ANNUAL REPORT 2006

VERSATEL TELECOM INTERNATIONAL N.V.

versatel

A COMPANY WITHIN THE TELE2 GROUP

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Certain statements in this Annual Report 2006 are “forward-looking statements”. Such statements are based on the current expectations of the management of Versatel Telecom International 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 operating markets 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

Versatel Telecom International N.V. (in this document also referred to as “Versatel”, “Company” or “we”) is a publicly traded company on Euronext Amsterdam under the symbol "VRSA". News and information are available at www.versatel.com.

All Versatel’s reporting is in the English language.

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MANAGEMENT REPORT

Report and Recommendation of the Board of Supervisory Directors of Versatel Telecom International 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 21, 2006, to audit the annual accounts 2006. The Board of Management and the Board of Supervisory Directors have signed the annual accounts.

In the year 2006, 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 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. The Special Committee members were appointed for the duration of the proceedings filed on behalf of the Petitioning 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) as special advisors, together constituting the Special Advisory Committee, until the closing of the announced acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and the announced rights offering. The acquisitions of Tele2 (Netherlands B.V.) and Tele2 Belgium N.V. and the associated rights offering were completed on March 6, 2007 (see "Subsequent Events"), 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.

During the financial year 2006, the Board of Supervisory Directors held 11 meetings in the presence of the Board of Management and members of the former Executive Board. In particular, the medium and long-term strategy, including the development of triple-play and the impact on the budget, the proposed legal mergers, the reversed take-over of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. and associated rights offering, as well as the proceedings in front of the Enterprise Chamber, required the attention of the Board of Supervisory Directors. Other important issues that were discussed were the executive remuneration policy, 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 2007.

During the financial year 2006, the Board of Supervisory Directors also met without the presence of the Board of Management and the former Executive Board and, amongst other things, discussed its own performance, the relationship between the Board of Management, the former Executive Board and the Board of Supervisory Directors, the composition, the assessment and the remuneration of the Board of Management and former Executive Board, the size, composition, expertise and remuneration of the Board of Supervisory Directors, as well as the matter referred to above, that required the particular attention of the Board of Supervisory Directors during 2006. 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. Jarnheimer, Svedberg and Olsson are also Executives or Supervisory Directors of Tele2 AB, which as a result of the completion of the Offers became Versatel'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.versatel.com.

During the financial year 2006, the Special Committee (as of December 8, 2006 the Special Advisory Committee) held several meetings with the Board of Management and the former Executive Board to discuss all material arrangements between the Company and Tele2 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 group companies can be found in the section "Related Party Transactions".

Corporate Governance

During the financial year 2006, 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 Versatel's corporate governance policy, including the remuneration policy and internal control systems. At the annual General Meeting of Shareholders held on May 18, 2005, Versatel 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 and 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 current members of the Audit Committee are Messrs. de Bakker, who acts as Chairman, and Svedberg. 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 2006, 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.versatel.com.

Remuneration, Selection and Appointment Committee

At the Meeting of the Board of Supervisory Directors of December 11, 2000, a Remuneration Committee was established. Versatel 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 and the (former) Executive Board. During the financial year 2006, particular attention was given to the remuneration of the current Board of Management. Furthermore, the bonuses for the financial year 2005 and the targets and bonus structure for the financial year 2006 were discussed.

During the financial year 2006, the Remuneration, Selection and Appointment Committee met two times 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.versatel.com.

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 2006 to the General Meeting of Shareholders.

The year 2006 has been a year of turmoil. The Company has been the subject of several proceedings before the Enterprise Chamber and had to conduct a reorganization in May 2006. Despite these events, 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 2007 and beyond.

Amsterdam, April 26, 2007

The Board of Supervisory Directors

Mr. B. Lars-Johan Jarnheimer Chairman

Mr. Johnny I. Svedberg

Mr. Anders Olsson

Mr. Joop L. Bouma

Mr. Robert L. de Bakker

CEO’s Overview

During 2006, we were able to continue to grow our business with a steady year-on-year revenue growth of 14.9%. Our previously expressed vision that the market has a need for bundled service offerings, has become a reality. Broadband connectivity (based on IP technology) as an enabler to offer a range of products, such as VOIP, television and video-on-demand, is becoming to be accepted by consumers. Both in the Netherlands and Belgium, we benefit from this trend. We have been able to increase our dual-play (a combination of internet and VOIP, based on ADSL2+) customer base significantly, thereby offsetting the churn on traditional ADSL and dial-in internet products. Also, the underlying EBITDA improved significantly during the fourth quarter of 2006, improving with 42% compared with the fourth quarter of 2005. Considering the prior investments to upgrade our network and product portfolio for next generation services and the continued growth in our customer base, the net loss for 2006 was in line with expectations.

The year 2006 was also for other reasons a year full of events. To be able to meet the challenges of a further consolidating market, Versatel had to announce a reorganization in May 2006, which resulted in a reduction of approximately 200 jobs in both the Netherlands and Belgium. During 2006, the company was also subject of continued litigation with certain of our minority shareholders, which resulted in the announcement on December 8, 2006 that the Enterprise Chamber in Amsterdam denied the request from certain minority shareholders for an investigation into the affairs of Versatel. The Enterprise Chamber found no grounds to doubt a proper policy which would justify such an investigation.

In January 2007, we announced the acquisition of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. The acquisition will allow us to fully integrate the businesses of Tele2 and Versatel in both the Netherlands and Belgium. The acquisition also enables us to enhance our product portfolio with a mobile service offering, based on a MVNO model, thereby improving margins. 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. The acquisitions and rights offering were completed on March 6, 2007. After deduction of the purchase price payable for the acquisition of Tele2 Netherland B.V. and Belgium N.V. and certain financing costs, we raised approximately € 50 million to fund our existing business.

The Netherlands

Following up on the launch of Tele2 Compleet (a combination of internet and voice) in March 2006, Versatel was one of the first operators in The Netherlands to offer television and "Video on Demand" via a DSL-connection. Tele2 Compleet TV includes broadband internet and voice as well as the ability to watch and listen to over 50 TV and radio channels, hundreds of movies and series on demand and free live Eredivisie football all over an ADSL2+ connection. This product was launched to the residential market through a building block model, with broadband internet as a foundation. At the end of 2006, we provisioned 131.600 customers over ADSL2+.

During 2006, we also introduced some additional features to enhance our triple-play product portfolio. We expanded our service offering with “*uitzending gemist*”, a feature that allows customers to watch a television program at a later stage. In November 2006, we also introduced, as one of the first providers in the Netherlands, an interactive commercial in close cooperation with Agis, a well known medical insurance company. The interactive commercial, with the use of a so called “red button” functionality, enables customers to directly access a separate environment where customers can directly order products.

In 2006, we were also able to further distribute our football related pay-TV channels via KPN’s terrestrial DVB network (called “Digitenne”) as well as KPN’s interactive television network (called “Mine”), therefore leveraging the expenses of the production of Eredivisie football matches. In addition, we engaged the Dutch national daily De Telegraaf to produce a series of pay-web TV programs relating to the Eredivisie football matches. The programs were, and are still, made available via Versatel’s Eredivisie channels, as well as the website of De Telegraaf.

Also in the business market we have shown to be successful during 2006. Especially in the governmental segment, we were able to sign up several new customers, such as ten Provinces, the

Municipalities of The Hague and Groningen, the Informatie Beheer Groep and the REISinformatiegroep. In addition, we were selected as one of the suppliers for the OT2006 project. OT2006 is a European tender aimed at cutting telecommunication costs for governmental organizations by means of master agreements with telecommunication providers.

Belgium

2006 was again a successful year for our Belgian operations as we were able to achieve 30.5% year over year revenue growth. This growth was mainly the result of the growth of our residential dual-play business. At the end of the year 2006, we had approximately 101,000 residential DSL subscribers that represented a growth of 68% compared to the prior year.

During 2006 we invested in local DSL infrastructure in Belgium, allowing us to reduce the dependency of Belgacom's wholesale bit stream access product to connect residential customers to our network. Versatel believes that directly connected customers represent a long-term asset and improve the operating margins. At the end of 2006, Versatel had 62 operational central offices in Belgium, covering approximately 25% of the Belgian households. We have however postponed further investment in local infrastructure in Belgium pending a more favorable regulatory environment in Belgium.

Strategy

Versatel's strategy has remained unchanged and will continue in 2007. We will continue to connect customers 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 markets and allows us to provide additional or enhanced services with limited incremental expenditures, which improves profitability and value for the consumer. In addition, Versatel aims to be a full service provider to business, residential and carrier customers.

Stakeholders

Once again, I would like to thank our customers, employees and suppliers. Without the loyalty of our customers and suppliers during such an eventful year, we would not have been able to show top line growth and a high quality of service delivering. It is our duty to serve the customer in the best way we can and will continue to do so in the coming years. I would also like to use this opportunity to give my gratitude to our highly skilled and hard working employees, who made it possible for Versatel to grow its business, improve its service delivery and continue to be an innovator.

Amsterdam, April 26, 2007

Henrik Ringmar
CEO and Managing Director

Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber

The following is a summary of certain press releases published by Versatel, as well as certain other information published during 2005, 2006, as well as during 2007, in connection with the Offers (as defined below) and the proceedings conducted against Versatel before the Enterprise Chamber of the court of appeals in Amsterdam. For a detailed review of all press releases and other published information, please visit the website www.versatel.com.

On September 13, 2005, Tele2 Finance B.V. ("**Tele2 Finance**"), an indirect wholly owned subsidiary of Tele2 AB, Versatel and Apax Partners ("**Apax**") announced that a final agreement had been reached on a recommended offer ("**Tele2 Offer I**") by Tele2 Finance for all of the issued and outstanding ordinary Versatel shares and a recommended offer ("**Tele2 Offer II**") by Tele2 Finance for all of Versatel's issued and outstanding 3.875% convertible senior notes due 2011 convertible into ordinary shares in our capital ("**Convertible Notes**"; Tele2 Offer I and Tele2 Offer II, collectively the "**Tele2 Offers**"). The Tele2 Offers, the details of which were described in an Offer Memorandum dated September 14, 2005 (the "**Offer Memorandum**"), consisted of the following key financial terms:

- a cash amount of € 2.20 per ordinary share payable to tendering shareholders; and

- holders of Convertible Notes were offered a cash amount of € 132,273.61 per note, which amount included an incentive fee of 0.30% of the principal amount of the note, including a possible adjustment for the interest due for the year ended October 28, 2005.

As part of the Tele2 Offers, Tele2 (Netherlands) B.V. ("**Tele2 Netherlands**"), a direct wholly owned subsidiary of Tele2, and Apax had reached an agreement that, immediately following completion of the Tele2 Offers, Apax would acquire Versatel's telecommunications business in Germany for approximately € 539.0 million. This acquisition of the German business was structured as a sale to Apax of all of the issued and outstanding shares of Versatel Deutschland Holding GmbH ("**Versatel Deutschland**"). Upon the completion of such sale, the proceeds thereof were to be distributed to the shareholders remaining after the completion of the Tele2 Offers.

In making the Tele2 Offers, Tele2 Finance announced its intention to acquire full legal control of Versatel following completion of the Tele2 Offers, *inter alia*, by means of entering into a triangular legal merger, pursuant to which the remaining shareholders following the consummation of the Tele2 Offers (other than Tele2) would have their Versatel shares exchanged for shares of a group company of Tele2.

On September 20, 2005, Versatel announced that it received notice that a group of Versatel shareholders led by Centaurus Capital Limited had filed a request with the Enterprise Chamber of the court of appeals in Amsterdam ("**Enterprise Chamber**") for a judicial investigation into the affairs of Versatel (*enquêteverzoek*) to the extent they related to the Tele2 Offers. The other petitioners were SG Amber Fund, Arnhold & S. Bleichroeder Advisers LLC, Mellon HBV Alternative Strategies Limited and Barclays Capital Securities Limited (together with Centaurus Capital Limited, the "**Petitioning Shareholders**"). In addition, the Petitioning Shareholders asked the Enterprise Chamber to take provisional measures prohibiting Versatel to take or implement any resolution resulting in, or cooperating with any legal act implementing the Tele2 Offers and the further actions described in the Offer Memorandum, including the proposed sale of Versatel Deutschland, the proposed dividend distribution, the acceptance of the resignation of the Supervisory Directors in office at the time and their discharge from liability, the appointment of a new Managing Director and new Board of Supervisory Directors members and any statutory merger or other legal acts described in the Offer Memorandum. The Petitioning Shareholders alleged the following in making their request to the Enterprise Chamber:

- Versatel recommended Tele2 Offers that may not have been equally made to all shareholders;

- Talpa Capital B.V. ("**Talpa Capital",** an entity that held approximately 42% of Versatel's ordinary shares prior to the Tele2 Offers having been published) had been given special benefits over and above the € 2.20 per share as offered by Tele2 Finance in the Offer Memorandum;

- the Tele2 Offers were too low, measured by objective standards and therefore the Board of Supervisory Directors and Board of Management of Versatel should not have recommended these Tele2 Offers to its shareholders and convertible note holders; and

- certain consequences of the Tele2 Offers being declared unconditional as described in the Offer Memorandum were contrary to Dutch law, in particular the distribution of the proceeds of the sale of Versatel Deutschland to the shareholders of Versatel and the triangular legal merger contemplated by the Offer Memorandum as one of the means through which Tele2 Finance might acquire full legal control over the Company.

On September 27, 2005, Versatel announced that the Enterprise Chamber had denied the requests from the Petitioning Shareholders to order provisional measures in relation to the Tele2 Offers. The Enterprise Chamber had rejected all arguments brought forward by the Petitioning Shareholders.

On October 14, 2005, as a result of the settlement of the Tele2 Offers:

- Tele2 Finance acquired 74% of the then-outstanding issued share capital of Versatel and all of the Convertible Notes;

- the sale of Versatel Deutschland was completed;

- an interim distribution of € 1.391585 per ordinary share was made to the current shareholders of Versatel out of its freely distributable reserves, as distribution of the proceeds of the sale of Versatel Deutschland. Versatel and Tele2 Finance agreed that Tele2 Finance would be paid its part of this interim distribution by an assignment of the claim against the subsidiary of Apax that was the purchaser in the sale of Versatel Deutschland that arose in connection with such sale;

- the resignations of Mr. L.W.A.M. van Doorne, Mr. J. Huber, Mr. L.M.L.H.A. Hermans, Mr. B.L.J.M. Beerkens and Mr. J.G. Drechsel as members of the Board of Supervisory Directors of Versatel became effective; and

- the appointment of Mr. J.I. Svedberg, Mr. B.L.J. Jarnheimer, Mr. S.H. Zadler and Mr. M.F. Berglund as members of the Board of Supervisory Directors of Versatel became effective.

All of these events related to the Tele2 Offers had been approved by the shareholders in an extraordinary General Meeting of Shareholders of Versatel held on September 29, 2005.

On December 6, 2005, the Petitioning Shareholders filed a second request for provisional measures with the Enterprise Chamber. The Petitioning Shareholders requested the Enterprise Chamber to:

- prohibit Versatel from amending its existing corporate governance policy; and

- appoint two members to the Board of Supervisory Directors of Versatel, who would be exclusively authorized to represent the Company in all discussions, negotiations and transactions with Tele2 companies, including the contemplated legal merger that would cause the Petitioning Shareholders' ordinary shares of Versatel to be exchanged for shares of a group company of Tele2.

On December 14, 2005, the Enterprise Chamber ruled that Versatel could not proceed with the proposed amendment to its corporate governance policies at an extraordinary General Meeting of Shareholders scheduled for December 15, 2005. In addition, the Enterprise Chamber ruled that it would appoint three independent members to the Board of Supervisory Directors of Versatel, together constituting the Special Committee of the Board of Supervisory Directors of Versatel, who collectively would have exclusive powers to deal with any material arrangements to be concluded between Versatel and (any group company of) Tele2.

On December 21, 2005, the Enterprise Chamber appointed Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel to the Board of Supervisory Directors of Versatel in furtherance to its ruling on December 14, 2005.

On March 1, 2006, Versatel announced jointly with Tele2 Finance that a merger proposal ("**March Proposed Merger**") prepared by Tele2 Finance, Versatel and Tele2 Netherlands Holdings B.V. ("**Tele2 Holdings**") was filed with the Dutch commercial register. Pursuant to the March Proposed Merger:

- the Company would cease to exist as a separate legal entity and Tele2 Finance would acquire all of our assets and liabilities;
- the shareholders of Versatel would receive non-listed shares in Tele2 Holdings in exchange for their current shares in the Company; and
- the trading of the ordinary shares in Versatel on Euronext Amsterdam would terminate.

Versatel intended to convene an extraordinary General Meeting with respect to the March Proposed Merger on April 3, 2006. It further announced that it was the Company's intention to consummate the March Proposed Merger immediately after such transaction had been approved at the extraordinary General Meeting on April 3, 2006. The March Proposed Merger and its effects would then become effective on April 4, 2006.

On March 8, 2006, the Petitioning Shareholders filed a third request for provisional measures with the Enterprise Chamber. The Petitioning Shareholders requested that the Enterprise Chamber:

- prohibit Versatel from consummating the March Proposed Merger; and
- order Versatel to make a public disclosure of all transactions (and all possible future amendments thereto) between the Company or any of its subsidiaries on the one side and (other) members of the Tele2 group of companies on the other side.

On March 24, 2006, the Enterprise Chamber ruled that Versatel could not proceed with the March Proposed Merger. Consequently, no resolution could be taken on the March Proposed Merger at the extraordinary General Meeting of Shareholders scheduled to be held on April 3, 2006 and the trading of the ordinary shares in Versatel on Euronext Amsterdam was therefore not terminated. The other provisional measures requested by the Petitioning Shareholders were denied.

On April 21, 2006, Versatel announced in reference to the March 24, 2006 ruling of the Enterprise Chamber that it would prepare a new proposal for a triangular merger between the Company, Tele2 Finance and Tele2 Holdings which did not involve tracking stock (the "**April Proposed Merger**"). Tele2 cooperated with this approach. Part of this process would involve a valuation of Versatel and its subsidiaries on the one hand and Tele2 Netherlands and Tele2 Belgium on the other hand prior to the filing of the new merger proposal with the Chamber of Commerce. Versatel further announced that it was anticipated that a new merger proposal would be published within a few months.

On May 9, 2006, Versatel announced that the parties to the pending proceedings before the Enterprise Chamber had jointly decided to postpone a hearing scheduled for May 11, 2006. The parties agreed to postpone the hearing until the April Proposed Merger, as announced by the Company on April 21, 2006, had been finalized.

On June 16, 2006, Versatel announced that by mutual agreement with Tele2 the April Proposed Merger had been put on hold while Versatel and Tele2 considered alternative transactions, including the acquisition by Versatel of Tele2's Dutch and Belgian operations as conducted by Tele2 Netherlands and Tele2 Belgium.

On August 16, 2006, Versatel announced its intention to acquire Tele2's Dutch and Belgian businesses ("**the Acquisitions**").

On December 8, 2006, Versatel, jointly with Tele2, announced that the Enterprise Chamber in Amsterdam ruled that the request for an investigation into the affairs of Versatel had been denied. The Enterprise Chamber found no grounds to doubt a proper policy which would justify such an investigation. Versatel also announced that since the proceedings before the Enterprise Chamber had terminated, Messrs. Eschauzier, Bouma and Wortel resigned as members of its Board of Supervisory Directors, effective December 8, 2006. However, in the interest of continuity in the Company's corporate governance, Versatel had asked them, with the endorsement of Tele2, to continue to act in the same manner as they have done before as special advisors to the Company until the closing of the Acquisitions. Messrs. Eschauzier, Bouma, and Wortel confirmed to Versatel that they were willing to do so in their capacity as members of the Special Advisory Committee.

On January 26, 2007, Versatel announced that it had agreed to acquire Tele2 Netherlands and Tele2 Belgium from Tele2 for € 200 million in aggregate (on a cash-and-debt free basis and subject to certain adjustments) and that it intended to raise € 255 million in a rights offering, the proceeds of which would be fully guaranteed by Tele2, for purposes of funding the acquisitions and for general corporate purposes. Versatel also announced that an extraordinary general meeting of shareholders would be scheduled for purposes of, inter alia, approving the Acquisitions, as well as the proposed € 255 million equity offering.

