervisory Directors. However, in the interest of continuity in the Company’s corporate governance, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel agreed with the Company and with the endorsement of Tele2 AB, that they would continue to act as special advisors, together constituting the Special Advisory Committee, until the closing of the acquisitions of Tele2 (Netherlands B.V) and Tele2 Belgium N.V. and the rights offering. The Company agreed with them to pay the same amount (€ 250 per hour) for their services as members of said Special Advisory Committee. The acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and the associated rights offering were closed on March 6, 2007, as a consequence of which Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel resigned as per that date.

The following table sets out certain information relating to the compensation of the Board of Supervisory Directors and members of the Special Advisory Committee for the years ended December 31, 2007 and 2006:

| *(amounts in euro)* | **Remuneration 2007**[7] | **Remuneration 2006** |
|---|---|---|
| **Supervisory Directors and members of the Special Advisory Committee** | | |
| Lars Nilsson (Chairman) [1][6]......................... | 60,000 | - |
| Lars-Johan Jarnheimer (Vice-Chairman) [6] ... | 40,000 | - |
| Johnny Svedberg [6] [8].................................. | 40,000 | - |
| Anders Olsson [2][6]……………………………. | 40,000 | - |
| Robert de Bakker [2]………………………….. | 40,000 | |
| Joop Bouma [3]............................................. | 51,548 | 65,500 |
| *Resigned during 2007:* | | |
| Håkan Zadler [4] ………………………………. | n/a | - |
| Jean Pierre Eschauzier [5] ………………….... | 19,247 | 97,750 |
| Pieter Wortel [5] …………………………….... | 11,967 | 67,750 |
| Total.............................................................. | 302,762 | 231,000 |

[1] Mr. Nilsson was appointed as member of our Board of Supervisory Directors as per June 4, 2007. Prior to that date, Mr. Nilsson was not engaged or employed by us, and consequently did not receive any remuneration from us in relation to 2006.

[2] Mr. Olsson was appointed as member of our Board of Supervisory Board as per February 12, 2007. Mr. de Bakker was appointed as member of our Supervisory Board effective March 6, 2007. Prior to such date, neither Mr. Olsson nor Mr. de Bakker were engaged or employed by us, and consequently neither of them received any remuneration from us in relation to 2006.

[3] Mr. Bouma was initially appointed by the Enterprise Chamber of the Amsterdam Court of Appeal as per December 14, 2005, resigned as per December 8, 2006 (as a result of the Enterprise Chamber ruling dated December 8, 2006) and subsequently continued to act as special advisor until March 6, 2007. Mr. Bouma has been (re)appointed to our Board of Supervisory Directors effective March 6, 2007.

[4] Mr. Zadler resigned as a member of our Board of Supervisory Directors on January 26, 2007.

[5] Messrs. Eschauzier and Wortel resigned as a member of our Special Advisory Committee effective March 6, 2007.

[6] During the 2006 annual general meeting of shareholders, held on June 4, 2007, the general meeting approved the proposed remuneration (per annum) of the Supervisory Directors Messrs. Nilsson, Jarnheimer, Svedberg and Olsson. Prior to June 4, 2007, these Supervisory Directors, who also hold a position at Tele2 AB, did not receive any compensation.

[7] The remuneration is calculated per annum as of the date of appointment and is paid out in 2008. Mr. Bouma also received an amount of € 11,548 for work performed as a member of the Special Advisory Committee until March 6, 2007, which was paid out in 2007.

[8] Mr. Svedberg resigned as a member of our Board of Supervisory Directors on April 25, 2008.

### Board of Management

At the annual general meeting of shareholders held on May 18, 2005 a new remuneration policy was adopted by the general meeting and introduced. The remuneration package of the Board of Management comprises of a base salary, a short term incentive (bonus), a long term incentive and a pension allowance.

The bonus component of the total compensation is based on targets achieved, compared to a set of specific measurable targets agreed between the Managing Director and the Board of Supervisory

Directors at the start of the year. These targets were based on revenue growth, EBITDA and free cash flow for the year 2007.

The total aggregate compensation of the members of the Board of Management in 2007 was € 723,618.The following table sets out the compensation paid by the Company to Messrs. Ringmar and Van Rooijen for the years ended December 31, 2007 and December 31, 2006. As Mr. Ringmar was appointed as CEO and member to the Board of Management effective March 6, 2007, he did not receive any compensation from the Company during the year 2006. Mr. Van Rooijen was appointed to the Board of Management as per February 12, 2007. Prior to his appointment he already served as the CFO of the Company and thus received compensation from the Company during the year 2006.

| *(amounts in euro)* | **Salary** | **Pension** | **Bonus(1)** | **Other(2)** | **Total** |
|---|---|---|---|---|---|
| Henrik Ringmar (CEO) | | | | | |
| 2007……………….. | 297,000 | 44,550 | 80,040 | 33,150 | 454,740 |
| 2006……………..... | - | - | - | - | - |
| Ernst Jan van Rooijen (CFO) | | | | | |
| 2007……………….. | 204,585 | 23,865 | 40,428 | - | 268,878 |
| 2006……………..... | 121,852 | 5,214 | 101,492 | - | 230,464 |

(1) An actual bonus disclosed in a specific year relates to the performance in that year, but are paid out in the following year. During 2007, Mr. Van Rooijen also received an amount of € 18,076 relating to the bonus of the year 2006.
(2) During 2007, Mr. Ringmar received certain allowances, which includes a compensation of 6 months rent (in the amount of € 19,200), for moving from Sweden to Amsterdam.

The remuneration of the former member of the Board of Management is provided in the following table.

| *(amounts in euro)* | **Salary** | **Pension** | **Bonus(1)** | **Other** | **Total** |
|---|---|---|---|---|---|
| Per Borgklint | | | | | |
| 2007……………….. | 75,329 | 15,066 | 30,132 | - | 120,527 |
| 2006……………..... | 289,170 | 60,726 | 63,033 | - | 412,929 |

(1) An actual bonus disclosed in a specific year relates to the performance in that year, but are paid out in the following year.

On November 2, 2006, Mr. Borgklint indicated that he would resign at either the closing of the Acquisitions and the Offering or 1 May 2007, whichever date occurred earlier. As the Acquisitions and the Offering were closed on March 6, 2007, Mr. Borgklint's resignation was effective March 6, 2007. No severance payment was agreed upon as a consequence of Mr. Borgklint's departure.

**Shareholdings**

The Supervisory Directors did not hold any shares or options in the Company as per December 31, 2007 and 2006.

No shares or options in the Company were held as per December 31, 2007 by the members of the Board of Management.

**Share Options**

No options on shares in the Company have been granted to any of our Supervisory Directors or members of our Board of Management during the financial year 2007.

In connection with the settlement of the Tele2 Offers, the Company cancelled and settled all option plans previously in existence, as well as any options outstanding under such plans in 2005.

As we are a group company of Tele2 AB, the members of the Board of Management have been offered and participate in a share option program in respect of shares in the capital of Tele2 AB.

### 23 Other Cost of Revenues

Other cost of revenues includes:

| *(euro thousands)* | 2007 | 2006 |
|---|---|---|
| Professional charges | 10,819 | 7,363 |
| Dealer commissions | 6,585 | 5,010 |
| Staff and communication expenses | 7,668 | 6,843 |
| Helpdesk and call center costs | 24,752 | 12,851 |
| General expenses | 38,464 | 13,665 |
| Total other cost of revenues | 88,288 | 45,732 |

The 2007 general expenses include a one-time wage tax claim of € 13.3 million excluding late payment interest.

