

VERSATEL TELECOM INTERNATIONAL N.V.

(a public company with limited liability incorporated under the laws of The Netherlands, with its corporate seat in Amsterdam, The Netherlands)

Offer of 418,839,316 new ordinary shares in a rights offering at an issue price of €0.61 per ordinary share

We are offering 418,839,316 new ordinary shares with a nominal value of €0.02 each (the “Offer Shares”). The Offer Shares are being offered initially to shareholders who qualify as Eligible Persons (as defined in “Selling and Transfer Restrictions – Representations and Warranties by Investors in the SETs Offering and the Rump Offering” on page 138 of this Prospectus) who may lawfully subscribe for Offer Shares *pro rata* to their shareholdings at an issue price of €0.61 per Offer Share (the “Issue Price”), subject to applicable securities laws and on the terms set out in this Prospectus. For such purpose, and subject to applicable securities laws, our shareholders who are Eligible Persons as of the Record Date (as defined below) are being granted transferable subscription entitlements (“SETs”) that will entitle them to subscribe for the Offer Shares at the Issue Price. Such offering is referred to in this Prospectus as the “SETs Offering”.

Application has been made to admit the SETs to trading on Euronext Amsterdam N.V.’s Eurolist by Euronext (“Euronext Amsterdam”). We expect trading in the SETs will commence on Euronext Amsterdam on 15 February 2007, and will continue until 13:15 hours (Central European Time) on 28 February 2007. The SETs will be admitted to trading under the symbol “VERST”.

Investing in the Offer Shares and trading in the SETs involves certain risks. See “Risk Factors” beginning on page 12 of this Prospectus to read about factors you should carefully consider before investing in the Offer Shares or trading in the SETs.

Each ordinary share held immediately after the close of trading in our ordinary shares on Euronext Amsterdam at 17:40 hours (Central European Time) on 14 February 2007 (the “Record Date”) will entitle such shareholder who qualifies as an Eligible Person to one SET. An Eligible Person (whether a shareholder of ours on the Record Date or a subsequent transferee of SETs) will be entitled to subscribe for 4 Offer Shares at the Issue Price for every 5 SETs held. Accordingly, if an Eligible Person is a shareholder of ours entitled to a grant of SETs and has not transferred its SETs, it will have, subject to the terms and conditions described herein, the right to subscribe for 4 Offer Shares for every 5 ordinary shares held on the Record Date. Eligible Persons holding SETs may subscribe for Offer Shares through the exercise of SETs from 15 February 2007 until 15:30 hours (Central European Time) on 28 February 2007 (the “Exercise Period”). If you are an Eligible Person and you have not validly exercised your SETs by the end of the Exercise Period, you will no longer be able to exercise those SETs. Once you have exercised your SETs, you cannot revoke or modify that exercise, except as otherwise described herein in “The Offering – SETs Offering – Exercise Period”.

After the Exercise Period for the SETs has expired, any Offer Shares not subscribed and paid for through the exercise of the SETs (collectively, the “Rump Shares”), will be available for subscription in a private placement with institutional and professional investors in The Netherlands and elsewhere (the “Rump Offering” and together with the SETs Offering, the “Offering”), facilitated by ING Bank N.V. as the sole global coordinator for the Offering (the “Sole Global Coordinator”). The Rump Offering will be subject to the terms and conditions of a Share Placement Agreement between us and the Sole Global Coordinator dated 14 February 2007 (the “Share Placement Agreement”) and the price per Offer Share in the Rump Offering will be at least equal to the total of €0.70 and any selling expenses related to such private placements (including any value added tax (“VAT”). References herein to the “Offer Shares” include the Rump Shares. The Sole Global Coordinator shall not actively solicit purchasers for the Rump Offering or otherwise actively market the Offering. Our largest shareholder, Tele2 Finance B.V. (“Tele2 Finance”), a wholly owned subsidiary of Tele2 AB (“Tele2”), has agreed to (i) exercise the SETs granted to it in the SETs Offering at the Issue Price and (ii) acquire any Offer Shares which are not placed in the Rump Offering at €0.70 per Offer Share, subject to the terms and conditions of an agreement between Tele2 Finance and us dated 25 January 2007 (the “Commitment Agreement”). Tele2 Finance currently holds all of our outstanding 3.875% convertible senior notes due 2011 (the “Convertible Notes”) as well as 80.3% of our outstanding ordinary shares (85.0% on a fully diluted basis, assuming conversion as of the date of this Prospectus of our Convertible Notes owned by Tele2 Finance). Upon the closing of the Offering, the conversion price of the Convertible Notes shall be recalculated according to a formula set forth in the terms of the Convertible Notes.

If all of the Offer Shares were acquired by Tele2 Finance in the Offering, Tele2 Finance would own 90.5% of our outstanding ordinary shares (on a fully diluted basis and based on (i) no recalculation of the conversion price of the Convertible Notes as a result of the Offering and (ii) conversion of the Convertible Notes at their current conversion price of €0.76 per share) after the closing of the Offering.

The Rump Offering is expected to commence on 1 March 2007 and to end no later than 17:30 hours (Central European Time) on 1 March 2007. After the Exercise Period has ended, we will announce the results of the SETs Offering by means of a press release. After the Rump Offering has ended, we will announce the results of the Rump Offering by means of a press release, including the aggregate number of Offer Shares subscribed and paid for, the recalculated conversion price of the Convertible Notes and the percentage of ordinary shares that Tele2 Finance owns on a fully diluted basis, assuming conversion of the Convertible Notes.

The statutory pre-emptive rights (*voorkeursrechten*) of holders of our ordinary shares have been excluded with respect to the Offering. We are not taking any action to permit a public offering of the SETs or the Offer Shares in any jurisdiction outside The Netherlands. The SETs are being granted by us and the Offer Shares are being offered by us only in those jurisdictions in which, and only to those persons to whom, granting of the SETs and offers of the Offer Shares (pursuant to the exercise of SETs or otherwise) may lawfully be made.

It is expected that payment for and delivery of the Offer Shares will be made on or about 6 March 2007 (the “Closing Date”). The SETs and the Offer Shares have not been and will not be registered under the US Securities Act of 1933 (the “Securities Act”), and may not be offered, granted, issued, sold, taken up, delivered, renounced, or transferred in or into the United States. Accordingly, the SETs are being granted and the Offer Shares are being offered by us only in transactions that are exempt from registration under the Securities Act pursuant to Regulation S thereunder (“Regulation S”). Potential investors in the SETs or the Offer Shares should carefully read “Selling and Transfer Restrictions”.

Application has been made to admit the Offer Shares to trading on Euronext Amsterdam. We expect that trading in the Offer Shares will commence on Euronext Amsterdam on 6 March 2007, barring unforeseen circumstances. Our ordinary shares are admitted to trading on Euronext Amsterdam under the symbol “VRSA”. On 13 February 2007, the closing price of our ordinary shares on Euronext Amsterdam was €0.78 per share. The SETs and the Offer Shares will be delivered through the book-entry facilities of Nederlands Centraal Instituut voor Giraal Effectenverkeer B.V. (“Euroclear Nederland”), as well as through Euroclear Bank S.A./N.V. as operator of the Euroclear System (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream Luxembourg”).

If the closing of the Offering does not take place on the Closing Date, the Offering may be withdrawn. In such an event, both the exercised and unexercised SETs will be forfeited without compensation to their holders, and subscriptions for and allotments of Offer Shares that have been made will be disregarded. Any subscription payments received by us will be returned, without interest. Any such forfeiture of SETs will be without prejudice to the validity of any settled trades in the SETs. There will be no refund in respect of any SETs purchases in the market. All dealings in SETs and Offer Shares prior to the closing of the Offering are at sole risk of the parties concerned. Euronext Amsterdam does not accept any responsibility or liability to any person as a result of the withdrawal of the Offering or (the related) annulment of any transactions on Euronext Amsterdam.

This document constitutes a prospectus for the purposes of Article 3 of the Directive 2003/71/EC (“Prospectus Directive”) and has been prepared in accordance with Article 5:2 of the Financial Supervision Act (*Wet op het financieel toezicht*) (the “Financial Supervision Act”) and the rules promulgated thereunder. This Prospectus has been approved by and filed with The Netherlands Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*; “AFM”).

Kempen & Co Corporate Finance B.V. (“Kempen”) was requested by our Special Committee (as defined below) to perform a valuation of us, Tele2 (Netherlands) B.V. (“Tele2 Netherlands”) and Tele2 Belgium N.V. (“Tele2 Belgium”) and issue a report pursuant to their valuations. In addition, our Special Advisory Committee (as defined below) requested that Kempen and E&Y Transaction Advisory Services (“EY TAS”) issue fairness opinions to the Special Advisory Committee with respect to the purchase prices payable by us for each of Tele2 Netherlands and Tele2 Belgium in connection with our acquisition of Tele2 Netherlands and Tele2 Belgium. To obtain a copy of the valuation report issued by Kempen to the Special Committee on 5 December 2006, together with a letter by Kempen to us dated 26 January 2007, see “General Information – Available Information”. Copies of the fairness opinions issued to the Special Advisory Committee by Kempen and EY TAS on 26 January 2007 are included herein beginning on page A-1 of this Prospectus.

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SUMMARY

This section constitutes the summary of the essential characteristics and risks associated with us, our ordinary shares, and of the SETs Offering and the Rump Offering. This summary should be read as an introduction to this Prospectus and any decision to invest in SETs or Offer Shares should be based on a consideration of this Prospectus as a whole, including the risks of investing in the SETs or the Offer Shares as set out in “Risk Factors” below. This summary is not complete and does not contain all the information that you should consider in connection with any decision relating to the SETs or Offer Shares.

Civil liability will attach to us in any state party to the European Economic Area (an “EEA State”) in respect of this summary, including any translation hereof, only if this summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus. Should a claim relating to information contained in this Prospectus be brought before a court in an EEA State under the national legislation of the EEA State where the claim is brought, the plaintiff may, under the national legislation of the state where the claim is brought, have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Overview

Founded on 10 October 1995, we are an alternative broadband telecommunications and media service provider in our target markets of The Netherlands and Belgium. We operate a facilities-based local access broadband network that uses advanced network technologies to provide business, residential and carrier customers with voice, data, internet services, video/television and value-added services (“VAS”). Our high bandwidth network has been designed and built to provide flexible, broadband local access services to major business customers and population centers in The Netherlands and Belgium and to several international destinations. Our network carries voice, data and internet traffic and supports all major protocols, including Frame Relay, Asynchronous Transfer Mode (“ATM”), Ethernet and Internet Protocol (“IP”). We provide our services to business and residential customers as well as other telecommunications, data and internet service providers (“ISPs”) in our target markets.

Our objective is to become the leading alternative provider of telecommunications and media services, including voice, data, internet services, video/television and VAS to business and residential customers as well as other telecommunications, data, and internet service providers in our target markets.

Our ordinary shares are traded on Euronext Amsterdam under the symbol “VRSA”. Tele2 Finance currently holds all of our outstanding Convertible Notes and 80.3% of our outstanding share capital (85.0% on a fully diluted basis, assuming conversion as of the date of this Prospectus of our Convertible Notes owned by Tele2 Finance). Tele2 Finance is wholly owned by Tele2, one of Europe’s leading alternative telecom operators. Tele2 has been listed on the Stockholm Stock Exchange since 1996.

Acquisition of Tele2 Netherlands and Tele2 Belgium

On 25 January 2007, we entered into an agreement with Tele2 Netherlands, Tele2 Belgium, Tele2 Netherlands Holding B.V., Tele2 Europe S.A. and SEC Luxembourg S.A. and Tele2 Sverige AB (the “**Tele2 Acquisitions Agreement**”), whereby we agreed to acquire the Dutch and Belgian businesses of Tele2 through the purchase of all of the outstanding share capital of Tele2 Netherlands and Tele2 Belgium (the “**Acquisitions**”) for an aggregate purchase price of €200.0 million, on a debt and cash free basis and subject to certain adjustments. The Acquisitions are conditional, among other things, upon the closing of the Offering and will close simultaneously with the Offering. The Special Advisory Committee has approved the Acquisitions and the Offering. On 12 February 2007, the General Meeting approved the Acquisitions and authorized the Management Board, subject to the approval of the Supervisory Board, to grant the SETs and to issue the Offer Shares.

See “Acquisition of Tele2 Netherlands and Tele2 Belgium” for a description of the Acquisitions and an overview of Tele2 Netherlands and Tele2 Belgium.

Special Committee and Special Advisory Committee

On 13 September 2005, certain of our shareholders initiated legal proceedings against us before the Enterprise Chamber of the Amsterdam Court of Appeal (*Ondernemingskamer van het Gerechtshof te Amsterdam*, the “**Enterprise Chamber**”) shortly after the announcement of the recommended offer by Tele2 Finance for all of our issued and outstanding ordinary shares and Convertible Notes (the “**Tele2 Offers**”). These proceedings were aimed at requesting an investigation into our affairs (*enquêteverzoek*). Among other things, certain of our

shareholders requested that the Enterprise Chamber appoint a number of members to our Supervisory Board to oversee transactions that we would conduct with Tele2 and/or its group companies. On 14 December 2005, the Enterprise Chamber ruled that it would appoint three independent members to our Supervisory Board. Pursuant to this ruling and the Enterprise Chamber's subsequent ruling on 21 December 2005, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel were appointed to our Supervisory Board (together they formed the "**Special Committee**") and collectively held the exclusive power to decide on any material arrangements to be concluded between us and any group companies of Tele2. See "Business – Tele2 Offers and Proceedings with the Enterprise Chamber" for a more detailed description of the Tele2 Offers and these proceedings.

On 8 December 2006, the Enterprise Chamber denied the request for an investigation into our affairs. The Enterprise Chamber found no grounds to doubt a proper policy which would justify such an investigation. As a result of the termination of the proceedings before the Enterprise Chamber, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel resigned as members of our Supervisory Board, effective as of 8 December 2006. However, in the interest of continuity in our corporate governance and with the endorsement of Tele2, they have agreed to continue to act as special advisors to us until the closing of the Acquisitions and the Offering. Consequently, we agreed not to enter into transactions with Tele2 or its group companies unless we receive the approval of Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel. In their capacity as special advisors to us, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel are herein referred to collectively as the "**Special Advisory Committee**".

On 6 February 2007, we announced that new proceedings before the Enterprise Chamber had been filed against us 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 (*enquête*). The provisional measures were aimed at prohibiting us 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 12 February 2007, we announced that the Enterprise Chamber denied the request for the provisional measures. The request for an investigation into our affairs is still pending.

Valuation Report and Fairness Opinions

In connection with the Acquisitions and to assist it in its negotiations with Tele2 with regards to the Acquisitions, the Special Committee instructed Kempen to value us, Tele2 Netherlands and Tele2 Belgium as of 30 September 2006. In its instructions to Kempen, the Special Committee requested that the transactions in effect between us and Tele2 group companies as of 30 September 2006 be taken into account for purposes of valuing us.

In addition, on 26 January 2007 the Special Advisory Committee received from Kempen and from EY TAS fairness opinions with respect to the purchase prices payable by us for each of Tele2 Netherlands and Tele2 Belgium in connection with the Acquisitions.

To obtain a copy of the valuation report that Kempen issued to the Special Committee on 5 December 2006, together with a letter by Kempen to us dated 26 January 2007, see "General Information – Available Information". Copies of the fairness opinions issued to the Special Advisory Committee by Kempen and EY TAS on 26 January 2007, are included herein beginning on page A-1 of this Prospectus.

In relation to the valuation report and the fairness opinions, the Special Advisory Committee and the Special Committee, as applicable, stress that the valuations of us, Tele2 Netherlands and Tele2 Belgium as set out in the valuation report are as per 30 September 2006 and the opinions given in the fairness opinions are based on and subject to the assumptions and the qualifications set out in the valuation report and fairness opinions, respectively. The valuation report and the fairness opinions have been issued in the context of the Acquisitions only and investors should not base any decision with respect to the SETs or the Offer Shares on any of these documents.

Risk Factors

Before investing in the SETs or the Offer Shares, prospective investors should consider carefully, together with the other information contained in this Prospectus, all of the risk factors relating to an investment in the SETs or the Offer Shares described in "Risk Factors", including the following risks:

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

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

- 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.
- 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.
- 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.
- The further development of our DSL-based services may pose significant technical and operational challenges.
- We may need to obtain additional capital in order to fund our operations and to expand our operations to take advantage of business opportunities.
- Continued negative publicity related to proceedings filed by certain of our shareholders could have a material adverse impact on our ability to win new customers.
- 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 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.
- We do not have any experience in operating in the competitive residential mobile market of The Netherlands.
- Tele2 Netherlands has a significant number of pre-paid mobile customers which we may be unable to successfully migrate to post-paid services.
- A higher than anticipated churn of Tele2 Netherlands' and Tele2 Belgium's carrier (pre)select customer base could negatively impact our business.
- Failure to renew Tele2 Netherlands' MVNO contract with Telfort could have a material impact on our financial and operating results.

- Failure to successfully and efficiently integrate the Acquisitions into our operations may adversely affect our business and financial condition.
- The pro forma financial statements included in the Prospectus are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the Acquisitions.
- If we do not adapt to the rapid technological changes in the telecommunications industry, we could lose customers or market share.
- The telecommunications industry in The Netherlands is experiencing rapid consolidation, and failure by us to participate in this consolidation could lead to market share losses and hinder our ability to compete in the long term.
- We cannot assure you that an active trading market will develop for the SETs and, if a market does develop, the SETs may be impacted by the market price of our ordinary shares.
- The Sole Global Coordinator shall not actively solicit purchasers for Rump Shares in the Rump Offering or otherwise actively market the Offering, which may adversely affect the price at which the Rump Shares are sold by us.
- Our share price may decline below the Issue Price.
- We are effectively controlled by Tele2, whose interests may differ from those of our other shareholders.
- We have a limited free float which may have an adverse effect on the liquidity, marketability and/or value of the SETs and the Offer Shares.
- In the Offer Memorandum relating to the Tele2 Offers, Tele2 and we expressed the intention of 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.
- You may experience dilution as a result of the Offering and a decrease of your ownership in us relative to our largest shareholder.
- If the closing of the Offering does not take place on the Closing Date and the Offering is withdrawn, both the exercised and unexercised SETs will be forfeited without compensation to their holders and the subscriptions for and allotments of Offer Shares that have been made will be disregarded.

Use of Proceeds

The aggregate net proceeds of the Offering, representing expected aggregate gross proceeds of €255 million less expenses, commissions and applicable taxes, if any, related to the Offering and the Acquisitions, are expected to be approximately €250 million. We intend to use €200 million of these expected net proceeds for the Acquisitions and the remaining proceeds of approximately €50 million for general corporate purposes to fund our existing operations.

Recent Changes in Management

On 12 February 2007, at a General Meeting, Mr. E.J. van Rooijen, our Chief Financial Officer, was appointed as a member of the Management Board, and Mr. J.L. Bouma, Mr. A. Olsson, and Mr. R.L. de Bakker as members of the Supervisory Board. Also at this General Meeting, Mr. H. Ringmar was appointed as a member of the Management Board and our Chief Executive Officer, subject to the resignation of our current Chief Executive Officer, Mr. P.G. Borgklint. Mr. Borgklint has indicated that he shall resign following the closing of the Acquisitions and the Offering or on 1 May 2007, whichever date occurs earliest. Mr. J.L. Bouma and Mr. R.L. de Bakker were appointed to the Supervisory Board as members who are independent of Tele2 and their appointment is subject to the closing of the Acquisition and Offering.

Mr. J. van Berne, our former Chief Development Officer and General Counsel, resigned on 1 January 2007.

On 26 January 2007, Mr. S.H. Zadler resigned from the Supervisory Board.

In addition, Messrs. J.P. Eschauzier, J.L. Bouma and P.A. Wortel have informed us that they will cease to act as members of our Special Advisory Committee upon the closing of the Acquisitions and the Offering.

Available Information

Copies of this Prospectus may be obtained at no cost by sending a request in writing, fax, or email to us at Hullenbergweg 101, 1101 CL Amsterdam Zuid-Oost, The Netherlands, attention: Investor Relations, fax number: +31 20 750 2470 or investorrelations@versatel.com or to the Subscription Agent at ING Bank N.V., Van Heenvlietlaan 220, 1083 CN Amsterdam, The Netherlands, fax number +31 20 7979 607 or iss.pas@mail.ing.nl. See "General Information". Eligible investors may also obtain copies of this Prospectus through the website of Euronext Amsterdam at <http://www.euronext.com>.

Corporate Information

We are a public company with limited liability (*naamloze vennootschap*) incorporated under the laws of The Netherlands, with our corporate seat in Amsterdam, The Netherlands. Our trade register registration number is 33272606. Our current business address is Hullenbergweg 101, 1101 CL Amsterdam Zuid-Oost, The Netherlands.

Summary of the SETs Offering and the Rump Offering

Issuer Versatel Telecom International N.V.

Ordinary Shares outstanding as of the date of this Prospectus.... 523,549,146

Number of Offer Shares to be issued..... 418,839,316

Ordinary Shares outstanding after issue of the Offer Shares.. 942,388,462

Free Float and Share

Ownership by Tele2..... As of the date of this Prospectus, the free float of our ordinary shares (measured as a percentage of our outstanding ordinary shares) is approximately 19.7% with the balance of our remaining outstanding ordinary shares held by Tele2 Finance, a wholly-owned subsidiary of Tele2. Tele2 Finance also owns all of our Convertible Notes, which are convertible as of the date of this Prospectus into an aggregate of 164,016,243 ordinary shares at a conversion price of €0.76 per share. Upon the closing of the Offering, the conversion price of the Convertible Notes shall be recalculated according to a formula set forth in the terms of the Convertible Notes which takes into account the average price of the ordinary shares, weighted by turnover, and the average value of the SETs, weighted by turnover, during the Exercise Period. As a result of this recalculation the conversion price of the Convertible Notes may decrease and the number of shares issuable upon the conversion of the Convertible Notes may increase.