On February 6, 2007, Versatel announced that new proceedings before the Enterprise Chamber had been filed against it by certain of our minority shareholders. These proceedings consisted of a request for provisional measures, as well as a new request for an investigation into our affairs (*enquêteverzoek*). The provisional measures were aimed at prohibiting Versatel from taking or implementing any resolution regarding the Acquisitions as well as regarding the Offering, unless Tele2 would grant our minority shareholders a put option in respect of their shares in us.

On February 12, 2007, Versatel announced that the Enterprise Chamber denied the request for the provisional measures. The request for an investigation into our affairs is still pending. Also on February 12, 2007, Versatel announced that its shareholders had approved, amongst other resolutions, the acquisitions of Tele2 Netherlands and Tele2 Belgium by Versatel, as well as the rights offering as announced on January 26, 2007.

On March 6, 2007, Versatel announced that it had successfully completed the rights offering and the acquisitions of Tele2 Netherlands and Tele2 Belgium. As a result, in total 418,839,316 new ordinary shares were issued. Taking into account the aggregate number of 349,164,120 shares acquired by Tele2 in the context of the rights offering (including 12,892,744 new ordinary shares acquired by Tele2 Finance in the announced rump offering) Tele2 currently owns 81.7% of Versatel's outstanding ordinary shares. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 owns 84.6% of Versatel's outstanding ordinary shares on a fully diluted basis upon closing of the equity offering.

Description of Business

Overview

Versatel 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. Versatel 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 Versatel 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.

Versatel Telecom International 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.	The Netherlands	100%
Versatel Belgium N.V.	Belgium	100%
Tele2 (Netherlands) B.V. (1)	The Netherlands	100%
Tele2 Belgium N.V. (1)	Belgium	100%

(1) Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. were acquired on March 6, 2007 (see "Subsequent Events").

Brief History

Prior to May 1998, Versatel financed its infrastructure build and growth primarily through equity and subordinated loans from its shareholders. Between May 1998 and April 2000, Versatel raised an aggregate of approximately € 2.6 billion in proceeds, net of offering expenses, in a series of debt and equity offerings which included an initial public offering in July 1999 and the listing of Versatel's ordinary shares on Euronext Amsterdam. On October 9, 2002, Versatel completed its financial restructuring by paying approximately € 342.8 million in cash and issuing approximately 365 million new ordinary shares to its former senior notes holders in consideration for eliminating all of its outstanding high yield and convertible debt. Following the completion of its financial restructuring in 2002, Versatel continued to grow its business in its respective regions, obtaining additional funding via the issuance of convertible senior notes of € 125 million in 2004.

On October 14, 2005, Versatel announced that as a result of the settlement of the Offers, the sale of Versatel Deutschland Holding GmbH to Ganymed was completed leaving Tele2 Finance B.V. as the controlling shareholder of Versatel. Tele2 Finance B.V. is wholly owned by Tele2 AB, one of Europe's leading alternative telecom operators. Tele2 AB has been listed on the Stockholm Stock Exchange since 1996. Following completion of the Offers, Versatel has entered into certain transactions with Tele2 and certain of its group companies. These transactions mainly relate to Versatel using the brand name 'Tele2' in relation to the consumer market, and Tele2 and certain of its group companies utilizing Versatel's network. A more detailed description of transactions entered into between Versatel and Tele2 and certain of its group companies during 2006 is included in the section "Related Party Transactions". All transactions entered into between Versatel and Tele2 and certain of its group companies are entered into on arm's length terms.

On March 6, 2007, Versatel announced that it had 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., Versatel 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.

Business

Versatel is an alternative broadband telecommunications and media service provider in its target markets of The Netherlands and Belgium. Our objective is to become the leading alternative provider of telecommunications and media services, including voice (fixed telephony and mobile communication services), data, Internet, video/television and value added services ("VAS"). Versatel provides services to business and residential customers as well as other telecommunications, data and Internet service providers in its target markets. Versatel 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 Versatel'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 Versatel's network by way of carrier pre-selection or its carrier select codes.

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

- **Backbone Infrastructure.** Versatel'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 and Belgium, 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 Versatel 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.** Versatel 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 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 and Belgium. Versatel 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

Versatel's objective is to become the leading alternative provider of telecommunications and media 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.** Versatel 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. Versatel 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.** Versatel 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. we can now also offer mobile products to expand our bundled service offering;

- **Maintain Focus on Targeted Customer Segments.** In each of its core markets, Versatel 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, Versatel 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 and Belgium, Versatel has also made significant investments in Central Offices ("COs") for the deployment of DSL infrastructure. As at December 31, 2006, we have approximately 315 COs operational in The Netherlands, covering an area that we estimate to represent approximately 65% of the Dutch households. In Belgium, Versatel has 62 operational COs. 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 Belgium; and

- **Focus on Superior Customer Service.** Versatel 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

At the end of 2005, following the closing of the Tele2 Offers, Versatel launched a plan to invest in local DSL infrastructure in Belgium. Previously, Versatel primarily used Belgacom's wholesale bit stream access product to connect residential customers to its network. This is a direct extension of Versatel's local access strategy where Versatel believes directly connected customers represent a long-term asset. Subsequent to this decision in 2005, Versatel has postponed further investment in local infrastructure in Belgium pending a more favorable regulatory environment in Belgium.

In The Netherlands and Belgium, Versatel has re-branded its residential operations to "Tele2" in order to capitalize on the better brand awareness that Tele2 has in this market. All marketing campaigns have been consolidated under the Tele2 brand name, in addition to our website interface where customers are offered additional services. In the first quarter of 2007, Versatel also re-branded its business operations in The Netherlands to "Tele2 Zakelijk".

In the first quarter of 2006, Versatel launched a residential product, called Tele2 Compleet, offering broadband internet and voice service to customers in The Netherlands. Customers who sign up for Tele2 Compleet and who are within Versatel's existing network coverage area are connected via Versatel and those outside of Versatel's coverage area are connected via Tele2's wholesale bit stream solution offered by KPN.

Following up on the launch of Tele2 Compleet in March 2006, Versatel was one of the first operators in The Netherlands to offer television and "Video on Demand" via a DSL-connection. Tele2 Compleet TV includes broadband internet and voice as well as the ability to watch and listen to over 50 TV and radio channels, hundreds of movies and series on demand and free live Eredivisie football all over an ADSL2+ connection. This product was launched to the residential market through a building block model, with broadband internet as a foundation.

Versatel's Network

Versatel'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 Belgium and to several international destinations. Versatel's network carries voice, data and Internet traffic and supports all major protocols, including Frame Relay, Asynchronous Transfer Mode ("ATM") and Internet Protocol ("IP"). In general, IP is 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 triple-play services are fully IP-based.

Versatel 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.

Versatel's network consists of the following integrated elements:

- **Backbone Infrastructure.** Versatel'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 centres in The Netherlands and Belgium, 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 Versatel 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.** Versatel has established a dark fibre based international network extending its backbone infrastructure to the major interconnection and Internet Exchange points in Western Europe. Versatel has points of presence in 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 and Belgium. Versatel 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 of December 31, 2006, Versatel had a backbone infrastructure consisting of approximately 2,000 kilometres in The Netherlands and Belgium. Additionally, as of December 31, 2006, Versatel had local access infrastructure of approximately 1,500 kilometres in The Netherlands and Belgium.

Service Platforms

Versatel's 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 Versatel provides to end-users and its offering of outsourced services to ISPs and content providers. A SDH 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, Versatel has an additional platform of IP equipment connected directly to fiber, which currently supports its internet and data services and Versatel 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. 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 Telfort, a subsidiary of KPN, our largest competitor in The Netherlands.

Network Management

Versatel 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 Versatel to re-route traffic to ensure high quality service. The network operations centre of Versatel also has an uninterrupted power supply as well as redundant communications access and computer processors. Versatel controls its own points of presence in The Netherlands and Belgium, which allows Versatel immediate access to its equipment and network for rapid service restoration when necessary.

Versatel 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 and Belgium is located at its headquarters in Amsterdam.

Sales and Marketing

Versatel 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 its sales force. In connection with the Tele2 Offers, Tele2 and a subsidiary of Apax agreed that we would transfer the "Versatel" trademark and trade names 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. However, Versatel agreed, after the settlement of the Tele2 Offers in 2005, with Apax that the trade name "Versatel" registered in Germany will be transferred to them and has subsequently done so. Versatel is currently discussing Apax's use of the "Versatel" trade name in other jurisdictions.

Versatel obtained the right to use the Tele2 brand (name and logo) for an indefinite period and free of charge.

Versatel's sales force is comprised of direct sales personnel, telemarketers, independent sales agents and systems integrators. In the future, based on the Company's ability to continue to provision customers directly to its network, Versatel expects to increase the number of its direct sales personnel. Versatel'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, Versatel has a telemarketing group that screens prospective customers and monitors existing call volumes to identify prospective customers.

Customers

Versatel markets its services on a retail basis to business and residential customers and on a wholesale basis to other carriers and service providers.

Business Customers. Versatel focuses particularly on 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 Versatel 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. Versatel 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, Versatel launched a full triple-play service (voice, Internet and video services) to its customers. For these services Versatel receives fees from its subscribers for broadband and dial-up services. In Belgium Versatel offers broadband Internet access and voice services under the brand name of Tele2.

Carrier Customers. Versatel's carrier customers are global and regional network operators, ISPs and switchless resellers serving specific market segments in The Netherlands and Belgium. Versatel 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 and Belgium will require quality carrier services and high bandwidth services to develop their market position. As Versatel'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 Versatel 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) Versatel has offered the following products and services to business customers:

Fixed Telephony

Versatel offers a full portfolio of fixed telephony services. This ranges from basic carrier (pre)select and ISDN connections on its own network infrastructure to 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

Versatel offers a mobile data and voice service based on an ESP (Enhanced Service Provider) arrangement with KPN Mobile Wholesale (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 leased from Telfort, a subsidiary of KPN, our largest competitor in the Netherlands.

Data

Versatel 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 Versatel's customers that require floor space for servers and network equipment.

Internet & Hosting

For internet access Versatel offers a wide range of 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) Versatel offers the following products and services to carrier customers:

Leased Circuits

Versatel's leased circuit service offering is delivered on its own network and provides digital connectivity between specified end points within The Netherlands and Belgium and selected international locations. Its leased circuit service is designed to carry high bandwidth, high quality voice, data, video/television and Internet traffic. Versatel'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**")*

Versatel's vPoP service provides the dial-in service needed to support large scale internet access. The Versatel 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 and Belgium.

Co-location

The co-location service offered by Versatel 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 telecommunication services. Versatel'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 telecommunications 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 Versatel 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. Versatel 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

Versatel'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. Versatel 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. Versatel'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, Versatel offers a comprehensive portfolio of call termination and originating services. The connectivity options of Versatel support international call termination and originating as well as national call termination and originating in The Netherlands and Belgium. These services are delivered over network architecture consisting of the latest transmission and switching technology.

- ***Residential Products and Services***

Internet Access Services

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

Dual-play

Since the first quarter of 2006, Versatel 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 and Belgacom in Belgium.

Triple-play

Since the first quarter of 2006, Versatel offers DSL internet access in combination with telephony and video/television services (which the Company refers to as "triple-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 and "*Uitzending gemist"* delay television.

Customer Service

Versatel'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, Versatel 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.

Versatel also believes that technology plays an important role in customer satisfaction. Advanced technological equipment is crucial to enabling the provision of high quality service to Versatel's customers. Versatel seeks to reduce technical risks as much as possible by buying proven products from leaders in the applicable technology. It has installed sophisticated status monitoring and diagnostic equipment at its network operations centres. This equipment allows it to identify and remedy network problems before they are detected by its customers. Versatel believes that by providing superior customer service and through the effective use of technology, it can maintain a competitive advantage in its target markets.

Competition

In The Netherlands and Belgium, Versatel competes primarily with the national PTTs in each country. As the former monopoly providers of telecommunications services in these countries, the PTTs have an established market presence, fully built networks and financial and other resources that are substantially greater than Versatel's. In addition, the national PTTs own and operate significant portions of the infrastructure, which Versatel must currently access to provide its services. Versatel estimates that in each of these countries the national PTT 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 Versatel's main competitors in the areas of business, residential and carrier services:

Market	The Netherlands	Belgium
Business	KPN Telecom Colt Telecom Verizon BT Getronics	Belgacom Colt Telecom Scarlet Telenet Verizon BT
Residential	KPN Telecom Orange Tiscali UPC Essent/Casema/Multi-kabel Scarlet	Belgacom Telenet Scarlet
Carrier	KPN Telecom Colt Telecom BT BBNed Verizon	Belgacom Verizon Colt Telecom Telenet

Intellectual Property

The Company has registered several trademarks such as "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.versatel.com 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 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. Versatel agreed, after the settlement of the Tele2 Offers in 2005, with Apax that the trade name "Versatel" registered in Germany will be transferred to them and has subsequently done so. Versatel is currently discussing Apax's use of the "Versatel" trade name in other jurisdictions.

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 Versatel 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

As discussed earlier, in the section "Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber", the Petitioning Shareholders filed a request with the Enterprise Chamber for a judicial investigation into the affairs of Versatel (*enquêteverzoek*) relating to a variety of matters, including the March Proposed Merger. The Enterprise Chamber ruled on December 8, 2006 that the request for an investigation into its affairs was denied. However, the Petitioning Shareholders have filed for an appeal with the Supreme Court. Also, and as discussed earlier in the section "Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber", on February 6, 2007, certain of our shareholders have filed a new request for an investigation into our affairs (*enquêteverzoek*), which request is still pending. If an investigation into the affairs of Versatel is ultimately awarded, the outcome of these proceedings may ultimately be that certain resolutions of the

Board of Management, the Board of Supervisory Directors and the General Meetings of Shareholders of Versatel are nullified, including but not limited to resolutions relating to the Tele2 Offers and the sale of the German business that was completed in 2005. Also, on September 11, 2006 certain shareholders of Versatel filed a claim against the Company with the District Court in Amsterdam relating to certain resolutions of the General Meeting of Shareholders of Versatel held on September 29, 2005, including, but not limited to, the sale of its German business and a distribution to Versatel's shareholders of approximately € 728.6 million. Would this claim be awarded, the outcome of these proceedings may ultimately be that such resolutions are nullified. Such nullifications, if awarded, should not affect the legality of transactions Versatel has concluded with third parties.

In October 2000, Versatel 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 Versatel in July 1999. Although Versatel had consulted with its Dutch tax advisors and the Dutch tax authorities prior to issuing these options and although Versatel 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. Versatel 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 Versatel. It filed for appeal in cassation at the Supreme Court in The Hague in January 2006, where Versatel presented its case on October 18, 2006. This procedure is still pending. On January 31, 2007 Versatel was informed that the public prosecutor at the Supreme Court (*Advocaat Generaal*) has issued his opinion (conclusie) in relation to this matter confirming, in relevant part, the decision of the Amsterdam Court of Appeals. In the meantime, the Dutch tax authorities have agreed that Versatel does not need to provide them with any guarantees for the disputed amount so long as the Company maintains an agreed upon cash position. Since Versatel was not able to maintain this cash position, its majority shareholder Tele2 Finance arranged for a bank guarantee in the amount of € 14.6 million on December 14, 2006. Versatel has signed a counter indemnity agreement by which costs incurred by Tele2 Finance are recharged to the Company at an arm's-length basis.

In October 2006, Versatel's Belgian subsidiary, Versatel Belgium, received a pre-assessment bill (*Regularisatieopgave*) pertaining to a VAT investigation by the Belgian tax authorities in fiscal years 2002 through 2004 of Versatel Belgium's invoicing requirements of foreign resellers (i.e., non-Belgian resellers). According to EU legislation, such resellers generally are invoiced without Belgian VAT (which is known as the reverse charge mechanism). In the case of Versatel, the Belgian tax authorities asserted that Versatel inappropriately applied the reverse charge mechanism and that it instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, Versatel reached a settlement of this claim on November 23, 2006. Pursuant to the settlement the *Regularisatieopgave* covering the period of 2002 through part of 2004 was reissued and the Company agreed on December 5, 2006 to settle for a total amount of € 3.0 million. The VAT investigation related to the fiscal years 2002 through 2004 only. In addition an amount of € 2.7 million was accrued covering potential VAT risks associated with invoicing requirements for foreign resellers for the subsequent fiscal years not covered by the settlement agreement.

Versatel has filed complaints in the past with the European Commission, with the OPTA and the Minister of Transport and Waterways in The Netherlands, with the Belgium Institute for Post and Telecommunications ("BIPT") in Belgium 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.

On May 11, 2005 Versatel announced that the public prosecutor's office had started an investigation into possible insider trading in the shares of Versatel during 1999, including suspicion of fraud. However, this investigation is not directed against the Company.

In November 2006, the lessor of the current headquarters of Versatel at 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 demands that Versatel is prohibited from vacating the part of the premises it currently occupies at Hullenbergweg 101 and from moving its corporate headquarters to the new building it rents at Wisselwerking 58, Diemen, The Netherlands. The Company is currently in discussions with the new owners of the premises at the Hullenbergweg 101 to find an amicable solution. Also see section "– Property".

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

Property

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

As at the date of this annual report 2006, the head offices of Versatel in each country are located at the following addresses:

Address	Expiration date of lease
Hullenbergweg 101, 1101 CL Amsterdam Zuidoost, The Netherlands	March, 2010
Koningin Astridlaan 166, 1780 Wemmel, Belgium	April, 2009

During the third quarter of 2006, Versatel reached an agreement to move its corporate headquarters to a new building, located at Wisselwerking 58, Diemen, The Netherlands. The lease agreement has been entered into for a period lasting until December 31, 2019 and will automatically renew, subject to the Company giving notice of termination before December 31, 2018. The lease agreement does not require Versatel to physically occupy the Diemen building. Versatel is currently attempting to sublease its existing corporate headquarters at Hullenbergweg 101. The lessor of the Hullenbergweg building has initiated summary proceedings against Versatel in the Subdistrict Section of the District Court of Amsterdam with respect to our intention to move from this building. 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 countries in which Versatel 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 Netherlands

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 Versatel, Versatel Nederland B.V., has significant market power with respect to the relevant market for call termination individual public telephone networks provided at a fixed location (market 9). Its relevant product market consists of termination its geographical numbers and its 088-numbers. Therefore OPTA has imposed on Versatel and all other relevant providers' access regulation, transparency regulation and tariff regulation. The tariffs of Versatel 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, Versatel, BT, Verizon, Enertel and Priority have cooperated in the informal Association of Competitive Telecom Operators ("ACT"). In 2004, Orange, BBned and Tiscali have 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.

Belgium

Belgium started the liberalization of its telecommunications market in 1991 with an amendment to the Belgian Public Post and Telecommunications Act. At the same time a new regulatory body was introduced: the Belgium Institute for Post and Telecommunications (*Belgisch Instituut voor Post en Telecommunicatie*) ("BIPT"), under authority of the Belgian Ministry of Economy and Telecommunications. Given the supervision of the federal government through the Belgian Ministry of Economic Affairs of BIPT and the government's stake in the incumbent operator Belgacom, in 2003, the Belgian Royal Decree installed specific administrative measures to safeguard the independency of the BIPT.

Currently, the Belgian Government is in the process of transposing the new regulatory Framework (5th EC Directives) in Belgian Law. Awaiting such transposition, BIPT installed some administrative measures including abolishing specific license requirements for the offering of telecommunications service and operating alternate network infrastructure. The New Telecom Act has been approved by the parliament and has become applicable as of May 2005. Together with this New Telecommunications Law, the Belgian Regulator will need to work together with the Local Authorities for all decisions that are related both to Telecommunications and Media. In addition, the National Competition Council will be reinforced in order to ensure the implementation of the new regulations.

For information regarding the Belgian Regulatory environment, please visit the website of BIPT at www.ibpt.be.

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.versatel.com.

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 Hullenbergweg 101, 1101 CL Amsterdam-Zuidoost, 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 October 14, 2005 before a substitute of Mr. R.J.J. Lijdsman, a civil law notary, practising in Amsterdam. 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 523,549,146 Ordinary Shares were issued, fully-paid and outstanding at December 31, 2006. On March 6, 2007 the Company successfully completed a rights offering as a result of which 418,839,316 new ordinary shares were issued (see also "Subsequent Events"). As per March 6, 2007, a total of 942,388,462 Ordinary Shares were outstanding.