In connection with the Offers, Tele2 Finance and Ganymed 345. VV GmbH (renamed into Versatel AG) have entered into an agreement pursuant to which, the Company is able to recharge to Ganymed a portion of the tender costs in connection to the Offers and a proportion of certain corporate headquarter costs until such a time as the corporate costs are terminated. The costs recharged are credited in the general expenses.

### 24 Financial Income and Expense

| *(euro thousands)* | 2007 | 2006 |
|---|---|---|
| Interest income – third parties | 2,841 | 3,269 |
| Other income | 170 | - |
| Total Interest and other income | 3,011 | 3,269 |
| | | |
| Interest expense | 9,066 | 4,596 |
| Interest expense – related party long term loan | 8,100 | 7,280 |
| Interest expense – related party long term senior notes | 9,355 | 9,047 |
| Bank and finance charges | 158 | 164 |
| Loss on disinvestment of property, plant and equipment and intangible assets | - | 535 |
| Total Interest and other expense | 26,679 | 21,622 |

The 2007 interest expenses include a late payment expense of € 4.2 million relating to the wage tax claim (see -Legal Proceedings- for further information).

For interest expense related party long term loan and related party long term senior notes reference is made to note 15 and 16.

## 25 Discontinued Operations

On October 1, 2007, the Company sold its Belgian activities to KPN Mobile International B.V. by means of a sale and transfer of all of its shares in Versatel Belgium B.V. and Tele2 Belgium B.V. for a total consideration of € 100.1 million (after the settlement of working capital and excluding cash).

The results of the Belgian discontinued operations are shown below:

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Revenue | 95,948 | 97,221 |
| Expenses | 111,814 | 122,023 |
| Gross Profit | (15,866) | (24,802) |
| Finance costs | 38 | 1,065 |
| Result discontinued operations before tax | (15,904) | (25,867) |
| Income tax | 774 | - |
| Result discontinued operations after tax | (16,678) | (25,867) |
| Gain on disposal of investment | 32,345 | - |
| Result for the period from discontinued operations | 15,667 | (25,867) |
| | | |
| Net result discontinued operations per common share: | | |
| Basic | 0.02 | (0.05) |
| Diluted | 0.02 | (0.05) |

The net result for discontinued operations in 2007 includes the results of Tele2 Belgium N.V. for the period of March 6, 2007 until October 1, 2007. On the date of acquisition (March 6, 2007) Tele2 Belgium N.V. did not meet the criteria to be classified as held for sale on acquisition.

The gain on the disposal of the investment represents the net proceeds of the sale of Versatel Belgium N.V. and Tele2 Belgium N.V. on October 1, 2007 to KPN Mobile International B.V.

The condensed cash flow statement from discontinued operations is shown below:

| *(euro thousands)* | **2007** | **2006** |
|---|---|---|
| Net cash provided by operating activities | (48,003) | (41,718) |
| Net cash used in investing activities | (10,973) | (25,281) |
| Net cash used in financing activities | 59,739 | 63,686 |
| Net decrease in cash and cash equivalents | 763 | (3,313) |
| Cash and cash equivalents, beginning of the year | 4,130 | 7,443 |
| Cash and cash equivalents, end of the year | 4,893 | 4,130 |

## 26 Earnings per Share

*Basic*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

| | 2007 | 2006 |
|---|---|---|
| Result attributable to equity holders of the parent company.. | (64,524) | (100,148) |
| Weighted average number of ordinary shares outstanding (thousands)................................................................ | 868,948 | 523,549 |
| Basic earnings per share (€ per share)................................. | (0.07) | (0.19) |

*Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. In 2007 and 2006, the Company has two material categories of dilutive potential ordinary shares: related party long term senior notes and warrants. The related party long term senior notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. The warrants are assumed to be converted into ordinary shares. Due to the net loss over 2007 and 2006, the number of weighted average shares for these years, are identical for the basic and diluted earnings per share calculation as inclusion of potential common shares would be anti-dilutive.

| | 2007 | 2006 |
|---|---|---|
| Result attributable to equity holders of the parent company.......... | (64,524) | (100,148) |
| Result used to determine diluted earnings per share ................... | (64,524) | (100,148) |
| Weighted average number of ordinary shares outstanding (thousands) ..................................................................... | 868,948 | 523,549 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) ..................................................... | 868,948 | 523,549 |
| Diluted earnings per share (€ per share) ...................................... | (0.07) | (0.19) |

The earnings per share of continuing operations are as follows:

| | 2007 | 2006 |
|---|---|---|
| Basic earnings per share of continuing operations (€ per share) .. | (0.09) | (0.14) |
| Diluted earnings per share of continuing operations (€ per share) | (0.09) | (0.14) |

For the calculation of the earnings per share of discontinued operations reference is made to note 25 for more details.

## 27 Related Parties

The ultimate parent of the Company is Tele2 AB, incorporated in Sweden.

The following table sets forth information regarding the beneficial ownership of the Ordinary Shares of the Company, by each beneficial holder of 5% or more of the Ordinary Shares, as reported with the AFM under the Financial Supervision Act, or otherwise known to the Company. All holders of ordinary shares are entitled to one vote per ordinary share. There are no cumulative voting rights.

| Name of beneficial holder | % of shares outstanding |
|---|---|
| Tele2 AB (through subsidiaries)………… | 98.80% (1)(2)(3) |

(1) On November 1, 2006, Tele2 AB notified the AFM under the Financial Supervision that it, through its subsidiaries, held 80.29% of the outstanding shares in the Company. Taking into account (i) the aggregate number of 349,164,120 shares acquired by Tele2 AB in the context of the rights offering and (ii) the purchase by Tele2 AB of an additional 16% of the Company's outstanding share capital as made public on December 24, 2007, Tele2 AB has confirmed to us that they own approximately 98.8% of the Company's outstanding ordinary shares as per December 31, 2007.

(2) The notified percentage is not on a fully diluted basis. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 AB owns 99.0%, as per December 31, 2007, of the Company's outstanding ordinary shares on a fully diluted basis.

(3) On December 24, 2007, both Centaurus Alpha Master Fund Limited and Amber Capital LP notified the AFM that they were no longer holding shares in the Company.

The information with respect to transactions between the Company and Tele2 AB group companies is presented using three categories:

Related Party Revenues: transactions that consist of charges from the Company to Tele2 AB group companies for services rendered by us in the ordinary course of our business;

Related Party Compensations: transactions that consist of charges from the Company to Tele2 AB group companies as compensation for operating expenses that we initially bear;

Related Party Costs: transactions that consist of amounts charged from Tele2 AB group companies to the Company with respect to operating expenses for which Tele2 AB companies bear the initial expense.

*Related party transactions with Tele2 AB group companies*

| *(euro thousands)* | 2007 | 2006 |
|---|---|---|
| Related party revenues ................................................ | 5,086 | 4,333 |
| Related party costs....................................................... | (23,793) | (45,476) |
| Related party interest expenses.................................... | (12,944) | (12,124) |
| Total related party transactions..................................... | (31,651) | (53,267) |

All transactions between the Company and Tele2 AB group companies have been entered into on an arm's length basis and were concluded against normal market conditions. Therefore the Group complies with best practice principles II. 3-2 through II.3-4 and III.6.3 of the Dutch Corporate Governance Code.

In order to minimize restrictions on our cash, Tele2 Finance issued two bank guarantees on our behalf for a total amount of € 29.8 million. These consisted of a guarantee of € 14.6 million in relation to proceedings pending with the Dutch tax authorities regarding the wage tax claim (see section "Description of Business—Legal Proceedings") and a guarantee in the amount of € 15.2 million as a security of our payment obligations under our license agreement with the Eredivisie C.V. The amounts for both guarantees were borrowed by Tele2 Finance from Tele2 AB. The difference between the interest payable on this facility by Tele2 Finance and the interest received by Tele2 Finance from the bank at which the amounts are blocked as well as the annual costs payable by Tele2 Finance to its bank, have been recharged to us. The guarantee issued for the benefit of the Eredivisie C.V. has been cancelled in the course of 2007. We are currently discussing with the Dutch tax authorities the necessity (and amount) of the guarantee issued for the benefit of them.