The free float of our ordinary shares will not increase as a result of the Offering and may decrease in the event Tele2 Finance subscribes for Offer Shares not otherwise subscribed for in the Offering. If all of the Offer Shares were acquired by Tele2 Finance in the Offering, Tele2 Finance would own 90.5% of our outstanding ordinary shares (on a fully diluted basis and based on (i) no recalculation of the conversion price of the Convertible Notes as a result of the Offering and (ii) conversion of the Convertible Notes at their current conversion price of €0.76 per share) after the closing of the Offering.

Admission to Trading Our shares are traded on Euronext Amsterdam under the symbol “VRSA”. Application has been made to admit the SETs and the Offer Shares to trading on Euronext Amsterdam.

We expect trading of the SETs on Euronext Amsterdam to commence on or about 9.00 hours (Central European Time) on 15 February 2007 and will cease on or about 13:15 hours (Central European Time) on 28 February 2007. The SETs will be admitted to trading under the symbol “VERST”. The transfer of SETs will take place through the book-entry systems of Euroclear Nederland, Euroclear and Clearstream Luxembourg.

If you are an Eligible Person and want to sell some or all of your SETs, you should instruct your financial intermediary in accordance with the instructions that it gives you. Eligible Persons may also instruct their financial intermediary to purchase SETs on their behalf.

Persons interested in selling or purchasing SETs should be aware that the sale, purchase or exercise of SETs by persons who are located in countries other than The Netherlands are subject to restrictions as described in “Selling and Transfer Restrictions”.

We expect trading of the Offer Shares on Euronext Amsterdam to commence on 6 March 2007.

Offering	The Offering comprises 418,839,316 new ordinary shares, with a nominal value of €0.02 each, which are being offered as described in this Prospectus.
Pre-emptive Rights	The statutory pre-emptive rights (<i>voorkeursrechten</i>) of holders of our outstanding ordinary shares have been excluded with respect to the Offering.
Voting Rights	Each ordinary share entitles the holder to cast one vote at each General Meeting.
Issue Price	€0.61 per Offer Share.
SETs	<p>Subject to applicable securities laws, our shareholders as of the Record Date who qualify as Eligible Persons are being granted SETs through the SETs Offering to subscribe for Offer Shares at the Issue Price in amounts <i>pro rata</i> to their shareholdings. Each ordinary share that a shareholder who qualifies as an Eligible Person holds immediately after the close of trading on Euronext Amsterdam on the Record Date will entitle it to one SET. Eligible Persons (whether a shareholder of ours as of the Record Date or a subsequent transferee of SETs) will be entitled to subscribe for 4 Offer Shares for every 5 SETs held. SETs can only be exercised in multiples of 5. No fractional shares will be issued.</p> <p>Shareholders as of the Record Date that are not Eligible Persons (each an “Ineligible Person”) shall not be granted SETs and Offer Shares will not be offered or sold to such persons. A financial institution may not acknowledge the receipt of any SETs, and we reserve the right to treat as invalid the exercise, purported exercise or transfer of any SETs, which may involve a breach of the laws or regulations of any jurisdiction or if we believe, or our agents believe, that the same may violate applicable legal or regulatory requirements or may be inconsistent with the procedures and terms set out in this Prospectus or in breach of the representations and warranties to be made by an accepting holder, as described in “Selling and Transfer Restrictions – Representations and Warranties by Investors in the SETs Offering and the Rump Offering”.</p>
Record Date	The Record Date is immediately after the close of trading in our ordinary shares on Euronext Amsterdam at 17:40 hours (Central European Time) on 14 February 2007. Until the close of trading in our ordinary shares on Euronext Amsterdam on the Record Date, our ordinary shares will trade together with SETs. As from 15 February 2007, our ordinary shares will trade ex-SETs.
Exercise of SETs	Eligible Persons (whether a shareholder of ours as of the Record Date or a subsequent transferee of SETs) with SETs may subscribe for Offer Shares at the Issue Price by exercising their SETs during the Exercise Period, which commences on 15 February 2007 and ends at 15:30 hours (Central European Time) on 28 February 2007. The last date and/or time before which notification of exercise instructions may be validly given by an Eligible Person may be earlier, depending on the financial institution through which SETs are held. Once an Eligible Person has exercised its SETs, it may not revoke or modify that exercise, except as otherwise described herein in the section of this Prospectus entitled “The Offering – SETs Offering – Exercise Period”. If an Eligible Person has not exercised its SETs before the end of the Exercise Period, it will no longer be able to exercise its SETs.
Subscription Agent	ING Bank N.V. is the Subscription Agent for the SETs Offering.

Subscription..... The financial institution through which a shareholder who is an Eligible Person holds its existing ordinary shares will customarily inform such shareholder of the number of SETs to which it is entitled. If you are an Eligible Person and you wish to exercise your SETs, you should instruct your financial intermediary in accordance with the instructions that you receive from it. Your financial intermediary will be responsible for collecting exercise instructions from you and for informing the Subscription Agent of your exercise instructions.

Method of Payment You should pay the Issue Price for the Offer Shares that you subscribe for in accordance with the instructions you receive from the financial intermediary through which you exercise your SETs. The financial intermediary will pay the Issue Price to the Subscription Agent, who will in turn pay it to us. Payment for the Offer Shares to the Subscription Agent must be made no later than the Payment Date, which is expected to be 5 March 2007. Accordingly, financial intermediaries may require payment by you to be provided to them prior to the Payment Date.

Unexercised SETs and the Rump Offering..... SETs can no longer be exercised after 15:30 hours (Central European Time) on 28 February 2007, at which time the Exercise Period expires. At that time, any unexercised SETs will continue to be reflected in the securities account of each holder of unexercised SETs solely for the purpose of the payment of the Excess Amount (as defined below), if any. The Offer Shares not subscribed for through the exercise of the SETs are referred to in this Prospectus as the Rump Shares.

After the Exercise Period has ended, the Rump Shares will be available for subscription in a private placement with institutional and professional investors in The Netherlands and elsewhere facilitated by ING Bank N.V. as the Sole Global Coordinator. The Rump Offering will be subject to the terms and conditions of the Share Placement Agreement between us and the Sole Global Coordinator dated 14 February 2007 and the price per Offer Share in the Rump Offering will be at least equal to the total of €0.70 and any selling expenses related to such private placements (including any VAT). References herein to the “Offer Shares” include the Rump Shares. The Sole Global Coordinator shall not actively solicit purchasers for the Rump Offering or otherwise actively market the Offering. The Rump Offering is expected to commence on 1 March 2007, and to end no later than 17:30 hours (Central European Time) on 1 March 2007. Any Offer Shares not subscribed and paid for through the exercise of SETs in the Offering or placed in the Rump Offering will be acquired by Tele2 Finance at a price of €0.70 per Offer Share. See “The Offering”.

After the Exercise Period has ended, we will announce the results of the SETs Offering by means of a press release. After the Rump Offering has ended, we will announce the results of the Rump Offering by means of a press release, including the aggregate number of Offer Shares subscribed and paid for, the recalculated conversion price of the Convertible Notes and the percentage of ordinary shares that Tele2 Finance owns on a fully diluted basis, assuming conversion of the Convertible Notes.

Excess Amount Upon the completion of the Rump Offering, the excess of (A) the aggregate of (i) the proceeds for the Rump Shares placed in the Rump Offering and (ii) the proceeds for the Rump Shares placed with Tele2 Finance pursuant to the Commitment Agreement, after deduction of selling expenses (including any VAT), over (B) the product of (x) €0.61 multiplied by (y) the total number of Rump Shares (such amount, the “**Excess Amount**”), will be paid in the following manner:

- each holder, who is an Eligible Person, of a SET that was not exercised at the end of the Exercise Period will be entitled to receive a part of the Excess Amount in cash proportional to the number of unexercised SETs reflected in such holder's securities account; and
- each Ineligible Person which held our ordinary shares as of the Record Date (assuming compliance by such Ineligible Person with the selling and transfer restrictions described in this Prospectus) will be entitled to receive a part of the Excess Amount in cash proportional to the number of SETs that such shareholder would have been granted but for such shareholder's status as an Ineligible Person.

The Excess Amount will be paid as soon as practicable after the Closing Date and will be credited through the facilities of Euroclear Nederland, Euroclear and Clearstream Luxembourg. Payments will be made in Euro only, without interest and after the withholding of any applicable taxes. If we have announced that an Excess Amount is available for payment and you have not received payment therefore within a reasonable time following the closing of the Offering, you should contact the financial intermediary through which you hold unexercised SETs (if you are an Eligible Person) or ordinary shares (if you are an Ineligible Person and are entitled to the Excess Amount).

We cannot guarantee you that the Rump Offering will be successfully completed. Should the Rump Offering take place, neither we, the Sole Global Coordinator, Tele2 Finance, nor any person subscribing for Rump Shares will be responsible for any lack of Excess Amount arising from any placement of the Rump Shares in the Rump Offering.

Sole Global Coordinator ING Bank N.V. will act as the Sole Global Coordinator in respect of the Offering.

Subscription for Offer Shares by Tele2 Finance Our largest shareholder, Tele2 Finance, has agreed to (i) exercise the SETs granted to it in the SETs Offering at the Issue Price and (ii) acquire any Offer Shares which are not placed in the Rump Offering at a price of €0.70 per Offer Share, subject to the terms and conditions of the Commitment Agreement. As a result of this commitment, the percentage of our outstanding ordinary shares owned by Tele2 Finance will not decline as a result of the Offer and may increase in the event it acquires ordinary shares not placed in the Rump Offering.

Allotment of Offer Shares Allotment of the Offer Shares is expected to take place on 1 March 2007.

Payment Date Payment for and delivery of the Offer Shares is expected to take place on 6 March 2007 (the "**Payment Date**").

Listing and Paying Agent ING Bank N.V. is the Listing and Paying Agent for our ordinary shares.

Conditions to the Offering The closing of the SETs Offering and the Rump Offering is conditional upon the fulfilment of a number of conditions precedent. See "The Offering – Conditions Precedent to the Offering". If any of these conditions are not met or are not waived by the Closing Date, the Sole Global Coordinator may, in its sole discretion, terminate the SETs Offering and Rump Offering. In such event, the SETs Offering and the Rump Offering will be withdrawn and both the exercised and unexercised SETs will be forfeited without compensation to their holders and the Offer Shares will not be offered or allocated. Any subscription payments received by us will be returned without interest. Any such forfeiture of SETs will be without prejudice to the validity of any settled trades in the SETs. There will be no refund in respect of any SETs purchased in the market.

Codes for SETs..... Amsterdam Security Number: 39980
ISIN: NL0000399806
Common Code: 028773099
Euronext Amsterdam symbol: VERST

**Codes for Ordinary Shares
(including the Offer Shares)** Amsterdam Security Number: 39126
ISIN: NL0000391266
Common Code: 009963111
Euronext Amsterdam symbol: VRSA

Ranking and Dividends The Offer Shares will, upon issue, rank equally in all respects with our currently outstanding ordinary shares and will be eligible for any dividends which we may declare on our ordinary shares in the future. See “Dividends and Dividend Policy.”

Selling and Transfer

Restrictions We are not taking any action to permit a public offering of the SETs or the Offer Shares in any jurisdiction outside The Netherlands. The SETs and the Offer Shares have not been and will not be registered under the Securities Act and may not be offered, granted, issued, sold, pledged, taken up, delivered, renounced, or transferred in or into the United States.

The SETs are being granted only to shareholders that qualify as Eligible Persons and the Offer Shares are being offered by us only pursuant to Regulation S and only in those jurisdictions in which, and only to those persons to whom, granting of the SETs and offers and placement of the Offer Shares (pursuant to the exercise of SETs or otherwise) may lawfully be made.

Except under the limited circumstances described in this Prospectus (see “Selling and Transfer Restrictions”), if you reside in any country other than The Netherlands, you may not be permitted to exercise any SETs in the Offering, purchase or otherwise acquire SETs or purchase any Rump Shares in the Rump Offering. You may be permitted, however, to sell your SETs, subject to applicable securities laws. You may also be permitted to hold unexercised SETs and receive a payment of the Excess Amount (if any).

Holders of SETs who exercise or trade their SETs or persons who purchase SETs will be deemed to have made the representations and warranties set out under “Selling and Transfer Restrictions”.

We and the Sole Global Coordinator reserve the right to treat as invalid any exercise, purported exercise or transfer of SETs in the Offering that appears to us to have been executed, effected, or dispatched in a manner which may involve a breach of the laws or regulations of any jurisdiction or if we believe that the same may be inconsistent with the procedures and terms set out in this Prospectus or in breach of the representations and warranties to be made by an accepting holder, as described herein.

RISK FACTORS

Before investing in the SETs or the Offer Shares, prospective investors should consider carefully the following risks and uncertainties in addition to the other information presented in this Prospectus. If any of the following risks actually occurs, our business, results of operations, financial condition or prospects could be materially adversely affected. In that event, the value of the SETs or the Offer Shares could decline, and you may lose part or all of your investment. The risks and uncertainties described below are those that we believe are material, but these risks and uncertainties are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also have a material adverse effect on our business, results of operations, financial condition or prospects and could negatively affect the price of the SETs or the Offer Shares.

Prospective investors should carefully review the entire Prospectus and should reach their own views and decisions on the merits and risks of investing in the SETs or the Offer Shares in light of their own personal circumstances. Furthermore, investors should consult their financial, legal and tax advisors to carefully review the risks associated with an investment in the SETs or the Offer Shares.

Risks Related to Our Business

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 nine month period ended 30 September 2006, we had a net loss from continued operations of €80.5 million. For the years ended 31 December 2005 and 31 December 2004 (on a comparable basis, excluding our German operations which were sold in October 2005), we had a net loss from continued operations of €47.2 million and €0.4 million, respectively. In addition, we had an accumulated deficit of €1,686 million as of 30 September 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 urge potential investors to review our consolidated financial statements before making a decision to invest in us.

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 “Business – Tele2 Offers and Proceedings with the Enterprise Chamber” for a more detailed description of these proceedings and their status as of the date of the Prospectus. The Enterprise Chamber ruled on 8 December 2006 that the request for an investigation into our affairs was denied. However, this ruling is still subject to the Petitioning Shareholders filing an appeal with the Supreme Court. On 6 February 2007, we announced that a new request for an investigation into our affairs had been filed. This 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 Management Board, our Supervisory Board, and our General Meetings 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 11 September 2006 certain of our shareholders filed a claim against us with the District Court in Amsterdam relating to certain resolutions of our General Meeting held on 29 September 2005, including, but not limited to, the sale of our German business and a distribution to our shareholders of approximately €728.6 million. Should this claim be awarded, the outcome of these proceedings may ultimately be that certain resolutions of our General Meeting held on 29 September 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 “Business – 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 €63.1 million in total capital expenditures in the nine month period ended 30 September 2006 in The Netherlands. These expenditures are primarily directly related to signing up new customers. 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. See "Business – Recent Developments" for additional details regarding certain of these departures. We rely to a significant extent on the abilities and experience of our senior management. The impact of the departure of any member of our senior management will, in part, depend on our

ability to recruit a replacement with similar experience and credibility. In addition, the impact of the departure of more than one member of senior management within a relatively short time frame may affect the continuity of our management and result in the diversion of our management's focus. The departures of several members of our senior management in 2006 and 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 the 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 have begun 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.

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 softswitch, media farm and customer premises equipment (including set-top-boxes and multimedia modems). If Samsung fails to continue to timely deliver a quality product, this could seriously impact the continued rollout of our triple-play products.

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

We have entered into contracts with several large customers with respect to our business products and service offerings. In 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 other than the Commitment Agreement with Tele2 Finance. 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 and Belgium. 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 proceed with the acquisition of Tele2 Netherlands and Tele2 Belgium as proposed, or if we do not otherwise 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 additional 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 (such as 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 6 June 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 1 February 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 1 January 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 a retroactive effect as of 6 June 2003 (the date of the two decisions of the Dutch Supreme Court). For the period prior to 6 June 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 6 June 2003 may also result in the annual levying of municipal real estate tax (*onroerende zaakbelasting*) 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 1 January 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 (*precario heffing*) 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 tangible 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 tangible 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. We intend to move our corporate headquarters to the new building in Diemen by the end of the first quarter of 2007. 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.

Risks Related to the Acquisitions

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. Generally, the mobile phone market in The Netherlands is saturated and therefore future growth is dependent to a significant extent 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 business of the residential mobile business that we intend to acquire pursuant to the Acquisitions 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 to-be-acquired 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.

Tele2 Netherlands has a significant number of pre-paid mobile customers which we may be unable to successfully migrate to post-paid services.

Tele2 Netherlands has a significant number of pre-paid mobile customers which we intend to migrate to post-paid contracts. We consider post-paid contracts more favorable as customers become subject to a contractual commitment and monthly revenues from mobile services become more easily ascertained. There is no guarantee that we will be able to successfully achieve this migration, and our efforts may lead to higher than anticipated levels of customer churn. A high rate of customer churn may result in a loss of revenue and otherwise adversely impact our business due to the costs of adding new subscribers. This addition generally includes a commission expense and/or a handset subsidy, which may have a material adverse effect on our business and results of operations.

A higher than anticipated churn of Tele2 Netherlands' and Tele2 Belgium's carrier (pre)select customer base could negatively impact our business.

Carrier (pre)select is 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. Tele2 Netherlands and Tele2 Belgium have a significant carrier (pre)select customer base which we aim to migrate to our next generation-net services. Our on-net service customers are directly connected to our network and are generally more profitable than carrier (pre)select customers. Due to technological developments, such as VoIP services, revenues from carrier (pre)select products have declined as customers have migrated to alternative products. If these (pre)select businesses experience faster than anticipated customer churn or we are unable to effectively manage this customer churn, our efforts to migrate these customers to an on-net solution, including VoIP services, may become more difficult and may not be successful. A high rate of customer churn may result in a loss of revenue and otherwise adversely impact our business as the costs of adding new subscribers, which generally includes a commission expense, may significantly impact our profitability.

In particular with respect to the Belgian market, Tele2 Belgium is currently suffering from the "Happy Time" product offering of Belgacom. This product, given the price levels used by Belgacom, makes it impossible for Tele2 Belgium to offer its own telephony products at a discount to Belgacom's telephony products. If Tele2 Belgium is unable to have the Happy Time offering prohibited in the Belgian market, this may have a material adverse effect on our business and results of operations. See "Acquisition of Tele2 Netherlands and Tele2 Belgium – Tele2 Belgium – Legal Proceedings".

Failure to renew Tele2 Netherlands' MVNO contract with Telfort could have a material impact on our financial and operating results.

Tele2 Netherlands does not own the networks it uses to provide its mobile services but rather it relies on mobile network operators to carry its communications traffic on their networks. Currently Tele2 Netherlands relies exclusively on a MVNO contract with Telfort, a Dutch mobile telecommunications provider and a wholly-owned subsidiary of KPN, our largest competitor in The Netherlands, to provide its customers with mobile services. The MVNO contract expires by its terms in 2009.

If (i) we are unable to renew Tele2 Netherlands' MVNO contract with Telfort on commercially acceptable terms and it is terminated or (ii) Telfort fails to provide services as required by the MVNO contract and (in each case) if we are unable to obtain replacement services on a timely and commercial basis (e.g., due to a lack of capacity on other mobile network operators networks), our business and results of operations may be adversely affected.

Failure to renew this contract or find a comparable solution with another operator in The Netherlands could result in Tele2 Netherlands not being able to offer mobile services to its customers.

Even if we are able to find replacement services, these may be provided on terms less favorable than those under the current MVNO contract with Telfort. Additionally, our ability to continue to offer services to our customers may be impaired because we will remain somewhat dependent on assistance from Telfort to migrate our customers to one or more other mobile network operators. If Telfort does not provide the necessary termination or migration assistance in the manner which we require, our ability to provide services following termination of the MVNO contract, and during any post-termination service and migration assistance period, may be seriously prejudiced.

There is a risk that the churn rate for these customers would increase materially if we were to seek to migrate a significant number of such customers to alternative mobile network operators. We may incur substantial costs associated with implementing strategies to reduce our churn rate in such circumstances, such as making special offers available. In addition, there may be technical and other implementation constraints and risks associated with such a large migration.

Failure to successfully and efficiently integrate the Acquisitions into our operations may adversely affect our business and financial condition.

The Acquisitions may be costly and risky and may not be successfully or efficiently integrated with our operations. Challenges that we face in integrating the Acquisitions into our operations include, amongst others:

- difficulties in integrating the Acquisitions into our management and reporting structure;
- the possibility that we will not be able to sell additional services to the current customers of Tele2 Netherlands and Tele2 Belgium;
- the possibility that we will be unable to retain key staff members and customers from the Acquisitions;
- the potential disruption of our ongoing business and the strain placed on our management, administrative, operational and financial resources;
- maintenance of appropriate standards, controls, procedures and policies;
- the failure to discover liabilities for which we may be responsible as a successor owner or operator;
- diversion of our management's attention away from other business concerns;
- the possibility that the acquired businesses may not achieve the projected levels of revenue, profitability or productivity; and
- the possibility that we may not achieve the synergies that we anticipated achieving.

We may not be able to overcome these or other challenges, and the Acquisitions may have a material adverse effect on our business and results of operations.

The pro forma financial statements included in the Prospectus are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the Acquisitions.

The pro forma financial statements contained in this Prospectus are presented for illustrative purposes only and may not be an indication of our financial condition or results of operations following the Acquisitions for several reasons. The pro forma financial statements have been derived from our unaudited historical consolidated financial statements for the nine month period ended 30 September 2006 as well as those of Tele2 Netherlands and Tele2 Belgium, and certain adjustments and assumptions have been made regarding our combined operations after giving effect to the Acquisitions. The information upon which these adjustments and assumptions have been made is preliminary, and these kinds of adjustments and assumptions are difficult to make with complete accuracy. Moreover, the pro forma financial statements may not reflect all costs that are expected to be incurred by us in connection with the Acquisitions. For example, the impact of any incremental costs incurred in integrating the operations of Tele2 Netherlands and Tele2 Belgium is not reflected in the pro forma financial statements. In addition, we have not yet performed the full analysis needed for the allocation of goodwill resulting from the

Acquisition, which allocation may result in a larger than anticipated negative effect from future depreciation. As a result, our actual financial condition and results of operations following the Acquisitions may not be consistent with, or evident from, these pro forma financial statements.