Rights of conversion and share options

In May and November 1998 Versatel issued warrants in accordance with its first and second high yield offerings. During 2006, no warrants were exercised. As of December 31, 2006, 53,135 warrants are outstanding, giving rights to purchase an aggregate of 1,928,099 ordinary shares at an exercise price of € 0.43 per ordinary share. Unless earlier exercised, the warrants will expire by their terms on May 15, 2008.

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

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 21 June 2006, the General Meeting delegated to the Board of Management, for a period of two years, beginning from 21 June 2006, therefore until 21 June 2008, 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 21 June 2006, the General Meeting of Shareholders delegated to the Management Board, for a period of two years, beginning from 21 June 2006 until 21 June 2008, 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 Versatel'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 21, 2006, 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 21, 2007.

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

Major Shareholders

At December 31, 2006, 523,549,146 Ordinary Shares were issued and outstanding. On March 6, 2007, Versatel announced that it had successfully completed the rights offering and the acquisitions of Tele2 Netherlands and Tele2 Belgium. As a result, in total 418,839,316 new ordinary shares were issued, resulting in an aggregate number of issued and outstanding Ordinary Shares as per March 6, 2007 of 942,388,462.

Under the Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an interest in the capital or voting rights of Versatel 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 Versatel'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 Versatel'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. 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	Date of notification
Tele2 Finance B.V. ………………………	80.29% (1)(2)(4)	November 1, 2006
Centaurus Alpha Master Fund Limited…	6.34% (1)(2)(3)	November 1, 2006
Amber Capital LP…………………………	6.15% (1)(2)(3)	March 6, 2007

(1) Information regarding the percentage of outstanding shares held by Centaurus Alpha Master Fund Limited, Amber Capital LP and Tele2 Finance B.V. has been notified to the AFM under the Financial Supervision Act on November 1, 2006, March 6, 2007 and November 1, 2006, respectively.

(2) The percentage is not on a fully diluted basis.

(3) The Company is not aware of any subsequent changes in the shareholdings of Centaurus Alpha Master Fund Limited and Amber Capital LP since the date of notification on November 1, 2006 and March 6, 2007, respectively.

(4) Taking into account the aggregate number of 349,164,120 shares acquired by Tele2 in the context of the rights offering, Tele2 has confirmed to us that they currently own 81.7% of Versatel's outstanding ordinary shares. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 owns 84.6%, as per March 6, 2007, of Versatel's outstanding ordinary shares on a fully diluted basis upon closing of the equity offering.

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, 2006, we had a net loss from continuing operations of € 100.1 million. For the years ended December 31, 2005 and December 31, 2004 (on a comparable basis, excluding our German operations which were sold in October 2005), we had a net loss from continuing operations of € 47.2 million and € 0.4 million, respectively. In addition, we had an accumulated deficit of € 1,706 million as of December 31, 2006. 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 September 2005 we also have been involved in proceedings before the Enterprise Chamber as a result of actions brought by a group of certain of our shareholders relating to the Tele2 Offers. See the section "Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber" for a more detailed description of these proceedings and their status. The Enterprise Chamber ruled on December 8, 2006 that the request for an investigation into our affairs was denied. However, the Petitioning Shareholders have filed for an appeal with the Supreme Court. Also, and as discussed earlier in the section "Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber", on February 6, 2007, certain of our shareholders have filed a new request for an investigation into our affairs (*enquêteverzoek*), which request is still pending. If an investigation into our affairs ultimately is awarded, the outcome of these proceedings may ultimately be that certain resolutions of our Board of Management, our Board of Supervisory Directors, and our General Meetings of Shareholders are nullified, including but not limited to decisions relating to the Tele2 Offers and the sale of our German business that was completed in 2005. Also, on September 11, 2006 certain of our shareholders filed a claim against us with the District Court in Amsterdam relating to certain resolutions of our General Meeting of Shareholders held on September 29, 2005 including, but not limited to, the sale of our German business and a distribution to our shareholders of approximately € 728.6 million. Would this claim be awarded, the outcome of these proceedings may ultimately be that certain resolutions of our General Meeting of Shareholders held on September 29, 2005 are nullified. Such nullifications, if awarded, should not affect the legality of transactions we have concluded with third parties.

We are also currently involved in disputes with the Dutch and Belgian tax authorities relating to our operations. See the section "Legal Proceedings" for a description of these disputes. Our ongoing legal proceedings and disputes with 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 triple-play services (voice, internet and video/television) to the residential market in The Netherlands. We believe triple-play services will continue to be a core growth driver of our business in the future, and a failure to launch 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 winning the live pay-TV rights for the Eredivisie football league, we accelerated our plans to rollout triple-play services (voice, internet and video/television) in The Netherlands beginning in August 2005. 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 € 83.7 million in total capital expenditures in 2006 in The Netherlands. These expenditures are primarily directly related to signing up new customers and content for our product offering. As part of our triple-play services, we have entered the television and video market where competition is fierce. Although we have spent significant amounts of money on our triple-play rollout and product offering, we cannot guarantee that we will continue to 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. Our DSL-based services that we offer our business and residential customers are based on KPN's current MDF network. 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 terminates 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 recently departed or announced their impending departures 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 several members of our senior management have departed or announced their departures from us, including our Chief Executive Officer and Managing Director, our previous Chief Financial Officer and our Chief Development Officer and General Counsel. 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 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 both The Netherlands and Belgium, the relevant national regulatory authority has imposed additional regulatory obligations on KPN and Belgacom, respectively, requiring them to provide us with network access and capacity and other services on a cost-oriented basis. If the national regulatory authority in one or both of these countries 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.

In both countries, the relevant national regulatory authority has required the incumbent postal, telephone and telegraph companies ("**PTTs**"), KPN and Belgacom, 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 communications 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 and Belgacom are 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 and Belgacom have 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 relevant 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 or Belgacom and may have a material adverse effect on our business and results of operations.

We do not have extensive experience offering media and content services, and many of our competitors in this market may be more experienced and/or larger than us.

Historically, we have competed mainly with telecommunications providers offering voice, data and internet services. With the rollout of our triple-play services in The Netherlands, we are now competing with companies such as UPC, Essent/Casema/Multikabel, Orange, Tiscali, and CanalDigitaal, in offering triple-play services, including media and content services. We also continue to compete with traditional telecommunications operators such as KPN. Many of these competitors have significantly more experience than we have in offering these services. These competitors are also larger than us and as a result may have better access to capital for financing their activities and continued growth. Additionally, we have seen a recent round of consolidation in the Dutch cable sector (with the combination of Essent Kabelcom, Casema and Multikabel) as well as the recent consolidation efforts of KPN (through the acquisitions of Demon Internet, Speedlink, and mobile operator, Telfort, as well as the pending acquisition of Tiscali) as operators seek to increase the scale and scope of their operations to drive further economies of scale. This increased competition could materially adversely affect the pricing of our media triple-play services, and a failure to effectively execute our media and content services strategy may have a material adverse effect on our business and results of operations.

We do not have any experience in operating in the competitive residential mobile market of The Netherlands.

Upon our acquisition of Tele2 Netherlands we will be entering the residential mobile market in The Netherlands as a mobile re-seller for the first time. This market is extremely competitive with four large mobile network operators competing for market share along with numerous other re-sellers of mobile services. The mobile phone market in The Netherlands is saturated and therefore future growth is dependent on winning market share from other operators. We have no history marketing and providing these services to residential mobile customers and many of the competitors in this market are well established with significant market shares. In view of the likely level of experienced competition and the uncertainties regarding the level of economic activity in the residential mobile market, there can be no guarantee that we will realize the anticipated benefits of our acquisition of Tele2 Netherlands or meet our growth targets in this market. If our efforts in this new market are unsuccessful, this 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 four large mobile network operators competing for market share along with numerous other re-sellers of mobile services. The residential mobile business of Tele2 Netherlands is based on the difference between wholesale rates for network access we purchase from Telfort pursuant to Tele2 Netherlands' 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 triple-play services in The Netherlands, expires in June 2008 and there is no guarantee that we will be able to renew the 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 provide the live matches of the Eredivisie football league for pay television purposes. This contract will become subject to a bidding process for renewal in 2008, and we can provide no guarantee that we will bid for the rights again, or that if we bid, our bid will be successful and a new contract will be on commercially acceptable terms. Should we not be able to renew the license, 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 exclusive 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 efforts to continue to develop our triple-play services and may have a material adverse effect on our business and results of operations.

Our triple-play strategy is based on obtaining content under acceptable financial and operating terms; if we fail to obtain such content under such terms, it could have a material adverse effect on our business.

It is our intention to offer our customers the best content that is available on the market. However, the content market is a competitive market and we cannot guarantee that we will be able to obtain premium branded content on favorable economic terms. If we fail to obtain such content under such terms, it may have a material adverse effect on 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 or Belgacom, 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 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, absent (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 timely deliver quality products 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, 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 the 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 or Belgacom, as applicable. In particular, KPN and Belgacom must cooperate with us for (i) the provision and maintenance of transmission facilities and (ii) the use of their technology, including any new technologies that they roll 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, including the closing of this Offering. At present, future plans include strengthening our infrastructure in The Netherlands.

We currently do not have any commitments for additional financing. Our outstanding Convertible Notes, which are all owned by Tele2 Finance, also restrict our ability to incur additional indebtedness. Therefore, Tele2 Finance, as our controlling shareholder and 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.

Continued negative publicity related to proceedings filed by certain of our shareholders could have a material impact on our ability to win new customers.

As long as the outcome regarding legal proceedings initiated against us by certain of our shareholders remains outstanding, the related publicity could hinder our ability to win new customers. Our business plan is based upon our ability to win contracts from large, well-respected enterprises in The Netherlands. Potential customers may refrain from entering into contracts with us as long as there are uncertainties regarding our outstanding legal proceedings. Failure to win new business or renew existing contracts at the rate that has occurred in the past may have a material adverse effect on our business and results of operations.

For as long as our operations are not fully integrated with those of Tele2 and for as long as we remain a listed company, we will not be able to fully realize the synergies associated with the Tele2 Offers and will continue to incur costs associated with maintaining our listing on Euronext Amsterdam.

If we do not find appropriate solutions to fully integrate our operations with those of Tele2, we may not be able to fully realize the synergies associated with the completed Tele2 Offers. Furthermore, for as long as we remain a publicly listed company, we will incur costs, such as listing costs and other expenses associated with maintaining our listing.

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.

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 is preparing a bill that could lead 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 four years after building new empty or unused ducts for these empty or unused ducts. In addition, some municipalities are in the process of developing 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 proposed 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 occur, 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.

If we are required to stay in our current corporate headquarters, or are unable to sublease our current corporate headquarters, we may not be able to reduce our property lease obligations.

Presently our corporate headquarters are located in Hullenbergweg 101, Amsterdam Zuid-Oost, The Netherlands. The lease agreement with the lessor of our Amsterdam Zuid-Oost offices expires in February 2010. During the third quarter of 2006 we signed a new lease agreement to move our corporate headquarters to a new building located at Wisselwerking 58, Diemen, The Netherlands. The initial lease period of the building in Diemen expires in December 2019. However, the lessor of our Amsterdam Zuid-Oost offices has initiated summary proceedings against us in the Subdistrict Section of the District Court of Amsterdam and demands that we are prohibited from leaving our current offices and relocating to Diemen. We are currently attempting to sublease the Amsterdam Zuid-Oost building. A failure by us to successfully sublease the building in Amsterdam Zuid-Oost and/or an adverse judgment against us in the proceedings brought by the lessor of this property could result in us paying rent for both buildings and being unable to reduce our property lease obligations, which could have a material adverse effect on us.

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

At December 31, 2006 Tele2 holds through its wholly-owned subsidiary, Tele2 Finance, an aggregate of 420,332,560 our ordinary shares, representing 80.3% of our outstanding ordinary shares on an actual basis. In addition, Tele2 Finance owns all our Convertible Notes, which are convertible as of December 31, 2006 into an aggregate of 164,016,243 of our ordinary shares at a conversion price of

€ 0.76. As a result of the completion of the rights offering on March 6, 2007, Tele2 currently owns 81.7% of our outstanding ordinary shares. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 owns 84.6% of our outstanding ordinary shares on a fully diluted basis as per March 6, 2007.Tele2 may increase its ownership of ordinary shares if it would elect to convert the Convertible Notes. Because we are effectively controlled by Tele2, 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's indirect majority ownership, three of the five members of our Board of Supervisory Directors, are also members of Tele2's senior management. In addition, our current Chief Executive Officer, Mr. Ringmar, was a part of Tele2's senior management prior to his appointment to our Board of Management. So long as Tele2 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.

In the Offer Memorandum relating to the Tele2 Offers, Tele2 and we expressed the intention for Tele2 to obtain all of our issued and outstanding shares and to subsequently terminate the listing of our ordinary shares on Euronext Amsterdam, which would further adversely affect the liquidity of our shares.

In the Offer Memorandum relating to the Tele2 Offers, we, along with Tele2, expressed the intention for Tele2 to obtain all of our issued and outstanding shares and to subsequently terminate the listing of our ordinary shares on Euronext Amsterdam as soon as possible. If the intentions as expressed in such Offer Memorandum are given effect to, the liquidity, marketability and/or value of our ordinary shares would be adversely affected. Whether or not we and Tele2 will pursue these, and whether or not they may be successful depends on a number of factors that, as of yet, cannot be fully assessed.

We have a limited free float which may have an adverse effect on the liquidity, marketability and/or value of our outstanding shares.

Tele2's wholly-owned subsidiary, Tele2 Finance, holds an aggregate of 420,332,560 of our ordinary shares at December 31, 2006, representing 80.3% of our outstanding ordinary shares. As a result of the completion of the rights offering on March 6, 2007, Tele2 currently owns 81.7% of our outstanding ordinary shares. Consequently, our free float of ordinary shares is limited and the liquidity and marketability of our ordinary shares is thereby decreased.

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 May 18, 2007 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 Versatel as of and for the years ended December 31, 2006 and 2005. 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:	**2006**	**2005**
Revenues	434,528	378,108
Direct cost of revenues	201,050	176,135
Selling, general and administrative	172,456	137,528
Depreciation and amortization	143,962	105,184
Total Operating expenses	517,468	418,847
Operating loss	(82,940)	(40,739)
Interest and other income (expense), net	(19,418)	34
Currency exchange (losses) gains, net	154	2,250
Credit/(charge) from income tax	2,056	(8,701)
Result from continuing operations	(100,148)	(47,156)
Result from discontinued operations	-	245,837
Result for the period	(100,148)	198,681
Net result per share:		
Basic	(0.19)	0.38
Diluted	(0.19)	0.35
Selected balance sheet data:		
Cash	87,821	106,549
Working capital (excluding cash)	(140,732)	(131,256)
Equity	60,614	160,568
Cash flow data:		
Net cash provided by operating activities	59,793	355,205
Net cash used in investing activities	(108,969)	(1,178)
Net cash provided by (used) in financing activities	30,448	(516,955)
Additional Information:		
EBITDA (1)	61,022	64,445
Capital expenditures	109,009	285,412

(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:
In the consolidated numbers of Versatel Telecom International N.V. for the full year 2005, Versatel Deutschland Holding GmbH is only consolidated until October 14, 2005. The consolidated statement of operations data reflects the operations of Versatel Deutschland Holding GmbH as discontinued operations.

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.

IFRS 5 requires a component of an entity to be classified as discontinued when the criteria to be classified as held for sale have been met or it has been disposed of. Such a component represents a major line of business or geographical area of operations or it is a subsidiary acquired exclusively with a view to resale.

Management Discussion and Analysis of Operations

Overview

Versatel is an alternative broadband telecommunications and media service provider in its target markets of The Netherlands and Belgium. Our objective is to become the leading alternative provider of telecommunications and media services, including voice, data, Internet, video/television and VAS services. Versatel provides services to business and residential customers as well as other telecommunications, data and Internet service providers in its target markets. Versatel 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 Versatel'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 Versatel'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 Belgacom 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, 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. Versatel'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 of August 2005, Versatel generated 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 acquisitions of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V., Versatel also generates substantial revenues from a 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 UWV, CWI,, ABN AMRO, Dutch Railroads, Oad Group, DHL and the Ministry of Justice in The Netherlands and Vedior, ING and FOD/SPF in Belgium. 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 and Belgium, we expect an increase in the number of customers we provision over DSL technology.

Historically, in The Netherlands and Belgium, we have approached the residential voice market by providing carrier services such as carrier select hosting to resellers, who themselves target the residential voice market. In The Netherlands, Versatel offers Internet services directly to the residential Internet market. At the end of 2005, Versatel began to roll out DSL infrastructure in Belgium in order to better control the access and services it provides to its residential customers. Subsequent to this decision in 2005, we have postponed further investment in local infrastructure in Belgium pending a more favorable regulatory environment in Belgium.

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 triple-play service (a combined voice, internet and video/television services offering) to our customers. In Belgium we offer broadband internet access and voice services.

- *Carrier Customers*. Our carrier customers are global and regional network operators, ISPs and switchless resellers serving specific market segments in The Netherlands and Belgium. 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 and Belgium 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, 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. In the short term, we expect fixed network costs to increase due to the fixed charges for content and the production costs associated with Eredivisie football.

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 or Belgacom, 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 2 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, ranging from 1 to 3 years. Goodwill is not amortized. Property, plant and equipment and goodwill are tested annually for impairments. Versatel 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.

Other Significant Non-Recurring Items

2006 Reorganization
On May 29, 2006, Versatel announced a restructuring of its organization in order to meet future challenges and to support the continued need for quality improvements in both the business and consumer side of its operations. This restructuring resulted in a reduction of approximately 200 jobs in The Netherlands and Belgium. As a result of this restructuring, the Company recognized a one-time charge of approximately € 6.0 million in 2006 to cover employee termination costs.

KPN Settlement
On September 8, 2006, Versatel announced the signing of an agreement with KPN for the distribution of digital television. In addition to this agreement, Versatel agreed to settle certain historical disputes with KPN relating to claims made by both the Company and KPN regarding provision of services and fees. This settlement had a positive impact of € 4.2 million on Versatel's revenue during the third quarter of 2006 and a positive impact of € 10.2 million on both its gross margin and operating results in the third quarter and another € 2.2 million in the fourth quarter.

Lease Agreement for Corporate Headquarters
During the third quarter of 2006, Versatel reached an agreement to move its corporate headquarters to a new building in Diemen, The Netherlands. As a result of signing a new long term lease for its new headquarters, Versatel received in 2006 a cash payment of € 26.9 million from the lessor and recognized an idle building accrual of € 5.6 million related to its existing lease obligations.

Settlement with Belgian tax authorities
In October 2006, Versatel's Belgian subsidiary, Versatel Belgium N.V. ("Versatel Belgium"), received a pre-assessment bill ("*Regularisatieopgave*") pertaining to a VAT investigation by the Belgian tax authorities in fiscal years 2002 through 2004 of its invoicing requirements of foreign resellers (i.e., non-Belgian resellers). According to EU legislation, such resellers generally are invoiced without Belgian VAT (which is known as the reverse charge mechanism). In Versatel Belgium's case, the Belgian tax authorities asserted that it inappropriately applied the reverse charge mechanism and that it instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, Versatel Belgium reached a settlement of this claim on November 23, 2006. Pursuant to the settlement the *Regularisatieopgave* covering the period of 2002 through part of 2004 was reissued and Versatel Belgium agreed on December 5, 2006 to settle for a total of € 3.0 million. In addition an amount of € 2.7 million was accrued covering potential VAT risks associated with invoicing requirements for foreign resellers for the subsequent fiscal years not covered by the settlement agreement.

Subsequent Events

On January 26, 2007, Versatel announced that it had agreed to acquire Tele2 Netherlands and Tele2 Belgium from Tele2 for € 200 million in aggregate (on a cash-and-debt free basis and subject to certain adjustments) and that it intended to raise € 255 million in a rights offering, the proceeds of which would be fully guaranteed by Tele2, for purposes of funding the acquisitions and for general corporate purposes. Versatel also announced that an extraordinary general meeting of shareholders would be scheduled for purposes of, *inter alia*, approving the proposed acquisitions, as well as the proposed EUR 255 million equity offering.