We have agreed with Tele2 Finance that to the extent an amount is claimed under either of the two bank guarantees and the bank debits such claimed amount to the account of Tele2 Finance, such amount will be added to the principal amount of our related party loan agreement under the same conditions that apply to our related party loan agreement with Tele2 Finance (which has been assigned to Tele2 Europe S.A. in the course of 2007).

All year-end balances arising from sales/purchases of goods/services between the Company and Tele2 AB group companies amount to € 4.5 million (2006: € 36.8 million) and are presented in the balance sheet under related party current account.

*Loans to related parties*

| *(euro thousand* | **2007** | **2006** |
|---|---|---|
| **Related party long-term senior notes** | | |
| Liability component at January 1 | 101,276 | 97,073 |
| Interest expense | 4,844 | 4,844 |
| Interest paid | (4,844) | (4,844) |
| Interest accreted | 4,511 | 4,203 |
| Liability component at December 31 | 105,787 | 101,276 |
| | | |
| **Related party long-term loan** | | |
| Beginning of the year | 177,935 | 170,655 |
| Repayments of loans | (125,000) | - |
| Interest charged | 8,100 | 7,280 |
| End of the year | 61,035 | 177,935 |
| | | |
| Total loans to related parties | 166,822 | 279,211 |

On October 14, 2005 Tele2 Finance B.V. acquired all the issued and outstanding 3.875% convertible senior notes. In October 2007, Tele2 Finance assigned the Convertible Notes to Tele2 Europe S.A. The total interest expense incurred for the year ended December 31, 2007 for the related party loan agreement and the Convertible Notes is € 12.9 million. Reference is made to note 15 and 16 for more details.

The Company has entered into a related party loan agreement with Tele2 Finance B.V. totaling € 189.4 million, which is repayable in 2010. During 2007 we and Tele2 Finance agreed to amend the related party loan. As of October 1, 2007, the related party loan bears an interest rate equal to 3-months Euribor plus 1.25%. In addition, we secured a standby facility in the amount of € 200 million for general corporate purposes. The repayment date remained the same. Due to an internal assignment within the Tele2 AB Group, the related party loan is currently held by Tele2 Europe S.A. Subsequent to the sale of our Belgian subsidiaries on October 1, 2007, we repaid an amount of € 125 million under the related party loan with Tele2 Europe S.A. As of December 31, 2007, the amount repayable under this loan, including interest, totaled € 61.0 million. Reference is made to note 16.

For the remuneration of members of the Board of Management and the Board of Supervisory Directors reference is made to note 22.

## 28 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*Critical accounting estimates and assumptions*

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldomly equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*a) Going concern*

The Company prepared these financial statements on a going concern basis based on her assessment of the Company's ability to continue as a going concern. Our history of net losses and accumulated deficit may make it difficult for us to raise additional debt or equity financing to the extent needed for our continued operations or for any expansion we may plan in the future, particularly if we are unable to attain and maintain profitable operations in the future.

*b) Estimated impairment of property, plant and equipment and intangible assets*

The Company tests annually whether property, plant and equipment and intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates. The estimates are based on calculations using cash flow projections based on an eighteen-month rolling-forecast, ten-year plan and extrapolations using a terminal growth rate factor in line with long term market growth rates. A pre-tax weighted average cost of capital of 11.0% was used to discount the projected cash flows.

*c) Determining discounting rates*

The Company determines discounting rates based on the time value of money, taking into account the risks specific to the cash generating units. In determining discounting rates we make use of market data for comparable companies.

*d) Income tax*

The company is subject to income tax in The Netherlands. Significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional tax will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

e) Provision for litigation and contingencies

We exercise considerable judgment in recording our accrued liabilities and our exposure to contingent liabilities related to pending litigation or other outstanding claims as well as other contingent liabilities. Judgment is used in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement.

*f) Useful life of assets*

Assets, consisting primarily of property, plant and equipment and intangible assets comprise a significant portion of our total assets. Changes in our intended use of these assets, technological developments and market conditions may cause the estimated period of use or the value of these assets to change. The estimates and assumptions the Company uses are inherently uncertain and subject to change, including as a result of factors outside our control. In 2007 the Company evaluated the useful live of set top boxes, multimedia modems and related one-off expenses. This evaluation resulted in the increase of the depreciation period of one year to three years. The Company changed the estimated useful live of these assets based on the increase of the average customer relationship period. The change is effective as of January 1, 2007.

*g) Provision for doubtful debts*

The company determines its provision for doubtful debts based on past experience.

## 29 Major Transactions during 2007

*Acquisition of Tele2 subsidiaries and rights offering*
On January 26, 2007, the Company announced its intention to acquire Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. from Tele2 AB for € 200 million in aggregate (on a cash-and-debt free basis and subject to certain adjustments) and to raise € 255 million in a rights offering, the proceeds of which would be fully guaranteed by Tele2 AB, for purposes of funding the acquisitions and for general corporate purposes.

On February 12, 2007 the Company's shareholders approved, amongst other resolutions, the acquisition of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V., as well as the associated rights offering.

On March 6, 2007, the Company successfully closed the rights offering and the acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. As a result, in total 418,839,316 new ordinary shares were issued.

*Transfer shares Belgian subsidiaries to KPN*
On October 1, 2007, the Company sold and transferred the shares of its Belgian subsidiaries Versatel Belgium N.V. and Tele2 Belgium N.V. to KPN. Subsequently, the Company repaid an amount of € 125 million under the related party loan with Tele2 Finance, while at the same time securing a standby facility from Tele2 Europe S.A. in the amount of € 200 million for general corporate purposes (also see "Related Party Transactions") The divestment resulted in a gain on disposal of € 32 million.

*Wage tax claim*
On December 21, 2007, the Company announced that the Supreme Court had ruled negatively on the appeal in cassation which was filed in connection with a dispute with the tax authorities concerning the valuation for tax purposes of stock options which were issued to employees prior to the public offering of the Company in July 1999. As a result, a tax assessment will have to be paid, which is estimated to be € 17.5 million (including late payment interest), for which no provision had been made. The Company is pursuing possibilities to reduce the financial impact.

*Lease Agreement for Corporate Headquarters*
In February 2008 the corporate headquarter of the Company moved to Wisselwerking 58, Diemen, The Netherlands. In December 2007, the Company reached a settlement agreement with the (new) owner of the building at the Hullenbergweg 101, Amsterdam-Zuidoost. In exchange for a one time monetary payment of € 5.5 million, the owner has agreed to prematurely terminate the lease agreements, has agreed to cancel all court proceedings and has allowed the Company to vacate the building at the Hullenbergweg. Also see section "Legal Proceedings and – Property".

## 30 Rent and Operating Lease Commitments

Future minimum commitments in connection with rent and other operating lease agreements are as follows at December 31:

| *(euro thousands)* | 2007 Rent & Operating Lease Commitments |
|---|---|
| 2008 | 15,255 |
| 2009 | 12,817 |
| 2010 | 10,945 |
| 2011 | 8,470 |
| 2012 and further | 57,892 |
| Total | 105,378 |

Rent and operating lease expenses amounted to approximately € 18.5 million in 2007. The main part of future commitments relates to the renting of office space and points-of-presence for a period of maximum 12 years.

| *(euro thousands)* | 2006 Rent & Operating Lease Commitments |
|---|---|
| 2007 | 18,443 |
| 2008 | 16,406 |
| 2009 | 14,367 |
| 2010 | 8,899 |
| 2011 and further | 67,355 |
| Total | 125,470 |

Rent and operating lease expenses amounted to approximately € 18.9 million in 2006. The main part of future commitments relates to the renting of office space and points-of-presence for a period of maximum 13 years.