The assumptions used in preparing the pro forma financial information may not prove to be accurate, and other factors may affect our financial condition or results of operations following the Acquisitions. Any potential decline in our financial condition or results of operations may cause significant variations in our stock price.

Risks Associated with Our Industry

Changes in existing policies or regulations by the European Union or local authorities could materially adversely affect our operations and financial results.

Our industry is subject to a significant degree of regulation. Changes in existing policies or regulations by the European Union or local authorities could materially adversely affect our operations and financial results, particularly if those policies impose additional costs, either in the form of direct costs or additional compliance obligations. Future changes in legislation might make it more difficult for us to obtain services from other operators at competitive rates or restrict its access to systems and services necessary for our business. In addition, legislation to enhance competition or to encourage the provisions of certain services may permit new or existing competitors to operate under advantageous circumstances.

Obstacles associated with the effective implementation of liberalization legislation in the European telecommunications markets may adversely affect our business.

The European telecommunications industry is subject to a significant degree of regulation. The EU Member States were required to implement a number of EU Directives that relate to a further liberalization of the telecommunications markets within their national legislation. Although most of the EU Member States have by now implemented the EU Directives, the application of the respective national telecommunications legislation remains unclear. In addition, the enforcement of the implemented EU Directives has been less effective in certain EU Member States, including those Member States in which we operate. This has come as a result of such Member States' failure to provide adequate powers to their national regulatory authorities. Our operations may also be affected by varying levels of enforcement of these EU Directives by different national regulatory authorities. The potential obstacles associated with the effective implementation of liberalization legislation have had, and may continue to have, a material adverse effect on our ability to expand our telecommunications network and customer base.

We may encounter strong competition from dominant market participants and new entrants which may adversely affect our business.

The telecommunications industry is a very competitive market that is subject to both the continued dominance of the incumbent national operators (i.e. KPN in The Netherlands and Belgacom in Belgium) and the arrival of new entrants. Several new entrants have been forced into bankruptcy or have otherwise withdrawn from the market partially due to significant competitive advantages incumbent national operators maintain over other market participants. These include:

- cost advantages as a result of economies of scale;
- greater financial resources, market presence, and network coverage;
- greater brand name recognition, customer loyalty, and goodwill;
- control over domestic transmission lines and control over the access to these lines by other participants; and
- national regulatory authorities of governments that currently own a majority stake in incumbent national operators (i.e. Belgacom) or until recently owned a significant stake in such national operators (i.e. KPN) and that may be reluctant to adopt policies that would adversely affect the competitive position of such national operators.

Historically, our policy in this competitive environment has been to price our products and services at a discount to the incumbent national operators and to offer high-quality customer service, products and services. However, the prices of data services in most of our markets have decreased substantially, and our larger competitors have used their greater financial resources to create severe price competition.

Our competition in The Netherlands and Belgium also comes from market entrants, including BT, COLT Telecom, Wanadoo, Verizon, and other internet-based competitors (i.e. Skype). Sustained price competition could have a material adverse effect on our business and our financial and operating results. In addition, following our offering of video and television services, we have entered the core market of cable and satellite companies where competition is also fierce.

In addition, as other participants in the telecommunications industry find competition more difficult, specifically related to obtaining capital that enables the provisioning of next generation services, there is a chance that some of our competitors could be sold, which may increase the competition we face.

The introduction of new products and services will continue to lead to the entry of new competitors in our markets.

The rapid technological evolution in the telecommunications industry has led to the introduction of new products and services, particularly those related to the provision of video/television services. Many companies that are not traditional telecommunication companies, such as cable companies and internet-focused businesses, are now offering not only their traditional products, but a combination of voice, internet and video/television products.

Many of these new competitors are larger and better capitalized than us, thereby providing them with potential advantages in terms of capturing market share or developing new technologies. In addition, the cable and internet industries have traditionally been subject to less regulation than traditional telecommunications companies and this regulatory flexibility may allow our competitors greater and more rapid access to markets and new products. Pending changes to the regulation of the cable industry may serve to increase competition in our existing markets as cable networks may be opened to a variety of service providers.

This increased competition could impact our ability to gain new customers and the prices of our services. A failure by us to effectively compete with new market entrants may have a material adverse effect on our business and results of operations.

If we do not adapt to the rapid technological changes in the telecommunications industry, we could lose customers or market share.

The telecommunications industry is in a period of rapid technological evolution, marked by the introduction of new products and services, increased availability of transmission capacity, and increased utilization of internet-based technologies for voice, data, video/television and other media services. Our success will depend substantially on our ability to predict which of the many current and future network products and services will ultimately be successful. In particular, as we further expand and develop our network, we will become increasingly exposed to the risks associated with the relative effectiveness of our technology and equipment. The cost of implementation of emerging and future technologies, such as technologies relating to our DSL-based services, IP-based services, and potentially new technologies such as VDSL and WiMax and other wireless technology services, could be significant. There can be no assurance that we will select appropriate technology and equipment or that we will obtain appropriate new technology on a timely basis or on satisfactory terms. Failure by us to anticipate these technological changes may adversely affect our ability to offer competitive products and services, the viability of our operations, and our ability to gain or maintain market share.

Innovation in the telecommunications industry also affects the value of networks and other assets. Unanticipated reductions in the value of our assets may result as technological advances render existing equipment obsolete or uneconomic. Material replacement of such assets may become necessary and this could have an adverse impact on the value of our assets and on our operating results.

The telecommunications industry in The Netherlands is experiencing rapid consolidation, and a failure by us to participate in this consolidation could lead to market share losses and hinder our ability to compete in the long term.

In The Netherlands there has been significant merger and acquisition activity over the last twelve months in the telecommunications industry that has been driven by (i) KPN in an effort to solidify their control of The Netherlands' telecommunications market and (ii) the cable industry as a result of the combination of Essent Kabelcom, Casema and Multikabel, which will form the largest cable operator in The Netherlands. We expect consolidation within the telecommunications industry to continue which may create additional or stronger competitors and may intensify competition. There can be no assurance that we will be able to compete successfully against other companies and conglomerates, like KPN, that provide similar telecommunications services or that we will be able to maintain acceptable margins in the competitive environment in which we operate. Our competitors may have significantly more financial and operational resources or regulatory advantages over us that allow them to more easily gain market share through consolidation. If we are not able to participate in our industry consolidation, our ability to compete effectively or maintain acceptable margins may be adversely impacted. This could lead to loss of revenue or profitability, loss of market share, or the inability to gain market share. This may have a material adverse effect on our business and results of operations and could lead to a decline in the market price of our ordinary shares.

The emergence of mobile communications has led to fears for fixed-line operators of increasing "fixed to mobile" substitution, whereby calls that would previously have been made over the fixed-line network are now being made on mobile telephones. This "fixed to mobile" substitution could have a material impact on our business.

During 2005 and for the nine month period ended 30 September 2006, the majority of our revenue was generated by voice traffic over our fixed-line infrastructure. As mobile communications become less expensive and more reliable, customers can be expected to exchange their fixed-line for a mobile solution, resulting in a potential loss of revenue for fixed-line operators. Failure by us to adapt to industry trends such as "fixed to mobile" substitution could have a material impact on our business and our financial and operating results.

We are dependent on our competitors and third parties to provide our customers with access to our network.

We do not own our entire telecommunications transmission infrastructure that we presently use to connect our customers to our own network. We use the telecommunications transmission infrastructure of other carriers in The Netherlands and Belgium, and we depend heavily on interconnection agreements with these carriers to connect our customers to our own network. Most of these carriers are our competitors. Our profitability significantly depends on our ability to achieve access, on a timely basis and at attractive rates, to the facilities of our competitors, who may try to limit such access. The expansion of our DSL-based services also depends heavily upon access to central office facilities and existing copper infrastructure controlled by KPN or Belgacom, as applicable. There can be no assurance that these companies will cooperate and give us access to their networks in a timely fashion in the future.

In addition, a portion of our network consists of both IRUs and transmission agreements. 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 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.

Our dependence on third parties to provide our customers with access to our network makes it susceptible to price fluctuations, service disruptions, and cancellations that are outside of our control. These service disruptions historically have resulted in the loss of some customers and could result in customer losses in the future. Such disruptions may occur from time to time in the future. Interconnection rates also fluctuate and may be increased as a result of cost increases by the dominant providers.

The recent challenging environment in our industry could continue to have a material adverse effect on our business and financial and operating results.

In the past several years, European telecommunications companies, including ourselves, have faced a challenging market environment due to a variety of factors including, but not limited to, increased competition, significant technological changes that have changed the way traditional telecommunications services have been delivered,

and constraints on new entrants' ability to raise capital following the telecommunications market downturn in 2000-2002. As a result, many alternative telecommunication companies have not achieved their financial and operating goals and have been unable to obtain additional financing. Accordingly, many of these companies are seeking to exit core and non-core markets or scale back their business plans to more reasonable levels in light of the current trading environments. They have also sought to reduce the level of their indebtedness or find bankruptcy protection. If the European telecommunications market environment continues to be challenging, our business and our financial and operating results could be materially adversely affected as a result of this environment, including as a result of increased competition from consolidation and difficulty in obtaining additional financing.

Risks Related to the SETs and the Offer Shares

We cannot assure you that an active trading market will develop for the SETs and, if a market does develop, the SETs may be impacted by the market price of our ordinary shares.

We intend to set a trading period for the SETs on Euronext Amsterdam from 15 February 2007 until 13:15 (Central European Time) on 28 February 2007. Prior to the Offering there has been no market for the SETs. We cannot assure you that an active trading market in the SETs will develop on Euronext Amsterdam during that period or in the future. Additionally, because the trading price of the SETs depends on the trading price of our ordinary shares, the factors described below in “– Our share price may decline below the Issue Price,” may impact the value of the SETs.

The Sole Global Coordinator will not actively solicit purchasers for Rump Shares in the Rump Offering or otherwise actively market the Offering, which may adversely affect the price at which the Rump Shares are sold by us.

Pursuant to the terms of the Share Placement Agreement, the Sole Global Coordinator shall not actively solicit purchasers for the Rump Shares in the Rump Offering or otherwise actively market the Offering but instead it will only facilitate the subscription of Rump Shares. This arrangement may result in the per share subscription price per Rump Share to be lower than if we had engaged the Sole Global Coordinator to actively market the Rump Shares to new investors in us. A lower subscription price for the Rump Shares may adversely affect the amount of any Excess Amount as well as the trading price of our ordinary shares.

Our share price may decline below the Issue Price.

The market price of our ordinary shares at the time of the SETs Offering may not be indicative of the market price for our ordinary shares after such offerings are completed. Factors other than our financial and operational results that may affect the price of our ordinary shares include, but are not limited to, the following:

- changes in estimates of our financial performance by securities analysts;
- conditions or trends in the telecommunications sectors or the region in which we operate;
- announcements by us or our competitors relating to significant mergers and/or acquisitions (including, without limitation, the Acquisitions, strategic alliances, joint ventures or their termination, or of sales of interests in subsidiaries or joint ventures, or of the exchange of assets and activities; and
- sales of ordinary shares by any of our shareholders ordinary shares, especially as the level of trading in our ordinary shares is limited.

We cannot assure you that the market prices of our ordinary shares will not decline below the Issue Price. Should this occur after you have exercised your SETs, the exercise of which cannot be revoked or modified except as described in “The Offering – SETs Offering – Exercise Period”, you will suffer an immediate unrealized loss as a result. Moreover, we cannot assure you that, following the exercise of SETs, you will be able to sell your ordinary shares at a price equal to or greater than the Issue Price.

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

As of the date of this Prospectus, Tele2 holds through its wholly-owned subsidiary, Tele2 Finance, an aggregate of 420,332,560 of 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 the date of this Prospectus into an aggregate of 164,016,243 of our ordinary shares at a conversion price of €0.76 per share. Following the completion of the Offering Tele2 may increase its ownership of ordinary shares pursuant to its commitment to acquire Offer Shares not otherwise purchased in the Rump Offering and/or elect to convert the Convertible Notes. In addition, as a result of the Offering the conversion price of the Convertible Notes will be recalculated and any downward adjustment in the conversion price will result in an increase in the number of our ordinary shares issuable upon conversion of the Convertible Notes. Because we are effectively controlled by Tele2, any action we take is subject to 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 institute proceedings against our other shareholders for a transfer of their shares to such shareholder (see “Description of Share Capital and Corporate Governance – Squeeze Out Procedures”).

As well as Tele2’s indirect majority ownership, our current Chief Executive Officer Mr. Borgklint, as well as three of the five current members of our Supervisory Board, are part of Tele2’s senior management. In addition, our future Chief Executive Officer Mr. Ringmar was a part of Tele2’s senior management prior to his appointment to our Management Board. 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 favoured 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.

If you do not properly and timely exercise your SETs, you will not be able to exercise those SETs and consequently, you may not receive any compensation for your unexercised SETs.

The Exercise Period for the SETs commences on 15 February 2007 and expires at 15:30 (Central European Time) on 28 February 2007. Eligible Persons and, if applicable, financial intermediaries acting on their behalf, must act promptly to ensure that all required exercise instructions and certificates are actually received by the Subscription Agent before the expiration of the Exercise Period. If you are an Eligible Person and you or your financial intermediary fail to correctly follow the procedures that apply to the exercise of your SETs, we may reject your exercise of SETs, depending on the circumstances. If an Eligible Person fails to validly exercise its SETs, such SETs will continue to be reflected in its securities account only for the purpose of the payment of the Excess Amount, if any. We cannot assure you, however, that there will be an Excess Amount for distribution to holders of unexercised SETs. For additional information, see “The Offering.”

We have a limited free float which may have an adverse effect on the liquidity, marketability and/or value of the SETs and the Offer Shares.

Tele2’s wholly-owned subsidiary, Tele2 Finance, currently holds an aggregate of 420,332,560 of our ordinary shares, representing 80.3% 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. Tele2 Finance has agreed to exercise all of the SETs allocated to it as a shareholder in the SETs Offering. If any of the Offer Shares which are not otherwise subscribed and paid for in the SETs Offering are acquired by it pursuant to the Commitment Agreement, the percentage of our ordinary shares not held by Tele2 Finance would be further reduced. If all of the Offer Shares were acquired by Tele2 Finance in the Offering, Tele2 Finance would own 90.5% of our outstanding ordinary shares (on a fully diluted basis and based on (i) no recalculation of the conversion price of the Convertible Notes as a result of the Offering and (ii) conversion of the Convertible Notes at their current conversion price of €0.76 per share) after the closing of the Offering. There can be no assurance that any such further reduction of our free float following the Offering would not have an adverse effect on the liquidity or marketability of the Offer Shares and any such reduction may adversely impact your ability to sell any Offer Shares at a desirable price.

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 intentions, and whether or not they may be successful depends on a number of factors that, as of yet, cannot be fully assessed.

You may experience dilution as a result of the Offering and a decrease of your ownership in us relative to our largest shareholder.

The value of your ordinary shares may be diluted upon completion of the Offering if you are an Ineligible Person and are not eligible to be granted and exercise SETs or if you are an Eligible Person and do not exercise your SETs by the end of the exercise period at 15:30 hours (Central European Time) on 28 February 2007. Tele2 Finance, our largest shareholder, has agreed to exercise all of the SETs allocated to it as a shareholder in the SETs Offering and has also agreed to acquire any Offer Shares not placed in the Rump Offering. In addition, as a result of the Offering the conversion price of the Convertible Notes owned by Tele2 Finance will be recalculated and any downward adjustment in the conversion price will result in an increase in the number of our ordinary shares issuable upon conversion of the Convertible Notes. If you do not, or are unable to, participate in the SETs Offering or the Rump Offering, you may experience dilution of your holdings and a decrease of your ownership in us relative to Tele2 Finance and this dilutive impact on your holdings may be increased if the conversion price of the Convertible Notes is adjusted downwards as a result of the Offering.

If the closing of the Offering does not take place on the Closing Date and the Offering is withdrawn, both the exercised and unexercised SETs will be forfeited without compensation to their holders and the subscriptions for and allotments of Offer Shares that have been made will be disregarded.

The closing of the Offering is scheduled to take place on or about 6 March 2007. The closing of the Offering may not take place on such date or at all if certain conditions or events referred to in the Share Placement Agreement or the Commitment Agreement are not satisfied or waived or occur on or prior to such date (see “The Offering-Conditions Precedent to the Offering”). If the closing of the Offering does not take place on the Closing Date, the SETs Offering and the Rump Offering may be withdrawn. In such an event, both the exercised and unexercised SETs will be forfeited without compensation to their holders and subscriptions for and allotments of Offer Shares that have been made will be disregarded. Any subscription payments received by us will be returned, without interest. Any such forfeiture of SETs will be without prejudice to the validity of any settled trades in the SETs. There will be no refund in respect of any SETs purchased in the market. All dealings in SETs and Offer Shares prior to the closing of the Offering are at the sole risk of the parties concerned. Euronext Amsterdam does not accept any responsibility or liability by any person as a result of the withdrawal of the Offering or (the related) annulment of any transactions on Euronext Amsterdam.

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 Management Board, pursuant to a delegation of authority by the General Meeting in effect until 18 May 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, if our Management Board, after approval of our Supervisory Board, 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.

Failure to close the Acquisitions and the Offering could negatively impact our share price and financial results.

On 25 January 2007, we entered into the Tele2 Acquisitions Agreement whereby we have agreed to acquire the Dutch and Belgian businesses of Tele2 through the purchase of all outstanding share capital of Tele2 Netherlands and Tele2 Belgium. The closing of the Acquisitions and the Offering are conditioned upon each other and the Acquisitions will close simultaneously with the closing of the Offering. We intend to use €200 million of the expected net proceeds of the Offering for the Acquisitions and the remaining expected proceeds of approximately €50 million for general corporate purposes to fund our existing operations. The balance of the net proceeds of the Offering will be used for general corporate purposes and to fund our existing operations. If we are not successful for any reason in closing the Acquisitions, or the closing of the Acquisitions is postponed or delayed for any amount of time, our share price and results of existing operations may suffer and we may have to seek to raise funding for our operations via other means, which could come in the form of debt, equity, or a combination of both.

Shareholders in certain jurisdictions may not be able to participate in future rights offerings or elect to receive share dividends and may experience dilution of their holdings.

We may, from time to time, distribute rights to our shareholders, including rights to acquire securities. However, we will not distribute rights to shareholders in jurisdictions where the sale of rights is restricted. Accordingly, shareholders in certain jurisdictions may be unable to participate in rights offerings and, as a result, may experience dilution of their holdings. Additionally, if we are unable to sell rights that are not exercised or not distributed or if their sale is not lawful or reasonably practicable, we may allow the rights to lapse, in which case shareholders in these jurisdictions may not receive any value for these rights. In addition, we may in the future offer, from time to time, a stock dividend election to shareholders, subject to applicable securities laws, in respect of future dividends. However, we may not permit shareholders in certain restricted jurisdictions to exercise this election. Accordingly, shareholders in these restricted jurisdictions may be unable to receive dividends in the form of shares rather than cash and, as a result, may experience dilution of their holdings.

IMPORTANT INFORMATION

You are expressly advised that an investment in the SETs or the Offer Shares entails certain risks and that you should therefore carefully review the entire contents of this Prospectus.

General

This Prospectus is being made available by Versatel Telecom International N.V. You should rely only on the information contained in this Prospectus and any supplement to this Prospectus within the meaning of Article 5:23 of the Financial Supervision Act, should such supplement be published. No person is authorized to give any information or to make any representation not contained in this Prospectus in connection with the SETs Offering or the Rump Offering. You must not rely upon any information or representation as having been authorized by us or on our behalf or on behalf of the Sole Global Coordinator, the Subscription Agent, the Listing and Paying Agent or their affiliates, if such information or representation is not contained in this Prospectus in connection with the SETs Offering or the Rump Offering.

Versatel Telecom International N.V. accepts responsibility for the information contained in this Prospectus. To the best of Versatel Telecom International N.V.'s knowledge and belief, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect its import. Potential investors should not assume that the information in this Prospectus is accurate as of any other later date than as of 15 February 2007.

This Prospectus does not constitute an offer by, or an invitation by or on behalf of, us or any affiliate or representative to purchase SETs or Offer Shares, or an offer to sell, or the solicitation of an offer to buy, SETs or Offer Shares by any person in any jurisdiction where such action would be illegal. The distribution of this Prospectus, the grant of SETs, and the offer or sale of SETs or Offer Shares is restricted by law in certain jurisdictions. This Prospectus may only be used where it is legal to grant SETs and offer, solicit offers to purchase or sell SETs or Offer Shares. We require persons who obtain this Prospectus to inform themselves about and to observe all such restrictions.

No action has been or will be taken to permit the grant of SETs or the offer or sale of SETs or Offer Shares (pursuant to the exercise of SETs or otherwise), or the possession or distribution of this Prospectus or any other material in relation to the SETs Offering or the Rump Offering in any jurisdiction outside The Netherlands where action may be required for such purpose. Accordingly, neither this document nor any advertisement or any other related material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations.

The SETs and the Offer Shares have not been and will not be registered under the Securities Act or under the relevant securities laws of any state of the United States or any other jurisdiction. The SETs and the Offer Shares may not be directly or indirectly offered, granted, issued, sold, pledged, taken up, delivered, renounced or transferred in or into the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S), or in any country where to do so may contravene local securities laws or regulations. Non-Dutch shareholders and any persons (including, without limitation, nominees, custodians and trustees) who have a contractual or legal obligation to forward this document to a jurisdiction outside The Netherlands carefully should read the section entitled "Selling and Transfer Restrictions".