On February 12, 2007, Versatel announced that its shareholders had approved, amongst other resolutions, the acquisition of Tele2 Netherlands and Tele2 Belgium by Versatel, as well as the rights offering as announced on January 26, 2007.

On March 6, 2007, Versatel announced that it had successfully closed the rights offering and the acquisitions of Tele2 Netherlands and Tele2 Belgium. As a result, in total 418,839,316 new ordinary shares were issued. Taking into account the aggregate number of 349,164,120 shares acquired by Tele2 in the context of the rights offering (including 12,892,744 new ordinary shares acquired by Tele2 Finance in the announced rump offering) Tele2 currently owns 81.7% of Versatel's outstanding ordinary shares. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 owns 84.6% of Versatel's outstanding ordinary shares on a fully diluted basis upon closing of the equity offering.

Results from Operations

The year ended December 31, 2006 compared to the year ended December 31, 2005

Revenues from continuing operations increased by € 56.4 million to € 434.5 million for the year ended December 31, 2006 from € 378.1 million for the year ended December 31, 2005, representing an increase of 14.9%. Included in revenues from continuing operations for the year ended December 31 2006 is a one-time revenue amount of € 4.2 million relating to a settlement with KPN, while included in revenues from continuing operations for the year ended December 31, 2005 is a one-time revenue amount of € 1.6 million relating to a settlement of a dispute with Belgacom on interconnection rates. Excluding one-time revenues, organic growth during the year ended December 31, 2006 was € 53.8 million as compared to the same period in 2005, representing an increase of 14.3%. This increase was primarily due to the growth in Internet Protocol Virtual Private Network ("IP-VPN") in the business segment, the growth of residential broadband customers, primarily dual- and triple play customers, and the distribution of football related pay-television channels via KPN's terrestrial DVB network (called "Digitenne") as well as KPN's interactive television network (called "Mine") in The Netherlands.

Direct cost of revenues from continuing operations increased by € 24.9 million to € 201.1 million for the year ended December 31, 2006 from € 176.1 million for the year ended December 31, 2005, representing an increase of 14.1%. Included in direct cost of revenues from continuing operations is a one-time cost reversal of € 8.8 million relating to a settlement with KPN. Excluding this one-time cost reversal, the increase was € 33.7 million, representing an increase of 19.1%. This increase, which is higher than the organic revenue growth rate for this period, is the result of higher fixed network costs relating to the production of Eredivisie football and other network costs related to our residential broadband customers and products. These costs started in the third quarter of 2005. This increase was partly offset by a more favorable mix in on-net traffic and regulatory improvements bringing down fixed and variable costs and the provisioning of higher margin bundled services.

Selling, general and administrative expenses from continuing operations increased by € 34.9 million to € 172.4 million for the year ended December 31, 2006 from € 137.5 million for the year ended December 31, 2005, representing an increase of 25.4%. 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 for the entire group in The Netherlands and Belgium to cover employee termination costs. It also includes 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. In addition it includes an accrual of € 2.7 million covering potential VAT risks associated with invoicing requirements for foreign resellers for the subsequent fiscal years not covered by a settlement agreement that the company reached in 2006. Excluding these one-time costs, the expenses increased by € 20.6 million, representing an increase of 15.0%. This is primarily the result of an increase in marketing costs and call center costs relating to the launch of our dual- and triple-play products in The Netherlands and Belgium.

Depreciation and amortization expenses from continuing operations increased by € 38.8 million to € 144.0 million for the year ended December 31, 2006 from € 105.2 million for the year ended December 31, 2005. Depreciation of property, plant and equipment increased to € 114.1 million for the year ended December 31, 2006 from € 90.2 million for the year ended December 31, 2005. This increase is due to depreciation of capital expenditures directly related to the rollout of our dual- and triple-play products that started in the third quarter of 2005. Amortization of intangible assets increased to € 29.8 million for the year ended December 31, 2006 from € 15.0 million for the year ended December 31, 2005. The increase of € 14.9 million relates to the amortization of the live pay television rights of the Eredivisie football matches that started during the second half of 2005 and other content such as the Premier League Channels offered with our triple-play package.

Interest and other income from continuing operations decreased by € 9.1 million to € 3.4 million for the year ended December 31, 2006, from € 12.4 million for the year ended December 31, 2005. Interest income on Versatel Germany decreased to nil million for the year ended December 31, 2006 from € 9.1 million for the year ended December 31, 2005. This decrease was a result of divesting the German activities on October 14, 2005. Third party interest income remained stable at € 3.4 million for the year ended December 31, 2006 from € 3.4 million for the year ended December 31, 2005. Despite a lower cash balance during 2006 the company was able to generate a better return on its available cash.

Interest and other expense from continuing operations increased by € 10.4 million to € 22.8 million for the year ended December 31, 2006, from € 12.4 million for the year ended December 31, 2005. This increase is primarily the result of the full year interest expense accrued relating to the intra-group loan agreement entered into with Tele2 Finance B.V. in October 2005. Interest expense on the related party long term loan was € 7.3 million for the year ended December 31, 2006 from € 1.2 million for the year ended December 31, 2005. Included in the amount for the year ended December 31, 2006 is also an exceptional loss of € 0.5 million related to the sale of the Wireless Local Loop 2.6 GHz band license in May 2006 that also resulted in the impairment of related telecommunication equipment.

Currency exchange result, net from continuing operations, was a gain of € 0.2 million for the year ended December 31, 2006, from a gain of € 2.3 million for the year ended December 31, 2005. 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 € 2.1 million for the year ended December 31, 2006 compared to an income tax charge of € 8.7 million for the year ended December 31, 2005. The amounts include an income tax credit of € 1.3 million relating to the release of the deferred tax liability on the equity component on the issuance of the Convertible Senior Notes in October 2004. Income tax credit/ (charge) for the year ended December 31, 2006 also include an additional income tax credit of € 0.8 million. This relates to a release from the deferred tax liability to adjust for the decrease in the Dutch income tax rate to 25.5% as of January 1, 2007. The income tax credit / (charge) for the year ended December 31, 2005 include a release of a deferred tax asset of € 9.5 million relating to period to date subsequent losses for the Dutch fiscal unity at the prevailing tax rate. The amounts recognized were taken against a deferred tax liability that was formed on the gain related to the completion of the 2002 restructuring. However, in December 2005 the Dutch Parliament passed tax bill 29 686 (amongst others) abolishing article 12 of the Dutch Corporate Income Tax Act 1969 ("**CITA 1969**"), an article that had a significant impact on the tax treatment of our 2002 financial restructuring. At the end of December 2005, we reached a covenant with the tax authorities covering fiscal years up to and including 2002. Pursuant to this covenant we reached a consensus with the Dutch tax authorities on the treatment of various outstanding matters. The covenant and tax bill have eliminated our need to maintain a deferred tax liability.

Result for the period from discontinued operations for the year ended December 31, 2005 reflects the results for the German activities until October 14, 2005 amounting to € 245.8 million. On October 14, 2005 the Company sold its German activities to Ganymed 345. VV GmbH, a company fully owned by Apax Partners, by means of a transfer of all of its shares in Versatel Deutschland Holding GmbH. As such, the result for the period from discontinued operations at December 31, 2006 does not include any results from discontinued operations.

Highlights by country

Revenues in *The Netherlands* rose to € 332.3 million for the year ended December 31, 2006 from revenues of € 299.8 million for the year ended December 31, 2005, an increase of 10.9%. EBITDA was € 69.4 million for the year ended December 31, 2006 compared with € 55.8 million for the year ended December 31, 2005.

The sequential increase in revenues comes from both the business and residential segment. In the business segment there is continued growth across the main products, in particular IP-VPN, business telephony and ISDN services. The intake of new dual- and triple-play customers, primarily after the launch of our product Tele2 Compleet (TV), improved the top line in the residential business.

On December 31, 2006 Versatel had approximately 215,000 residential DSL customers (including ADSL2+). Versatel continued to upgrade existing residential DSL customers to higher-end ADSL 2+ services.

With regard to the dual and triple-play product at December 31, 2006 Versatel recorded approximately 91,000 orders for the year 2006. At the end of December 2006 Versatel provisioned approximately 144,000 residential customers, including approximately 131,600 over ADSL 2+ and approximately 12,400 over satellite.

In the business segment Versatel showed strong growth in its IP-VPN business as it added 2,449 new sites in 2006, an increase of 32% to 10,149 IP-VPN sites installed at December 31, 2005.

Revenues in *Belgium* increased to € 102.2 million for the year ended December 31, 2006 from € 78.3 million for the year ended December 31, 2005. EBITDA was a negative € 8.3 million for the year ended December 31, 2006, compared to a positive amount of € 8.6 million for the year ended December 31, 2005.

On December 31, 2006 Belgium recorded approximately 101,000 residential DSL customers.

Liquidity and Capital Resources

We have incurred significant operating losses and negative cash flows as a result of the development of our business and network. Prior to May 1998, we financed our growth primarily through equity and subordinated loans from our shareholders. Since then until the financial restructuring, we have raised an aggregate of approximately € 2.6 billion in proceeds, net of offering expenses, in a series of debt and equity offerings. On October 9, 2002 we completed our financial restructuring by paying approximately € 342.8 million in cash and issuing approximately 365 million new ordinary shares to our former senior notes holders in consideration for eliminating all of our outstanding high yield and convertible debt. On October 22, 2004 we issued un-subordinated convertible senior notes of € 125 million in principle amount with a 3.875% annual interest rate.

We have used a significant amount of the net proceeds of these debt and equity offerings to make capital expenditures related to the expansion and development of our network, to acquire various companies, to fund operating losses and for other general corporate purposes. Our capital expenditure for each of the years ended December 31, 2006 and 2005 was € 109.0 million and € 285.4 million respectively.

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

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

Net cash provided by operating activities was € 59.8 million for the year ended December 31, 2006, compared to net cash provided by operating activities of € 355.2 million for the year ended December 31, 2005. The higher amount in 2005 was primarily the result of the sale of our German activities.

Net cash used in investing activities was € 109.0 million for the year ended December 31, 2006, consisting of capital expenditures of € 109.0 million. It primarily relates to expenditures from the roll-out of our dual and triple-play products in Belgium and The Netherlands.

Net cash used in investing activities was € 1.2 million for the year ended December 31, 2005, including capital expenditures of € 285.4 million. It primarily relates to expenditures from the roll-out of our triple-play product, and the net receipt of the divestment of our German activities of € 284.2 million.

Net cash provided by financing activities was € 30.4 million for the year ended December 31, 2006, compared to net cash used in financing activities of € 517.0 million for the year ended December 31, 2005. The net cash provided by financing activities for the year ended December 31, 2006, primarily relates to a payment of € 26.9 million received from the landlord of our new office building in Diemen, The Netherlands. The net cash used in financing activities for the year ended December 31, 2005, primarily relates to a distribution from reserves to the shareholders on October 14, 2005 of € 728.6 million for which the Company received a loan from a related party amounting to a net amount of € 170.7 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

Per G. Borgklint, was appointed sole managing director (*statutair directeur*) of Versatel at the extraordinary shareholders meeting held on September 29, 2005 subject, amongst others, to Mr. Raithatha's resignation. Mr. Raithatha announced his resignation effective December 31, 2005. Mr. Borgklint has been acting as the sole member of Versatel's Management Board since January 1, 2006.

On November 2, 2006, Mr. Borgklint indicated 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 Board of Management currently has the following two members

Name	Age	Nationality	Position	Member Since	Term
H. Ringmar (1)	38	Swedish	Chief Executive Officer	March 6, 2007	Indefinite
E.J. van Rooijen (2)	36	Dutch	Chief Financial Officer	February 12, 2007	Indefinite

(1) Mr. H. Ringmar was appointed as a member of the Board of Management, subject to the resignation of Mr. Borgklint, at the General Meeting of Shareholders held on February 12, 2007.

(2) Mr. EJ. Van Rooijen was appointed as a member of the Board of Management, with immediate effect, at the General Meeting of Shareholders held on February 12, 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 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. Prior to joining the Tele2 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 Versatel Telecom International N.V., Hullenbergweg 101, 1101 CL Amsterdam – Zuidoost, 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)]
B.L.J. Jarnheimer	46	Swedish	Chairman	October 14, 2005	2009
J.I. Svedberg	44	Swedish	Member	October 14, 2005	2009
A. Olsson	37	Swedish	Member	February 12, 2007	2010
J.L. Bouma	72	Dutch	Member	March 6, 2007	2011
R.L. de Bakker	55	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

B.L.J. Jarnheimer (Chairman)

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

Mr. Jarnheimer is currently CEO and President of Tele2 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, Arvid Nordquist AB in Sweden and Millicom International Cellular S.A. in Luxembourg. 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.

J.I. Svedberg (member)

Mr. J.I. (Johnny) Svedberg (1962) has been a member of our Board of Supervisory Directors since October 14, 2005. Subject to approval by the General Meeting of Shareholders, Mr. Svedberg will resign in 2009 in accordance with the rotation schedule adopted by the Board of Supervisory Directors.

Mr. Svedberg is currently Executive Vice President and COO of Tele2 and Market Area Director Baltic & Russia of the Tele2 group since 2003. Mr. Svedberg was the Executive Vice President and Market Area Director Eastern Europe and Russia of the Tele2 group from 2001-2003, Executive Vice President, Market Area Eastern Europe, Procurement, Regulatory Affairs and Carrier Business of the Tele2 group from 1997 – 2001, Vice President of NetCom/Tele2, CEO of 4Tsolutions AB from 1997-1999, CEO of NetCom Consultants Inc USA from 1996-1997, Vice President of NetCom Consultants AB from 1995-1997, Director of Engineering and Operations of Comviq GSM AB from 1994-1995, Vice President of NetCom Consultants AB from 1993-1994, Head of Purchasing and Project Management at Comviq GSM AB from 1990-1993, Commercial Project Manager of Ericsson Telecom Saudi Arabia from 1989-1990, Marketing Project Support Manager of Ericsson Telecom, England from 1988-1989, Group Manager for London Ericsson Telecom, Marketing Dep. England from 1987-1988 and Engineering & Order Manager Ericsson Telecom, UK Marketing Dep. Sweden from 1986 to 1987. In his capacity as Executive Vice President and COO of Tele2, Mr. Svedberg holds a position in several management boards of local companies within the Tele2 group. Mr. Svedberg currently holds no external management board positions and currently has no other supervisory board memberships. Mr. Svedberg holds a Masters Certificate in Marketing Management from the IHM Business School in Stockholm, Sweden.

A. Olsson (member)

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

Mr. Olsson is currently Executive Vice President of Marketing and Sales of Tele2 and has been in this position since 2006. Mr. Olsson has been working for Tele2 since 1997 where he has held the positions of COO and CEO of Tele2 Germany and Market Area Director Central Europe. Mr. Olsson currently has no other supervisory board memberships. Mr. Olsson holds a Master Degree in Economics & Business Administration from Upsala 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 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 has been, and will be, a member of our Special Advisory Committee. Mr. Bouma has been appointed to the Board of Supervisory Directors as a member which is independent in relation to Tele2. Subject to approval by the General Meeting of Shareholders, 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 registered properties); Cordial Beheer en Registergoederen B.V. in Winschoten, The Netherlands (holding company of producers of adhesives); Eriks Group N.V. in Alkmaar, The Netherlands (supplier of technical, mechanical components & systems); Intereffekt Investment Fund in Joure, The Netherlands (investment fund); 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 Groep N.V. in Utrecht, The Netherlands (financial services). His previous board positions include membership of the supervisory boards of Raab Karcher Bouwstoffen B.V. in Vught, The Netherlands (holding company of Dutch interests of Saint Gobain, France) and RUG Houdstermaatschappij B.V. in Groningen, The Netherlands (holding company of use of funds from scientific research proceeds at this university).

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. Subject to approval by the General Meeting of Shareholders, 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 taken over by Draka Holding N.V. in that period. 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. Currently, Mr. de Bakker currently is a member of the supervisory board of Kendrion N.V. (Zeist, The Netherlands), an international operating company listed at Euronext Amsterdam, chairman of the board of trustees of NZR (Netwerk Zorgaanbieders Rijnmond, an organization engaged in the care of approximately 1,400 elderly people at seventeen locations in the Rotterdam area) and seven related trusts and one real estate organization, member of the conseil d'administration (non-executive board member) of AMEC SPIE Benelux S.A. (Brussels) and Chairman of the Supervisory Board of AMEC SPIE Beheer B.V., Breda (electrical installation companies that are part of the U.K./ French AMEC SPIE Group) and an independent board member of the Stichting Continuïteit TomTom (Amsterdam). 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 MBA degree in business economics 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. The Special Committee members were appointed for the duration of the proceedings filed on behalf of the Petitioning 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 have agreed with us, with the endorsement of Tele2, to continue to act as our 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 or its subsidiaries unless we received the approval of Messrs. Eschauzier, Bouma, and Wortel.

J.P. Eschauzier (member)

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 (member)

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

P.A. Wortel (member)

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.

Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel ceased to act as members of our Special Advisory Committee, on March 6, 2007, the date on which the closing of the Acquisitions and the Offering occurred.

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 business.

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.

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.versatel.com.

Board of Management

Mr. Borgklint was conditionally appointed to the Board of Management of the Company in September 2005 and replaced Mr. Raithatha effective January 1, 2006. Mr. Borgklint was the sole member of the Board of Management during the year 2006. On November 2, 2006, Mr. Borgklint indicated 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 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.

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 require 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.versatel.com.

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 current members of the Audit Committee are Messrs. De Bakker, who acts as Chairman, and Svedberg. 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 2006, 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.versatel.com.

Remuneration, Selection and Appointment Committee

At the Meeting of the Board of Supervisory Directors of December 11, 2000, a Remuneration Committee was established. Versatel had previously not had 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 and the (former) Executive Board. Particular attention was given to the remuneration of the current Board of Management. Furthermore, the bonuses for the financial year 2005 and the targets and bonus structure for the financial year 2006 were discussed.

During the financial year 2006, 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.versatel.com.

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.

Compensation

Board of Supervisory Directors

The aggregate compensation for the Board of Supervisory Directors of the Company as a group in 2006 was € 231,000, compared to € 236,553 in 2005.

Upon settlement of the Offers on October 14, 2005, all the sitting members of the Board of Supervisory Directors of the Company resigned and the appointment of Messrs. Jarnheimer, Berglund, Svedberg and Zadler as approved by the general meeting of shareholders on September 29, 2005 became effective. These members do currently not receive any compensation for their role as member of the Board of Supervisory Directors of the Company.

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, that they would continue to act as special advisors, together constituting the Special Advisory Committee, until the closing of the announced acquisitions of Tele2 (Netherlands B.V) and Tele2 Belgium N.V. and the announced 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 (also see "Subsequent Events"), 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 received by the Board of Supervisory Directors for the years ended December 31, 2006 and 2005:

(amounts in euro)	**2006**	**2005**
Supervisory Directors (since October 14, 2005)		
Lars-Johan Jarnheimer (Chairman)	-	-
Håkan Zadler (Vice-Chairman) (1)		
Johnny Svedberg	-	-
Anders Olsson (2) …………………………	-	-
Robert de Bakker (2)………………………	-	
Joop Bouma (3)..	65,500	
Jean Pierre Eschauzier (3)	97,750	-
Pieter Wortel (3)......................................	67,750	-
Resigned during 2006:		
Frederik Berglund………………………….	-	-
Supervisory Directors (since October 14, 2005)		
Hans Huber (Acting Chairman) (4)...........	-	73,750
Boudewijn Beerkens..............................	-	40,000
Joop Drechsel..	-	40,000
Loek Hermans	-	40,000
Leo van Doorne	-	27,500
Resigned during 2005:		
Nathaniel Meyohas.................................	-	15,303
Total compensation	231,000	236,553

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

(2) Mr. Olsson was appointed as member of our 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) Appointed by the Enterprise Chamber of the Amsterdam Court of Appeal as per December 14, 2005. Resigned as per December 8, 2006 and continued to act as special advisor until March 6, 2007. Mr. Bouma has been reappointed to our Board of Supervisory Directors effective March 6, 2007.

(4) Includes for the year 2005, € 26,250 for additional activities performed on request of the Board of Supervisory Directors and/or the Board of Management. (2004: € 25,000)

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) and 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, free cash flow and customer satisfaction.