## 31 Other Commitments

Commitments in connection with the Company's capital expenditures relating to customer connections and network build, not yet recorded on the balance sheet amount to approximately € 19.8 million as of December 31, 2007. The Company and its subsidiaries provided, on behalf of third parties, bank guarantees amounting to approximately € 10.9 million.

In order to minimize restrictions on our cash, Tele2 Finance issued two bank guarantees on our behalf for a total amount of € 29.8 million. These consisted of a guarantee of € 14.6 million in relation to proceedings pending with the Dutch tax authorities regarding the wage tax claim (see section "Description of Business—Legal Proceedings" and reference is made to note 32) and a guarantee in the amount of € 15.2 million as a security of our payment obligations under our license agreement with the Eredivisie C.V. The amounts for both guarantees were borrowed by Tele2 Finance from Tele2 AB. The difference between the interest payable on this facility by Tele2 Finance and the interest received by Tele2 Finance from the bank at which the amounts are blocked as well as the annual costs payable by Tele2 Finance to its bank, have been recharged to us. The guarantee issued for the benefit of the Eredivisie C.V. has been cancelled in the course of 2007. We are currently discussing with the Dutch tax authorities the cancellation (and amount) of the guarantee issued for the benefit of them.

## 32 Legal Proceedings

On December 24, 2007, Tele2 AB acquired an additional 16% in our outstanding share capital from a group of minority shareholders. These minority shareholders also agreed to cancel all court proceedings that had been initiated against the Company following completion of the public offer by Tele2 Finance in 2005. Such proceedings have consequently all been terminated.

In October 2000, the Company was informed by the public prosecutor in The Netherlands of potential civil and criminal tax liabilities relating to certain employee stock options granted prior to the initial public offering of the Company in July 1999. Although the Company had consulted with its Dutch tax advisors and the Dutch tax authorities prior to issuing these options and although the Company believes the tax treatment of these options was correct, it agreed with the public prosecutor on a payment of € 3.0 million. This payment was made in the fourth quarter of 2001, whereby all criminal charges were dropped, without any admission of guilt by the Company.

In June 2002, the Company received an additional assessment Wage Tax of € 14.6 million (excluding late payment interest) from the Dutch tax authorities regarding the valuation of the aforementioned employee stock options. The Company lodged an objection against the assessment, and the Dutch tax authorities took a negative decision to this objection in January 2003. It then lodged an appeal at the Amsterdam Court of Appeals. In December 2005, the Court ruled against the Company. It filed for appeal in cassation at the Supreme Court in The Hague in January 2006. On December 21, 2007, the Supreme Court ruled negatively on the appeal in cassation. As a result, the Company had to take a provision of approximately € 17.5 million (including late payment interest) in the fourth quarter of 2007. The Company is pursuing possibilities to reduce the financial impact.

In November 2006, the lessor of the building of the Company at the Hullenbergweg 101, Amsterdam Zuid-Oost, Verwaltung Fünfunddreissigste IFH Geschlosssener Immobilienfonds für Holland ("IFH") initiated summary proceedings against the Company in the Subdistrict Section of the District Court of Amsterdam. IFH demanded that the Company would be prohibited from vacating the part of the premises at Hullenbergweg 101 and from moving its corporate headquarters to the new building it rents at Wisselwerking 58, Diemen, The Netherlands. In December 2007, the Company reached a settlement agreement with the new owners. In exchange for a one time monetary payment of € 5.5 million, the new owner has agreed to prematurely terminate the lease agreements, has agreed to cancel all court proceedings and has allowed the Company to vacate the building at the Hullenbergweg. See also section "– Property".

The Company has filed complaints in the past with the European Commission, with the OPTA and the Minister of Transport and Waterways in The Netherlands as part of our regulatory strategy. We also make routine filings with the regulatory agencies and governmental authorities in the countries in which we operate.

Further to the above, the Company is from time to time involved in routine litigation in the ordinary course of business.

## 33 Financial Risk Management

The activities of the Company are exposed to a variety of financial risks. The Company's overall risk management focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by a treasury department. This department identifies and evaluates financial risks in close co-operation with the Company's operating units.

### *a) Capital risk management*

The Company manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Company consist of debt, which includes the related party long term senior notes and related party long term loan disclosed in notes 15 and 16 respectively, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and reserves.

The Company is continuously reviewing it's capital and debt balances. As part of this review, the Company considers the cost of capital and the risks associated with each class of capital. As a result of this review the Company issued new shares to invest in new subsidiaries and strengthen the Company's equity. In addition the Company repaid long term loans from the proceeds of disposed operations. Reference is made to note 16 and 25.

*b) Credit Risks*

The Company has no significant credit risks, other than those, which have already been provided for, nor any receivables with a single customer or in an industry or geographical region that carries an unusually high credit risk.

Trade receivables consist of a large number of residential customers and business customers.

The average credit period on sales of services is 12 days for residential customers and 30 days for business customers. No interest is charged on the trade receivables. The Company has provided fully for all residential customer receivables over 60 days because historical experience is such that receivables that are past due beyond 60 days have generally a high risk of non-collectability. Trade receivables overdue, for residential customers under 60 days, carrier and the business customers, are provided for based on estimated irrecoverable amounts for the sale of services, determined by reference to past default experience.

Before accepting any new mobile customers, the Company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

In addition, over 95% of the consumer market pays by direct debit. Therefore the credit risk is limited.

Trade receivables relating to business customers consist of a large number of customers, spread across diverse industries in the Netherlands. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

*c) Interest Rate Risks*

The Company is exposed to interest rate risk only on the related party loans.

The Company has entered into a related party loan agreement with Tele2 Finance B.V. totaling € 189.4 million, which is repayable in 2010. During 2007 we and Tele2 Finance agreed to amend the related party loan. As of October 1, 2007, the related party loan bears an interest rate equal to 3-months Euribor plus 1.25%. In addition, we secured a standby facility in the amount of € 200 million for general corporate purposes. The repayment date remained the same. Due to an internal assignment within the Tele2 AB Group, the related party loan is currently held by Tele2 Europe S.A. Subsequent to the sale of our Belgian subsidiaries on October 1, 2007, we repaid an amount of € 125 million under the related party loan with Tele2 Europe S.A. As of December 31, 2007, the amount repayable under this loan, including interest, totaled € 61.0 million. Reference is made to note 16. The related party loan interest rate risk is exposed to interest rate increase or decrease of the 3-months Euribor interest rate. An increase or decrease of the 3-months Euribor interest rate of 1% will result in respectively an increase or a decrease of 1% of the interest expense over the total outstanding amount of the related party loans. At year end the total related party loan amounts to € 61,0 million and therefore the interest expense over the year will increase or decrease with an amount of € 0.6 million if the interest rate increases or decreases by 1%.

On October 22, 2004, the Company issued 3.875% convertible senior notes for € 125 million due 2011. At October 14, 2005, Tele2 Finance B.V. acquired all the issued and outstanding 3.875% convertible senior notes, which were subsequently assigned to Tele2 Europe S.A.. Reference is made to note 15. The interest rate risk is limited due the fixed rate on the convertible senior notes.

*d) Foreign exchange risk*

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company's treasury department is responsible for managing the net position in each foreign currency.