The SETs and the Offer Shares have not been approved or disapproved by the US Securities Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the SETs or the Offer Shares or the accuracy of adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

In the United Kingdom, this document is being distributed only to, and is directed only at, persons (a) who have professional experience in matters relating to investments who fall within the definition of "investment professionals" in Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), or (b) who are high net worth bodies corporate, unincorporated associations and partnerships and the trustees of high value trusts, as described in Article 49(2) of the Order; or (c) who we believe on reasonable grounds to be persons to whom Article 43(2) of the Order applies for these purposes, or (d) other persons to whom it may lawfully be communicated (all such persons being referred to in (a), (b), (c) and (d) are defined as "relevant persons"). In the United Kingdom, any investment or investment activity to which this

document relates is only available to and will only be engaged in with relevant persons. Any other persons who receive this document should not rely on or act upon it.

Except in the limited circumstances described in this Prospectus, this Prospectus should not be forwarded or transmitted in or into the United States, Canada, Australia or Japan.

Although the Sole Global Coordinator is a party to various agreements pertaining to the SETs Offering and the Rump Offering, this should not be considered as a recommendation to invest in the SETs or the Offer Shares. You must consider for yourself, with or without the assistance of an advisor, whether an investment in the SETs or the Offer Shares is appropriate in light of your particular investment profile, objectives and financial circumstances.

Once you have exercised your SETs, you cannot revoke or modify that exercise, except as otherwise described in “The Offering – SETs Offering – Exercise Period”. You cannot exercise your SETs after 15:30 hours (Central European Time) on 28 February 2007. At that time, any unexercised SETs will continue to be reflected in your securities account for the purpose of the distribution of any possible Unexercised SETs Payments. See “The Offering”.

This Prospectus will be published in English only.

“We”, “us”, “our”, or the “group” and similar terms refer to Versatel Telecom International N.V., and, as the context requires, any or all or none of its subsidiaries and joint ventures, but in any event does not refer to Tele2 and its subsidiaries. “Management Board”, “Supervisory Board” and “General Meeting” refer to, respectively, Versatel Telecom International N.V.’s management board (*Raad van Bestuur*), supervisory board (*Raad van Commissarissen*) and any general meeting of the shareholders of Versatel Telecom International N.V. (*algemene vergadering van aandeelhouders*).

Forward-Looking Statements

This Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Prospectus, including without limitation, those regarding our business model, our financial position, business strategy, plans and objectives of management for future operations, are forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events, including numerous assumptions regarding our present and future business strategies, operations, and the environment in which we will operate in the future. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “ambition”, “may”, “will”, “expect”, “intend”, “estimate”, “anticipate”, “believe”, “plan”, “seek” or “continue” or negative forms or variations of similar terminology.

Such forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors related to us, including, among other factors, the following:

- our ability to enhance operational performance and increase our sales;
- our ability to deliver new services and products to our customers, including our dual-play and triple-play services;
- our ability to successfully expand our local DSL infrastructure in The Netherlands and Belgium;
- our ability to successfully complete the proposed acquisitions of Tele2 Netherlands and Tele2 Belgium and integrate these businesses into our existing operations;
- our intentions and ability to integrate more fully with Tele2;
- the impact on our business of KPN’s roll-out of VDSL services;
- our ability to maintain our relationships with suppliers and customers;
- our ability to maintain our market share in the markets in which we operate;

- the outcome of pending, threatened, or future litigation or proceedings, including our current dispute with certain of our shareholders as described in “Business – Tele2 Offers and Proceedings with the Enterprise Chambers”;
- the development of the regulatory environments in the markets in which we operate;
- the state of the economies of The Netherlands and Belgium, particularly as they relate to the demand for integrated telecommunication products and services; and
- our anticipated future results.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Given these risks, uncertainties, and assumptions, you are cautioned not to put undue reliance on any forward-looking statements. In addition, the inclusion of such forward-looking statements should under no circumstances be regarded as a representation by us or the Sole Global Coordinator that we will achieve any results set out in such statement or that the underlying assumptions used will in fact be the case. Other than as required by applicable law or the applicable rules of any exchange on which our securities may be traded, we have no intention or obligation to update forward-looking statements after we distribute this Prospectus.

Market Data

We have assembled market and competitive data and other statistical information from a number of sources, including independent industry publications, government publications, reports by market research firms or other published independent sources. Some data are also based on our good faith estimates, which are derived in part from our review of internal surveys. Although we believe these sources are reliable, we have not independently verified the information derived from these sources and cannot guarantee its accuracy and completeness.

We have used third party data from Datastream in “Market Information”. This information has been accurately reproduced and, as far as we are aware and able to ascertain from the information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Potential Conflicts of Interest

The Sole Global Coordinator (or its affiliates) have from time to time engaged, and may in the future engage, in commercial banking, investment banking, and financial advisory and ancillary transactions in the course of their business with us or any parties related to us, in respect of which the sharing of information is generally restricted for reasons of confidentiality or internal procedures or by rules and regulations (including those issued by the AFM). As a result of these transactions, the Sole Global Coordinator (or its affiliates) may come to have interests that may not be aligned, or could potentially conflict with your and our interests.

Documents Incorporated by Reference

Our articles of association dated 14 October 2005 and our annual report for 2003, including the audited consolidated financial statements for the year ended 31 December 2003 (including the notes thereto and the auditors’ report by Ernst & Young Accountants appearing therein) are incorporated by reference into this Prospectus. No other documents or information, including the content of our website (www.versatel.com) or of websites accessible from hyperlinks on our website, form part of, or are incorporated by reference into, this Prospectus.

PRESENTATION OF FINANCIAL INFORMATION

General

Unless stated otherwise, all financial information in this Prospectus is presented on a consolidated basis. Certain financial and statistical information in this Prospectus has been subject to rounding adjustments and to currency conversion adjustments, if any. Accordingly, the sum of certain data may not conform to the total. All financial information included in this Prospectus for the nine month period ended 30 September 2006 or 30 September 2005 are based on unaudited interim financial statements.

We have included in this Prospectus:

- Versatel Telecom International N.V.'s audited consolidated financial statements for the year ended 31 December 2005, including the notes thereto, that have been prepared in accordance with IFRS (as defined below) and Versatel Telecom International N.V.'s financial statements for the year ended 31 December 2004, including the notes thereto, that have been restated to IFRS for comparison purposes. In the consolidated financial statements for the year ended 31 December 2005, Versatel Deutschland Holding GmbH ("**Versatel Deutschland**"), a German subsidiary of ours through which we directly and indirectly conducted all of our German activities, is only consolidated until 14 October 2005 as we completed the sale of such entity on that date. The consolidated financial statements prepared or restated in accordance with IFRS included in this Prospectus have been re-presented in order to reflect the operations of Versatel Deutschland as discontinued operations;
- Versatel Telecom International N.V.'s audited consolidated financial statements for the year ended 31 December 2004, including the notes thereto, that have been prepared in accordance with Dutch generally accepted accounting principles ("**Dutch GAAP**");
- Versatel Telecom International N.V.'s unaudited condensed interim consolidated financial statements for the nine month period ended 30 September 2006, including the notes thereto. These statements and notes have been prepared in accordance with IFRS. Deloitte Accountants B.V. has conducted a limited review on these unaudited interim consolidated financial statements for the nine month period ended 30 September 2006. This review mainly comprised an analysis, comparison, and discussion of the financial information and was therefore substantially limited as compared to a full audit of the consolidated annual accounts with the objective of certifying the consolidated annual accounts;
- audited financial statements for each of Tele2 Netherlands and Tele2 Belgium for the year ended 31 December 2005, including the notes thereto, prepared in accordance with IFRS;
- unaudited interim financial statements for Tele2 Netherlands and Tele2 Belgium for the nine month period ended 30 September 2006, including the notes thereto. These statements and notes have been prepared in accordance with IFRS. Deloitte Accountants B.V. and Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, respectively, have conducted a limited review on these unaudited interim financial statements for the nine month period ended 30 September 2006. This review mainly comprised an analysis, comparison and discussion of the financial information and was therefore substantially limited as compared to a full audit of the annual accounts with the objective of certifying the annual accounts;
- certain unaudited pro forma combined financial information of Versatel Telecom International N.V. for the nine month period ended 30 September 2006 to reflect the completion of the Offering and the Acquisitions. This pro forma financial information has been prepared in a manner consistent with the accounting policies as applied by us in preparing our unaudited nine month period ended 30 September 2006; and
- unaudited consolidated capitalization and indebtedness information of Versatel Telecom International N.V. as at 30 September 2006 and unaudited pro forma consolidated capitalization and indebtedness of Versatel Telecom International N.V. as at 30 September 2006.

In addition to the above, Versatel Telecom International N.V.'s audited consolidated financial statements for the year ended 31 December 2003, including the notes thereto, that have been prepared in accordance with Dutch GAAP, shall be deemed to be incorporated in, and form part of, this Prospectus.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The following is selected consolidated financial information as of and for the nine month period ended 30 September 2006 and 30 September 2005 and for the years ended 31 December 2005, 31 December 2004, and 31 December 2003. The selected consolidated financial information should be read in conjunction with the section titled "Operating and Financial Review" and our financial statements and the related notes thereto included in this Prospectus.

The financial statements from which the selected consolidated financial information for the nine month period ended 30 September 2006 and 30 September 2005 and the year ended 31 December 2005 set forth below have been derived were prepared in accordance with IFRS. The financial statements from which the selected consolidated financial information for the year ended 31 December 2003 set forth below have been derived were prepared in accordance with Dutch GAAP. For the year ended 31 December 2004, the consolidated financial information below has been derived from financial statements prepared both in accordance with IFRS and Dutch GAAP. The nine-month's consolidated financial information is based upon interim consolidated financial statements for the nine month periods ended 30 September 2005 and 30 September 2006. The consolidated interim financial statements for the nine month period ended 30 September 2006 have been reviewed by Deloitte Accountants B.V. who have issued an unqualified review report dated 15 February 2007 on this interim consolidated financial information. The results for the nine month period ended 30 September 2006 are not necessarily indicative of results for the full year or of any future interim period.

Our selected consolidated financial information prepared in accordance with Dutch GAAP and our selected consolidated financial information prepared in accordance with IFRS are not directly comparable, as Dutch GAAP differs from IFRS in certain significant respects. For additional detail regarding our transition from Dutch GAAP to IFRS, see Note 1 to the "Consolidated financial statements of Versatel Telecom International N.V. for the years ended 31 December 2005", beginning on page F-12.

The selected consolidated financial information set forth below may not contain all of the information that is important to you.

(IFRS)	Unaudited Nine Month Period Ended 30 September		Audited Year Ended 31 December	
<i>(€ thousands)</i>	2006	2005⁽¹⁾	2005⁽²⁾	2004
Statement of operations:				
Revenues	316,981	277,597	378,108	326,939
Direct cost of revenues	148,537	127,985	176,135	148,942
Selling, general and administrative	126,397	98,556	137,528	104,569
Depreciation and amortization	109,715	72,011	105,184	86,592
Total operating expenses	384,649	298,552	418,847	340,103
Operating loss	(67,668)	(20,955)	(40,739)	(13,164)
Interest and other income/(expense), net.....	(13,547)	3,587	34	13,484
Currency exchange/(losses) gains, net	(221)	1,589	2,250	(1,513)
Credit/(charge) from income taxes	960	4,374	(8,701)	822
Result from continuing operations	(80,476)	(11,405)	(47,156)	(371)
Result from discontinued operations	-	4,403	245,837	(24,916)
Result for the period	(80,476)	(7,002)	198,681	(25,287)
Net result per share (in €):				
Basic	(0.15)	(0.02)	0.38	(0.05)
Diluted	(0.15)	(0.02)	0.35	(0.05)
Selected balance sheet data:				
Cash	86,000	174,497	106,549	269,477
Working capital (excluding cash).....	(137,252)	(204,444)	(131,256)	(144,689)
Shareholders' Equity	80,092	567,529	160,568	572,507
Cash flow data:				
Net cash provided by operating activities	37,665	115,083	355,205	100,330
Net cash used in investing activities.....	(86,786)	(240,675)	(1,178)	(131,249)
Net cash provided by/(used) in financing activities	28,572	30,612	(516,955)	141,496
Additional Information:				
EBITDA ⁽³⁾	42,047	51,056	64,445	73,428
Capital expenditures	86,786	240,675	285,412	135,448

(1) In our consolidated financial information for the nine month period ended 30 September 2005, Versatel Deutschland is consolidated and subsequently it was divested on 14 October 2005. The consolidated statement of operations information has been re-presented in order to reflect the operations of Versatel Deutschland 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 information 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.

(2) In our consolidated financial information for the year ended 31 December 2005, Versatel Deutschland is only consolidated until 14 October 2005. As explained above, the consolidated statement of operations information has been re-presented in order to reflect the operations of Versatel Deutschland as discontinued operations,

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

(Dutch GAAP)**Audited
Year Ended 31 December***(€ thousands)***Statement of operations:**

	2004	2003
Revenues	600,679	462,139
Direct cost of revenues.....	282,383	214,761
Selling, general and administrative.....	200,242	166,610
Exceptional items ⁽¹⁾	-	(9,278)
Depreciation	140,302	134,594
Amortization	1,249	210
Total operating expenses	<u>624,176</u>	<u>506,897</u>
Operating loss	(23,497)	(44,758)
Interest and other income (expense), net.....	(2,151)	1,231
Currency exchange gains (losses), net.....	(1,448)	(1,307)
Credit from income taxes.....	822	10,249
Minority interest.....	1,860	1,707
Net gain (loss)	<u>(24,414)</u>	<u>(32,878)</u>

Net result per share (in €):

Basic.....	(0.05)	(0.07)
Diluted.....	(0.05)	(0.07)

Selected balance sheet data:

Cash.....	269,477	158,900
Working capital (excluding cash)	(144,689)	(143,730)
Shareholders' equity	571,367	484,507

Cash flow data:

Net cash provided by operating activities.....	100,330	72,581
Net cash used in investing activities	(131,249)	(103,667)
Net cash provided by (used) in financing activities	141,496	(1,045)

Additional Information:

EBITDA ⁽²⁾	118,054	90,046
Capital expenditures.....	135,448	89,047

(1) Exceptional items include restructuring expense, claim settlements, idle building charges, and senior notes professional fees.

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

USE OF PROCEEDS

The aggregate net proceeds of the Offering, representing aggregate expected gross proceeds of €255 million less expenses, commissions and applicable taxes related to the Offering and the Acquisitions, if any, are expected to be approximately €250 million. We intend to use €200 million of these expected net proceeds for the Acquisitions and the remaining proceeds of approximately €50 million for general corporate purposes to fund our existing operations.

DIVIDENDS AND DIVIDEND POLICY

We may only make distributions to our shareholders if our 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 our articles of association. Under our articles of association, our Management Board determines, subject to the approval of the Supervisory Board, which part of any profit will be reserved. After reservation by the Management Board of any profit, the remaining profit will be at the disposal of a General Meeting.

We may only make a distribution of dividends to our shareholders after the adoption of our statutory annual accounts demonstrating that such distribution is legally permitted. The Management Board is permitted, subject to certain requirements and subject to approval of our Supervisory Board, to declare interim dividends without the approval of a General Meeting. See "Description of Share Capital and Corporate Governance – Share Capital – Dividends and Other Distributions."

Dividend History

With the exception of the distribution made to our shareholders in connection with the sale of Versatel Deutschland and the Tele2 Offers as described in "Business – Tele2 Offers and Proceedings with the Enterprise Chamber", we have never declared or paid any cash dividend, or otherwise made a distribution of our shares. Additionally, we have reported a net loss (except for the one time gain in 2006 related to the sale of our German operations) over the past three years.

Dividend Policy

We intend to retain any future earnings to finance our operations, expand our network, repay outstanding obligations, and finance future acquisitions. Therefore, we do not expect to pay any dividends in the foreseeable future.

Dividend Ranking of Offer Shares

All shares, including, upon issue, the Offer Shares, rank equally in all respects and will be eligible for any dividend which we may declare on our shares.

Manner of Dividend Payments

Payment of any dividend on shares in cash will be made in Euro. Any dividends will be paid to shareholders through Euroclear Nederland, the Dutch centralized securities custody and administration system. Dividends will be credited automatically to shareholders' accounts without the need for shareholders to present documentation proving their ownership of the ordinary shares.

Uncollected Dividends

A claim for any dividend declared lapses five years after the start of the second day on which it becomes due and payable. Any dividend that is not collected within this period reverts to us and is allocated to our general reserves.

Taxation of Dividends

Generally, dividend payments are subject to withholding tax in The Netherlands. For a discussion of certain aspects of Dutch taxation of dividends and refund procedures, see "Taxation".

ACQUISITION OF TELE2 NETHERLANDS AND TELE2 BELGIUM

Rationale of the Acquisitions and Strategy

We are an alternative broadband telecommunications and media service provider in our 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. We provide services to business and residential customers as well as other telecommunications, data, and ISPs in our target markets.

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. We have also been able to serve the residential market. We continuously strive to develop new products and services, which we offer 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 the 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.

Most recently in 2005, we invested heavily in our triple-play (a combination of voice, internet and video/television services) strategy by acquiring for €91.5 million the right to broadcast live football matches of the Eredivisie for three seasons (starting with the 2005-2006 season) and by upgrading our infrastructure. To offer this service, including digital television services, we rolled out ADSL2+ technology that provides the capacity required to offer such complex digital services.

Tele2's historical market entry strategy in The Netherlands and Belgium is as a voice reseller to residential customers. After gaining market share by offering its products at low prices, Tele2's Dutch and Belgian operations now aim to move into higher value products by cross-selling its full range of products to the customers it has attracted with voice reselling.

The reseller business model is based on the existence of regulatory oversight designed to moderate the monopoly of incumbents in various markets. While it allows a new entrant to capture market share without significant capital expenditures, this business model also has inherent weaknesses. It always faces the risk of being copied by another reseller, as product differentiation is mainly based on price. In addition, resellers are highly sensitive to the spread between wholesale and retail prices and risk a margin squeeze if retail prices decline faster than wholesale prices.

In contrast, our model of network ownership generally offers higher margins, more product autonomy and lower churn with the opportunity to offer bundled services such as triple-play (broadband, voice and video/television bundles). It also provides more opportunities to offer custom made products to business customers. In view of these considerations, Tele2 Netherlands' and Tele2 Belgium's critical mass of customers as a reseller provides an opportunity for us to pursue migrating them to our own network and higher value products. With the Acquisitions, we hope to become a much stronger competitor, with sufficient assets and customers to better compete with some of our better capitalized competitors such as KPN.

Against this background, an integration of the Dutch and Belgian businesses of Tele2 with us has the following benefits, amongst others:

- The businesses of Tele2 Netherlands and Tele2 Belgium are largely complementary. We have our own network while Tele2 Netherlands and Tele2 Belgium have a large residential customer base. Our strength lies in the corporate and business segments while Tele2 Netherlands and Tele2 Belgium's strength lies in the residential segment.
- Tele2 has built a large customer base in The Netherlands and Belgium. As we integrate these businesses with our own, we will obtain this customer base and will continue to pursue migration of these customers

to our existing infrastructure, thereby creating opportunities to decrease our unit costs per minute and improve profitability.

- We will be able to continue to leverage our network by adding the traffic of Tele2 Netherlands and Tele2 Belgium.
- Combining our operations with those of Tele2 Netherlands and Tele2 Belgium will create scale efficiencies and synergies and a stronger platform for launching the products of both businesses, in particular our triple-play services. We have recently made significant investments in triple-play and have acquired attractive content to support the video/television proposition of our triple-play product.
- We will be able to offer mobile products in the residential and business markets to expand our product portfolio.

The Special Advisory Committee has approved the Acquisitions, including the terms of the Tele2 Acquisitions Agreement and its exhibits, including, but not limited to, the Framework Agreement (as defined below). The General Meeting approved the Acquisitions on 12 February 2007.

Tele2 Acquisitions Agreement

General

On 25 January 2007, we entered into the Tele2 Acquisitions Agreement whereby we agreed to purchase all of the outstanding share capital of Tele2 Netherlands and Tele2 Belgium.

The purchase price, subject to adjustment as described below, for all of the outstanding share capital of Tele2 Netherlands is €188 million, and the purchase price for all of the outstanding share capital of Tele2 Belgium is €12 million, each of which will be paid in cash by us to the appropriate Tele2 entity. The calculation of the consideration for each of these Tele2 entities is based on a cash-and-debt-free valuation of each entity and a certain amount of working capital being available to both companies. Prior to the closing of the Acquisitions, we will, together with Tele2, review the amount of working capital of each entity and agree on purchase price adjustments, if any, for each of Tele2 Netherlands and Tele2 Belgium.

The Tele2 Acquisitions Agreement provides that Tele2 may set off its obligation to pay for any of our shares subscribed for under the Offering in whole or in part against our obligation to pay the purchase prices payable in connection with the Acquisitions.

Upon the closing of the transactions contemplated by the Tele2 Acquisitions Agreement, each of Tele2 Netherlands and Tele2 Belgium will become a wholly-owned subsidiary of us.

Conditions to the Acquisitions

The closing of the Acquisitions is subject to the satisfaction or waiver of certain conditions precedent, including:

- no material breach of the Tele2 Acquisitions Agreement by any party thereto;
- completion of the Offering;
- no event which has had or would be likely to have a material adverse affect on the financial condition of Tele2 Netherlands or Tele2 Belgium after the closing of the Acquisitions;
- no option rights to subscribe for shares in Tele2 Netherlands or Tele2 Belgium; and
- no prohibition of the Acquisitions by any court or other public authority;

In addition, the closing of the Acquisitions was conditional upon the approval of our General Meeting, which approval was granted at our General Meeting held on 12 February 2007.