Effective January 1, 2006 Mr. Borgklint succeeded Mr. Raithatha as the sole Managing Director of Versatel Telecom International N.V. Mr. Borgklint combined his position as Managing Director of Versatel with the position of Market Area Director UK & Benelux within the Tele2 AB group. As Mr. Borgklint had an existing employment agreement with Tele2 (Netherlands) B.V., a group company of Tele2 AB, it was agreed that that would remain in place. Mr. Borgklint therefore did not have an employment agreement with Versatel. Tele2 and Versatel did agree that, taking into account the activities of Mr. Borgklint, to charge 85% of his total compensation to Versatel. Mr. Borgklint's remuneration consists of a base salary of € 340,200, a bonus of 40% and a fixed pension contribution of 21% of his annual base salary.

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. We have been informed that Mr. Borgklint and Tele2 Netherlands have not agreed upon any severance payment as a consequence of his departure.

The total aggregate compensation of the Managing Director paid by the Company in 2006 was € 412,929.The following table sets out the compensation paid by the Company to Mr. Borgklint for the years ended December 31, 2006 and December 31, 2005. The compensation as described below represents 85% of the total remuneration received by Mr. Borgklint under his employment agreement with Tele2 (Netherlands) B.V.. As Mr. Borgklint was appointed as the Managing Director effective January 1, 2006, he did not receive any compensation from the Company during the year 2005.

(amounts in euro)	**Salary**	**Pension**	**Bonus**	**Other**	**Total**
Per Borgklint					
2006………………..	289,170	60,726	63,033	-	412,929
2005…………….....	-	-	-	-	-

During 2006, Mr. Raithatha, the predecessor of Mr. Borgklint, who resigned effective December 31, 2005 as Managing Director of the Company, received a payment of € 150.000 for consultancy work which he performed until June 30, 2006.

Shareholdings

The Supervisory Directors did not hold any shares or options in the Company as at December 31, 2006 and 2005.

No shares or options in the Company were held at December 31, 2006 by the Managing Director, Mr. Borgklint.

Share Options

No options have been granted to any of our Supervisory Directors or members of our Board of Management during the financial year 2006.

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

Works Councils

Versatel has works councils in the two countries in which it operates. At the level of Versatel Nederland, the Dutch operating company, a works council was established in May 2002. At the level of Versatel Belgium, the Belgian operating company, a works council was established in May 2004.

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

Employees

As of December 31, 2006, the Company had 794 (full-time equivalent) employees. 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 employees on a by country basis for the years 2006, 2005 and 2004.

	2006	2005	2004
The Netherlands……………….	689	859	805
Germany………………………..	-	-	784
Belgium…………………………	154	156	142
Total……………………………	843	1,015	1,731

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 a 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 resolution of the annual General Meeting of Shareholders held on June 21, 2006.

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 twenty companies of which nine 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 Versatel labor market peer group consists of the following companies:

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

The compensation data of the CEO position of Reed Elsevier, RTL Group, Tele2 and Wolters Kluwer are excluded from the market comparison. The remuneration comparisons are scaled to reflect a similar size of Versatel, 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 2006, the financial performance criteria were defined as revenue growth, EBITDA, free cash flow and customer satisfaction. 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).* At the next annual General Meeting it shall be proposed to approve this increase.

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

In 2006, Mr. Borgklint was our Chief Executive Officer and sole member of the Board of Management. He held this position since January 1, 2006 until March 6, 2007.

The employment contract of the sole member of the Board of Management during 2006, Mr. Borgklint, was entered into for an indefinite period of time with Tele2 Netherlands B.V., a group company of Tele2 AB, and provided for a notice period of twelve months upon termination by Tele2. In the event of a dismissal by Tele2, Tele2 would not recharge any severance payment Mr. Borgklint would be entitled to, to Versatel 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, Tele2 recharged 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.

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. We have been informed that Mr. Borgklint and Tele2 Netherlands B.V. have not agreed upon any severance payment as a consequence of his departure.

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 current Chief Executive Officer, provides for a base salary of € 324,000 including holiday allowance (but excluding a bonus of up to 40% of such amount to be awarded by, and at the discretion of the Supervisory Board). 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 pension scheme and such contributions will be 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 Versatel. Mr. Ringmar does not hold any shares or options in the Company at December 31, 2006, nor has he been granted any share options during the year 2006.

The employment agreement with our Chief Financial Officer Mr. Van Rooijen provides for a base salary of € 213,840 including holiday allowance (but excluding a bonus of up to 35% of such amount to be awarded by, and at the discretion of the Supervisory Board). 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 Versatel. 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 during the year 2006.

Corporate Social Responsibility

Versatel 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. Versatel's services contribute significantly to the economy by providing innovative data and telecommunications solutions for the information society resulting in employment opportunities in The Netherlands and Belgium. Versatel 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

Versatel 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 Versatel's relationship with its shareholders.

Customers

Versatel 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 Versatel 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, Versatel 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 Versatel organization is involved. It coordinates our company processes, systems and departments to optimise 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 certificate for the implementation of a system for security of information.

Versatel'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 Versatel

Versatel's future depends on the quality and motivation of its personnel. Versatel'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 Versatel'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, 2006 Versatel employed 823 people in The Netherlands and Belgium. This equates to 794 employees, measured in terms of FTE's (full time equivalents).

The tables below provide detail breakdowns of our employees:

FTE	**January 1, 2006**	**December 31, 2006**	**Decrease**
The Netherlands	907	638	29.7%
Belgium	165	156	5.5%
Total	1,072	794	25.9%

Headcount The Netherlands	**January 1, 2006**	**December 31, 2006**	**Decrease**
Men	724	530	26.8%
Women	216	134	38.0%
Total	940	664	29.4%

Headcount Belgium	**January 1, 2006**	**December 31, 2006**	**Decrease**
Men	108	107	0.9%
Women	57	52	8.8%
Total	165	159	3.6%

Environment

Versatel 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. Versatel's environmental policy is focused on further improving our energy efficiency and reducing waste. In line with that thought, Versatel donated in the past approximately two hundred personal computers to a school project in the Ukraine, thereby encouraging the re-use of existing computer equipment for education purposes. As part of our environmental management policy cartridges and packing material are recycled, paper is printed on both sides and Versatel will further improve the separation of waste.

Furthermore, in the past Versatel contributed both directly, by collecting money among its employees and indirectly, by refusing Christmas gifts as part of the company policy, to several charity funds.

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 ISO 9001:2000 and information security system ISO/IEC 27001:1999 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 analysis 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, refer to pages 33 to 44.

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 26, 2007

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 Versatel 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 and a rotation schedule of the Board of Supervisory Directors, Rules of the Audit Committee, Rules of the Remuneration, Selection and Appointment Committee, Versatel'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. Borgklint, Mr. Van Rooijen and Mr. H. Ringmar, were all 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. For such time as we remain a group company of Tele2, 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. The amounts payable there under are (for the larger part) reimbursed by us. We, however, agreed not to reimburse Tele2 for severance payments in the event of a dismissal by Tele2, exceeding one year's base salary. We have been informed that Mr. Borgklint and Tele2 Netherlands have not agreed 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 from us 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 had previously not 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 currently 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. We, however, 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, all transactions between Versatel and Tele2 group companies have been entered into on what the Company believes to be on arm's length basis. Until December 8, 2006, all material arrangements between Versatel and Tele2 group companies were subject to approval by the three members of the Special Committee and have since then (until their resignation on March 6, 2007) been subject to approval by the three members of the Special Advisory Committee.

The following is a summary of “Related Party Transactions” entered into during 2006. The transactions summarized below relate to both The Netherlands and Belgium markets unless otherwise indicated.

(€ thousands)	**2006**	**2005**
Related Party Revenues:		
Leased lines	1,037	-
0800/0900..	1,879	-
Co-location	166	-
Mobile transit	525	-
(Inter)National voice termination	726	38
Total Related Party Revenues.................................	**4,333**	**38**
Related Party Compensation:		
License to Tele2 to use database for SOHO market	50	-
License to Tele2 to use database for residential market	32	-
Transfer of SOHO CPS customer base to Tele2	450	-
Recharge of employee costs to Tele2........................	572	-
Advisory charges	48	
Facilities (rental, reception etc.)	298	-
Payroll activities...	3	-
Total Related Party Compensation.........................	**1,453**	**-**
Related Party Costs:		
Voice termination costs (fixed & mobile)	(23,544)	-
Recharged usage Eurocore IP network	(195)	-
Recharged marketing expenses.................................	(12,259)	-
Use of Tele2 database to upsell to our product	-	-
Migration of Tele2 Belgium ADSL customers to Versatel	-	-
Recharge insurances..	(167)	-
Recharge of employee costs......................................	(1,070)	-
Advisory charges	(334)	-
License costs for Lotus Notes	(50)	-
Usage of Tele2 mailbox service	(64)	-
Connection Arbinet London...	-	-
Mobile subscriptions for employees	(545)	(75)
Related party long term loan and senior notes interest	(12,124)	(2,438)
Bank guarantee facility	(99)	-
Call center/credit & collection support (Transcom)	(8,602)	(236)
Total Related Party Costs..	**(59,053)**	**(2,749)**
TOTAL...	**(53,267)**	**(2,711)**

Commercial

In The Netherlands and Belgium, we have re-branded our residential operations to "Tele2" in order to capitalize on the better brand awareness that Tele2 has. During the first quarter of 2007, we also re-branded our business operations in The Netherlands to “Tele2 Zakelijk”. All marketing campaigns for the residential market have been and will be consolidated under the Tele2 brand name. Our website interface, where our residential and business customers are offered additional services, has been changed from www.versatel.nl to www.tele2.nl and www.tele2zakelijk.nl for The Netherlands, and from www.versatel.be to www.tele2.be for Belgium. We have obtained the right to use the Tele2 brand (name and logo) for an indefinite period and free of charge.

In the fourth quarter of 2005, we launched a consumer broadband product in Belgium called Tele2 All-In, which included broadband internet connectivity and a residential VoIP product. Although this product was branded Tele2, all customers from this product will enter into a contract with our Belgian subsidiary, and consequently all revenues and expenses are attributable to us.

In the first quarter of 2006, we launched a similar residential broadband product in The Netherlands called Tele2 Compleet, which is a combination of internet connectivity and a residential voice service. Customers, who sign up for Tele2 Compleet and who are within our network coverage area are connected by us. Those outside of our coverage area are connected via Tele2's wholesale bit stream solution offered by KPN. Customers that are connected on our network enter into a contract with a Dutch subsidiary of ours. Consequently, all revenues and expenses relating to customers connected to our network are attributable to us. The marketing campaigns in The Netherlands and Belgium in connection with our Tele2 Compleet and Tele2 All-in products are pre-financed by Tele2 Netherlands and Tele2 Belgium due to the fact that Tele2 Netherlands and Tele2 Belgium have negotiated more favorable terms with media outlets. At the end of each month, Tele2 recharges an amount, if any, to us for our pro rata share of marketing expenses based on the actual customer intake. For the year ended December 31, 2006 Tele2 has recharged to us € 12.3 million in marketing expenses.

All marketing efforts under the brand name of Tele2 relating to mobile subscriptions (pre-paid and post-paid) during the financial year 2006 are solely for the benefit, and at the expense, of Tele2 Netherlands, as we –until December 31, 2006, did not offer mobile subscriptions to residential customers. Following the acquisitions of Tele2 Netherlands and Tele2 Belgium in March 6, 2007, we do offer mobile subscriptions to the residential market.

Tele2 has utilized a part of our customer database to cross-sell mobile telephony services to residential customers. Tele2 made a one-time payment of € 32,000 to us for use of this database in 2006. Tele2 also used certain customer-lead databases purchased by us for targeted marketing initiatives to offer Tele2 services on the SOHO market. Tele2 made a one-time payment of € 50,000 to us for use of this database in 2006.

Given Tele2's greater brand awareness and market share, as well as its marketing strength and efficient support processes, we decided to transfer all marketing and sales efforts for the SOHO market in The Netherlands to Tele2. As a result, our relatively small SOHO customer database has been transferred to Tele2. Tele2 made a payment to us of € 450,000 for our projected loss of future cash flows resulting from this transfer in 2006.

We utilize the Tele2 customer database in order to sell certain customers in The Netherlands our dual- and triple-play products. Tele2 is not compensated by us for any loss of revenues resulting from their customers switching to our dual- or triple-play products.

We have migrated certain customers in Belgium from Tele2 Belgium's wholesale bit stream product to our product, because of the higher margins of our on-net products. As a result, Tele2 Belgium completely phased out its wholesale product. Tele2 Belgium was not compensated for the loss of revenues resulting from this migration.

Network

Leased Lines, Co-location, 0800- and 0900- services

Both in The Netherlands and Belgium, Tele2 purchases leased lines (approximately 30 STM-1's, 2 Wavelengths of 2.5G, an Ethernet circuit and a dark fiber connection) from us to interconnect with the incumbent operators (KPN in The Netherlands and Belgacom in Belgium) on certain interconnection points for the onward transmission of voice traffic. Both in The Netherlands and Belgium, we also connected certain office locations from Tele2 (and a Tele2 group company called Transcom) to our network. These agreements are based on our current general market prices and are generally lower than the incumbents' prices for the same services. The charges invoiced to Tele2 Netherlands and Tele2 Belgium for rendered leased lines amount to € 1.0 million for the year ended December 31, 2006.

Tele2 also purchases co-location services from us to host some of its telecommunications equipment. These services consist of providing floor space in a point of presence ("**POP**") location as well as power supply. The total charged to Tele2 for these services amounts to approximately € 166,000 for the year ended December 31, 2006.

In addition, we host 0800 and 0900 numbers from Tele2. All traffic from these numbers is routed through our network. The prices charged to Tele2 are our current market prices. The total charges invoiced to Tele2 for these services amount to € 1.9 million for the year ended December 31, 2006.

All agreements related to the above mentioned network services are generally in market standard forms.

Interconnection

In addition to the above services, we and Tele2 have several bilateral interconnection agreements in both The Netherlands and Belgium for the onwards transmission of voice traffic (local, international and mobile destinations). In The Netherlands, we and Tele2 had an interconnection agreement in place prior to the Tele2 Offers. The amount of traffic that is sent to each party pursuant to these agreements depends on customer usage and the competitiveness of rates used by us and Tele2 for the different destinations. In The Netherlands we have also migrated certain CPS traffic flows to the switch operated by Tele2 in order to benefit from efficiencies in mutual interconnection agreements and to avoid investments in switch capacity due to lack of capacity on our own switch. The total amount invoiced to Tele2 for these services is approximately € 726,000 for the year ended December 31, 2006. The total amount invoiced to us for these services is € 23.5 million for the year ended December 31, 2006.

Tele2 Netherlands also utilizes a mobile transit agreement that we currently possess with a Dutch mobile operator. We only recognize the margin as revenue. The total amount recognized as revenue is approximately € 525,000 for the year ended December 31, 2006.

These interconnection agreements generally are based on standardized terms and conditions used in the telecommunication market.

DSL, IP core and Arbinet connection

In The Netherlands, we and Tele2 signed a letter of intent under which Tele2 agreed to purchase wholesale DSL services from us. Currently, none of these services are being delivered. After consultation between Tele2 and us, it was decided that the Dutch residential market would be best served with combined marketing efforts. As a result, customers who are within our network coverage area are connected to our network and those outside of our coverage area are connected via Tele2's wholesale bit stream solution offered by KPN.

Both in The Netherlands and Belgium, we have been connected to the so-called Eurocore IP network that Tele2 has in place. This connection is beneficial to us as we otherwise would have to purchase IP capacity from other operators. The prices charged by Tele2 are favorable to us as they are below current market prices. The amount invoiced by Tele2 depends on the amount of IP traffic sent by us. For the year ended December 31, 2006 Tele2 had charged us approximately € 195,000 for this IP capacity.

In The Netherlands, we introduced CPS3 for certain CPS hosting customers. As a result of the introduction of CPS3, all destinations dialed by customers (including 0800/0900 numbers) can be operated by us. In order to be able to also offer a mailbox solution to the customer, we have utilized an existing mailbox solution from Tele2. By not investing in our own mailbox solution, we avoided certain development costs. The actual costs incurred by Tele2 are charged to us. For the year ended December 31, 2006 Tele2 had charged us approximately € 64,000 for this mailbox solution.

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 will be charged to us.

Operational

Following the settlement of the Tele2 Offers, some of Tele2 Netherlands' and Tele2 Belgium's employees have moved to our office buildings in Amsterdam Zuid-Oost (The Netherlands) and Wemmel (Belgium), respectively. In addition, a subsidiary of Tele2 Europe called Parlino also uses workspace (and facility services) in our current headquarters building in Amsterdam Zuid-Oost. Tele2 Netherlands, Tele2 Belgium, and Parlino pay us a pro-rata share of the rent for the workspace they use. These entities reimburse us for these services and all shared facilities, including work space and supplies. The total costs charged to Tele2 Belgium, Tele2 Netherlands, and Parlino for the aforementioned facility services amount to approximately € 298,000 for the year ended December 31, 2006.

Several of our employees provide services to Tele2 group companies, mainly in the area of marketing, human resources, information technology, and tax. These costs are recharged to Tele2 group companies on a pro-rata basis for services rendered. Currently the employee costs of 16 of our employees are being recharged. The total recharged amount for the year ended December 31, 2006 is approximately € 572,000. Also, certain Tele2 employees deliver services to us, mainly in the area of customer care. These costs are being recharged to us on a pro-rata basis for services rendered. In total, the costs of, on average, 10 Tele2 employees are being recharged to us. The total recharged amount for the year ended December 31, 2006 is € 1.1 million. This amount includes a recharge of € 412,929 representing 85% of Mr. Borgklint's, our former Chief Executive Officer, total compensation for time spent on matters relating to us.

We also perform certain human resources and payroll activities for the benefit of Tele2 Netherlands. The pro rata hours involved have been recharged, including the additional license we purchased to operate our payroll system. The total costs charged to Tele2 for these services amount to approximately € 3,000 for the year ended December 31, 2006.

In The Netherlands, all mobile phones used by our employees have been migrated to Tele2 Mobile's network due to preferred services that Tele2 could offer which has resulted in a savings for us. The total amount recharged to us for the year ended December 31, 2006 for mobile phones is approximately € 545,000.

We have outsourced certain call center and credit collection activities to a Tele2 group company, called "Transcom". The amounts charged to us are based on market prices. The total combined amount invoiced to us for the year ended December 31, 2006 is € 8.6 million.

In connection with the reorganization that we announced in May 2006, a Tele2 group company has rendered consultancy/advisory services to us in order to assess our organizational structure and processes. The total combined amount invoiced to us for the year ended December 31, 2006 is € 334,000. In turn, Tele2 has received certain advice from us with respect to IT services for which we have charged Tele2 approximately € 48,000 in 2006.

In order to benefit from the database functionality that the e-mail program Lotus Notes offers and which has been tailored for Tele2, we have migrated to the Lotus Notes program used by Tele2. As Tele2 has negotiated more favorable terms, we have purchased the licenses through Tele2. The total costs charged to us by Tele2 amount to approximately € 50,000 for the year ended December 31, 2006.

Financing

Following the settlement of the Tele2 Offers, we entered into a related party loan agreement with Tele2 Finance, which is repayable in 2010 and bears an interest rate equal to Euribor (or such other rate as may be notified by Tele2 Finance) plus 1.25%. As of December 31, 2006, the amount outstanding under this loan, including interest, totaled € 177.9 million.

Pursuant to the Tele2 Offers, Tele2 Finance purchased all of our outstanding Convertible Notes and continues to own all of such debt. The total interest expense incurred for the year ended December 31, 2006 for the related party loan agreement and the Convertible Notes is € 12.1 million.

We have been included on the insurance policies of Tele2 for public liability insurance, property insurance, directors and officers liability insurance, and travel insurance. The total recharged amount for the year ended December 31, 2006 is approximately € 167,000. 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 two bank guarantees on our behalf for a total amount of € 29.8 million. These consist 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. 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 initial fee and annual costs payable by Tele2 Finance to its bank are recharged to us. The total costs charged to us for this facility amount to approximately € 99,000 for the year ended December 31, 2006.

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.