The foreign exchange risk of the Company is limited as per balance sheet date the Company holds an equivalent of € 0,2 in US dollars. The Company's main business area is located in the Netherlands or other euro-countries. Therefore revenues and related cost are mainly denominated in euro's. The limited transactions in foreign currencies consist primarily of capital expenditures denominated in US – dollars and charges from the parent Company is Swedish Crowns.

e) Cash flow risk

As the Company has no significant interest-bearing assets, other then mentioned above. The Company's income and operating cash flows are substantially independent of changes in market interest rates.

f) Fair Values

In view of their short-term nature, the fair values of financial instruments included in receivables and current liabilities approximate their carrying amounts.

The fair value of the liability portion of the convertible bond is calculated using cash flows discounted at the Company's borrowing rate. The fair value of the other financial instruments included in long-term liabilities at December 31, 2007 approximate their carrying amounts. Reference is made to note 12.

*g) Liquidity risk*

Liquidity risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value. The Company's aim is to maintain continuity of funding and flexibility through the use of all available financing alternatives.

The following tables detail the Company's remaining contractual maturity for its financial liabilities. The liabilities represent the undiscounted cash flows of the financial liabilities based on the earliest date on which the Group can be required to pay.

| | | **2007** | | |
|---|---|---|---|---|
| *(euro thousands)* | **Weighted average effective interest rate** | **< 1 year** | **1-5 years** | **Total** |
| | % | | | |
| Non-interest bearing ........... | - | 196,676 | 48,495 | 245,171 |
| Variable interest rate instruments ......................... | 5.28 | - | 61,035 | 61,035 |
| Fixed interest rate instruments ......................... | 3.88 | - | 125,000 | 125,000 |
| | | 196,676 | 234,530 | 431,206 |

| (euro thousands) | 2006 | | | |
|---|---|---|---|---|
| | Weighted average effective interest rate | < 1 year | 1-5 years | Total |
| | % | | | |
| Non-interest bearing............ | - | 212,848 | 45,565 | 258,413 |
| Variable interest rate instruments.......................... | 4.20 | - | 177,935 | 177,935 |
| Fixed interest rate instruments.......................... | 3.88 | - | 125,000 | 125,000 |
| | | 212,848 | 348,500 | 561,348 |

### 34 Subsequent Events

Effective January 1, 2008, Versatel Nederland B.V. (as acquiring entity) and Tele2 (Netherlands) B.V. (as disappearing entity) merged within the definition of Chapters 1, 2 and 3 of Part 7, Book 2 of the Dutch Civil Code, as a consequence of which Tele2 (Netherlands) B.V. ceased to exist. Subsequently, Versatel Nederland B.V. was renamed into Tele2 Nederland B.V. Also effective January 1, 2008, all entities carrying the 'Versatel' name were renamed into 'Tele2'.

On January 25, 2008, the Company announced that it had been informed by the Enterprise Chamber of the Amsterdam Court of Appeal that the pending proceedings had ended. As a result, no investigation into the affairs (*"enquête"*) of the company will be held. In addition, the Company has recently been informed that also the pending nullification proceedings and cassation proceedings (also see – Legal Proceedings) have all ended.

On April 22, 2008, the Company announced that it had applied for, and obtained approval for a de-listing of its ordinary shares and convertible notes due 2011 from NYSE Euronext ("Euronext Amsterdam"). In connection with the de-listing, the Company also announced that it would offer to repurchase any and all ordinary shares that remain outstanding through open market purchases, against € 0.79 per share and ending on the close of business on May 20, 2008. Effective May 21, 2008, the Company's ordinary shares and Convertible Notes will be de-listed.

On April 25, 2008, the Company also announced the resignation of Mr. Svedberg as member of the Supervisory Board.

Amsterdam, April 25, 2008

The Board of Management
of Tele2 Netherlands Holding N.V.

Mr. Henrik Ringmar

Mr. Ernst Jan van Rooijen

The Board of Supervisory Directors
of Tele2 Netherlands Holding N.V.

Mr. L. Nilsson Chairman

Mr. B.L.J. Jarnheimer

Mr. A. Olsson

Mr. J.L. Bouma

Mr. R.L. de Bakker

# Tele2 Netherlands Holding N.V.

## Company Financial Statements

Company balance sheet

at December 31, 2007

(Before appropriation of net result)

(Currency – thousands of euros)

| | Note | 2007 | 2006* |
|---|---|---|---|
| **ASSETS** | | | |
| **Non current assets** | | | |
| Goodwill | 3 | 104,810 | - |
| Investments | 4 | 135,172 | 47,706 |
| Group company loan receivables | 4 | 137,843 | 22,576 |
| Total non current assets | | 377,825 | 70,282 |
| **Current assets** | | | |
| Group companies | | 68,170 | 696,549 |
| Other current assets | | 265 | - |
| Cash and cash equivalents | | 34.039 | 60,291 |
| Total current assets | | 102,474 | 756,840 |
| Total assets | | 480,299 | 827,122 |
| **SHAREHOLDERS' EQUITY AND LIABILITIES** | | | |
| **Shareholders' equity** | | | |
| Issued and paid-in capital | | 18,848 | 10,471 |
| Additional paid-in capital | | 1,998,781 | 1,755,767 |
| Accumulated deficit | | (1,705,624) | (1,605,476) |
| Net result for the period | | (64,524) | (100,148) |
| Total shareholders' equity | 5 | 247,481 | 60,614 |
| **Provision for investments** | 9 | 33,816 | 472,321 |
| **Non current liabilities** | | | |
| Deferred income tax liability | 6 | 4,380 | 5,421 |
| Related party long term senior notes | 7 | 105,787 | 101,276 |
| Related party long term loan | 8 | 61,035 | 177,935 |
| Group company loan | | 7,469 | 7,469 |
| Total non current liabilities | | 178,671 | 292,101 |
| **Current liabilities** | | | |
| Accrued liabilities | 10 | 20,331 | 2,086 |
| Total shareholders' equity and liabilities | | 480,299 | 827,122 |

* For the year 2006, Non current assets, Provision for investments and Non current liabilities have been adjusted for comparative purposes (see also Note 4 Investments and group company loan receivables).

Company statement of operations

for the year ended December 31, 2007

(Currency – thousands of euros)

| | 2007 | 2006 |
|---|---|---|
| Results of participating interests after income tax ........... | (34,007) | (83,487) |
| Other results after income tax.......................................... | (30,517) | (16,661) |
| Result for the period.......................................................... | (64,524) | (100,148) |

Company statement of changes in equity

for the year ended December 31, 2007

| (Currency – thousands of euros) | **Number of Shares** | **Issued and Paid-in Capital** | **Additional Paid-in Capital** | **Accumulated Deficit** | **Total** |
|---|---|---|---|---|---|
| Balance January 1, 2006 | 523,549,146 | 10,471 | 1,755,573 | (1,605,476) | 160,568 |
| Result for the period |  | - | - | (100,148) | (100,148) |
| Refund capital tax |  | - | 194 | - | 194 |
| Balance December 31, 2006 | 523,549,146 | 10,471 | 1,755,767 | (1,705,624) | 60,614 |
| Result for the period |  | - | - | (64,524) | (64,524) |
| Proceeds from new share issues | 418,839,316 | 8,377 | 247,114 | - | 255,491 |
| Costs of share issues |  | - | (4,100) | - | (4,100) |
| Tax calculated for costs of share issues |  | - | - | - | - |
| Balance December 31, 2007 | 942,388,462 | 18,848 | 1,998,781 | (1,770,148) | 247,781 |

Notes to the company financial statements

at December 31, 2007

(Currency – thousands of euro)

## 1 General

The company financial statements are part of the 2007 financial statements of Tele2 Netherlands Holding N.V.

The description of the Company's activities and the group structure, as included in the notes to the consolidated financial statements, also applies to the company financial statements.

In accordance with article 402, Book 2, Part 9 of The Netherlands Civil Code the statement of operations is presented in an abbreviated form.