Conduct of Business of Tele2 Netherlands and Tele2 Belgium

In the period after signing of the Tele2 Acquisitions Agreement and prior to the closing of the Acquisitions, the conduct of business of each of Tele2 Netherlands and Tele2 Belgium is restricted, as the following actions with respect to Tele2 Netherlands or Tele2 Belgium may not be taken without our consent:

- capital expenditures exceeding €5,000;
- divestments of assets outside the ordinary course of business;
- borrowing of money outside the ordinary course of business;
- declaration or payment of dividends and other distributions;
- granting of loans;
- granting of rights to subscribe for shares;
- permitting any insurance to lapse;
- changing employment conditions of key personnel;
- changing of accounting procedures and principles; or
- agreeing to do any of the foregoing.

Warranties and Warranty Limits

The Tele2 Acquisitions Agreement includes customary warranties by the Tele2 entities that are party to such agreement, including with respect to the status and valid existence of each of Tele2 Netherlands and Tele2 Belgium, their share capital, their accounts, the ownership of assets, the financial condition of both Tele2 Netherlands and Tele2 Belgium, the status of commercial contracts and commitments (including intellectual property rights and insurance), certain tax matters, compliance with laws and licenses, any pending litigation, real estate owned or leased by Tele2 Netherlands or Tele2 Belgium, employees, and benefits granted to such employees. Tele2 Sverige AB has agreed to be liable for a breach of any warranty made by a Tele2 company, subject to the limitations described herein.

In the event of a breach of a warranty, our ability to recover damages arising from breaches of warranties will be limited in the following manner:

- individual damages resulting from a breach of warranty amounting to less than €25,000 will not be subject to recovery;
- damages in respect of a breach of warranty must exceed €500,000 in the aggregate; and
- in no event will we be able to claim more than an amount equal to half of the total purchase price payable for Tele2 Netherlands and Tele2 Belgium.

In addition to the above limitations, we may only make a claim for a breach of warranty up to the date which is eighteen months after the closing of the Acquisitions, except in the case of any alleged breach of warranty relating to taxation, for which we may make claims up to the date that is six months after the expiry of the applicable statute of limitations.

Indemnities

The Tele2 entities (other than Tele2 Netherlands and Tele2 Belgium) party to the Tele2 Acquisitions Agreement have agreed to indemnify us for any damages, costs and expenses which might arise as a result of:

- any net debt of Tele2 Netherlands and Tele2 Belgium (other than normal trade indebtedness) existing immediately after the closing of the Acquisitions;

- any payments due to Tele2 or any of its affiliates pursuant to an obligation existing at the closing of the Acquisitions (other than any obligations due under the Tele2 Acquisitions Agreement or pursuant to the Framework Agreement (as defined below));
- the conversion of intra-group debt of Tele2 Netherlands and Tele2 Belgium into equity prior to closing of the Acquisitions;
- the waiver of a certain intra-group debt owed by Tele2 Belgium to an affiliate of Tele2; and
- any taxes payable in respect of periods prior to the closing of the Acquisitions.

These indemnity obligations are not subject to the limits on liability described in “ – Warranties and Warranty Limits”.

Framework Agreement Regarding the Provision of Services

In connection with the execution of the Tele2 Acquisitions Agreement and to facilitate the transition of the operations of Tele2 Netherlands and Tele2 Belgium to us, we have entered into a Framework Agreement Regarding the Provision of Services (the “**Framework Agreement**”). Pursuant to the Framework Agreement (and certain service level agreements referred to therein), certain subsidiaries of Tele2 have agreed to continue providing certain services to Tele2 Netherlands and Tele2 Belgium after closing of the Acquisitions. The Framework Agreement and associated service level agreements provide that the services are to be rendered to Tele2 Netherlands and Tele2 Belgium on arm’s length terms. Below is a summary of the services currently provided to Tele2 Netherlands and Tele2 Belgium by Tele2 group companies and which will continue to be provided on the same basis after the closing of the Acquisitions pursuant to the Framework Agreement and the associated service level agreements. Concurrently with the Acquisitions, Tele2 will terminate all agreements and arrangements existing between Tele2 Netherlands or Tele2 Belgium and other Tele2 group companies, other than the arrangements pursuant to the Framework Agreement and related service level agreements mentioned below.

Network

Both Tele2 Netherlands and Tele2 Belgium are connected to the IP backbone of Tele2 throughout Europe. Due to scale advantages Tele2 is able to negotiate competitive prices from its suppliers. The amount invoiced by Tele2 depends on the amount of IP traffic sent.

Both Tele2 Netherlands and Tele2 Belgium are interconnected with other Tele2 group companies within Europe for the onwards transmission or termination of voice traffic (local, international and mobile destinations). For this purpose, Tele2 Netherlands and Tele2 Belgium signed an interconnection agreement with Tele2. The amount of traffic sent and received by Tele2 Netherlands and Tele2 Belgium depends on actual customer usage and on the rates used by Tele2 Netherlands and Tele2 Belgium respectively for the other Tele2 group companies for the different destinations.

Tele2 Netherlands has access to the international mobile roaming agreements that Comviq (a Swedish mobile network operator owned by Tele2) possesses. Tele2 Netherlands can also utilize the Multi-media messaging service (“**MMS**”) and short messaging service (“**SMS**”) platform as well as the General Packet Radio Service (“**GPRS**”) and Wireless Application Protocol (“**WAP**”) services offered by Comviq for its mobile customers in The Netherlands. Tele2 Netherlands also utilizes a framework agreement that Tele2 has negotiated with a supplier of a content billing platform for mobile phone users. Tele2 Netherlands’ mobile customers are able to download ringtones and pictures on their handset with the use of said platform. Tele2 Belgium currently does not offer a mobile product and therefore does not utilize the abovementioned mobile services.

Both Tele2 Netherlands and Tele2 Belgium use mailboxes (including storage on mail servers), centrally hosted in Sweden, for their customers.

The average amount charged per quarter by Tele2 to Tele2 Netherlands and Tele2 Belgium related to the above-mentioned network related services amounts to approximately €3.0 million and €1.3 million respectively. Related to the above-mentioned network related services, Tele2 Netherlands and Tele2 Belgium on average charges per quarter to Tele2 group companies approximately €1.4 million and €1.8 million, respectively.

IT/Operational

Both Tele2 Netherlands and Tele2 Belgium use a trouble ticket system called “ARS Remedy” developed by Tele2 and mainly used for customer care purposes. The costs are user based.

The Tele2 group has centralized most of its billing activities for the different Tele2 subsidiaries in Latvia. Both Tele2 Netherlands and Tele2 Belgium utilize these billing services for the different products offered. The billing services include mediation and fraud detection. In addition, Tele2 Netherlands uses a pre-paid billing platform that Tele2 purchased. The platform enables, amongst other things, mobile customers to renew their pre-payment credit. Tele2 Netherlands also uses certain other systems for its mobile product offering (specifically for SMS, WAP, MMS, prepaid, etc.) that are being operated by Tele2 out of Sweden. Tele2 Belgium does currently not offer a mobile product and therefore does not utilize these services.

Both Tele2 Netherlands and Tele2 Belgium use a preselection ordering system used by the Tele2 group called “CAPAS”. The system is centrally operated by a team in Sweden and Germany. Due to the fact that according to Belgian law customers will have to give their written consent to a preselection activation, the cross charge to Tele2 Belgium for using this preselection ordering system is higher compared to Tele2 Netherlands. All written consents are loaded into the system as a result of which the system is used more frequently and intensively. The preselection activation procedure is less cumbersome in The Netherlands.

Both Tele2 Netherlands and Tele2 Belgium use a number portability platform provided by Tele2. In addition, Tele2 Netherlands uses a system called “Porthandler” developed by Tele2, enabling Tele2 Netherlands to in- and out-port mobile phone numbers. Tele2 Belgium does currently not offer a mobile product and therefore does not utilize this specific service.

Tele2 Netherlands and Tele2 Belgium both use a management information system (DART data warehouse) and a marketing information system (MIS) centrally operated out of Sweden. Tele2 Belgium utilizes these management and marketing information systems more intensively, therefore the cross charge to Tele2 Belgium is higher compared to Tele2 Netherlands.

Both Tele2 Netherlands and Tele2 Belgium use a system called Inter Carrier Accounting System (“ICS”). The system is used by the Tele2 group to monitor, record and analyse traffic between Tele2 and other carriers. ICS is configured with the necessary network information and rate tables. The service includes reporting and invoicing information to be able to assess invoices from other operators and create invoices to be issued to these other operators.

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

Tele2 Belgium also uses a system (supplier support system) developed by Tele2 for customer logistics and the provisioning of external suppliers. Tele2 Netherlands does not use this supplier support system.

Both Tele2 Netherlands and Tele2 Belgium use IT support offered within the Tele2 group. The services include the delivery of firewalls, LAN monitoring and capacity and fault management. A separate entity within the Tele2 group (UNI2 AB) delivers PC support, server maintenance and certain IT consulting services. The services also include the delivery and maintenance of Lotus Notes licenses. In addition, Tele2 services the maintenance of certain databases and applications within Lotus Notes.

The average amount per quarter charged by Tele2 group companies to Tele2 Netherlands and Tele2 Belgium for the above-mentioned IT and Operational services amounts to approximately €1.0 million and €0.4 million, respectively.

Financial

Tele2 Netherlands and Tele2 Belgium have been included on the insurance policies of Tele2 for public liability insurance, property insurance, directors and officers’ liability insurance and travel insurance. The average premium costs of these insurance policies recharged by Tele2 to Tele2 Netherlands is approximately €15,000 per

quarter. The average premium costs for these insurance policies recharged by Tele2 to Tele2 Belgium is approximately €9,000 per quarter.

Term and Termination

The Framework Agreement can be terminated by us or Tele2 at any time with one month's prior notice, however, Tele2 may not terminate prior to the first anniversary of closing of the Acquisitions. The Framework Agreement shall further expire on the termination of the last associated service based agreement then in effect. The associated service level agreements are entered into for a one year term, with each party being entitled to terminate by giving notice, with a notice period of one month (provided however that Tele2 may not give such notice in the first 12 month period after the closing of the Acquisitions).

In order to ensure the continuous supply of the services necessary for the business of Tele2 Netherlands and Tele2 Belgium, we agreed with Tele2 that both parties will, at least three months prior to the expiration or termination of the Framework Agreement or an associated level service agreement, enter into good faith negotiations for new agreements. Tele2 may not unreasonably deny the conclusion of such new agreements for at least one calendar year following the date of termination of the Framework Agreement or an individual service level agreement if such agreements are on arm's length terms and conditions and consistent with Tele2 standard business terms.

Valuation Report

Kempen was requested by the Special Committee to perform a valuation of us, Tele2 Netherlands and Tele2 Belgium as of 30 September 2006. A copy of the valuation report issued by Kempen to the Special Committee together with a letter from Kempen to us dated 26 January 2007 can be obtained free of charge. See "General Information – Available Information".

Fairness opinions

In addition, on 26 January 2007 the Special Advisory Committee received from Kempen and from EY TAS fairness opinions with respect to the purchase price payable by us for each of Tele2 Netherlands and Tele2 Belgium in connection with the Acquisitions. Copies of these fairness opinions are included herein on page A-1 of this Prospectus.

Tele2 Netherlands

Overview

In 1997, Tele2 Netherlands started offering carrier select services for residential customers and small businesses in The Netherlands and in 2000 it began offering carrier (pre)select services to its customers. Since 2002, Tele2 Netherlands has also offered mobile communication services as a mobile virtual network operator, or MVNO, beginning with prepaid mobile services only and offering post-paid mobile services since 2004. The offering of metered internet dial-up services started in 2003. In 2005, Tele2 Netherlands expanded its internet services offering with ADSL broadband internet access and internet telephony, or VoIP.

Tele2 Netherlands has historically financed its operations and growth primarily through its own cash flow and, to the extent necessary, through intra-group loans.

Following the Acquisitions, Tele2 Netherlands will be a wholly owned subsidiary of ours. Tele2 Netherlands has no subsidiaries.

Business Segments

Overview

The four current core business activities of Tele2 Netherlands are:

- fixed line telephony services (carrier (pre)select);
- internet services (ADSL broadband and dial-up narrowband);

- dual-play, consisting of broadband internet access coupled with VoIP and which is marketed under the brand “Tele2 Compleet Lite”; and
- mobile communication services.

Each of the four business segments operates substantially autonomously with its own marketing and sales strategic objectives.

Fixed Telephony Services

Tele2 Netherlands started its telecommunication services business in 1997 with carrier select services, which allowed residential and small office/home office (“SOHO”) customers to select their telephone carrier by dialling a four-digit number followed by the regular phone number.

In 2000, carrier select was followed by carrier (pre)select, which is based on an automatic recognition of Tele2 customers by KPN switches. Once a customer has preselected Tele2 Netherlands (which has to be done only once), the KPN switch recognizes the customer as a Tele2 customer and automatically routes his calls to the Tele2 network.

Tele2 Netherlands offers its services through its owned switches and interconnect points and a leased line network.

Internet Services

Since 2003, Tele2 Netherlands has offered metered narrowband internet access through dialling in via a modem (a “dial up” connection).

Since 2005, Tele2 Netherlands has also offered ADSL for a monthly flat fee. This service is based on a wholesale ADSL service of KPN for which Tele2 Netherlands pays a monthly fee based on the number of end-users.

Dual-play

In 2006, Tele2 Netherlands launched a dual-play product combination consisting of ADSL internet access coupled with VoIP.

Mobile Communication Services

The mobile communications services offered by Tele2 Netherlands are based on a MVNO contract with Telfort, a subsidiary of KPN, our largest competitor in The Netherlands. The Telfort network allows Tele2 Netherlands to offer coverage throughout the majority of The Netherlands. The MVNO contract with Telfort is currently scheduled to expire by its terms in 2009.

As a MVNO, Tele2 Netherlands uses its own switches and interconnection points but leases mobile network capacity from Telfort. The end-user is a customer of Tele2 Netherlands and not Telfort, and is billed by Tele2 Netherlands. Initially, the mobile subscriptions were offered only as a pre-paid service to Tele2 Netherlands’ existing fixed line (carrier select and (pre)select) customers, which allowed customers to pre-order (by dialling an automated voice-response system) a certain amount of minutes multiplied by the applicable tariff to be used. This “refill” is billed afterwards together with the usage for fixed telephony on one invoice. Post-paid services (without a pre-order but only a bill afterwards based on actual usage and a subscription fee) have been offered since 2004.

Tele2 Netherlands’ mobile communication services cover voice and data communication, all via the GSM network of the host Telfort. Tele2 Netherlands does not offer any third-generation services such as UMTS. Services offered include voice, SMS, voicemail and call waiting. For international roaming Tele2 Netherlands uses the roaming agreements that Comviq has with non-Dutch mobile operators.

As part of the Tele2 Netherlands agreement with Telfort, Tele2 Netherlands has committed to certain minimum commitments and paying Telfort a monthly fee based on actual usage of minutes. In addition, Tele2 Netherlands pays transit fees for the usage of networks of other carriers (notably KPN as well as British Telecom, Belgacom and Orange) as well as a termination fee to the carrier of the customer to whom the call is placed.

Tele2 Netherlands invoices Mobile Termination Access (“MTA”) tariffs to other carriers for calls terminating to Tele2 customers.

Customers of Tele2 Netherlands

All products of Tele2 Netherlands are mainly targeted at residential customers and SOHO customers.

The following table shows the development of Tele2 Netherlands’ customers per business sub-segment over the periods indicated. The customer numbers are approximate numbers as at the year ended 31 December 2005 and the nine month period ended 30 September 2006. A “customer,” for purposes of the table below, is defined as anyone purchasing one product. For example, one individual purchasing two Tele2 products is counted as two customers.

Segment	As of 31 December 2005	As of 30 September 2006
Fixed.....	1,032,000	786,000
Mobile prepaid	444,000	368,000
Mobile postpaid	183,000	227,000
Internet narrowband	37,000	20,000
Internet broadband	16,000	13,000
Dual-play.....	0	15,000
Total	1,712,000	1,429,000

The decline of Tele2 Netherlands’ fixed line customer base since the end of 2005 has been caused primarily by the general market trend of customers cancelling their carrier (pre)select services and migrating to VoIP and dual-play services, or migrating to mobile services while cancelling their fixed line subscription.

The decline in internet access service customers is principally a result of customers migrating from narrowband (dial-up) and broadband services (ADSL) to dual-play services.

In the mobile segment, Tele2 Netherlands has shifted the focus of the marketing and sales activities from pre-paid customer intake to higher value postpaid customer intake due to market demands and a higher expected payback on postpaid services. This has resulted in a decrease in the prepaid mobile customer base since 31 December 2005 due to regular churn and an increase in the postpaid mobile customer base during this same period.

Marketing & Sales

General

Tele2 Netherlands promotes its products through the following channels:

- Media, consisting mostly of advertisements on television, radio, billboards, newspapers, web advertising and internet banners;
- Call centers and direct mail; and
- Promotion campaigns by teams or in-store at retail chains.

Tele2 Netherlands’ marketing costs are closely connected to the efficiency of the marketing tool, and most (outsourced) sales channels receive payments which are based on the success of the marketing campaigns.

Sales of Tele2 Netherlands products are to a large extent generated through direct calls by call centers, mailings, and through offers on the Tele2 website. Tele2 Netherlands does not operate through its own retail shops; retail sales are done only through temporary promotion events within retail stores.

Competitors

Tele2 Netherlands is active in three different areas which form separate markets from a competition point of view: fixed telephony, internet access, and mobile telephony. Tele2 Netherlands' main competitors in these markets are as follows:

Market	Main Competitors
Fixed Telephony	ACN, Bel 1601, Essent/Casema/Multikabel, KPN Telecom, Orange, Pretium Telecom, Scarlet, Tiscali, and UPC
Internet Access	<i>Broadband:</i> Essent/Casema/Multikabel, KPN Telecom, Orange, Tiscali, and UPC <i>Dial-Up:</i> Enertel, KPN, and Orange
Mobile Telephony	KPN, Orange, T-Mobile, and Vodafone

Management of Tele2 Netherlands

Tele2 Netherlands' current management board consists of three managing directors (*statutair directeuren*), being Mr. B.L.J. Jarnheimer (CEO of Tele2), Mr. P.G. Borgklint (Tele2 Market Area Director Benelux) and Mr. J.I. Svedberg (COO of Tele2). In addition to the aforementioned management board, Tele2 Netherlands has a management team of three executives, Mr. Borgklint (CEO), Mr. C. Veltman (CFO) and Mr. G. Vogelpoel (COO). Mr. Jarnheimer and Mr. Svedberg are members of our Supervisory Board. Mr. Borgklint is currently our Chief Executive Officer and member of our Management Board.

Tele2 Netherlands has no supervisory board.

Following the closing of the Acquisitions and the Offering, the current members of Tele2 Netherlands' management board will resign and Mr. Ringmar and Mr. Van Rooijen will be appointed as the members of the Tele2 Netherlands management board.

Employees

As of 31 December 2006 Tele2 Netherlands had 27 full-time employees. Tele2 Netherlands does not have a works council.

Legal Proceedings

Tele2 Netherlands is from time to time involved in routine litigation in the ordinary course of business.

Tele2 Belgium

Overview

Tele2 Belgium began operations in 2003 by offering carrier (pre)select services. In 2004, Tele2 Belgium began offering internet dial up access and expanded its product offering to ADSL broadband access in 2005.

Following the Acquisitions, Tele2 Belgium will be a wholly owned subsidiary of ours. Tele2 Belgium has no subsidiaries.

Business Segments of Tele2 Belgium

Tele2 Belgium currently engages in the following two business segments:

- fixed line telephony services (carrier (pre)select); and
- internet services (ADSL broadband and dial-up narrowband).

In addition, it offers a dual-play product called “Tele2 All In”. Since the fourth quarter of 2005, all of the Tele2 All In customers have been assigned to us. See “Principal Shareholders and Related Party Transactions – Related Party Transactions – Related to the Tele2 Offers” for further details on this assignment.

Tele2 Belgium no longer actively acquires fixed line telephony customers since the launch of Belgacom’s “Happy Time” offer in June 2005. Tele2 Belgium also no longer actively acquires internet customers for itself but instead focuses on cross-selling the full range of our products mainly to these customers and migrating these customers to our product offerings and services, which are generally more profitable than the services currently provided by Tele2 Belgium. As a result the revenues associated with these migrated customers are for the benefit of our existing Belgian business.

Customers of Tele2 Belgium

All products within the business segments of Tele2 Belgium are offered to residential customers and the SOHO segment.

The following table shows the development of Tele2 Belgium’s customers per business sub-segment over the periods indicated. The customer numbers are approximate numbers as at the year ended 31 December 2005 and the nine month period ended 30 September 2006. A “customer,” for purposes of the table below, is defined as anyone purchasing one product. For example, one individual purchasing two Tele2 products is counted as two customers. As explained above, customers of Tele Belgium’s dual-play product are currently assigned to us and are therefore not included in the below table.

Segment	As of 31 December 2005	As of 30 September 2006
Fixed line.....	369,000	257,000
Internet narrowband	13,000	7,000
Internet broadband	22,000	15,000
Total	404,000	279,000

The decline of Tele2 Belgium’s fixed line customer base for the nine month period of 2006 was caused by customers switching to the Belgacom “Happy Time” product, the general market trend of customers cancelling their carrier (pre)select services and migrating to VoIP and dual-play services, and customers migrating to mobile services while cancelling their fixed line subscription.

The decline in internet access service customers is principally a result of customers migrating from narrowband (dial-up) and broadband services (ADSL) to dual-play services.

Competitors

Tele2 Belgium’s main competitors in the markets in which it operates are currently as follows:

Market	Main Competitors
Fixed telephony	Belgacom, Scarlet, and Telenet
Internet access	Belgacom, Scarlet, and Telenet

Management of Tele2 Belgium

The management board of Tele2 Belgium currently consists of three managing directors (*statutair directeuren*) being Mr. B.L.J. Jarnheimer (CEO of Tele2), Mr. P.G. Borgklint (Tele2 Market Area Director Benelux) and Mr. J.I. Svedberg (COO of Tele2). Mr. Jarnheimer and Mr. Svedberg are members of our Supervisory Board. Mr. Borgklint is currently our Chief Executive Officer and member of our Management Board.