Other

More details on the financial impact of the related party transactions on the financial statements of Versatel can be found and are further disclosed in note 23 of the section “Related Parties”.

It should be noted that following the completion of the Acquisitions on March 6, 2007, Tele2 Netherlands and Tele2 Belgium have become wholly owned subsidiaries of us. Going forward, we will therefore no longer recognize the transactions set forth above, except for those services/costs provided by Tele2 group companies other than Tele Netherlands and Tele2 Belgium.

FINANCIAL STATEMENTS

Versatel Telecom International N.V.

Consolidated Financial Statements

Consolidated balance sheet

at December 31, 2006

(Currency – thousands of euros)

	Notes	2006	2005
ASSETS			
Non current assets			
Intangible assets	4	47,886	77,975
Property, plant and equipment	5	389,271	425,850
Financial assets	6	1,144	1,240
Total non current assets		438,301	505,065
Current assets			
Accounts receivable			
Trade	7	43,964	30,782
Unbilled revenues		24,008	23,415
Other receivables and prepaid expenses		4,144	25,361
		72,116	79,558
Cash and cash equivalents	8	87,821	106,549
Total current assets		159,937	186,107
Total assets		598,238	691,172
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Common stock, euro 0.02 par value		10,471	10,471
Additional paid-in capital		1,755,767	1,755,573
Accumulated deficit		(1,705,624)	(1,605,476)
Total equity	9	60,614	160,568
Non current liabilities			
Deferred income tax liability	10	5,421	7,477
Long term debt	11	10,813	44,585
Related party long term senior notes	12, 23	101,276	97,073
Related party long term loan	13, 23	177,935	170,655
Provision for idle building	14	4,500	-
Other non current liabilities	15	24,831	-
Total non current liabilities		324,776	319,790
Current liabilities			
Related party payables	23	36,813	-
Trade and other payables		50,769	67,687
Income tax payable		52	407
Accrued liabilities	16	83,515	96,542
Unearned revenue		41,699	46,178
Total current liabilities		212,848	210,814
Total equity and liabilities		598,238	691,172

Consolidated statement of operations

for the year ended December 31, 2006

(Currency – thousands of euros)

	Notes	2006	2005
Revenues	19	434,528	378,108
Operating expenses			
Direct cost of revenues	19	201,050	176,135
Wages and salaries		53,043	60,336
Social securities		9,925	8,302
Pension cost		1,622	1,894
Advertising and marketing expenses		19,254	16,763
Depreciation of property, plant and equipment	5, 19	114,130	90,234
Amortization of intangible assets	4, 19	29,832	14,950
Occupancy	14, 19	20,168	13,209
Other cost of revenues	17, 19	68,444	37,024
Total operating expenses		517,468	418,847
Operating result		(82,940)	(40,739)
Financial income and expense			
Interest and other income	4, 18	3,363	12,433
Interest and other expense	18	(22,781)	(12,399)
Currency exchange gain		154	2,250
Total financial income and expense		(19,264)	2,284
Result before income taxes		(102,204)	(38,455)
Income tax credit/(charge)	10	2,056	(8,701)
Result for the period from continuing operations		(100,148)	(47,156)
Result for the period from discontinued operations	22	-	245,837
Result for the period		(100,148)	198,681
Result attributable to:			
Equity holders of the parent company		(100,148)	198,681
Earnings per share:			
Basic	21	(0.19)	0.38
Diluted	21	(0.19)	0.35
Net result from continued operations per common share:			
Basic	21	(0.19)	(0.09)
Net result from discontinued operations per common share:			
Basic	22	-	0.47
Diluted	22	-	0.42

Consolidated cash flow statement

for the year ended December 31, 2006

(Currency – thousands of euro)

	Notes	2006	2005
Cash flows from operating activities			
Result for the period from continuing operations		(100,148)	(47,156)
Result from activities prior to discontinuance		-	245,837
		(100,148)	198,681
Adjustments to reconcile result for the period to net cash provided in operating activities			
Depreciation and amortization	4, 5	143,962	158,012
Net book value of property, plant and equipment and intangible assets sold		575	-
Amortization finance cost		391	807
Deferred income tax movement	10	(2,056)	8,380
Non cash-portion of interest and other income		3,812	3,468
Changes in current assets and current liabilities			
Trade accounts receivable		(13,182)	(7,045)
Inventory		-	(105)
Other receivables and prepaid expenses		20,720	(25,719)
Accounts payable		(16,918)	5,653
Related party payables		36,813	-
Unearned revenue		(4,479)	(3,941)
Accrued liabilities, net		(9,697)	17,014
Net cash provided by operating activities		59,793	355,205
Cash flows from investing activities			
Capital expenditures	19	(109,009)	(285,412)
Cash receipt from sale of property, plant and equipment and intangible fixed assets	4	40	-
Net receipt from the disposal of investments		-	284,234
Net cash used in investing activities		(108,969)	(1,178)
Cash flows from financing activities			
Proceeds under capital lease obligations		-	5,555
Proceeds/(redemption) of short term loans		(3,926)	17,332
Proceeds of long term debt		-	16,161
Proceeds – lease incentive	15	26,900	-
Net proceeds from related party long term loan	13	7,280	170,655
Proceeds from exercised options		-	1,787
Refund of capital tax		194	111
Dividend distribution		-	(728,556)
Net cash (used in)/provided by financing activities		30,448	(516,955)
Net decrease in cash and cash equivalents		(18,728)	(162,928)
Cash and cash equivalents, beginning of the year		106,549	269,477
Cash and cash equivalents, end of the year	8	87,821	106,549

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:	2006	2005
Cash paid for – Interest as part of cash flows from operating activities	467	20
- Interest as part of cash flows from financing activities	4,844	4,844
- Income taxes as part of cash flows from operating activities	332	286
Cash interest received as part of cash flows from operating activities	3,008	4,583

Consolidated statement of changes in equity

for the year ended December 31, 2006

(Currency – thousands of euros)	Number of Shares	Issued and Paid-in Capital	Additional Paid-in Capital	Warrants
Balance January 1, 2005	518,300,096	10,367	2,365,961	336
Result for the period		-	-	-
Refund capital tax		-	111	-
Reversal deferred tax liability recognized directly in equity		-	116,231	-
Share-based compensation		-	146	-
Options exercised	5,249,050	104	1,680	-
Warrants provided for		-	-	(336)
Dividend distribution		-	(728,556)	-
Balance December 31, 2005	523,549,146	10,471	1,755,573	-
Refund capital tax		-	194	-
Result for the period		-	-	-
Balance December 31, 2006	523,549,146	10,471	1,755,767	-

(Currency – thousands of euros)	Accumulated Deficit	Total
Balance January 1, 2005	(1,804,157)	572,507
Result for the period	198,681	198,681
Refund capital tax	-	111
Reversal deferred tax liability recognized directly in equity	-	116,231
Share-based compensation	-	146
Options exercised	-	1,784
Warrants provided for	-	(336)
Dividend distribution	-	(728,556)
Balance December 31, 2005	(1,605,476)	160,568
Refund capital tax	-	194
Result for the period	(100,148)	(100,148)
Balance December 31, 2006	(1,705,624)	60,614

Notes to consolidated financial statements

at December 31, 2006

(Currency – thousands of euros)

1 General

Versatel Telecom International N.V. ("Versatel", "Company" or "we"), incorporated in Amsterdam on October 10, 1995, provides international and national telecommunication services in The Netherlands and Belgium.

2 Significant Accounting Policies

a) General

The consolidated financial statements of Versatel Telecom International N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS).

Versatel has adopted International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU-IFRS") as its primary accounting basis for its consolidated financial statements as from January 1, 2005. For Versatel, there are no differences between EU-IFRS and IFRS since the carve-out sections are not applicable for Versatel.

The consolidated financial statements have been prepared using the historical cost convention. As permitted by Section 402, Book 2 of the Dutch Civil Code, a condensed statement of operations is presented for the Company itself. The accounting principles have been applied consistently throughout the year and the preceding year.

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.

The Company has adopted all new and revised IFRSs and IFRIC interpretations as adopted for use in EU that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2006. Adoption of these new and revised Standards and Interpretations did not have any effect on the financial statements of the Company.

The Company has not early adopted any of the IFRSs and IFRIC interpretations that are not yet effective for 2006. We anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

b) 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.

c) Intangible Assets

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. Versatel allocates goodwill to each country in which it operates.

Licenses are stated at the acquisition cost, 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 (1-3 years).

Amortization starts from the date that the services are actually offered under the license. Licenses are impaired if the recoverable amount falls below the book value of the asset concerned. The recoverable amount is defined as the higher of an asset's fair value less cost to sell and its value in use.

d) 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 years
Telecommunications equipment	2 - 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.

e) Leases

Leases where the lessor retains a significant portion of the risks and rewards of ownership are classified as operating leases. Payments under operation 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 Versatel where the Company has substantial 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.

f) Financial Assets

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

g) Impairment of Property, Plant and Equipment and Intangible Assets

Versatel 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. 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 carrying amount of an asset exceeds its recoverable amount, 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.

h) Accounts Receivable

Accounts receivable are stated at face value, less a provision for impairment for expected credit losses as a result of future events. A provision for impairment for expected credit losses as a result of future events is established when there is objective evidence that Versatel 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 amount of the provision is recognized in the statement of operations within ‘other cost of revenues’.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) Other Assets and Liabilities

All other assets and liabilities are stated at the amounts at which they were acquired or incurred. The carrying amounts approximate their fair values, unless disclosed otherwise.

o) 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. Versatel 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, Versatel's policies are as follows:

Voice Revenues

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

- *General Voice services:* Versatel primarily generates revenues from voice services through carrier select, dial around, least cost routing, ISDN 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:* Versatel 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.

Data Revenues

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

- *Direct Access services:* Versatel 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:* Versatel 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. For the IP-Based Electronic Transaction services, revenues are derived from commissions on e-commerce transactions from consumers utilizing Versatel's network of websites. We recognize such revenues in the period that the user made the on-line purchase. Such revenues are recognized on a net basis, as Versatel does not act as a principal in the transaction.

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

p) 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.

q) Borrowing cost

All borrowing costs are recognized as an expense when incurred.

r) 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.

s) Share-based Compensation

Versatel operated an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options was recognized as an expense in the statement of operations over the vesting period.

The fair value of the options granted had been calculated using a binominal options valuation model. The charge to the statement of operations over the relevant option vesting periods was adjusted to reflect the actual levels of vesting. This charge was presented in the statement of operations as wages and salaries in 2005. In 2006 there were no such charges.

t) 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. 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. Variances as result of deconsolidation are excluded from the net cash from operating activities. 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 of December 31, 2006:

Name	Legal Seat	Percentage Ownership
Versatel Nederland B.V.	Amsterdam, The Netherlands	100%
Versatel Finance B.V.	Amsterdam, The Netherlands	100%
Bizztel Telematica B.V.	Leeuwarden, The Netherlands	100%
Versatel Belgium N.V.	Wemmel, Belgium	100%
Compath N.V.	Wemmel, Belgium	100%
Burns & Perkins N.V.	Gent, Belgium	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%
Versapoint S.A.S.	Paris, France	100%
Versatel Internetdiensten B.V. (formerly known as Versapoint B.V.)	Amsterdam, The Netherlands	100%

Effective January 1, 2006, a legal merger took place within the Versatel Group in The Netherlands, by which our wireless network operator XtraNed Nederland B.V. amalgamated into Versatel Nederland B.V. This change in the corporate structure is part of a corporate clean up within the entire Versatel group.

On March 6, 2007 Versatel acquired Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. as a consequence of which the results of these companies will be included as of that date.

The consolidated financial statements include the accounts of Versatel and all entities in which Versatel has a controlling voting interest ("Subsidiaries"). Control is achieved where Versatel 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 Versatel and excluded when this control ended during 2006. All intercompany transactions have been eliminated in full on consolidation.

As of December 31, 2006, Versatel accounted for the following investments at fair value:

Name	Legal Seat	Percentage Ownership
Cedron Holding B.V.	Amsterdam, The Netherlands	5.0%

The company is dormant and is therefore valued at nil.

4 Intangible Assets

The movement in intangible fixed assets is as follows:

(euro thousands)	2005		
	Goodwill	**Licenses**	**Total**
Book value January 1, 2005	25,819	688	26,507
Additions	-	87,663	87,663
Discontinued operations	(21,245)	-	(21,245)
Amortization	-	(14,950)	(14,950)
Book value December 31, 2005	4,574	73,401	77,975
Original cost	4,781	88,463	93,244
Accumulated amortization	(207)	(15,062)	(15,269)
Book value December 31, 2005	4,574	73,401	77,975

(euro thousands)	2006		
	Goodwill	**Licenses**	**Total**
Book value January 1, 2006	4,574	73,401	77,975
Disposals	-	(257)	(257)
Amortization	-	(29,832)	(29,832)
Book value December 31, 2006	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, 2006	4,574	43,312	47,886

Goodwill primarily relates to the buy-out of minority shareholders in Zon Nederland B.V. in 2003, when the company became a wholly owned subsidiary of Versatel. The transaction resulted in goodwill of € 4.0 million. The amount also includes the acquisition of Iparix Networks B.V., renamed into XtraNed Nederland B.V., resulting in a goodwill amount of € 0.6 million in 2004.

With the introduction of IFRS, goodwill is no longer amortized since January 1, 2004 but is subject to an impairment test. Versatel determined at December 31, 2005 and December 31, 2006 that goodwill was not impaired. No indications or triggering events occurred to require more frequent testing.

In May 2006, Versatel sold its Wireless Local Loop 2.6 GHz band license. This resulted in a net loss of € 0.2 million, which is included in Interest and other expense in the consolidated statement of operations. The balance at December 31, 2006 primarily relate to the live pay TV rights of the Dutch Premier Division ("Eredivisie") football matches acquired in 2005 for a three year period.

The Company tests annually whether intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. Versatel determined at December 31, 2005 and December 31, 2006 that intangible assets were not impaired. No indications or triggering events occurred to require more frequent testing.

5 Property, Plant and Equipment

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

	2005				
(euro thousands)	**Leasehold Improvement**	**Telecommunications equipment**	**Other equipment**	**Construction in progress**	**Total**
Book value January 1, 2005	2,864	598,720	20,466	45,121	667,171
Discontinued operations	(1,373)	(310,164)	(10,777)	(34,867)	(357,181)
Additions/Transfers	-	221,689	9,244	27,989	258,922
Depreciation	(786)	(132,167)	(10,109)	-	(143,062)
Book value December 31, 2005	705	378,078	8,824	38,243	425,850
Original cost	14,755	1,298,327	129,221	38,243	1,480,546
Accumulated depreciation	(14,050)	(920,249)	(120,397)	-	(1,054,696)
Book value December 31, 2005	705	378,078	8,824	38,243	425,850

	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

Versatel entered into agreements for IRUs 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. At December 31, 2006 a net book value of € 21.6 million (2005: € 19.1 million) was included for IRUs.

The Company tests annually whether property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in note 2. Versatel determined at December 31, 2005 and December 31, 2006 that property, plant and equipment were not impaired. No indications or triggering events occurred to require more frequent testing.

6 Financial Assets

The movement in financial fixed assets is as follows:

(euro thousands)	2005		
	Investments	Long-term Receivables	Total
Book value January 1, 2005	-	1,621	1,621
Additions	-	7,016	7,016
Discontinued operations	-	(7,397)	(7,397)
Book value December 31, 2005	-	1,240	1,240

(euro thousands)	2006		
	Investments	Long term Receivables	Total
Book value January 1, 2006	-	1,240	1,240
Transfer to other receivables and prepaid expenses	-	(96)	(96)
Book value December 31, 2006	-	1,144	1,144

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

As of December 31, 2006, Versatel accounted for the following investment at fair value:

Name	Legal Seat	Percentage Ownership
Cedron Holding B.V.	Amsterdam, The Netherlands	5.0%

The company is dormant and is therefore valued at nil.

7 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)	2006	2005
Gross trade accounts receivable on December 31	51,848	39,304
Doubtful debt provision at January 1	8,522	17,813
Addition to provision..	4,570	3,916
Discontinued operations	-	(9,120)
Utilization of provision...	(5,208)	(4,087)
Doubtful debt provision at December 31	7,884	8,522
Net trade accounts receivable on December 31	43,964	30,782

8 Cash and Cash Equivalents

Cash and cash equivalents are mainly denominated in euro, although an amount equivalent to € 0.6 million is denominated in US dollars. Also see note 26. The carrying amount approximates the fair value.

9 Equity Attributable to Equity Holders of the Parent

For a breakdown of the equity attributable to equity holders of the parent reference is made to the consolidated statement of changes in equity.

The authorized capital of Versatel is € 30,000,000 consisting of 1,500,000,000 ordinary shares of which 523,549,146 shares are issued and outstanding at December 31, 2006 and at December 31, 2005. Holders of fully paid-up shares are not subject to or liable for any further capital calls by the Company. On March 6, 2007 the Company successfully completed a rights offering as a result of which 418,839,316 new ordinary shares were issued (see also “Subsequent Events”). As per March 6, 2007, a total of 942,388,462 Ordinary Shares were outstanding.

In May and November 1998, Versatel issued warrants in accordance with our first and second high yield offerings. During 2005 and 2006 no warrants were exercised. As of December 31, 2006 and 2005, 53,135 warrants are outstanding, giving the holders rights to purchase 1,928,099 ordinary shares at an exercise price of € 0.43 per share. Unless earlier exercised, the warrants will expire by their terms on May 25, 2008.

10 Income Tax

The Company and the 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. (formerly Versapoint 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.

Netherlands

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.

In December 2005, the Dutch Parliament passed tax bill 29 686 (amongst others) abolishing article 12 CITA 1969, which article has had a significant impact on the tax treatment of the Company’s 2002 financial restructuring. At the end of December 2005, the Company reached a covenant with the tax authorities covering fiscal years up to and including 2002. The covenant settles a number of issues that had been outstanding. In particular, in conjunction with the tax bill it provides certainty on the application of article 12 CITA 1969 in 2002. In concrete terms, the covenant and tax bill have decreased the Company's deferred tax liability position by € 116 million. The release of the deferred tax liability was added to the Company's equity where it was originally formed. In addition and for tax purposes only, the covenant establishes the amortization rate of certain fixed assets resulting in additional tax carry forward losses of € 130 million that will become available in five equal annual installments starting from fiscal year 2003. The last portion of € 26 million will be recognized for fiscal purposes in 2007. As per December 31, 2006 the Company's tax carry forward losses amount to € 245 million. Until December 31, 2006 The Netherlands tax losses could be carried forward indefinitely. However, on November 2, 2006 the Dutch Parliament decided to restricted tax carry forward losses for a period of nine years and decreased the corporate tax rate to 25.5% as of January 1, 2007. This implies that the carry forward losses will expire between 2012 and 2018. The effective 2006 corporate tax rate in The Netherlands is 29.1%.

As of December 31, 2006, the Company's deferred tax liability amounts to € 5.4 million (2005: € 7.5 million), which amount entirely relates to the deferred tax liability on the equity component on the Company's issuance of convertible senior notes in October 2004. The liability will result in income tax credits over the life of these convertible senior notes. In 2006, the income tax credit amounted to € 2.1 million (2005: € 1.3 million), which includes a revaluation of the deferred tax liability at December 31, 2006 due to the above mentioned corporate tax rate change from 29.1% to 25.5% of € 0.8 million.

The income tax charge at December 31, 2006 for subsidiaries not included in the fiscal unity amounts to nil (2005: € 0.5 million).

Belgium

As of December 31, 2006, Versatel Belgium N.V. had tax carry forward losses for income tax purposes totaling € 53 million. For Belgian income tax purposes tax losses may generally be carried forward indefinitely. The 2005 and 2006 statutory rate for Belgium is 33.99%.

In 2005, Versatel Telecom International N.V. waived an amount of € 218 million of debt of its subsidiary Versatel Belgium N.V under a temporary waiver agreement. This debt will be reinstated if and to the extent Versatel Belgium N.V. becomes profitable. Versatel Belgium N.V. obtained a favorable tax ruling with the Belgian tax authorities covering the consequences of the waiver agreement. The waiver caused Versatel Belgium N.V. to exhaust almost all of its available carry forward losses.