## 2 Significant Accounting Policies

For the principles for the recognition and measurement of assets and liabilities and determination of the results for its company financial statements, the Company applies the possibility of article 2:362, paragraph 8 of the Dutch Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of result ("accounting policies") of the company financial statements of the Company are the same as those applied for the consolidated financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. For details reference is made to the notes to the consolidated financial statements. The investments in subsidiaries are stated applying the equity method as of when control can be exercised over the subsidiaries' operational and financial activities.

Transactions between the Company and its subsidiaries are included in the company financial statement. These transactions include the charge out of management fees and interest on intercompany financing. Reference is made to note 22 of the consolidated financial statements for key management personnel compensation.

IAS 39 Financial Instruments: Recognition and Measurement Amendment for Financial Guarantee Contracts amended the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized in accordance with IAS 18 Revenue. Although the Company has a number of financial guarantees outstanding on behalf of its subsidiaries, the amendment of IAS 39 does not have an effect on the company financial statements at December 31, 2006 because there are prepared in accordance with Part 9 of Book 2 of The Netherlands Civil Code. Only IFRS accounting policies applied in the consolidated financial statements are followed in order to maintain consistency.

## 3 Goodwill

The goodwill relates to the acquisition Tele2 (Netherlands) B.V. for the total amount of € 104.8 million. Reference is made to note 4 Business Combinations.

## 4 Investments and group company loan receivables

The movement in the investments and the group company loan receivables is as follows:

| *(euro thousands)* | **Investments** |
|---|---|
| Balance January 1 ....................................... | 47,706 |
| Acquisitions through business combinations ...... | 94,715 |
| Result from investments................................ | (34,007) |
| Disposals.................................................. | (3,744) |
| Provision movement........................................ | 30,502 |
| Balance December 31 .............. .................... | 135,172 |

| *(euro thousands)* | **Loan Receivables from Group Companies** |
|---|---|
| Balance January 1 ....................................... | 22,576 |
| Additions to loans ....................................... | 606,914 |
| Repayment on loans .................................. | (22,640) |
| Provision movement.................................... | (469,007) |
| Balance December 31 .............. .................... | 137,843 |

Some investments in Group companies have a negative net asset value, due to negative results up and until 2007. These investments in Group companies and loans receivable are provided and a provision for the remaining deficit has been recognized:

| *(euro thousands)* | 2007 | | | | |
|---|---|---|---|---|---|
| | Net Equity Value Group Companies | Loan Receivables from Group Companies | Remaining surplus (deficit) | Provision | Total |
| Versatel Nederland B.V. | (559,890) | 697,733 | 137,843 | - | 137,843 |
| Tele2 (Netherlands) B.V. | 87,494 | - | 87,494 | - | 87,494 |
| Versatel Finance B.V. | 21,865 | - | 21,865 | - | 21,865 |
| Bizztel Telematica B.V. | (328) | - | (328) | 328 | - |
| Versatel Internet Group N.V. | (41,369) | 7,958 | (33,411) | 33,411 | - |
| Versatel Internet B.V. | 18 | - | 18 | - | 18 |
| Versatel 3G N.V. | 30 | - | 30 | - | 30 |
| Versapoint N.V. | 25,765 | - | 25,765 | - | 25,765 |
| Versatel Internetdiensten B.V. | (77) | - | (77) | 77 | - |
| Balance December 31 ....... | (466,492) | 705,691 | 286,250 | 33,816 | 273,015 |

| (euro thousands) | 2006 | | | | |
|---|---|---|---|---|---|
| | Net Equity Value Group Companies | Loan Receivables from Group Companies | Remaining surplus (deficit) | Provision | Total |
| Versatel Nederland B.V. | (529,346) | 90,819 | (438,527) | 438,527 | - |
| Versatel Finance B.V. | 21,893 | - | 21,893 | - | 21,893 |
| Bizztel Telematica B.V. | (328) | - | (328) | 328 | - |
| Versatel Internet Group N.V. | (41,369) | 7,958 | (33,411) | 33,411 | - |
| Versatel Internet B.V. | 18 | - | 18 | - | 18 |
| Versatel 3G N.V. | 30 | - | 30 | - | 30 |
| Versapoint N.V. | 25,765 | - | 25,765 | - | 25,765 |
| Versatel Belgium B.V. | (64) | 22,640 | 22,576 | - | 22,576 |
| Versatel Internetdiensten B.V. | (55) | - | (55) | 55 | - |
| Balance December 31 ....... | (523,456) | 121,417 | (402,039) | 472,321 | 70,282 |

For movement in provision for investments reference is made to note 9.

## 5 Shareholders' Equity

The authorized capital of the Company is € 30,000,000 consisting of 1,500,000,000 ordinary shares of which 942,388,462 shares are issued and outstanding at December 31, 2007 and 523,549,146 shares at December 31, 2006. Holders of fully paid-up shares are not subject to or liable for any further capital calls by the Company.

In May and November 1998, the Company issued warrants in accordance with our first and second high yield offerings. During 2007 and 2006 no warrants were exercised. As of December 31, 2007, 53,135 warrants are outstanding, giving rights to purchase an aggregate of 2,212,672 ordinary shares at an exercise price of € 0.37 per ordinary share (recalculated as a result of the closing of the rights offering). Unless earlier exercised, the warrants will expire by their terms on May 15, 2008.

On October 22, 2004, the Company issued Convertible Notes for an aggregate principal amount of € 125 million. The Convertible Notes mature on October 28, 2011. The Convertible Notes are convertible into an aggregate of 178,571,428 ordinary shares at a conversion price of € 0.70 per share as of December 31, 2007. As a result of the closing of the rights offering, the conversion price has been adjusted.

## 6 Deferred income tax liability

Reference is made to note 13 of the consolidated financial statements.

## 7 Related Party Long Term Senior Notes

Reference is made to note 15 of the consolidated financial statements.

## 8 Related Party Long Term Loan

Reference is made to note 16 of the consolidated financial statements.

## 9 Provision for investments

The movement in the provision for investments is as follows:

| *(euro thousands)* | 2007 |
|---|---|
| Balance January 1………………………………………………………… | 472,321 |
| Addition to provision……………………………………………………. | 22 |
| Release from provision………………………………………………… | (438,527) |
| Balance December 31 .................................................................. | 33,816 |

Following the joint and several liabilities for all legal transactions carried out by several group companies, as disclosed in note 11, the Company has recorded a provision for investments for the net negative equity value of the group companies. Comparative figures have been changed to provide an improved presentation of the Company financial statements.

### 10 Accrued liabilities

The 2007 accrued liabilities include the wage tax claim in the amount of € 17.5 million including late payment interest.

### 11 Board of Supervisory Directors and Board of Management Remuneration

Reference is made to note 22 of the consolidated financial statements.

### 12 Employees

The Company did not have employees in the current and previous year.

### 13 Joint and Several Liability

In accordance with article 403 of Book 2 of the Netherlands Civil Code the Company has assumed joint and several liability for all legal transactions carried out by the following group companies:

| Name | Legal Seat |
|---|---|
| Versatel Nederland B.V.* | Amsterdam |
| Tele2 (Netherlands) B.V. | Nieuwe Meer |
| Versatel Finance B.V. | Amsterdam |
| Versatel Internet Group N.V. | Amsterdam |
| Versatel Internet B.V. | Amsterdam |
| Versatel Internetdiensten B.V. | Amsterdam |
| Versatel 3G N.V. | Amsterdam |
| Bizztel Telematica B.V. | Leeuwarden |

* Effective January 1, 2008, Versatel Nederland B.V. (as acquiring entity) and Tele2 (Netherlands) B.V. (as disappearing entity) merged within the meaning of Chapters 1, 2 and 3 of Part 7, Book 2 of the Dutch Civil Code, as a consequence of which Tele2 (Netherlands) B.V. ceased to exist. Subsequently, Versatel Nederland B.V. was renamed into Tele2 Nederland B.V. Also, effective January 1, 2008, all entities carrying the 'Versatel" name were renamed into "Tele2".