Following the closings of the Acquisitions and the Offering, the current members of Tele2 Belgium’s management board will resign and Mr. Ringmar and Mr. Van Rooijen will be appointed as the members of the Tele2 Belgium management board.

Tele2 Belgium has no supervisory board.

Employees of Tele2 Belgium

As of 31 December 2006 Tele2 Belgium had 13 full-time employees. Tele2 Belgium does not have a works council.

Legal Proceedings

Tele2 Belgium has filed a complaint with the Belgian competition authority for abuse of dominant position through a margin squeeze in relation to Belgacom's "Happy Time" product. Furthermore, Tele2 Belgium is from time to time involved in additional routine litigation in the ordinary course of business.

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

General

Basis of Preparation and Assumptions Used

The unaudited pro forma information set out below has been prepared to illustrate the impact on our financial statements of:

- *the Offering; and*
- *the Acquisitions.*

The unaudited pro forma balance sheet data below gives effect to the Acquisitions and Offering, as if the Acquisitions and Offering occurred on 30 September 2006 and combines the unaudited historical consolidated balance sheet of Versatel Telecom International N.V. at 30 September 2006 with the unaudited historical balance sheets for Tele2 Netherlands and Tele2 Belgium for this same period. The unaudited pro forma statement of operations data below gives effect to the Acquisitions and Offering as if the Acquisitions and Offering occurred on 1 January 2006 and combines the unaudited historical consolidated statement of operations of Versatel Telecom International N.V. for the nine month period ended 30 September 2006 with the unaudited historical statements of operations for Tele2 Netherlands and Tele2 Belgium for this same period.

The unaudited pro forma information has been prepared for illustrative purposes only, and because of its nature addresses a hypothetical situation and therefore does not represent our actual financial position at 30 September 2006 and earnings for the nine month period ended 30 September 2006. The historical financial information is prepared and presented in accordance with IFRS. No promulgated standards for pro forma reporting exist in The Netherlands. Accordingly, the reporting may differ significantly from those in other jurisdictions, in particular the United Kingdom. The unaudited pro forma financial statements do not purport to present what our earnings would actually have been or what earnings would be if the Acquisitions and Offering that gave rise to the pro forma adjustments had occurred at the dates assumed and is not indicative of future earnings. The unaudited pro forma financial statements of Versatel Telecom International N.V. should be read in conjunction with the section of the Prospectus entitled "Operating and Financial Review" and the historical financial statements and related notes thereto included in this Prospectus.

Accounting Policies Used in Preparing the Unaudited Pro Forma Combined Financial Information

The unaudited pro forma combined financial information has been prepared in a manner consistent with the accounting policies as applied by Versatel Telecom International N.V. in preparing Versatel Telecom International N.V.'s unaudited historical consolidated balance sheet and consolidated statement of operations for the nine month period ended 30 September 2006. In respect of the unaudited pro forma combined financial information, we note the following:

- *Goodwill has been calculated without taking into account a purchase price allocation. At 30 September 2006, the pro forma goodwill related to the Acquisitions amounts to €164.0 million. This pro forma goodwill amount of €164.0 million has been calculated without taking into account the purchase price allocation in accordance with IFRS 3 "Business combinations". In the 2007 annual financial statements, we must account for the Acquisitions under the purchase price accounting method. Accordingly, the purchase price paid in connection with the Acquisitions will have to be allocated to the 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 at the date on which Versatel Telecom International N.V. obtained control over the Acquisitions. These property, plant and equipment and intangible assets (to the extent the latter are expected to have finite useful lives) will need to be depreciated on a systematic basis over their useful life. Such depreciation will have a negative effect on Versatel Telecom International N.V.'s net assets and net income.*

Versatel Telecom International N.V. has not yet performed the full analyses that are needed for this allocation. Versatel Telecom International N.V. 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. Under this scenario, the negative effect of future depreciation referred to above would be relatively limited. 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 such property, plant and equipment and intangible fixed assets acquired. Should this occur, the negative effect of the future depreciation the net assets and the net result of Versatel Telecom International N.V. would be larger than currently estimated and could be material.

- *The unaudited pro forma combined financial information does not take into account the corporate income tax consequences of integrating the Acquisitions into Versatel Telecom International N.V. Given the uncertainty of future taxable income, Versatel Telecom International N.V. has recorded a valuation allowance equal to the total net deferred assets at 30 September 2006. An integration of the Acquisitions could lead to a valuation allowance for the deferred tax asset in Tele2 Netherlands of €23.8 million at 30 September 2006.*
- *The unaudited pro forma combined financial information does not take into account the post-acquisition cost synergies and the related one-off costs of realizing such post-acquisition synergies as stated in “Acquisition of Tele2 Netherlands and Tele2 Belgium”.*
- *Prior to the closing of the Acquisitions, Versatel Telecom International N.V. will review with Tele2 the amount of working capital of each of the acquisitions and agree on working capital and cash amounts for each of Tele2 Netherlands and Tele2 Belgium, which has not been reflected in the pro forma combined financial information.*
- *No pro forma adjustments have been made to report the Tele2 Netherlands and Tele2 Belgium balance sheets and statements of operations in accordance with the accounting policies used by Versatel Telecom International N.V. we note that:*
 - *The accounting for modems made available to customers where the company retains the title of ownership. Tele2 accounting policies apply an estimated useful life of three years, while our accounting policies apply a depreciation procedure of useful life of one year.*
 - *The accounting of one-off installation charges. Tele2 accounting policies expense one-off installation charges incurred to the statement of operations, while Versatel Telecom International’s accounting policies capitalize these charges and depreciate these expenses over a one-year period.*
 - *The accounting of mobile phone handsets and related one-off connection charges. Tele2 accounting policies classify mobile phone handsets and related one-off connection charges as selling, general and administrative expense, while Versatel Telecom International’s accounting policies classify these expenses as direct cost of revenues.*

Unaudited Pro Forma Balance Sheet

The unaudited pro forma combined balance sheet of Versatel Telecom International N.V. at 30 September 2006 illustrates the effects of the Acquisitions and Offering.

The following table contains the unaudited pro forma combined balance sheet of Versatel Telecom International N.V. at 30 September 2006:

(€ thousands)	Versatel Telecom International N.V. ⁽¹⁾	Tele2 Netherlands ⁽²⁾	Tele2 Belgium ⁽³⁾	Pro Forma adjustments & eliminations	Notes	Pro Forma Versatel Telecom Inter- national N.V.
Intangible fixed assets.....	55,313	990	76	163,972	4	220,351
Property, plant and equipment	402,108	9,938	2,058	(176)	5	413,928
Financial fixed assets.....	1,167	222	-	-		1,389
Current assets	64,029	39,863	10,062	(1,500)	6	112,454
Amounts due from group companies	-	11,291	5,886	(11,710)	6	5,467
Deferred tax asset	-	23,782	-	51	7	23,833
Cash and cash equivalents	86,000	1,739	3,854	50,000	8	141,593
Total assets	608,617	87,825	21,936	200,637		919,015
Total shareholders' equity	80,092	(48,932)	3,147	296,685	9	330,992
Non current liabilities	44,457	-	-	-		44,457
Related party long-term senior notes.....	100,391	-	-	-		100,391
Related party long-term loan	175,879	-	-	-		175,879
Deferred income tax	6,517	-	-	-		6,517
Current liabilities..	194,714	43,275	10,740	(1,500)	6	247,229
Related party current account	6,567	93,482	8,049	(94,548)	4, 6	13,550
Total shareholders' equity and liabilities.....	608,617	87, 825	21,936	200,637		919,015

(1) Versatel Telecom International N.V.'s historical consolidated balance sheet information has been derived from its unaudited interim consolidated financial statements for the nine month period ended 30 September 2006.

(2) Tele2 Netherlands' historical balance sheet data have been derived from its unaudited interim financial statements for the nine month period ended 30 September 2006.

(3) Tele2 Belgium's historical balance sheet data have been derived from its unaudited interim financial statements for the nine month period ended 30 September 2006.

(4) Assuming acquisition of 100% of Tele2 Netherlands and Tele2 Belgium ordinary shares, the combined goodwill is determined as follows:	
• Purchase price, including €0.9 million in acquisition costs:	€200.9 million
• Negative equity Tele2 Netherlands at 30 September 2006 according to unaudited interim financial statements for the nine month period ended 30 September 2006:	€48.9 million
• Equity Tele2 Belgium at 30 September 2006 according to unaudited interim financial statements for the nine month period ended 30 September 2006:	€-3.2 million
• Prior to the intended acquisition of Tele2 Netherlands by Versatel Telecom International N.V. €82.8 million payable to Tele2 Europe S.A. will be converted into shareholders' equity by means of an addition to additional paid-in-capital:	€-82.8 million
• Prior to the intended acquisition of Tele2 Belgium by Versatel Telecom International N.V., €36.0 million of previously waived debt payable to SEC Luxembourg S.A., an affiliated company of Tele2, will be reinstated in full. This will result in a one-off cost to Tele2 Belgium. Tele2 Europe S.A. has committed to subscribe in cash to a share capital increase of Tele2 Belgium amounting to €36.0 million. With the cash receipt the debt to SEC Luxembourg S.A. will be repaid in full:	€0.0 million
• Adjustments to report Tele2 Netherlands at 30 September 2006 according to Versatel Telecom International N.V. accounting policies net of €0.1 million tax (also see notes 5 and 7):	€0.1 million
Total pro forma Goodwill:	€163.9 million
(5) Tele2 Netherlands capitalizes modems made available to customers and depreciates over a three-year period. Versatel Telecom International N.V. depreciates its modems over a one-year period. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V.'s accounting policies would imply a reduction of property, plant and equipment and a higher depreciation charge of €0.6 million for the nine month period ended 30 September 2006: Tele2 Netherlands expenses incurred one-off customer installation charges to the statement of operations. Versatel Telecom International N.V. capitalizes these charges and depreciates these over a one-year period. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V. accounting policies would imply an increase of property, plant and equipment and a lower selling, general administrative expense of €0.4 million for the nine month period ended 30 September 2006:	€-0.6 million
Total pro forma adjustments:	€0.4 million
(6) Intercompany account and related party elimination between Versatel Telecom International N.V., Tele2 Netherlands and Tele2 Belgium at 30 September 2006.	
(7) Reduction of deferred tax asset as a result of adjustments to the report of Tele2 Netherlands at 30 September 2006, according to Versatel Telecom International N.V. accounting policies of €0.2 million based on a pro forma tax rate of 29.1%:	€0.1 million
(8) Net proceeds from Offering (gross proceeds of €255.0 million minus €4.1 million issuance costs):	€250.9 million
Purchase price, including €0.9 million in acquisition costs:	€-200.9 million
Net cash available for operational funding:	€50.0 million
(9) The pro forma adjustments for shareholders' equity are:	
Net proceeds from Offering (gross proceeds of €255.0 million minus €4.1 million issuance costs):	€250.9 million
Negative equity Tele2 Netherlands at 30 September 2006 according to unaudited interim financial statements for the nine month period ended 30 September 2006:	€48.9 million
Equity Tele2 Belgium at 30 September 2006 according to unaudited interim financial statements for the nine month period ended 30 September 2006:	€-3.2 million
Total pro forma adjustments:	€296.6 million

Unaudited Pro Forma Consolidated Statement of Operations

The unaudited pro forma combined statement of operations of Versatel Telecom International N.V. for the nine month period ended 30 September 2006 illustrates the effects of the Acquisitions and Offering as if such transactions had occurred on 1 January 2006.

The following table contains the unaudited pro forma combined statement of operations of Versatel Telecom International N.V. for the nine month period ended 30 September 2006:

(€ thousands)	Versatel Telecom International N.V. ⁽¹⁾	Tele2 Netherlands ⁽²⁾	Tele2 Belgium ⁽³⁾	Pro Forma adjustments & eliminations	Notes	Pro Forma Versatel Telecom Inter- national N.V.
Revenues.....	316,981	207,653	47,692	(12,041)	4	560,285
Direct cost of revenues:	<u>(148,537)</u>	<u>(141,135)</u>	<u>(37,176)</u>	<u>(5,231)</u>	5	<u>(332,079)</u>
Gross margin	168,444	66,518	10,516	(17,272)		228,206
Selling, general and administrative	(126,397)	(60,037)	(6,920)	17,683	6	(175,671)
Depreciation/ amortization.....	<u>(109,715)</u>	<u>(2,636)</u>	<u>(508)</u>	<u>(587)</u>	7	<u>(113,446)</u>
Operating result	(67,668)	3,845	3,088	(176)		(60,911)
Financial income and expense	<u>(13,768)</u>	<u>(3,247)</u>	<u>(131)</u>	<u>3,096</u>	8	<u>(14,050)</u>
Result before income taxes	(81,436)	598	2,957	2,920		(74,961)
Income tax credit/ (charge).....	<u>960</u>	<u>(177)</u>	<u>-</u>	<u>(901)</u>	9	<u>(118)</u>
Result for the period	<u>(80,476)</u>	<u>421</u>	<u>2,957</u>	<u>2,019</u>		<u>(75,079)</u>

(1) Versatel Telecom International N.V.'s historical statement of operations information have been derived from its unaudited consolidated interim financial statements for the nine month period ended 30 September 2006.

(2) Tele2 Netherlands' historical statement of operations information have been derived from its unaudited interim financial statements for the nine month period ended 30 September 2006. The statement of operations only presents the result for the period from continued operations.

(3) Tele2 Belgium's historical statement of operations information have been derived from its unaudited interim financial statements for the nine month period ended 30 September 2006.

(4) Intercompany and related party transaction elimination between Versatel Telecom International N.V., Tele2 Netherlands and Tele2 Belgium for the nine month period ended 30 September 2006:

€-12.0 million

(5) The pro forma adjustments on direct cost of revenues are:

- Intercompany and related party transaction elimination between Versatel Telecom International N.V., Tele2 Netherlands and Tele2 Belgium for the nine month period ended 30 September 2006: €12.0 million
- Tele2 Netherlands charges mobile handsets and related one-off costs directly to selling, general and administrative expense. Versatel Telecom International N.V.'s accounting policies allocate these costs to direct cost of revenues. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V.'s accounting policies would imply a reclassification in the statement of operations: €-17.2 million

Total pro forma adjustment on direct cost of revenues:

€-5.2 million

(6) The pro forma adjustments on selling, general and administrative expense are:

- Tele2 Netherlands charges mobile handsets and related one-off costs directly to selling, general and administrative expense. Versatel Telecom International N.V.'s accounting policies allocate these costs to direct cost of revenues. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V.'s accounting policies would imply a reclassification in the statement of operations: €17.2 million

<ul style="list-style-type: none"> • Tele2 Netherlands expenses incurred one-off customer installation charges to the statement of operations. Versatel Telecom International N.V. capitalizes these charges and depreciates over a one-year period. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V.'s accounting policies would imply an increase of property, plant, and equipment and a lower selling, general and administrative expense of €0.4 million for the nine month period ended 30 September 2006: 	€0.4 million
Total pro forma adjustment on selling, general and administrative expense:	€17.6 million
(7) Tele2 Netherlands capitalizes modems made available to customers and depreciates over a three-year period. Versatel Telecom International N.V. depreciates its modems over a one year period. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V.'s accounting policies would imply a reduction of property, plant, and equipment and a higher depreciation charge of € 0.6 million for the nine month period ended 30 September 2006.	€-0.6 million
(8) Assuming conversion of Tele2 Netherlands' €82.8 million payable to Tele2 Europe S.A. into shareholders' equity by means of an addition to additional paid-in capital at 1 January 2006 results in a lower related party interest expense for the nine month period ended 30 September 2006:	€3.1 million
(9) Assuming conversion of Tele2 Netherlands' €82.8 million payable to Tele2 Europe S.A. into shareholders' equity by means of an addition to additional paid-in capital at 1 January 2006 results in a lower related party interest expense for the nine month period ended 30 September 2006: Tele2 Netherlands capitalizes modems made available to customers and depreciates over a three-year period. Versatel Telecom International N.V. depreciates its modems over a one year period. Reporting Tele2 Netherlands in accordance with Versatel accounting policies would imply a reduction of property, plant, and equipment and a higher depreciation charge of € 0.6 million for the nine month period ended 30 September 2006: Tele2 Netherlands expenses incurred one-off customer installation charges to the statement of operations. Versatel Telecom International N.V. capitalizes these charges and depreciates over a one-year period. Reporting Tele2 Netherlands in accordance with Versatel Telecom International N.V.'s accounting policies would imply an increase of property, plant, and equipment and a lower selling, general and administrative expense of € 0.4 million for the nine month period ended 30 September 2006:	€3.1 million €-0.6 million €0.4 million
Total pro forma adjustments for the statement of operations:	€2.9 million
Reduction of deferred tax asset based on a pro forma effective tax rate of 29.1%:	€-0.9 million

Auditors' Assurance Report on the Unaudited Pro Forma Condensed Combined Consolidated Balance Sheet at 30 September 2006 and the Unaudited Pro Forma Condensed Combined Consolidated Statement of Operations for the nine-month period ended 30 September 2006 (hereafter referred to as "the unaudited pro forma combined financial information")

To the Board of Management of Versatel Telecom International N.V.

For the purposes of this Auditors' Assurance Report on the Unaudited Pro Forma Condensed Consolidated Balance Sheet at 30 September 2006 and the Unaudited Pro Forma Condensed Interim Consolidated Statement of Operations for the nine-month period ended 30 September 2006 the terms "we", "our", "us" and similar terms refer to Deloitte Accountants B.V.

Introduction

In accordance with your instructions we report on the unaudited pro forma combined financial information of Versatel Telecom International N.V. This unaudited pro forma combined financial information has been prepared for illustrative purposes only to provide information about how the acquisition of Tele 2 (Netherlands) B.V. and Tele 2 Belgium N.V. ("the Acquisitions") could have affected the unaudited condensed consolidated balance sheet of Versatel Telecom International N.V. as at 30 September 2006 should the date of the Acquisitions have been 30 September 2006 and the unaudited condensed consolidated statement of operations of Versatel Telecom International N.V. for the nine month period ended 30 September 2006 should the date of the Acquisitions have been 1 January 2006.

The unaudited pro forma combined financial information has been prepared by:

- combining the unaudited historical balance sheet of Versatel Telecom International N.V. at 30 September 2006 with the unaudited historical balance sheets for Tele 2 (Netherlands) B.V. and Tele 2 Belgium N.V. at 30 September 2006;
- combining the unaudited historical statements of operations of Versatel Telecom International N.V. for the nine-month period ended 30 September 2006 with the unaudited historical statements of operations for Tele 2 (Netherlands) B.V. and Tele 2 Belgium N.V. for this same period; and
- making certain pro forma adjustments to the unaudited pro forma combined financial information as included on page 50 to page 55 of the Prospectus to ensure that the unaudited pro forma combined financial information is consistent with the accounting policies as applied by Versatel Telecom International N.V. in its audited financial statements as at 31 December 2005.
- As disclosed in note "Accounting policies used in preparing the unaudited pro forma combined financial information" on page 50 and 51 of the Prospectus, Versatel Telecom International N.V. did not yet apply the following accounting policies, as explained on page 50 and 51 of this Prospectus in preparing the unaudited pro forma combined financial information:
 - Goodwill has been calculated without taking into account a purchase price allocation. At 30 September 2006, the pro forma goodwill related to the Acquisitions amounts to €164.0 million. The pro forma goodwill of €164.0 million has been calculated without taking into account the purchase price allocation in accordance with IFRS 3 "Business combinations". In its 2007 annual financial statements (assuming the Acquisitions are completed in 2007), Versatel Telecom International N.V. must account for the Acquisitions under the purchase accounting method. Accordingly, the purchase price paid in connection with the Acquisitions will have to be allocated to the property, plant and equipment 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 at the date on which Versatel Telecom International N.V. obtained control over the Acquisitions. These property, plant and equipment and intangible assets (to the extent the latter are expected to have finite useful lives) will need to be depreciated on a systematic basis over their useful life. Such depreciation will have a negative effect on Versatel Telecom International N.V.'s net assets and net income. Versatel Telecom International N.V. has not performed the full analyses that are needed for this allocation.
 - The unaudited pro forma combined financial information does not take into account the corporate income tax consequences of integrating the Acquisitions into Versatel Telecom International N.V.

Given the uncertainty of future taxable income, Versatel Telecom International N.V. has recorded a valuation allowance equal to the total net deferred tax assets at 30 September 2006. An integration of the Acquisitions could lead to a valuation allowance for the deferred tax asset in Tele2 (Netherlands) B.V. of €23.8 million at 30 September 2006. The reason for this is that Versatel Telecom International N.V. has not assessed the tax consequences of combining the legal entities of Tele2 (Netherlands) B.V. and Tele2 Belgium N.V. with Versatel Telecom International N.V.

- Prior to the closing of the Acquisitions, Versatel Telecom International N.V. will review with Tele 2 AB the amounts of working capital of the Acquisitions and agree on working capital and cash amounts for each of Tele 2 (Netherlands) B.V. and Tele 2 Belgium N.V., which has not been reflected in the unaudited pro forma combined financial information.

Because of its nature, the unaudited pro forma combined financial information addresses a hypothetical situation and, therefore, does not represent Versatel Telecom International NV.'s actual financial position and result as at 30 September 2006.

It is management's responsibility to prepare the unaudited pro forma combined financial information in accordance with the requirements of EU Regulation 2004-809. It is our responsibility to provide the conclusion required by Annex II item 7 of EU Regulation 2004-809. We are not responsible for expressing any other conclusion on the unaudited pro forma combined financial information or on any of its constituent elements.