In assessing the valuation of deferred tax assets, management 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, 2006. The valuation allowance will be reduced at such time as management believes it is more likely than not that the deferred tax assets will be realized. A corporate income tax rate for The Netherlands of 25.5% (2005: 29.1%) has been applied to the deferred tax asset and the valuation allowance.

Deferred tax assets and liabilities

(euro thousands)	2006	2005
Deferred tax assets		
Deferred tax assets from net operating losses	80,636	53,021
Deferred tax assets from provisions and tax covenant	8,369	15,568
Less valuation allowance	(89,005)	(68,589)
Total deferred tax assets	-	-
Deferred tax liabilities		
Tax liability related party senior notes................................	5,421	7,477
Total deferred tax liability	5,421	7,477
Net deferred tax liability..	5,421	7,477

The movement in the deferred tax asset is as follows:

(euro thousands)	2006	2005
As per beginning of the year	68,589	61,582
Tax covenant with the Dutch tax authorities	(7,566)	15,132
Provision for idle building	1,549	(305)
Net operating losses for the year	37,195	42,516
Adjustment to prior years net operating losses.................	(734)	23,762
Versatel Belgium debt waiver arrangement	-	(74,098)
Change in income tax rate	(10,028)	-
Total deferred tax asset, before valuation allowance........	89,005	68,589

The movement in the deferred tax liability is as follows:

(euro thousands)	2006	2005
As per beginning of the year	7,477	115,735
Release deferred tax liability to equity	-	(116,435)
Income tax charge (credit) – release................................	(1,291)	8,177
Income tax charge (credit) – change in income tax rate ...	(765)	-
Total deferred tax liability	5,421	7,477

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, 2006 and 2005 is reconciled as follows:

Income tax
(euro thousands)

	2006	2005
Expected income tax charge (credit) at the weighted average statutory rate of 30% (2005: 41%)	(31,005)	84,944
Impact of discontinued operations	-	(71,571)
Participation exemption on sale discontinued operations	(895)	(23,368)
Tax covenant with the Dutch tax authorities	-	(8,190)
Versatel Belgium debt waiver arrangement	-	(5,428)
Change in income tax rate	10,028	-
Other	(600)	(784)
Valuation allowance	20,416	33,098
Total income tax charge (credit)	(2,056)	8,701

11 Long term debt

Long term debt at December 31, 2006 and at December 31, 2005 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. The redemption schedule of the supplier finance for 2005 and 2006 is as follows:

(euro thousands)	2005 Long term debt
2007	37,461
2008	15,250
Total long term debt	52,711
Less amount representing interest	(8,126)
Total long term debt	44,585

(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 16.

12 Related Party Long Term Senior Notes

On October 22, 2004, Versatel 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 Versatel at a conversion price of € 2.033 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 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. acquired all the issued and outstanding 3.875% convertible senior notes.

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

(euro thousands)	**2005**
Liability component at January 1, 2005	92,940
Interest expense	4,844
Interest paid	(4,844)
Interest accreted	4,133
Liability component at December 31, 2005	97,073

	2006
Liability component at January 1, 2006	97,073
Interest expense	4,844
Interest paid	(4,844)
Interest accreted	4,203
Liability component at December 31, 2006	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, 2006 amounts to € 98,617.

13 Related Party Long Term Loan

Versatel has entered into a related party loan agreement with Tele2 Finance B.V. totaling € 189.4 million, which is repayable in 2010. It bears an interest rate which is the aggregate of the Euribor or such other rate as may be notified by Tele2 Finance B.V. on the first day of the interest period and 1.25% margin. The movement in the related party long term loan is as follows:

(euro thousands)	**2006**	**2005**
Related party long term loan		
Beginning of the year	170,655	-
Loans advanced during year	-	189,431
Contribution for option payments related to Offers	-	(15,874)
Other repayments	-	(4,129)
Interest charged	7,280	1,227
Related party long term loan at December 31	177,935	170,655

In order to minimize restrictions on available cash, Tele2 Finance B.V. ("Tele2 Finance") has issued two bank guarantees on behalf of Versatel for a total amount of € 29.8 million. These consist of a guarantee of € 14.6 million in relation to proceedings pending with the Dutch tax authorities regarding the wage tax claim and a guarantee in the amount of € 15.2 million as a security of the payment obligations of Versatel under its license agreement with the Eredivisie C.V. (reference is made to note 11). The amounts for both guarantees were borrowed by Tele2 Finance from Tele2 AB, Sweden. Versatel 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 will be added to the principal amount of the related party loan agreement of Versatel under the same conditions that apply to its related party loan agreement with Tele2 Finance.

14 Provision for Idle Building

In 2006, Versatel reached an agreement to move its corporate headquarters to a building in Diemen, The Netherlands, starting from 2007 onwards. The Company recognized an idle building provision of € 5.6 million related to existing lease obligations until March 2010 that is presented under occupancy in the statement of operations. The lease obligations are discounted using a pre-tax rate that reflects the risks specified to this liability. The Company recorded in 2002 an idle building provision amounting to € 2.7 million that was included in accrued liabilities at December 31, 2005. The remaining balance was reclassified in 2006.

(euro thousands)	**2006**
Provision at January 1	-
Transfer from accrued liabilities.................................	1,497
Amounts charged to the statement of operations.......	5,586
Amounts utilized during the year	(468)
Accrued interest...	98
Total non current liabilities	6,713
Current portion	2,213
Non current portion	4,500

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

The nominal lease obligations for this idle building at December 31, 2006 are € 9.6 million and are included in rent and operating lease commitments as disclosed in note 25.

15 Other Non Current Liabilities

In 2006, Versatel 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 in occupancy in the consolidated statement of operations, on a straight line basis.

The short-term portion of the lease incentive of € 2.1 million is presented as short term portion of long term liabilities as disclosed in note 16. The long-term portion is presented as other non current liabilities and will be recognized during the following years:

(euro thousands)	**Lease incentive**
2008	2,069
2009	2,069
2010	2,069
2011 and further	18,624
Total non current liabilities	24,831

16 Accrued Liabilities

Accrued liabilities include:

(euro thousands)	**2006**	**2005**
Payroll tax and social securities	1,926	1,599
Value added tax	799	-
Short term portion of long term liabilities	40,776	46,674
Short term portion of provisions	3,172	-
Capital expenditure accruals	2,780	6,848
Compensation accruals	8,781	15,022
Network cost accruals	9,935	9,924
Other accrued liabilities	15,346	16,475
Accrued liabilities	83,515	96,542

At December 31, 2005, value added tax was a receivable of € 1.8 million and was classified as other receivables and prepaid expenses.

17 Other Cost of Revenues

Other cost of revenues includes:

(euro thousands)	**2006**	**2005**
Professional charges	9,591	12,882
Dealer commissions	6,659	6,851
Staff and communication expenses	8,206	8,901
Helpdesk and call center costs	18,993	7,378
General expenses	24,995	1,012
Total other cost of revenues	68,444	37,024

In connection with the Offers, Tele2 and Ganymed have entered into an agreement pursuant to which, Versatel is able to recharge to Ganymed a portion of the tender costs in connection to the Offers and a proportion of all corporate costs until such a time as the corporate costs are terminated. The charge for 2006 amounts to € 3.1 million (2005: € 10.4 million) that is included as a credit in general expenses as part of other cost of revenues in the consolidated statement of operations.

18 Financial Income and Expense

(euro thousands)	2006	2005
Interest income – third parties	3,363	3,352
Interest income – Versatel Germany Holding	-	9,081
Total Interest and other income	3,363	12,433
Interest expense	5,755	1,917
Interest expense – related party long term loan	7,280	1,227
Interest expense – related party long term senior notes	9,047	8,977
Bank and finance charges	164	278
Loss on disinvestment of property, plant and equipment and intangible assets	535	-
Total Interest and other expense	22,781	12,399

For interest expense related party long term loan and related party long term senior notes reference is made to note 12 and 13.

19 Segment Information

(euro thousands)	Netherlands		Belgium		Total Continued Operations	
	2006	2005	2006	2005	2006	2005
Statement of operations						
Business	189,062	176,545	32,497	32,523	221,559	209,068
Residential	77,408	60,944	40,345	19,008	117,753	79,952
Carrier services	65,831	62,274	29,385	26,814	95,216	89,088
Total Revenue	**332,301**	**299,763**	**102,227**	**78,345**	**434,528**	**378,108**
Operating result	(58,138)	(37,506)	(24,802)	(3,233)	(82,940)	(40,739)
Balance sheet						
Total Assets	497,215	601,871	101,023	89,301	598,238	691,172
Total Liabilities	430,243	501,816	107,381	28,788	537,624	530,604
Property, plant and equipment	293,362	323,980	68,749	63,627	362,111	387,607
Construction in progress	21,575	36,391	5,585	1,852	27,160	38,243
Total property, plant and Equipment	**314,937**	**360,371**	**74,334**	**65,479**	**389,271**	**425,850**
Investments in Intangible assets	-	87,663	-	-	-	87,663
Investments in property, plant and equipment	52,588	107,224	25,281	6,773	77,869	113,997
Depreciation and amortization	(127,493)	(93,350)	(16,469)	(11,834)	(143,962)	(105,184)

(euro thousands)

	Continued Operations		Discontinued Operations	
	2006	2005	2006	2005
Statement of operations				
Business	221,559	209,068	-	147,012
Residential	117,753	79,952	-	107,237
Carrier services	95,216	89,088	-	48,932
Total Revenue	**434,528**	**378,108**	**-**	**303,181**
Operating result	(82,940)	(40,739)	-	18,185
Balance sheet				
Total Assets..........................	598,238	691,172	-	-
Total Liabilities......................	537,624	530,604	-	-
Tangible fixed assets............	362,111	387,607	-	-
Construction in progress.......	27,160	38,243	-	-
Total Tangible Fixed Assets.................................	**389,271**	**425,850**	**-**	**-**
Investments in Intangible assets	-	87,663	-	-
Investments in PP&E............	77,869	113,997	-	83,752
Depreciation, amortization ...	(143,962)	(105,184)	-	(52,828)

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

a) Revenues

Generally, our services can be characterized as voice, 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, 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.

A substantial portion of our revenues is 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, 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. Versatel'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 of August 2005, Versatel generated additional revenues by providing triple-play services, consisting of voice, internet access and video/television services.

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.

20 Major Transactions during 2006

2006 Reorganization

On May 29, 2006, Versatel announced a restructuring of its organization in order to meet future challenges and to support the continued need for quality improvements in both the business and consumer side of its operations. This restructuring resulted in a reduction of approximately 200 jobs in The Netherlands and Belgium. As a result of this restructuring, the Company recognized a one-time charge of approximately € 6.0 million in the second quarter of 2006 to cover employee termination costs. At December 31, 2006, an amount of approximately € 1.0 million is included in short term portion of provisions as part of accrued liabilities. Reference is made to note 16.

KPN Settlement

On September 8, 2006, Versatel announced the signing of an agreement with KPN for the distribution of digital television. In addition to this agreement, Versatel agreed to settle certain historical disputes with KPN relating to claims made by both the Company and KPN regarding provision of services and fees. This settlement had a positive impact of € 4.2 million on Versatel’s revenues during 2006 and includes another credit of € 8.2 million in direct cost of revenues.

Lease Agreement for Corporate Headquarters

During the third quarter of 2006, Versatel reached an agreement to move its corporate headquarters to a new building in Diemen, The Netherlands. As a result of signing a new long term lease for its new headquarters, Versatel received in 2006 a cash payment of € 26.9 million from the lessor and recognized an idle building accrual of € 5.6 million related to its existing lease obligations. Reference is made to notes 14 and 15.

Settlement with Belgian tax authorities

In October 2006, Versatel's Belgian subsidiary, Versatel Belgium N.V. ("Versatel Belgium"), received a pre-assessment bill ("*Regularisatieopgave*") pertaining to a VAT investigation by the Belgian tax authorities in fiscal years 2002 through 2004 of its invoicing requirements of foreign resellers (i.e., non-Belgian resellers). According to EU legislation, such resellers generally are invoiced without Belgian VAT (which is known as the reverse charge mechanism). In Versatel Belgium's case, the Belgian tax authorities asserted that it inappropriately applied the reverse charge mechanism and that it instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, Versatel Belgium reached a settlement of this claim on November 23, 2006. Pursuant to the settlement the *Regularisatieopgave* covering the period of 2002 through part of 2004 was reissued and Versatel Belgium agreed on December 5, 2006 to settle for a total of € 3.0 million. In addition an amount of € 2.7 million was accrued covering potential VAT risks associated with invoicing requirements for foreign resellers for the subsequent fiscal years not covered by the settlement agreement. The amounts are included in general expenses as part of other costs of revenues. Reference is made to note 17.

21 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.

	2006	**2005**
Result attributable to equity holders of the parent company .	(100,148)	198,681
Weighted average number of ordinary shares outstanding (thousands)	523,549	520,325
Basic earnings per share (€ per share)	(0.19)	0.38

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 2005, Versatel 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. In 2006, Versatel 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 2006, the number of weighted average shares is identical for the basic and diluted earnings per share calculation as inclusion of potential common shares would be anti-dilutive.

	2006	2005
Result attributable to equity holders of the parent company	(100,148)	198,681
Interest expense on related party long term senior notes (net of tax)	-	6,386
Result used to determine diluted earnings per share	(100,148)	205,067
Weighted average number of ordinary shares outstanding (thousands)	523,549	520,325
Adjustment for assumed conversion of related party long term senior notes	-	61,485
Adjustment for assumed conversion of warrants..........................	-	1,928
Weighted average number of ordinary shares for diluted earnings per share (thousands)	523,549	583,738
Diluted earnings per share (€ per share)	(0.19)	0.35

The earnings per share of continuing operations are as follows:

	2006	2005
Basic earnings per share of continuing operations (€ per share)..	(0.19)	(0.09)
Diluted earnings per share of continuing operations (€ per share)	(0.19)	(0.09)

For the calculation of the earnings per share of discontinued operations reference is made to note 22 for more details.

22 Discontinued Operations

On October 14, 2005, the Company sold its German activities to Ganymed 345. VV GmbH, a company fully owned by Apax Partners, by means of a transfer of all of its shares in Versatel Deutschland Holding GmbH, for a total consideration of € 539 million.

The results of the German discontinued operations are shown below:

(euro thousands)	2006	2005
Revenue..	-	303,181
Expenses	-	(284,996)
Gross Profit	-	18,185
Finance costs	-	(12,820)
Gain on disposal of investment..................................	-	240,472
Result for the period from discontinued operations	-	245,837
Net result discontinued operations per common share:		
Basic	-	0.47
Diluted	-	0.42

The gain on the disposal of the investment represents the net proceeds of the sale of Versatel Deutschland Holding GmbH on October 14, 2005 to Ganymed.

The calculation of the net result from discontinued operations for year 2005 per common share is based on the net result for the period from discontinued operations for the year and on 520,325 thousand ordinary shares, being the weighted average number of ordinary shares outstanding. The diluted number of weighted average shares outstanding for 2005 is 581,810 thousand.

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

(euro thousands)	2006	2005
Net cash provided by operating activities	-	49,133
Net cash used in investing activities	-	(83,752)
Net cash used in financing activities	-	(13,357)
Net decrease in cash and cash equivalents	-	(47,976)
Cash and cash equivalents, beginning of the year	-	47,976
Cash and cash equivalents, end of the year	-	-

23 Related Parties

The ultimate parent of Versatel 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. 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	Date of notification
Tele2 Finance B.V.	80.29% (1)(2)(4)	November 1, 2006
Centaurus Alpha Master Fund Limited	6.34% (1)(2)(3)	November 1, 2006
Amber Capital LP	6.15% (1)(2)(3)	March 6, 2007

(1) Information regarding the percentage of outstanding shares held by Centaurus Alpha Master Fund Limited, Amber Capital LP and Tele2 Finance B.V. has been notified to the AFM under the Financial Supervision Act on November 1, 2006, March 6, 2007 and November 1, 2006, respectively.

(2) The percentage is not on a fully diluted basis.

(3) The Company is not aware of any subsequent changes in the shareholdings of Centaurus Alpha Master Fund Limited and Amber Capital LP since the date of notification on November 1, 2006 and March 6, 2007, respectively.

(4) Taking into account the aggregate number of 349,164,120 shares acquired by Tele2 in the context of the rights offering, Tele2 has confirmed to us that they currently own 81.7% of Versatel's outstanding ordinary shares. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 owns 84.6%, as per March 6, 2007, of Versatel's outstanding ordinary shares on a fully diluted basis upon closing of the equity offering.

The information with respect to transactions between the Company and Tele 2 group companies is presented using three categories:

- **Related Party Revenues**: Transactions that consist of charges from the Company to Tele2 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 group companies as compensation for operating expenses that we initially bear;

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

Related party transactions with Tele2 group companies

(euro thousands)	**2006**	**2005**
Related party revenues	4,333	38
Related party compensation	1,453	-
Related party costs	(59,053)	(2,749)
Total related party transactions	(53,267)	(2,711)

All transactions between the Company and Tele2 group companies have been entered into on what the Company believes to be on an arm's length basis.

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.

All year-end balances arising from sales/purchases of goods/services between Versatel and Tele2 group companies amount to € 36.8 million and is presented in the balance sheet under related party current account.

Loans to related parties

(euro thousands)	**2006**	**2005**
Related party long-term senior notes		
Liability component at January 1	97,073	92,940
Interest expense	4,844	4,844
Interest paid	(4,844)	(4,844)
Interest accreted	4,203	4,133
Liability component at December 31	101,276	97,073
Related party long-term loan		
Beginning of the year	170,655	-
Loans advanced during year	-	189,431
Contribution for option payments related to Offers	-	(15,874)
Other repayments	-	(4,129)
Interest charged	7,280	1,227
End of the year	177,935	170,655
Total loans to related parties	279,211	267,728

At October 14, 2005 Tele2 Finance B.V. acquired all the issued and outstanding 3.875% convertible senior notes. Reference is made to Note 12 for more details.

Versatel has entered into an intra-group loan agreement with Tele2 Finance B.V. totaling € 189.4 million, which is repayable in 2010. It bears an interest rate which is the aggregate of the Euribor or such other rate as may be notified by Tele2 Finance B.V. on the first day of the interest period and 1.25% margin. Reference is made to note 13.

For the remuneration of members of the Board of Management and the Board of Supervisory Directors reference is made to note 24.

24 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 in 2006 was € 231,000 compared to € 236,553 in 2005.

Upon settlement of the Offers on October 14, 2005, all the sitting members of the Board of Supervisory Directors of the Company resigned and the appointment of Messrs. Jarnheimer, Berglund, Svedberg and Zadler as approved by the general meeting of shareholders on September 29, 2005 became effective. These members do currently not receive any compensation for their role as member of the Board of Supervisory Directors of the Company.

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, that they would continue to act as special advisors, together constituting the Special Advisory Committee, until the closing of the announced acquisitions of Tele2 (Netherlands B.V) and Tele2 Belgium N.V. and the announced 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 (also see "Subsequent Events"), 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 received by the Board of Supervisory Directors for the years ended December 31, 2006 and 2005:

(amounts in euro)	**2006**	**2005**
Supervisory Directors (since October 14, 2005)		
Lars-Johan Jarnheimer (Chairman)	-	-
Håkan Zadler (Vice-Chairman) (1)		
Johnny Svedberg	-	-
Anders Olsson (2)	-	-
Robert de Bakker (2)	-	
Joop Bouma (3)	65,500	
Jean Pierre Eschauzier (3)	97,750	-
Pieter Wortel (3)	67,750	-
Resigned during 2006:		
Frederik Berglund	-	-
Supervisory Directors (since October 14, 2005)		
Hans Huber (Acting Chairman) (4)	-	73,750
Boudewijn Beerkens	-	40,000
Joop Drechsel	-	40,000
Loek Hermans	-	40,000
Leo van Doorne	-	27,500
Resigned during 2005:		
Nathaniel Meyohas	-	15,303
Total compensation	231,000	236,553

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

(2) Mr. Olsson was appointed as member of our 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 was engaged or employed by us, and consequently neither of them received any remuneration from us in relation to 2006.

(3) Appointed by the Enterprise Chamber of the Amsterdam Court of Appeal as per December 14, 2005. Resigned as per December 8, 2006 and continued to act as special advisor until March 6, 2007. Mr. Bouma has been reappointed to our Board of Supervisory Directors effective March 6, 2007.