The liabilities of these companies to third parties amount to € 138.1 million (2006: € 117.9 million).

Amsterdam, April 25, 2008

| | |
|---|---|
| The Board of Management<br>of Tele2 Netherlands Holding N.V. | The Board of Supervisory Directors<br>of Tele2 Netherlands Holding N.V. |
| Mr. Henrik Ringmar | Mr. L. Nilsson Chairman |
| Mr. Ernst Jan van Rooijen | Mr. B.L.J. Jarnheimer |
| | Mr. A. Olsson |
| | Mr. J.L. Bouma |
| | Mr. R.L. de Bakker |

# OTHER INFORMATION

## Auditor’s report

To: The Shareholders, the Board of Supervisory Directors and the Board of Management of Tele2 Netherlands Holding N.V.

# Report on the financial statements

We have audited the accompanying financial statements 2007 of Tele2 Netherlands Holding N.V., Amsterdam, The Netherlands. The financial statements consist of the consolidated financial statements as set out on pages 71 to 111 and the company financial statements as set out on pages 115 to 122. The consolidated financial statements comprise the consolidated balance sheet as at December 31, 2007, profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. The company financial statements comprise the company balance sheet as at December 31, 2007, the company profit and loss account for the year then ended and the notes.

### Management’s responsibility

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code, and for the preparation of the management board report in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor’s responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion with respect to the consolidated financial statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Tele2 Netherlands Holding N.V. as at December 31, 2007, and of its result and its cash flow for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with Part 9 of Book 2 of the Netherlands Civil Code.

### Opinion with respect to the company financial statements

In our opinion, the company financial statements give a true and fair view of the financial position of Tele2 Netherlands Holding N.V. as at December 31, 2007, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

## Report on other legal and regulatory requirements

Pursuant to the legal requirement under 2:393 sub 5 part e of the Netherlands Civil Code, we report, to the extent of our competence, that the management report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Amsterdam, April 25, 2008

Deloitte Accountants B.V.
Was signed: P. Kuijpers

**Appropriation of Net Result**

The Articles of Association provide that the management board shall, subject to the approval of the supervisory board, determine the amount of the profits accrued in a financial year that shall be added to the reserves of the Company. The allocation of the profits remaining after reservation, if any, shall be determined by the General Meeting of Shareholders. The loss in a financial year shall be added to the reserves of the Company.

**Subsequent Events**

For details regarding Subsequent Events, reference is made to the consolidated financial statements, note 34, “Subsequent Events”.

## Glossary

***ADSL (Asymmetrical Digital Subscriber Line) —*** A member of the digital subscriber line family of copper loop enhancing technologies (see "DSL"), ADSL is asymmetric, meaning than it provides faster transmission rates downstream than upstream.

***ADSL2* (*Asymmetric Digital Subscriber Line) —*** Improved version of the ITU (International Telecommunications Union) standard for ADSL.

***ADSL 2+ (Asymmetric Digital Subscriber Line)*** — A further improved version of the ITU (International Telecommunications Union) standard for ADSL.

***ATM (Asynchronous Transfer Mode) —*** An international standard for high-speed broadband packet-switched networks, operating at digital transmission speeds above 1.544 Mbps.

***Bandwidth —*** The range of frequencies that can be passed through a medium, such as glass fibers, without distortion. The greater the bandwidth, the greater the information-carrying capacity of such medium. For fiber optic transmission, electronic transmitting devices determine the bandwidth, not the fibers themselves. Bandwidth is measured in Hertz (analog) or Bits Per Second (digital).

***Bits —*** The smallest unit of digital information utilized by electronic information processing, storage or transmission systems.

***Bit stream access —*** Access to Belgacom equipment connecting a provider to the end user to provide high-speed access services. This form of access differs from wholesale in that, in terms of transmission capacity, it provides access at a binary rate and the operator, as the access provider, decides on the technical specifications for the equipment directly connected to the access channel, as well as on the interface offered at the end-user side.

***Bps (Bits per Second) —*** The basic measuring unit of speed in a digital transmission system; the number of bits that a transmission facility can convey between a sending location and a receiving location in one second.

***Carrier —*** A company authorized by a regulatory agency to provide communications services.

***Carrier pre-selection —*** The ability of end users to select the long distance or international operator of their choice prior to the time their calls are first made.

***Carrier selection —*** The ability of end users to select on a call-by-call basis the long distance or international operator of their choice.

***Circuit switching —*** A switching technique that establishes a dedicated transmission path between originating and terminating points and holds that path open for the duration of a call.

***Co-location —*** When an end-user or competing local telecommunications service provider locates telephone network equipment at the building that houses switches belonging to another telephone carrier, the user or competing provider is said to be "co-located" with the other telephone carrier. The advantage for the co-locating party is that it can make a direct connection to local and long distance facilities and substantially reduce access costs.

***Closed User Group —*** A group of customers with some affiliation with one another and which are treated for regulatory purposes as not being the public.

***Connectivity —*** The property of a network that allows dissimilar devices to communicate with each other.

***CPE*** – Customer Premises Equipment

***Dark fiber —*** Any installed fiber optic cable lacking a light transmission or signal, as opposed to in-service or “lit” fiber.

***Dial around —*** Use of carrier access numbers and/or carrier identification codes to place a call through a carrier other than the one pre-subscribed to the originating phone.

***DSL (Digital Subscriber Line) —*** A family of technologies that provides high-bandwidth transmission over standard twisted copper wires (regular telephone lines).

***DSLAM – (Digital Subscriber Line Access Multiplexer),*** a mechanism at a phone company’s central location that links many customer DSL connections to a single high-speed ATM line.

***DWDM (Dense Wavelength Division Multiplexing) —*** A multiplexing technique allowing multiple different signals to be carried simultaneously, with transmission capacity as high as 160 Gbps, on a fiber by allocating resources according to frequency on non-overlapping frequency bands.

***E1 —*** The European counterpart to the North American T-1 transmission speed. The T-1 is a type of digital carrier transmitting voice or data at 1.544 Mbps. A T-1 carrier can handle up to 24-multiplexed 64 Kbps digital voice/data channels. A T-1 carrier system can use metallic cable, microwave radio or optical fiber as a transmission media.

***E3 —*** The European counterpart to the North American T-3 transmission speed. The T-3 is a type of digital carrier transmitting voice or data at 34 Mbps (see also “E1”).

***Facilities —*** Transmission lines, switches and other physical components used to provide telephone service.

***Facilities-based —*** When a carrier owns or leases a network and facilities to run that network, services offered on it are said to be facilities-based.

***Facilities-based carrier —*** A company that owns or leases its international network facilities including undersea fiber optic cables and switching facilities rather than reselling time provided by another facilities-based carrier.

***Fiber —*** A filament, usually of glass, through which light beams carrying voice, data or video transmissions are guided.

***Fiber optic —*** Technology based on thin filaments of glass or other transparent materials used as the medium for transmitting coded light pulses that represent data, image and sound. Fiber optic technology offers extremely high transmission speeds. It is the medium of choice for the telecommunications industry. Fiber is immune to electrical interferences and environmental factors that affect copper wiring and satellite transmission. Fiber optic technology involves sending laser light pulses across glass strands in order to transmit digital information. A strand of fiber optic cable is as thick as a human hair yet has more bandwidth capacity than a copper wire the width of a telephone pole.