Scope

We performed our work in accordance with the Netherlands Standard "Assurance Engagements other than Audits or Reviews of Historical Financial Information" and, accordingly, including such procedures as we considered necessary in the circumstances. Our work consisted primarily of comparing the financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma combined financial information with the Board of Management of Versatel Telecom International N.V.

We planned and performed our work so as to obtain all the information and explanations we considered necessary in order to provide us with reasonable assurance that the unaudited pro forma combined financial information has been properly compiled. We believe that our work provides a reasonable basis for our conclusion.

Conclusion

In our opinion:

- The unaudited pro forma combined financial information has been properly compiled on the basis stated in the introduction paragraph and the "basis of preparation and assumptions used" as stated on page 50 of the Prospectus; and
- The basis of accounting used for the unaudited pro forma combined financial information is consistent with the accounting policies applied by Versatel Telecom International N.V. in its audited financial statements as at 31 December 2005.

Emphasis of matter

Without qualifying our conclusion above, we draw the attention to page F-117 of the Prospectus. On the unaudited interim financial statements of Tele 2 Belgium N.V. for the nine-month period ended 30 September 2006, a qualified review report has been issued by Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA. The above-mentioned qualified review report is not deemed to have a material effect on the conclusions reached in the preceding paragraph "Conclusion", since the reinstatement of the previously waived debt payable in Tele 2 Belgium N.V. and the contemplated increase in the share capital of Tele 2 Belgium N.V. is planned to be completed prior to the intended acquisition of Tele 2 Belgium N.V. by Versatel Telecom International N.V. As such the effects thereof are taken into account in the pro forma calculated goodwill, as disclosed on pages 50 to 55 of the Prospectus.

Amsterdam, The Netherlands, February 15, 2007

Deloitte Accountants B.V.
B.C.J. Dielissen

CAPITALIZATION AND INDEBTEDNESS

The table below shows our unaudited consolidated capitalization and indebtedness at 30 September 2006 and unaudited pro forma consolidated capitalization and indebtedness of Versatel Telecom International N.V. at 30 September 2006. The unaudited pro forma consolidated capitalization and indebtedness at 30 September 2006 assumes the Acquisitions and Offering each occurred on 30 September 2006.

The unaudited pro forma information has been prepared for illustrative purposes only, and because of its nature addresses a hypothetical situation and therefore does not represent our actual consolidated capitalization and indebtedness at 30 September 2006. No promulgated standards for pro forma reporting exist in The Netherlands. Accordingly, the reporting may differ significantly from those in other jurisdictions, in particular the United Kingdom. The unaudited pro forma capitalization and indebtedness information does not purport to present what our capitalization and indebtedness would actually have been if the Acquisitions and Offering that gave rise to the pro forma adjustments had occurred at the dates assumed and is not indicative of future earnings.

This table should be read in conjunction with the section titled “Operating and Financial Review” and the historical consolidated financial statements and the related notes thereto incorporated by reference and included elsewhere herein.

(€ thousands)	At 30 September 2006			
	Actual (Unaudited) ⁽¹⁾	Pro Forma for Offering (Unaudited) ⁽²⁾	Pro Forma for Acquisitions (Unaudited) ⁽³⁾	Pro Forma for Offering and Acquisitions (Unaudited)
Short-term debt.....	45,849	-	-	45,849
Long-term debt.....	17,899	-	-	17,899
Related party long-term debt senior notes	100,391	-	-	100,391
Related party long-term loan	175,879	-	-	175,879
Total debt	340,018	-	-	340,018
Issued and paid-in capital.....	1,766,044	250,900	-	2,016,944
Accumulated deficit	(1,685,952)	-	-	(1,685,952)
Total shareholders' equity	80,092	250,900	-	330,992
Total capitalization	420,110	250,900	-	671,010

(1) Versatel Telecom International N.V.'s historical consolidated balance sheet data have been derived from its unaudited consolidated interim financial statements for the nine month period ended 30 September 2006.

(2) The adjustment for the Offering is as follows: Assuming gross proceeds of €255 million minus €4.1 million of expenses, commissions and applicable taxes relating to the Offering resulting in an issued and paid in capital increase of €250.9 million.

(3) Prior to the closing of the Acquisitions, Versatel Telecom International N.V. will review with Tele2 the amount of working capital of each of Tele2 Netherlands and Tele2 Belgium and agree on working capital and cash amounts for each of Tele2 Netherlands and Tele2 Belgium

All of our indebtedness is unsecured and is not guaranteed.

The information in the capitalization and indebtedness table at 30 September 2006 is of a date more than 90 days prior to the date of this Prospectus. There have been no material changes to ‘Total debt’ and ‘Issued and paid-in capital’ since 30 September 2006. Since we have not prepared a profit and loss account for the purpose of the capitalization statement, we do not express a view as to changes that may, or may not have occurred since 30 September 2006 to ‘Accumulated deficit’ and ‘Total shareholders’ equity’.

OPERATING AND FINANCIAL REVIEW

The following discussion and analysis of our consolidated financial condition and results of operations should be read in conjunction with the rest of the document, including our consolidated financial statements and related notes thereto beginning on page F-1, and the sections of this Prospectus titled “Selected Consolidated Financial Information” and “Unaudited Pro Forma Combined Financial Information”.

Our audited consolidated financial statements for the years ended 31 December 2003 and 31 December 2004 have been prepared in accordance with Dutch GAAP. Our audited consolidated financial statements for the year ended 31 December 2005 and our unaudited consolidated interim financial statements for the nine month periods ended 30 September 2005 and 30 September 2006 have been prepared under IFRS. We also have restated our 2004 Dutch GAAP results in accordance with IFRS. Our consolidated financial statements prepared in accordance with Dutch GAAP and our consolidated financial statements prepared in accordance with IFRS are not directly comparable as Dutch GAAP differs from IFRS in certain significant respects. For additional detail regarding our transition from Dutch GAAP to IFRS, see Note 1 to the “Consolidated financial statements of Versatel Telecom International N.V. for the year ended 31 December 2005”, beginning on page F-17.

We adopted IFRS as from 1 January 2005. Our adoption of IFRS has not had a material impact on our results of operations and financial condition.

We have extracted the financial information in this Operating and Financial Review from the audited consolidated financial statements and the unaudited consolidated interim financial statements of Versatel Telecom International N.V. beginning on page F-3.

Segmental financial information relating to our revenues and EBITDA by region and business sector for the years ended 31 December 2003, 31 December 2004 and 31 December 2005 and the nine month periods ended 30 September 2005 and 30 September 2006 included herein is unaudited and has been extracted from our accounting records.

This discussion and analysis contains forward-looking statements that are subject to known and unknown risks and uncertainties. Our actual results and the timing of events could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus, particularly under the headings “Forward-Looking Statements” and “Risk Factors”.

Overview

We are an alternative broadband telecommunications and media service provider in our 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. We provide services to business and residential customers as well as telecommunications, data and internet service providers in our target markets.

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 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.

Acquisition of Majority Interest by Tele2

On 14 October 2005, Tele2 Finance, a wholly-owned subsidiary of Tele2, acquired approximately 77% of our fully diluted share capital (assuming the conversion of the Convertible Notes acquired by them at such time) pursuant to a recommended offer for all of our issued and outstanding ordinary shares and outstanding Convertible Notes. As of the date of this Prospectus, Tele2 indirectly owns 80.3% of our share capital on an actual basis and 85.0% on a fully diluted basis (assuming conversion as of the date of this Prospectus of our Convertible Notes owned by Tele2 Finance). See “Business – Tele2 Offers and Proceedings with the Enterprise Chamber” for a more detailed description of this acquisition.

Material Factors Affecting our Results of Operations and Financial Condition

We believe the following factors have had and will continue to have a material effect on our results of operations and financial condition:

Revenues

Generally, our services can be characterized as voice, data, internet services, video/television and VAS. As such, we derive our revenues both from 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 media) and subscription revenues. 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, 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 non-subscription revenues, 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 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 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, 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. Our 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 to the residential market over DSL technology for a fixed monthly fee. As of August 2005, we also began to generate additional revenues by providing triple-play services, consisting of voice, internet access and video/television services.

Our revenues in the future will be influenced by a variety of factors, including:

- our ability to successfully introduce new products and services by winning more business and residential customers;
- the level of our customer retention and the need for us to sell our customers additional services to compensate for pricing pressure in the market;
- our success in selling more profitable advanced services; and
- our ability to develop new sources of revenue, including from media and video/television services.

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 the UWV Group, ABN AMRO and the Dutch Ministry of Justice in The Netherlands and Vedio, 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, we offer internet services directly to the residential internet market. At the end of 2005, we began to rollout a DSL infrastructure in Belgium in order to better control the access and services it provides to our 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 and the strength of our brand name, 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.

Costs 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.

Currently 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 if 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 because 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 the trend of decreasing variable costs will continue. If reductions in variable costs do not in fact outpace reductions in non-subscription 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 results.

Capital Expenditures

In 2005, we invested a total of €194.9 million in capital expenditures in The Netherlands, of which a significant portion was used to upgrade our IP network, invest in soft switches, media farms and customer premises equipment (including set-top boxes and multimedia modems). In 2004, we invested a total of €135.4 million and in 2003 a total of €89.0 million in capital expenditures, which related to the expansion and development of our network, to acquire various companies, to fund operating losses and for other general corporate purposes. We expect our future capital expenditures will primarily consist of customer specific expenditures including modems, routers, set-top boxes and other costs related to connecting customers to our network. We expect to fund these future capital expenditures with proceeds of the Offering which are not used to pay for the Acquisitions and operating cash flow. For the nine month period ended 30 September 2006, we had invested a total of €63.1 million in capital expenditures in The Netherlands and €23.7 million in Belgium.

Sale of Our German Operations

In connection with the acquisition of a majority of our ordinary shares by Tele2 in 2005, we sold all of the outstanding shares of Versatel Deutschland along with certain intra-group loans to a subsidiary of Apax Partners ("Apax") for approximately €539.0 million, resulting in a gain of €240.5 million. All of our operations in Germany were previously conducted through Versatel Deutschland and its subsidiaries and subsequent to such sale we no longer operate in the German market. For the years ended 31 December 2004 and 31 December 2003, our German operations generated revenues of €273.7 million and €189.6 million, representing 45.6% and 41.0% of our total revenues during these periods, respectively.

In our consolidated financial statements for the year ended 31 December 2005, Versatel Deutschland is only consolidated until 14 October 2005. Our consolidated statement of operations data for this period as well as for

the year ended 31 December 2004 has been re-presented in order to reflect the operations of Versatel Deutschland as discontinued operations.

Other Significant Non-Recurring Items

2006 Reorganization

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

KPN Settlement

On 8 September 2006, we announced the signing of an agreement with KPN for the distribution of digital television. In addition to this agreement, we agreed to settle certain historical disputes with KPN relating to claims made by both us and KPN regarding provision of services and fees. This settlement had a positive impact of €4.2 million on our revenue during the third quarter of 2006 and a positive impact of €10.2 million on both our gross margin and operating results during the same period.

Lease Agreement for Corporate Headquarters

During the third quarter of 2006, we reached an agreement to move our corporate headquarters to a new building in Diemen, The Netherlands. As a result of signing a new long term lease for our new headquarters, we received a one-time cash payment of €25.0 million from the lessor and recognized an idle building accrual of €5.7 million related to our existing lease obligations. Our nominal lease obligations for this idle building at 30 September 2006 are €10.4 million until 2010. Compared to our consolidated balance sheet as per 30 September 2006 and as disclosed in our press release of 8 November 2006, we have reclassified an amount of €1.0 million from other non current liabilities to accrued liabilities.

Settlement with Belgian Tax Authorities

In October 2006, our 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 our 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 our case, the Belgian tax authorities asserted that we inappropriately applied the reverse charge mechanism and that we instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, we reached a settlement of this claim on 23 November 2006. Pursuant to the settlement the *Regularisatieopgave* covering the period of 2002 through part of 2004 was reissued and we agreed on 5 December 2006 to settle for a total of €3.0 million. As a result the presentation of the consolidated balance sheet as per 30 September 2006, has been adjusted compared to the consolidated balance sheet in our press release of 8 November 2006. An amount of €3.0 million, initially recorded as a bad debt provision, has been reclassified from accounts receivable to accrued liabilities.

Reclassification of Related Party Payables

Compared to our consolidated balance sheet as per 30 September 2006 and as disclosed in our press release of 8 November 2006, we have reclassified an amount of €3.5 million from accounts payable to related party current accounts.

Results of Operations

The following discussion and analysis of our annual results of operations and financial condition is based on our historical results. Principally as a result of our product introductions, our historical results of operations are not directly comparable from period to period and should not be relied upon as indicative of future performance. Other factors, including competition in the telecommunications market, the level of consumer demand for telecommunications services, the success of our recent and planned acquisitions, and the accuracy of our forecasting will be significant to our future success and should be carefully considered.

The following table sets forth our consolidated results of operations for the periods indicated:

(IFRS)	Unaudited Nine Month Period Ended 30 September		Year Ended 31 December	
	2006	2005 ⁽¹⁾	2005 ⁽²⁾	2004
(€ thousands)				
Revenues	316,981	277,597	378,108	326,939
Direct cost of revenues.....	148,537	127,985	176,135	148,942
Selling, general and administrative expenses	126,397	98,556	137,528	104,569
Depreciation and amortization.....	109,715	72,011	105,184	86,592
Total Operating expenses	384,649	298,552	418,847	340,103
Operating loss	(67,668)	(20,955)	(40,739)	(13,164)
Interest and other income/(expense), net	(13,547)	3,587	34	13,484
Currency exchange gains/(losses), net.	(221)	1,589	2,250	(1,513)
Credit/(charge) from income taxes.....	960	4,374	(8,701)	822
Result from continuing operations.....	(80,476)	(11,405)	(47,156)	(371)
Result from discontinued operations ...	-	4,403	245,837	(24,916)
Result for the period	(80,476)	(7,002)	198,681	(25,287)

(1) In our consolidated financial information for the nine month period ended 30 September 2005, Versatel Deutschland is consolidated and subsequently it was divested on 14 October 2005. The consolidated statement of operations information has been re-presented in order to reflect the operations of Versatel Deutschland 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 information 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.

(2) In our consolidated financial information for the year ended 31 December 2005, Versatel Deutschland is only consolidated until 14 October 2005. As explained above, the consolidated statement of operations information has been re-presented in order to reflect the operations of Versatel Deutschland as discontinued operations.

There has been no significant change in our financial or trading position since 30 September 2006, the date of our last published financial information.

(Dutch GAAP)	Year Ended 31 December	
	2004	2003
(€ thousands)		
Revenues	600,679	462,139
Direct cost of revenues.....	282,383	214,761
Selling, general and administrative expenses	200,242	166,610
Exceptional items(1)	-	(9278)
Depreciation	140,302	134,594
Amortization	1,249	210
Total Operating expenses	624,176	506,897
Operating loss	(23,497)	(44,758)
Interest and other income (expense), net	(2,151)	1,231
Currency exchange (losses) gains, net.....	(1,448)	(1,307)
Credit (charge) from income taxes	822	10,249
Minority interest.....	1,860	1,707
Net loss	(24,414)	(32,878)

(1) Exceptional items include restructuring expenses, claim settlements, idle bundling charges and senior notes professional fees.

The nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005

Revenues

Revenues from continuing operations increased by €39.4 million to €317.0 million for the nine month period ended 30 September 2006 from €277.6 million for the nine month period ended 30 September 2005, representing an increase of 14.2%. Included in revenues from continuing operations for the nine month period ended 30 September 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 nine month period ended 30 September 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 nine month period ended 30 September 2006 was €36.8 million as compared to the same period in 2005, representing an increase of 13.3%. This increase was primarily due to the growth in Internet Protocol Virtual Private Network (“**IP-VPN**”) in the business segment and residential broadband customers, primarily dual-play customers.

Direct cost of revenues

Direct cost of revenues from continuing operations increased by €20.6 million to €148.5 million for the nine month period ended 30 September 2006 from €128.0 million for the nine month period ended 30 September 2005, representing an increase of 16.1%. Included in direct cost of revenues from continuing operations is a one-time cost reversal of €6.0 million relating to a settlement with KPN. Excluding this one-time cost reversal, the increase was €26.5 million, representing an increase of 20.8%. 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

Selling, general and administrative expenses consists of wages and salaries, social securities costs, pension costs, advertising and marketing expenses, occupancy costs and other costs of revenues.

Selling, general and administrative expenses from continuing operations increased by €27.8 million to €126.4 million for the nine month period ended 30 September 2006 from €98.6 million for the nine month period ended 30 September 2005, representing an increase of 28.2%. Included in selling, general and administrative expenses from continuing operations 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. In addition it includes a one-time idle building expense of €5.7 million relating to existing lease obligations after entering into a lease agreement for our new corporate headquarters. Excluding these one-time costs, these expenses increased by €16.1 million, representing an increase of 16.4%. 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

We capitalize and depreciate our fixed assets, 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 (“**IRUs**”), 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 one to three years. Goodwill is not amortized. Fixed assets and goodwill are tested annually for impairments.

Depreciation and amortization expenses from continuing operations increased by €37.7 million to €109.7 million for the nine month period ended 30 September 2006 from €72.0 million for the nine month period ended 30 September 2005. Depreciation of tangible fixed assets increased to €87.4 million for the nine month period ended 30 September 2006 from €64.6 million for the nine month period ended 30 September 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 fixed assets increased to €22.3 million for the

nine month period ended 30 September 2006 from €7.5 million for the nine month period ended 30 September 2005. The increase relates to the amortization of live pay television rights of the Eredivisie football matches that started during the second half of the year in 2005 and other content such as the Premier League Channels offered with our triple-play package.

Interest and Other Income

Interest and other income from continuing operations decreased by €9.2 million to €2.6 million for the nine month period ended 30 September 2006, from €11.8 million for the nine month period ended 30 September 2005. Interest income from Versatel Deutschland decreased to nil for the nine month period ended 30 September 2006 from €8.6 million for the nine month period ended 30 September 2005. This decrease was a result of divesting our German activities on 14 October 2005. Third party interest income decreased to €2.6 million for the nine month period ended 30 September 2006 from €3.2 million for the nine month period ended 30 September 2005. This decrease is primarily the result of a lower cash balance during 2006.

Interest expense from continuing operations increased by €2.7 million to €10.9 million for the nine month period ended 30 September 2006, from €8.2 million for the nine month period ended 30 September 2005. This increase is primarily the result of interest on suppliers financing, where the credit term is deferred beyond normal credit terms.

Related party interest expense for the nine-month period ended 30 September 2006 increased to €5.2 million from nil for the nine month period ended 30 September 2005. This increase relates to interest accrued on the intra-group loan agreement entered into with Tele2 Finance in October 2005.

Currency Exchange

Currency exchange result, net from continuing operations, amounted to a loss of €0.2 million for the nine month period ended 30 September 2006, from a gain of €1.6 million for the nine month period ended 30 September 2005. This primarily relates to the exchange result on US dollar denominated cash and supplier payables.

Income Tax

Income tax credit from continuing operations decreased by €3.4 million to €1.0 million for the nine month period ended 30 September 2006, from €4.4 million for the nine month period ended 30 September 2005. The amounts include €1.0 million relating to the release of the deferred tax liability on the equity component on our issuance of the Convertible Senior Notes in October 2004. Income tax credit for the nine month period ended 30 September 2005 also include an income tax credit of €3.8 million relating to period to date subsequent losses for the Dutch fiscal unity at the prevailing tax rate. The amounts recognized are taken against the 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.

Discontinued Operations

Results for the nine month period ended 30 September 2005 include results from our German activities which were sold by us to a subsidiary of Apax on 14 October 2005. As such the results for our nine month period ended 30 September 2006 do not include any results from discontinued operations.

The year ended 31 December 2005 compared to the year ended 31 December 2004

Revenues

Revenues from continuing operations increased by €51.2 million to €378.1 million for the year ended 31 December 2005 from €326.9 million for the year ended 31 December 2004, representing an increase of 15.7%. This increase is due to autonomous growth. New revenues were generated primarily through the provisioning of new corporate customers, increased sales to existing customers and residential broadband subscriber growth in

The Netherlands and Belgium.

Included in revenues are data and internet service revenues amounting to €209.3 million for the year ended 31 December 2005 up from €181.6 million for the year ended 31 December 2004, representing an increase of 15.2%. This increase is due to the growth in IP-VPN in the business segment and residential broadband customers, primarily dual- and triple-play customers. Other data revenues amount to €1.1 million for 2004 and consist of the sale of telecommunications infrastructure assets held for sale, there were no such sales in 2005. Voice revenues increased to €168.8 million for the year ended 31 December 2005, from €144.2 million for the year ended 31 December 2004, representing an increase of 17.1%. This increase is due to the business segment where continued growth is shown across the main products, in particular in business telephony and ISDN services.

Direct cost of revenues from continuing operations increased by €27.2 million to €176.1 million for the year ended 31 December 2005 from €148.9 million for the year ended 31 December 2004, representing an increase of 18.3%. This increase, which is higher than the organic revenue growth rate, is the result of higher fixed network cost relating to production costs for football and other network costs related to our residential broadband customers and the rollout of our triple-play product. This increase was partly off set 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.

Expenses

Selling, general and administrative expenses from continuing operations increased by €32.9 million to €137.5 million for the year ended 31 December 2005 from €104.6 million for the year ended 31 December 2004, representing an increase of 31.5%. This is the result of an increase in cost of staff (including temporary personnel) in the areas of sales and marketing, network operations including provisioning and customer service, increased public relation costs due to the launch of new products and increased maintenance costs associated with more customers connected to our network and the expansion of the number of elements in that network. In addition, 2005 expenses were higher due to transaction-related costs which were subject to cost sharing agreements with Apax, partly reducing the expenses related to the Tele2 Offers.