(4) Includes for the year 2005, € 26,250 for additional activities performed on request of the Board of Supervisory Directors and/or the Board of Management (2004: € 25,000).

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) and 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, free cash flow, in-time service delivery and numbers of subscribers.

Effective January 1, 2006 Mr. Borgklint succeeded Mr. Raithatha as the sole Managing Director of Versatel Telecom International N.V. Mr. Borgklint combined his position as Managing Director of Versatel with the position of Market Area Director UK & Benelux within the Tele2 AB group. As Mr. Borgklint had an existing employment agreement with Tele2 (Netherlands) B.V., a group company of Tele2 AB, it was agreed that that would remain in place. Mr. Borgklint therefore did not have an employment agreement with Versatel. Tele2 and Versatel did agree that, taking into account the activities of Mr. Borgklint, to charge 85% of his total compensation to Versatel. Mr. Borgklint's remuneration consists of a base salary of € 340,200, a bonus of 40% and a fixed pension contribution of 21% of his annual base salary.

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. We have been informed that Mr. Borgklint and Tele2 Netherlands have not agreed upon any severance payment as a consequence of his departure.

The total aggregate compensation of the Managing Director paid by the Company in 2006 was € 412,929. The following table sets out the compensation paid by the Company to Mr. Borgklint for the years ended December 31, 2006 and December 31, 2005. The compensation as described below represents 85% of the total remuneration received by Mr. Borgklint under his employment agreement with Tele2 (Netherlands) B.V. As Mr. Borgklint was appointed as the Managing Director effective January 1, 2006, he did not receive any compensation from the Company during the year 2005.

(amounts in euro)	**Salary**	**Pension**	**Bonus**	**Other**	**Total**
Per Borgklint					
2006………………..	289,170	60,726	63,033	-	412,929
2005…………….….	-	-	-	-	-

During 2006, Mr. Raithatha, the predecessor of Mr. Borgklint, who resigned effective December 31, 2005 as Managing Director of the Company, received a payment of € 150.000 for consultancy work which he performed until June 30, 2006. During 2005, Mr. Raithatha, at that time still in position as Managing Director, received a total compensation of € 11,876,969.

Shareholdings

The Supervisory Directors did not hold any shares or options in the Company as at December 31, 2006 and 2005.

No shares or options in the Company were held at December 31, 2006 by the Managing Director, Mr. Borgklint.

Share Options

No options have been granted to any of our Supervisory Directors or members of our Board of Management during the financial year 2006.

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

25 Rent and Operating Lease Commitments

Future minimum commitments in connection with rent and other operating lease agreements are as follows at December 31, 2005 and 2006:

(euro thousands)	**2005 Rent & Operating Lease Commitments**
2006	13,329
2007	13,233
2008	11,553
2009	5,625
2010 and further	1,196
Total	44,936

Rent and operating lease expenses amounted to approximately € 22.9 million in 2005. The main part of future commitments relates to the renting of office space and points-of-presence for a 10 year period.

(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.

26 Other Commitments

Commitments in connection with Versatel's capital expenditures relating to customer connections and network build, not yet recorded on the balance sheet amount to approximately € 21.9 million as of December 31, 2006. The Company and its subsidiaries provided, on behalf of third parties, bank guarantees amounting to approximately € 17.6 million.

In order to minimize restrictions on available cash, Tele2 Finance B.V. ("Tele2 Finance") has issued two bank guarantees on behalf of Versatel for a total amount of € 29.8 million. These consist of a guarantee of € 14.6 million in relation to proceedings pending with the Dutch tax authorities regarding the wage tax claim (reference is made to note 30) and a guarantee in the amount of € 15.2 million as a security of the payment obligations of Versatel under its license agreement with the Eredivisie C.V. (reference is made to note 11). The amounts for both guarantees were borrowed by Tele2 Finance from Tele2 AB, Sweden. Versatel 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 will be added to the principal amount of the related party loan agreement of Versatel under the same conditions that apply to its related party loan agreement with Tele2 Finance.

27 Financial Risk Management

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

a) 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.

b) Interest Risks

Versatel has entered into a related party loan agreement with Tele2 Finance B.V. totaling € 189.4 million, which is repayable in 2010 and bears an interest rate which is the aggregate of the Euribor or such other rate as may be notified by Tele2 Finance B.V. on the first day of the interest period and 1.25% margin. Reference is made to note 13.

On October 22, 2004, Versatel 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. Reference is made to note 12.

c) Foreign exchange risk

Versatel 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. Versatel's treasury department is responsible for managing the net position in each foreign currency.

d) Cash flow risk

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

e) 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, 2006 approximate their carrying amounts. Reference is made to note 12.

f) 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.

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, seldom 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) 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 weigthed average cost of capital of 9.8% was used to discount the projected cash flows.

b) 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.

c) Income tax

Versatel is subject to income tax in The Netherlands and Belgium. 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. Versatel 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.

d) 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.

e) 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.

f) Provision for doubtful debts

Versatel determines its provision for doubtful debts based on past experience.

29 Personnel

The average number of personnel during the year was approximately 843 (2005 – 1,015) employed in the following geographical areas:

	2006	2005
Netherlands	689	859
Belgium	154	156
Total	843	1,015

30 Legal Proceedings

As discussed earlier, in the section "Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber", the Petitioning Shareholders filed a request with the Enterprise Chamber for a judicial investigation into the affairs of Versatel (*enquêteverzoek*) relating to a variety of matters, including the March Proposed Merger. The Enterprise Chamber ruled on December 8, 2006 that the request for an investigation into its affairs was denied. However, the Petitioning Shareholders have filed for an appeal with the Supreme Court. Also, and as discussed earlier in the section "Summary of Public Announcements Regarding the Public Offers by Tele2 and Proceedings Filed with the Enterprise Chamber", on February 6, 2007, certain of our shareholders have filed a new request for an investigation into our affairs (*enqueteverzoek*), which request is still pending. If an investigation into the affairs of Versatel is ultimately awarded, the outcome of these proceedings may ultimately be that certain resolutions of the Board of Management, the Board of Supervisory Directors and the General Meetings of Shareholders of Versatel are nullified, including but not limited to resolutions relating to the Tele2 Offers and the sale of the German business that was completed in 2005. Also, on September 11, 2006 certain shareholders of Versatel filed a claim against the Company with the District Court in Amsterdam relating to certain resolutions of the General Meeting of Shareholders of Versatel held on September 29, 2005, including, but not limited to, the sale of its German business and a distribution to Versatel's shareholders of approximately € 728.6 million. Would this claim be awarded, the outcome of these proceedings may ultimately be that such resolutions are nullified. Such nullifications, if awarded, should not affect the legality of transactions Versatel has concluded with third parties.

In October 2000, Versatel 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 Versatel in July 1999. Although Versatel had consulted with its Dutch tax advisors and the Dutch tax authorities prior to issuing these options and although Versatel 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. Versatel 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 Versatel. It filed for appeal in cassation at the Supreme Court in The Hague in January 2006, where Versatel presented its case on October 18, 2006. This procedure is still pending. On January 31, 2007 Versatel was informed that the public prosecutor at the Supreme Court (Advocaat Generaal) has issued his opinion (conclusie) in relation to this matter confirming, in relevant part, the decision of the Amsterdam Court of Appeals. In the meantime, the Dutch tax authorities have agreed that Versatel does not need to provide them with any guarantees for the disputed amount so long as the Company maintains an agreed upon cash position. Since Versatel was not able to maintain this cash position, its majority shareholder Tele2 Finance arranged for a bank guarantee in the amount of € 14.6 million on December 14, 2006. Versatel has signed a counter indemnity agreement by which costs incurred by Tele2 Finance are recharged to the Company at an arm's-length basis.

In October 2006, Versatel's Belgian subsidiary, Versatel Belgium, received a pre-assessment bill (Regularisatieopgave) pertaining to a VAT investigation by the Belgian tax authorities in fiscal years 2002 through 2004 of its invoicing requirements of foreign resellers (i.e., non-Belgian resellers). According to EU legislation, such resellers generally are invoiced without Belgian VAT (which is known as the reverse charge mechanism). In the case of Versatel, the Belgian tax authorities asserted that Versatel inappropriately applied the reverse charge mechanism and that it instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, Versatel reached a settlement of this claim on November 23, 2006. Pursuant to the settlement the Regularisatieopgave covering the period of 2002 through part of 2004 was reissued and the Company agreed on December 5, 2006 to settle for a total amount of € 3.0 million. The VAT investigation related to the fiscal years 2002 through 2004 only. Should the Belgian tax authorities conduct a VAT investigation in relation to subsequent fiscal years, it may ascertain that it inappropriately applied the reverse charge mechanism during such years as well, which may lead the Company to having to make a payment for VAT payable for these years, as well.

Versatel has filed complaints in the past with the European Commission, with the OPTA and the Minister of Transport and Waterways in The Netherlands, with the Belgium Institute for Post and Telecommunications ("BIPT") in Belgium 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.

On May 11, 2005 Versatel announced that the public prosecutor's office had started an investigation into possible insider trading in the shares of Versatel during 1999, including suspicion of fraud. However, this investigation is not directed against the Company.

In November 2006, the lessor of the current headquarters of Versatel at 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 demands that it is prohibited from vacating the part of the premises Versatel currently occupies at Hullenbergweg 101 and from moving its corporate headquarters to the new building it rents at Wisselwerking 58, Diemen, The Netherlands. The Company is currently in discussions with the new owners of the premises at the Hullenbergweg 101 to find an amicable solution.

The Company is from time to time involved in routine litigation in the ordinary course of business. It believes that no currently pending litigation to which it is a party will have a material adverse effect on its financial position or results of operations.

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. No such provision is currently deemed necessary.

31 Subsequent Events

On January 26, 2007, Versatel announced that it had agreed to acquire 100% of the outstanding share capital of Tele2 Netherlands and Tele2 Belgium from Tele2 for € 200 million in aggregate (on a cash-and-debt free basis and subject to certain adjustments) and that it intended to raise € 255 million in a rights offering, the proceeds of which would be fully guaranteed by Tele2, for purposes of funding the acquisitions and for general corporate purposes. Versatel also announced that an extraordinary general meeting of shareholders would be scheduled for purposes of, *inter alia*, approving the proposed acquisitions, as well as the proposed EUR 255 million equity offering.

On February 12, 2007, Versatel announced that its shareholders had approved, amongst other resolutions, the acquisition of Tele2 Netherlands and Tele2 Belgium by Versatel, as well as the rights offering as announced on January 26, 2007.

On March 6, 2007, further to Versatel's press releases of February 15, 2007 and March 1, 2007, Versatel announced that it had successfully closed the rights offering and the acquisitions of Tele2 Netherlands and Tele2 Belgium. As a result, Versatel acquired 100% of the outstanding share capital of Tele2 Netherlands and Tele2 Belgium and, in total, 418,839,316 new ordinary shares were issued. Taking into account the aggregate number of 349,164,120 shares acquired by Tele2 in the context of the rights offering (including 12,892,744 new ordinary shares acquired by Tele2 Finance in the announced rump offering) Tele2 currently owns 81.7% of Versatel's outstanding ordinary shares. Assuming conversion of the Convertible Notes at the recalculated conversion price of € 0.70 per ordinary share, Tele2 owns 84.6% of Versatel's outstanding ordinary shares on a fully diluted basis upon closing of the equity offering. The number of basic ordinary shares increases from 523,549,146 shares to 942,388,462 shares which imply a basic earnings per share of (€ 0.10) for year 2006.

The book value of identifiable assets and liabilities of Tele 2 (Netherlands) B.V. and Tele2 Belgium N.V. (the Acquisitions) at March 6, 2007 are as follows:

(euro thousands)	**Unaudited book value on acquisition of Tele2 (Netherlands) B.V.**	**Unaudited book value on acquisition of Tele2 Belgium N.V.**
Intangible assets	943	-
Property plant and equipment	8,892	2,258
Other current assets	30,576	5,474
Deferred tax assets	20,311	-
Inventory	5,518	8
Trade accounts receivable	12,609	647
Cash and cash equivalents	2,241	5,973
Trade and other payables	(28,422)	(4,966)
Accrued liabilities	(18,227)	(6,192)
Total net assets acquired	34,441	3,202
Goodwill on acquisition	160,411	6,698
Total consideration	194,852	9,900

Net cash outflow on the Acquisitions:

(euro thousands)	**Tele2 (Netherlands) B.V.**	**Tele2 Belgium N.V.**
Total purchase price consideration in cash	194,852	9,900
Less: cash and cash equivalents acquired	2,241	5,973
	191,611	3,927

The goodwill on acquisition is determined without taking into account a purchase price allocation in accordance with IFRS 3 “Business combinations”. In the 2007 annual accounts we must account for the Acquisitions under the purchase price accounting method. Accordingly, the goodwill paid in connection with the Acquisitions will have to be allocated to property, plant and equipment, other assets and intangible assets (including but not limited to licenses, brands and/or customer lists) acquired and the liabilities and contingent liabilities assumed on the basis of their respective fair values on March 6, 2007 the date on which Versatel Telecom International N.V. obtained control over the companies. The Company currently estimates that only a small part of the goodwill should be allocated to the property, plant and equipment, other assets and intangible fixed assets acquired and liabilities and contingent liabilities assumed, as the value of the Acquisitions is primarily based on achieving economies of scale and scale efficiencies. However, following a more detailed analysis that has to take place, it may become appropriate to allocate a larger amount of the purchase price paid in connection with the Acquisitions to property, plant and equipment and intangible fixed assets acquired.

Amsterdam, April 26, 2007

The Board of Management

Mr. Henrik Ringmar

Mr. Ernst Jan van Rooijen

The Board of Supervisory Directors

Mr. B. Lars-Johan Jarnheimer Chairman

Mr. Johnny I. Svedberg

Mr. Anders Olsson

Mr. Joop L. Bouma

Mr. Robert L. de Bakker

OTHER INFORMATION

Auditor's report

To the Shareholders and Supervisory Board of Versatel Telecom International N.V.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements 2006, set out on pages 83 to 119, which are part of the financial statements of Versatel Telecom International N.V., Amsterdam, which comprise the consolidated balance sheet as at December 31, 2006, the consolidated statement of operations, consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Versatel Telecom International N.V. as at December 31, 2006, and of its result and its cash flows 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.

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 board report is consistent with the consolidated financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.
Amsterdam, April 26, 2007
B.C.J. Dielissen

Versatel Telecom International N.V.

Company Financial Statements

Company balance sheet

at December 31, 2006

(Before appropriation of net result)

(Currency – thousands of euros)

	Note	2006	2005
ASSETS			
Non current assets			
Financial assets	3	-	-
Total non current assets		-	-
Current assets			
Receivables from			
Group companies		696,549	711,518
Other current assets		-	19,246
Cash and cash equivalents		60,291	40,506
Total current assets		756,840	771,270
Total assets		756,840	771,270
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Issued and paid-in capital		10,471	10,471
Additional paid-in capital		1,755,767	1,755,573
Accumulated deficit		(1,605,476)	(1,804,157)
Net result for the period		(100,148)	198,681
Total shareholders' equity	4	60,614	160,568
Provision for investments	9	409,508	333,093
Non current liabilities			
Deferred income tax liability	5	5,421	7,477
Related party long term senior notes	6	101,276	97,073
Related party long term loan	7	177,935	170,655
Total non current liabilities		284,632	275,205
Current liabilities			
Accrued liabilities		2,086	2,404
Total shareholders' equity and liabilities		756,840	771,270

Company statement of operations

for the year ended December 31, 2006

(Currency – thousands of euros)

	2006	2005
Results of participating interests after income tax	(83,487)	177,818
Other results after income tax	(16,661)	20,863
Result for the period	(100,148)	198,681

Company statement of changes in equity

for the year ended December 31, 2006

(Currency – thousands of euros)	Number of Shares	Issued and Paid-in Capital	Additional Paid-in Capital	Warrants
Balance January 1, 2005	518,300,096	10,367	2,365,961	336
Result for the period	-	-	-	-
Refund capital tax	-	-	111	-
Reversal deferred tax liability recognized directly in equity	-	-	116,231	-
Share-based compensation		-	146	-
Options exercised	5,249,050	104	1,680	-
Warrants provided for		-	-	(336)
Dividend distribution		-	(728,556)	-
Balance December 31, 2005	523,549,146	10,471	1,755,573	-
Refund capital tax	-	-	194	-
Result for the period	-	-	-	-
Balance December 31, 2006	523,549,146	10,471	1,755,767	-

(Currency – thousands of euros)	Accumulated Deficit	Total
Balance January 1, 2005	(1,804,157)	572,507
Result for the period	198,681	198,681
Refund capital tax	-	111
Reversal deferred tax liability recognized directly in equity	-	116,231
Share-based compensation	-	146
Options exercised	-	1,784
Warrants provided for	-	(336)
Dividend distribution	-	(728,556)
Balance December 31, 2005	(1,605,476)	160,568
Refund capital tax	-	194
Result for the period	(100,148)	(100,148)
Balance December 31, 2006	(1,705,624)	60,614

Notes to the company financial statements

at December 31, 2006

(Currency – thousands of euro)

1 General

The company financial statements are part of the 2006 financial statements of Versatel Telecom International 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, Versatel 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 Versatel Telecom International 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 24 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 ate 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 Financial Assets

The movement in financial assets is as follows:

(euro thousands)	**Investments in Group Companies**	**Receivables from Group Companies**	**Total**
Balance January 1	(440,541)	107,448	(333,093)
Additions	572	6,500	7,072
Net result from investments.......	(83,487)	-	(83,487)
Provision for investments……….	523,456	(113,948)	409,508
Balance December 31	-	-	-

For movement in provision for investments reference is made to note 8.

4 Shareholders' Equity

The authorized capital of Versatel is € 30,000,000 consisting of 1,500,000,000 Ordinary Shares of which 523,549,146 shares are issued and outstanding at December 31, 2006 and at December 31, 2005. 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, Versatel issued warrants in accordance with our first and second high yield offerings. During 2005 and 2006, no warrants were exercised. As of December 31, 2006 and 2005, 53,135 warrants are outstanding, giving the holders rights to purchase 1,928,099 ordinary shares at an exercise price of € 0.43 per share. Unless earlier exercised, the warrants will expire by their terms on May 25, 2008.

5 Deferred income tax liability

Reference is made to Note 10 of the consolidated financial statements.

6 Related Party Long Term Senior Notes

Reference is made to Note 12 of the consolidated financial statements.

7 Related Party Long Term Loan

Reference is made to Note 13 of the consolidated financial statements.

8 Provision for investments

The movement in the provision for investments is as follows:

	2006	2005
Balance January 1	333,093	114,309
Addition to provision	76,415	218,784
Balance December 31	409,508	333,093

Following the joint and several liability 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.

9 Board of Supervisory Directors and Board of Management Remuneration

Reference is made to note 24 of the consolidated financial statements.

10 Employees

The Company did not have employees in the current and previous year.

11 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
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

The liabilities of these companies to third parties amount to € 117.9 million (2005 – € 179.3 million).

Amsterdam, April 26, 2007

The Board of Management
Mr. Henrik Ringmar
Mr. Ernst Jan van Rooijen

The Board of Supervisory
Mr. B. Lars-Johan Jarnheimer Chairman
Mr. Johnny I. Svedberg
Mr. Anders Olsson
Mr. Joop L. Bouma
Mr. Robert L. de Bakker

OTHER INFORMATION

Auditor's report

To the Shareholders and Supervisory Board of Versatel Telecom Interational N.V.

Report on the Company financial statements

We have audited the accompanying Company financial statements 2006, set out on pages 127 to 132, which are part of the financial statements of Versatel Telecom International N.V, Amsterdam, which comprise the balance sheet as at December 31, 2006, the statement of operations, the statement of changes in equity and the explanatory notes.

Management's responsibility

Management is responsible for the preparation and fair presentation of the Company financial statements and for the preparation of the management board report, both 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 Company 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 Company 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 Company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Company 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 Company 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 Company financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Company financial statements give a true and fair view of the financial position of Versatel Telecom International N.V. as at 31 December 2006 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 board report is consistent with the Company financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.
Amsterdam, April 26, 2007

B.C.J. Dielissen

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 31, "Subsequent Events" on page 117.

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* (A*symmetric 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.

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