***Fiber optic ring network —*** Where a network is configured in bi-directional circular fashion. If a portion of the ring malfunctions, the signal can be re-routed back the way it came, around the circle, to complete the connection.

***Frame relay —*** A method of achieving high-speed, packet-switch ed data transmissions within digital networks at transmission speeds between 56 Kbps and 1.544 Mbps.

***Gbps (GigaBits per Second) —*** A measurement of speed for digital signal transmission expressed in billions of bits per second.

***GPRS (General Packet Radio Service) —*** Addition to the GSM standard. The data is separated in little packages that are dispatched separately.

***Interconnect —*** Connection of a telecommunications device or service to the PSTN.

***Intranet —*** A corporate communications system that uses the global Internet protocol for employee-to-employee communications and information transactions. An intranet allows employees of a company to access company and customer information not available to the public, and to receive company or customer information and communicate with other employees.

***IP (Internet Protocol) —*** Internet Protocol, packet transmission standard for the transmission of data, voice, video and other information over the Internet. IP works on various kinds of networks (ATM, ISDN, LAN, et cetera) and various applications such as e-mail and WWW require the usage of IP.

***IP VPN —*** An IP-based network that appears to its users as a private network although it may be made up of both private and public segments. An IP VPN may provide bandwidth on demand or fixed bandwidth facilities.

***IP-Telephony —*** IP-Telephony is a term used to describe the usage of the Internet protocol for voice traffic.

***ISDN (Integrated Services Digital Network) —*** Switched network providing end-to-end digital connectivity for simultaneous transmission of voice and/or data over multiple multiplexed communications channels and employing transmission and out-of-band signaling protocols that conform to internationally defined standards.

***Kbps (thousands of Bits per Second) —*** A measurement of speed for digital signal transmission expressed in thousands of bits per second.

***LAN (Local Area Network) —*** A private data communications network linking a variety of data devices, such as computer terminals, personal computer terminals, personal computers and microcomputers, all housed in a defined building, plant or geographic area.

***Local loop —*** That portion of the local telephone network that connects the customer's premises to the local exchange provider's central office or switching center. This includes all the facilities starting from the customer premises interface which connects to the inside wiring and equipment at the customer premises to a terminating point within the switching wire center.

***Mbps (Millions of Bits per Second) —*** A measurement of speed for digital signal transmission expressed in millions of bits per second.

***MDF (Main Distribution Frame) —*** patch panel for connecting customer equipment.

***Media Farm*** – Hardware in datacenters that is used for the broadcast of live television and television on demand.

***MMS (Multimedia Messaging Service)*** — Multimedia messaging service. Type of SMS where the user can send pictures, photos, audio and video.

***Modem*** — Machine that converts a digital signal into an analogous signal so that it can be transported through a telephone line.

***MPLS (Multi Protocol Label Switching)*** — Supplementary to the usual routing making it possible to construct faster networks for data traffic (for example fast Internet backbones). With label switching, several router steps are replaced by switching, resulting in a higher end-to-end performance in the network. MPLS works both with IP as well as with other routing protocols, therefore the name MPLS.

***Multiplexing —*** An electronic or optical process that combines a large number of lower-speed transmission lines into one high-speed line by splitting the total available bandwidth of the high-speed line into narrower bands, or by allotting a common channel to several different transmitting devices, one at in sequence. Multiplexing devices are widely used in networks to improve efficiency by concentrating traffic.

***Multi media modem*** – (IAD) Integrated Access Device. Modem at customer premises which splits incoming television, Internet and telephone signals.

***Number Portability —*** The ability of end users to keep their number when changing operators.

***Operating Support Systems —*** A general term encompassing the electronic and manual systems used to fill orders for retail and wholesale telephone services.

***PBX (Private Branch eXchange) —*** A switching system within an office building that allows calls from outside to be routed directly to the individual instead of through a central number. A PBX also allows for calling within an office by way of four-digit extensions.

***Platform —*** A group of unbundled network elements assembled and sold together as a package.

***POP (Points Of Presence) —*** A location containing switches or other networking equipment through which users connect to a network.

***Protocol —*** A formal set of rules and conventions governing the formatting and relative timing of message exchange between 2 communicating points in a computer system or data communications network.

***PSTN (Public Switched Telephone Network) —*** A telephone network that is accessible by the public through private lines, wireless systems and pay phones.

***PTT (Postal, Telephone and Telegraph Company) —*** The dominant carrier or carriers in each Member State of the EU, until recently, often, but not always, government-owned or protected.

***Redundancy —*** Incorporation of duplicate components into a system so that a duplicate component immediately takes over if the primary components fails.

***Remote Access —*** A PBX feature that allows a user at an outside location to access certain PBX features, such as call answering and advance calling, by telephone. The user dials a direct distance dialing number to connect to the PBX and then dials authorization and instruction codes to get the PBX services.

***Reseller —*** A carrier that does not operate its own transmission facilities (although it may own its own switches or other equipment), but obtains communications services from another carrier for resale to the public for profit.

***Router —*** A device for interconnecting local area networks that have dissimilar operating protocols but which share a common network interconnection protocol.

***Routing —*** Process of selecting the correct circuit path for a message.

***SDH (Synchronous Digital Hierarchy) —*** SDH is a set of standards for optical communications transmission systems that define optical rates and formats, signal characteristics, performance, management and maintenance information to be embedded within the signals and the multiplexing techniques to be employed in optical communications transmission systems. SDH facilitates the interoperability of dissimilar vendors' equipment and benefits customers by minimizing the equipment necessary for telecommunications applications. SDH also improves the reliability of the local loop connecting customers' premises to the local exchange provider, historically one of the weakest links in the service delivery.

***Set-top-box —*** Decoder necessary for television to transform digital signal to high-quality analogue image and sound.

***SIM (Subscriber Identity Module) —*** An electronic card inserted into a GSM phone that identifies the user account to the network, handles authentication and provides data storage for user data such as phone numbers and network information. It may also contain applications that run on the phone.

***SMS (Short Messaging Service) —*** Possibility to send short text messages through a GSM.

***SMTP (Simple Mail Transfer Protocol) —*** Part that is used for sending e-mails.

***STM-1 (Synchronous Transport Module) —*** SDH notation for data transport, used for transport and connection providing capacity of 155 Mbps.

***Switch —*** A sophisticated computer that accepts instructions from a caller in the form of a telephone number. Like an address on an envelope, the numbers tell the switch where to route the call. The switch opens or closes circuits or selects the paths or circuits to be used for transmission of information. Switching is a process of interconnecting circuits to form a transmission path between users. Switches allow telecommunications service providers to connect calls directly to their destination, while providing advanced features and recording connection information for future billing.

***T1 or T3 —*** see “E1” or “E3.”

***Telephony —*** A generic term describing voice telecommunications.

***Traffic —*** A generic term that includes any and all calls, messages and data sent and received by means of telecommunications.

***Triple-play —*** Offering of a package of Internet, telephony and media services.

***VAS (*****Value Added Services) —** Is a term for non-core services or, in short, all services beyond standard services such as voice or broadband Internet

***VDSL (Very high speed Digital Subscriber Line) —***Technology that provides high-bandwidth transmission over standard twisted copper wires (regular telephone lines).

***Video on demand*** — Possibility to select videos for watching over distance through a communications network.

***VoIP (Voice over IP)*** — Telephone connection trough an IP-connection.

***VPN (Virtual Private Network) —*** A network that appears to its users as a private network although it may be made up of both private and public segments. A VPN may provide bandwidth on demand or fixed bandwidth facilities.

Postbus 22697
1100 DD Amsterdam-Zuidoost
The Netherlands

Tel: +31 20 750 1000
Fax: +31 20 750 1001
Website: tele2.nl/corporate

NETHERLANDS HOLDING