Depreciation and amortization expenses from continuing operations increased by €18.6 million to €105.2 million for the year ended 31 December 2005 from €86.6 million for the year ended 31 December 2004. Depreciation of fixed assets increased to €90.2 million for the year ended 31 December 2005 from €86.5 million for the year ended 31 December 2004. This increase is due to depreciation in capital expenditures directly related to the rollout of our triple-play product. Amortization of intangible fixed assets increased to €15.0 million for the year ended 31 December 2005 from €0.1 million for the year ended 31 December 2004. The increase relates to the amortization of the live pay television rights of the Eredivisie football matches during the second half of the year in 2005 and other content such as the Premier League Channels offered with our triple-play package.

Interest and Other Income

Interest and other income from continuing operations decreased by €3.0 million to €12.4 million for the year ended 31 December 2005, from €15.4 million for the year ended 31 December 2004. Interest income from Versatel Deutschland decreased to €7.9 million for the year ended 31 December 2005 from €11.9 million for the year ended 31 December 2004. This decrease was a result of a lower charge of intercompany interest to Versatel Deutschland as a result of divesting our German activities on 14 October 2005. Third party interest income increased to €4.6 million for the year ended 31 December 2005 from €3.5 million for the year ended 31 December 2004. This increase is due to interest income on an average higher cash balance resulting from the proceeds of convertible senior notes and slightly better interest rates during 2005.

Interest expense from continuing operations increased by €10.5 million to €12.4 million for the year ended 31 December 2005, from €1.9 million for the year ended 31 December 2004. This increase is primarily the result of the full year interest expense relating to the issue of a €125 million in principal amount of our Convertible Notes on 22 October 2004.

Currency Exchange

Currency exchange result, net from continuing operations, improved to a gain of €2.3 million for the year ended 31 December 2005, from a loss of €1.5 million for the year ended 31 December 2004. The gain relates to the exchange result on US dollar denominated cash and supplier payables.

Income Tax

Income tax credit / (charge) from continuing operations was an income tax charge of €8.7 million for the year ended 31 December 2005 compared to €0.8 million income tax credit for the year ended 31 December 2004. This primarily relates to a valuation allowance formed against available deferred tax assets of €8.2 million and income tax payable for subsidiaries not part of the Dutch fiscal unity amounting to €0.5 million.

Discontinued Operations

Results for the year ended 31 December 2005 from discontinued operations include the results for our German activities until 14 October 2005. On this date we sold our German activities to a subsidiary of Apax, by means of a transfer of all of our shares in Versatel Deutschland. This sale resulted in a gain of €240.5 million. Results from discontinued operations for the year ended 31 December 2004 were €24.9 million which includes the result for our German activities until 31 December 2004.

The year ended 31 December 2004 compared to the year ended 31 December 2003

Revenues

Revenues increased by €138.5 million to €600.7 million for the year ended 31 December 2004 from €462.1 million for the year ended 31 December 2003, representing an increase of 30.0%. This increase was due to autonomous growth, the full year revenue of tesion (subsequently renamed Versatel Süd-Deutschland) and its subsidiary Completel (subsequently renamed "Versatel Germany"), which were acquired at the beginning of the second quarter of 2003 and the four months consolidation of our acquisition of BerliKomm and its wholly owned subsidiaries BerlinNet and BerliKomm Asset Management (BerliKomm was subsequently renamed to Versatel Berlin), at the end of the third quarter of 2004. New revenues were generated primarily through the provisioning of new corporate customers, increased sales to existing customers and residential broadband subscriber growth in our core markets of The Netherlands and Belgium, and at the time, Germany. Included in the revenue for the year ended 31 December 2004 are sales from Versatel Süd-Deutschland and Versatel Germany of €117.6 million compared to revenue for the nine months of 2003 of €82.7 million and Versatel Berlin of €16.7 million. Excluding the German acquisitions, organic growth was €87.0 million, representing an increase of 22.9%.

Included in the revenues are data and internet service revenues amounting to €283.8 million for the year ended 31 December 2004 up from €212.5 million for the year ended 31 December 2003, representing an increase of 33.6%. Other data revenues amount to €1.1 million for 2004 and consist of the sale of telecommunications infrastructure assets held for sale, there were no such sales in 2003. Voice revenues increased to €315.8 million for the year ended 31 December 2004, from €249.6 million for the year ended 31 December 2003. Excluding the German acquisitions, data and internet service revenue increased by €47.5 million to €230.0 million. This increase is due to the growth in IP-VPN and residential broadband customers.

Direct cost of revenues increased by €67.6 million to €282.4 million for the year ended 31 December 2004 from €214.8 million for the year ended 31 December 2003. Excluding the German acquisitions, direct cost of revenues grew by €40.7 million to €206.0 million, representing an increase of 24.7%. This increase, which is higher than the organic revenue growth rate, is the result of higher fixed network cost on residential broadband customers due to the expensing of the one-off customer connection cost. This is partly off set by a more favorable mix in on-net traffic, regulatory improvements bringing down fixed and variable costs and the provisioning of higher margin bundled services.

Expenses

Selling, general and administrative expenses increased by €42.9 million to €200.2 million for the year ended 31 December 2004 from €157.3 million for the year ended 31 December 2003, representing an increase of 27.3%. Excluding the German acquisitions, selling, general and administrative expenses increased by €24.3 million to €151.8 million, representing an increase of 19.0%. This is the result of an increase in cost of staff (including temporary personnel) in the areas of sales and marketing, network operations including provisioning and customer service, increased public relation costs due to the launch of new products and increased maintenance costs associated with more customers connected to our network. Included in these selling, general and administrative expenses for the year ended 31 December 2003 is a charge for restructuring of €5.7 million related to the German acquisition and a credit of €14.9 million regarding a settlement with Deutsche Telekom.

Depreciation and amortization expenses increased by €6.7 million to €141.6 million for the year ended 31 December 2004 from €134.8 million for the year ended 31 December 2003. Depreciation of fixed assets increased to €140.3 million for the year ended 31 December 2004 from €134.6 million for the year ended 31 December 2003. Excluding the German acquisitions depreciation decreased by €3.9 million to €123.0 million. Amortization of intangible fixed assets increased to €1.2 million for the year ended 31 December 2004 from €0.2 million for the year ended 31 December 2003. During 2004 the full ownership was acquired in our subsidiary Versatel Deutschland buying-out Telco Executives' minority shareholdings. This resulted in goodwill of €21.2 million, which is amortized in 10 years. This resulted in an amortization expense of €0.7 million for 2004. At 30 June 2003 we acquired full ownership in our subsidiary Zon Nederland N.V. buying-out its minority shareholders. This resulted in goodwill of €4.2 million, which is amortized in 10 years. Amortization expenses amounted to €0.4 million for 2004 and €0.2 million for 2003.

Interest and other income

Interest and other income decreased by €1.6 million to €4.0 million for the year ended 31 December 2004, from €5.6 million for the year ended 31 December 2003. This decrease was primarily a result of a lower cash balance and a higher percentage of US dollar denominated cash that yielded lower interest than Euro denominated cash. The amount for the year ended 31 December 2003 also included other income amounting to €0.7 million, which relate to the renegotiation of a long-term liability of approximately €12.0 million with a leased fiber provider in Germany. We recognized a one-time gain of €0.7 million.

Interest expense increased by €1.7 million to €6.1 million for the year ended 31 December 2004, from €4.4 million for the year ended 31 December 2003. This increase is primarily the result of interest expense relating to the issue of a €125 million in principal amount of our Convertible Notes on 22 October 2004.

Income Tax

Credit from income taxes decreased to €0.8 million for the year ended 31 December 2004 from €10.2 million for the year ended 31 December 2003. This primarily relates to the subsequent losses of the Dutch fiscal unity, which are recognized and taken against the deferred tax liability at the Dutch corporate income tax rate. The deferred tax liability is the result of the gain related to the completion of the 2002 restructuring.

Currency Exchange

Currency exchange result, net, increased by €0.1 million to a loss of €1.4 million for the year ended 31 December 2004, from a loss of €1.3 million for the year ended 31 December 2003. The losses relate to the exchange result on US dollar denominated cash.

Minority Interest

Minority interest increased to €1.9 million for the year ended 31 December 2004, from €1.7 million for the year ended 31 December 2003. This relates to the relative share of the minority shareholder, Telco Executive, in the equity of Versatel Deutschland Holding.

Segmental Results of Operations

Segmental financial data relating to our revenues by region and type of customer for the nine month period ended 30 September 2006 and 2005 and the years ended 31 December 2005, 31 December 2004, and 31 December 2003 included herein are unaudited and have been extracted from our management accounts. These management accounts have been prepared using information derived from our accounting records used in preparation of our financial statements, but may also include certain management assumptions and estimates.

The table below sets forth our revenues by customer segment in The Netherlands and Belgium for the periods indicated:

<i>(€ thousands)</i>	Unaudited Nine Month Period Ended 30 September (IFRS)		Year Ended 31 December (IFRS)		Year Ended 31 December (Dutch GAAP)	
	2006	2005	2005	2004	2004	2003
Netherlands						
Business	141,628	129,797	176,545	151,918	151,918	147,548
Residential	52,069	44,311	60,944	62,258	62,258	43,282
Carrier Services	49,294	46,189	62,274	52,752	52,752	34,619
Total Revenue	242,991	220,297	299,763	266,928	266,928	225,449
EBITDA⁽¹⁾	45,467	41,876	55,844	71,403	72,503	58,288
Belgium						
Business	23,909	23,952	32,523	27,119	27,119	25,186
Residential	28,267	13,856	19,008	7,527	7,527	-
Carrier Services	21,814	19,492	26,814	25,365	25,365	21,871
Total Revenue	73,990	57,300	78,345	60,011	60,011	47,057
EBITDA⁽¹⁾	(3,420)	9,180	8,601	2,025	2,025	(173)

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

The table below sets forth our revenues by customer segment for the periods indicated for our continued and discontinued operations:

<i>(€ thousands)</i>	Unaudited Nine Month Period Ended 30 September (IFRS)		Year Ended 31 December (IFRS)	
	2006	2005 ⁽¹⁾	2005 ⁽²⁾	2004
Continued Operations				
Business	165,537	153,749	209,068	179,037
Residential	80,336	58,167	79,952	69,785
Carrier Services	71,108	65,681	89,088	78,117
Total Revenue	316,981	277,597	378,108	326,939
EBITDA⁽³⁾	42,047	51,056	64,445	73,428
Discontinued Operations				
Business	-	140,262	147,012	151,302
Residential	-	101,455	107,237	76,217
Carrier Services	-	46,260	48,932	46,221
Total Revenue	-	287,977	303,181	273,740
EBITDA⁽³⁾	-	66,750	71,013	44,552

(1) In our consolidated financial information for the nine month period ended 30 September 2005, Versatel Deutschland is consolidated and subsequently it was divested on 14 October 2005. The consolidated statement of operations information has been re-presented in order to reflect the operations of Versatel Deutschland 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 information 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.

(2) In our consolidated financial information for the year ended 31 December 2005, Versatel Deutschland is only consolidated until 14 October 2005. As explained above, the consolidated statement of operations information has been re-presented in order to reflect the operations of Versatel Deutschland as discontinued operations.

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

Nine month period ended 30 September 2006 compared to the nine month period ended 30 September 2005

The Netherlands

Revenues in The Netherlands rose to €243.0 million for the nine month period ended 30 September 2006 from revenues of €220.3 million for the nine month period ended 30 September 2005, an increase of 10.3%. EBITDA was €45.5 million for the nine month period ended 30 September 2006 compared to €41.9 million for the nine month period ended 30 September 2005.

Excluding the settlement with KPN of €4.2 million, recurring revenue for the nine month period ended 30 September 2006 was €238.8 million. The sequential increase in revenues comes from both the business and residential segment despite continued pricing pressure in the corporate and carrier (wholesale) market and the continued churn of our internet dial-up customer base and our off-net voice customers in the corporate market. In the business segment there is continued growth across the main products, in particular in IP-VPN, business telephony and ISDN services. The intake of new dual- and triple-play customers improved the revenues from our residential business.

On 30 September 2006, we had approximately 202,000 residential DSL customers (including ADSL2+) in The Netherlands. We continued to upgrade existing residential DSL customers to higher-end ADSL2+ services.

With regard to our dual- and triple-play products for the nine month period ended 30 September 2006, we recorded approximately 61,800 orders. At the end of the third quarter 2006, we had provisioned approximately 114,800 customers, of which approximately 103,000 were over ADSL2+ and approximately 11,800 over satellite.

In the business segment, we showed strong growth in IP-VPN business as we added 1,766 new sites in 2006, bringing the total to approximately 9,466 IP-VPN sites installed.

Belgium

Revenues in Belgium increased to €74.0 million for the nine month period ended 30 September 2006 from €57.3 million for the nine month period ended 30 September 2005. EBITDA was €(3.4) million for the nine month period ended 30 September 2006, compared to €9.2 million for the nine month period ended 30 September 2005.

On 30 September 2006, we had approximately 86,000 residential DSL customers, an increase of 59% from the 54,000 residential DSL customers in Belgium at 31 December 2005. This increase was a result of the successful launch of a dual-play product for the residential market. In the business market, we expanded our IP-VPN business in Belgium, by adding new IP-VPN sites for both new and existing customers.

The year ended 31 December 2005 compared to the year ended 31 December 2004

The Netherlands

Revenues in The Netherlands rose to €299.8 million for the year ended 31 December 2005 from revenues of €266.9 million for the year ended 31 December 2004, an increase of 12.3%. EBITDA was €55.8 million for the year ended 31 December 2005 compared with €71.4 million for the year ended 31 December 2004.

The sequential increase in revenues comes from both the business and residential segment. In the business segment there was continued growth across the main products, in particular in, IP-VPN business telephony and ISDN services. The intake of new triple-play customers improved the top line in the residential business.

On 31 December 2005 we had approximately 184,000 residential DSL customers (including ADSL2+) in The Netherlands. We continued to upgrade existing residential DSL customers to higher-end products.

With regard to the triple-play product at 31 December 2005 we recorded approximately 60,000 orders, of which approximately 50,000 were over ADSL2+ and approximately 10,000 over satellite. From these orders, we provisioned approximately 53,000 new customers as at the end of December 2005. The majority of new orders included fast internet, VoIP and football services.

In the business segment, we showed strong growth in our IP-VPN business as it added 1,573 new sites in 2004, an increase of 26% to approximately 7,700 IP-VPN sites installed with 678 customers at 31 December 2005.

Belgium

Revenues in Belgium increased to €78.3 million for the year ended 31 December 2005 from €60.0 million for the year ended 31 December 2004. EBITDA was €8.6 million for the year ended 31 December 2005, compared to €2.0 million for the year ended 31 December 2004.

On 31 December 2005, Belgium recorded approximately 54,000 residential DSL customers. In the business market Belgium expanded its IP-VPN business, by adding new IP-VPN sites for both new and existing customers.

The year ended 31 December 2004 compared to the year ended 31 December 2003

The Netherlands

Revenues in The Netherlands rose to €266.9 million for the year ended 31 December 2004 from revenues of €225.4 million for the year ended 31 December 2003, an increase of 18.4%. EBITDA was €72.5 million for the year ended 31 December 2004 compared with €58.3 million for the year ended 31 December 2003. We substantially increased the residential DSL subscriber numbers during 2004. For the year ended 31 December 2004 we had approximately 169,000 broadband DSL customers, an increase of approximately 64,500 or 62% compared to the beginning of the year when we had approximately 104,500 customers. This increase comes despite the fact that we stopped offering broadband DSL products outside our own coverage area, which we currently estimate covers approximately 65% of Dutch households. We showed strong growth in our IP-VPN business as we added 234 new customers in 2004, an increase of 66%. Additionally, new IP-VPN sites to existing customers were provisioned, increasing the total number of sites by 79% in 2004 to 6,127 provisioned for the year ended 31 December 2004. The success of winning new business and the extension of existing IP-VPN contracts is evidence of our strong foothold and good brand name in this market. In 2004, we signed up a large number of new business clients such as the Dutch Ministry of Housing, Spatial Planning and the Environment (Volkshuisvesting, Ruimtelijke Ordening en Milieubeheer), DSM, Nederlandse Spoorwegen (the Dutch Railways), Sanoma, Van Ganswinkel and Free Record Shop and also extended our business with existing customers like ABN AMRO, UWV Group and the Dutch Ministry of Justice.

Belgium

Revenues in Belgium increased to €60.0 million for the year ended 31 December 2004 from €47.1 million for the year ended 31 December 2003. EBITDA was €2.0 million for the year ended 31 December 2004, compared to a negative amount of €0.2 million for the year ended 31 December 2003. Although we only started addressing the residential market in early 2004, already more than 40,000 subscribers have been added to Versatel Belgium's DSL service. In the business segment, we managed to offset the churn of our off-net voice customers by growing our corporate business, in particular through our IP-VPN product by provisioning 610 new sites for the year ended 31 December 2004.

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. Until our financial restructuring in 2002, we had raised an aggregate of approximately €2.6 billion in proceeds, net of offering expenses, in a series of debt and equity offerings. On 9 October 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 22 October 2004, we issued €125.0 million in principal amount of our Convertible Notes 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 expenditures for each of the years ended 31 December 2005 and 2004 were €285.4 million and €135.4 million respectively and for the nine month period ended 30 September 2006 were €86.8 million.

As of 30 September 2006 and 31 December 2005, we had negative working capital (excluding cash and cash equivalents) of €137.3 million and €131.3 million, respectively. In the future we expect our working capital needs to increase. This is due to, among other things, the growth of our core business. Given our relative operational

strength and financial flexibility, we believe now is the time to increase our focus on our organic growth investments.

As of 30 September 2006, our cash and cash-equivalents balance amounted to €86.0 million.

Versatel Telecom International N.V. believes that the working capital available to it and its subsidiaries is sufficient for the present requirements, that is for at least the next twelve months from the date of publication of this Prospectus.

We believe, however, we may require additional capital after the next twelve month period for our continued operations. We do not have any commitments for additional financing other than the Commitment Agreement with Tele2 Finance.

Cash Flow Analysis

The following table summarises the principal components of our consolidated cash flows for the periods indicated:

	Unaudited Nine Month Period Ended 30 September (IFRS)		Year Ended 31 December (IFRS)		Year Ended 31 December (Dutch GAAP)	
	2006	2005	2005	2004	2004	2003
(€ thousands)						
Net cash flow from operating activities	37,665	115,083	355,205	100,330	100,330	72,581
Net cash flow used in investing activities	(86,786)	(240,675)	(1,178)	(131,249)	(131,249)	(103,667)
Net cash flow from financing activities	28,572	30,612	(516,955)	141,496	141,496	(1,045)
Net increase (decrease) in cash and cash equivalents	(20,549)	(94,980)	(162,928)	110,577	110,577	(32,131)

Net cash provided from operating activities

Net cash provided by operating activities was €37.7 million for the nine month period ended 30 September 2006, compared to net cash provided by operating activities of €115.1 million for the nine month period ended 30 September 2005. Included in the nine month period ended 30 September 2005 was cash provided from operating activities of our German businesses of €49.1 million. We sold our German business to Apax by means of a transfer of all of the shares in Versatel Deutschland on 14 October 2005. The remaining decrease in net cash provided by operating activities for the nine month period ended 30 September 2006 was primarily the result of a decrease in accounts payable primarily related to payments in 2006 to suppliers which had delayed payment dates during 2005.

Net cash provided by operating activities was €355.2 million for the year ended 31 December 2005, compared to net cash provided by operating activities of €100.3 million for the year ended 31 December 2004. This improvement was primarily the result of the sale of our German business in 2005.

Net cash provided by operating activities was €100.3 million for the year ended 31 December 2004, compared to net cash provided by operating activities of €72.6 million for the year ended 31 December 2003. This improvement was primarily the result of an increase in accounts payable as a result of higher capital expenditures.

Net cash used in investing activities

Net cash used in investing activities was €86.8 million for the nine month period ended 30 September 2006, primarily due to capital expenditures relating to the rollout of our dual- and triple-play products in Belgium and the purchase of Eredivisie football content in The Netherlands.

Net cash used in investing activities was €240.7 million for the nine month period ended 30 September 2005 was comprised of capital expenditures primarily relating to the rollout of our dual- and triple-play products in The

Netherlands. Included in cash used in investing activities were capital expenditures for our former German activities amounting to €83.8 million.

Net cash used in investing activities was €1.2 million for the year ended 31 December 2005, including capital expenditures of €285.4 million, primarily related to the rollout of the triple-play product and the net receipt of the proceeds from the sale of our German business of €284.2 million.

Net cash used in investing activities for the year ended 31 December 2004 was €131.2 million, which was primarily composed of capital expenditures of €135.4 million and our acquisition of Iparix Networks in The Netherlands for €1.2 million in November 2004. These amounts were offset by the cash balance of €5.6 million related to our German BerliKomm acquisition, which was financed by issuing approximately 24 million ordinary shares.

The €103.7 million of cash used in investing activities for the year ended 31 December 2003 consisted primarily of capital expenditures of €89.0 million and our acquisition of tesion and its subsidiary Completel (subsequently renamed Versatel Süd Deutschland and Versatel Deutschland Holding GmbH) in March 2003 for €14.6 million in cash (after netting €10.5 million in cash on the companies' balance sheets) and a 15% stake in Versatel Deutschland.

Net cash from financing activities

Net cash used in financing activities was €28.6 million for the nine month period ended 30 September 2006, compared to net cash provided by financing activities of €30.6 million for the nine month period ended 30 September 2005. Included in net cash used in financing activities for the nine month period ended 30 September 2005 was cash used in financing activities for Germany of €0.3 million. The net cash used in financing activities for the nine month period ended 30 September 2006, primarily relates to the one-time monetary compensation of €25.0 million from the landlord of a new office building in The Netherlands.

Net cash used in financing activities was €517.0 million for the year ended 31 December 2005, compared to net cash provided by investing activities of €141.5 million for the year ended 31 December 2004. The net cash used in financing activities for the year ended 31 December 2005, primarily relates to a distribution from reserves to our shareholders in connection with the consummation of the sale of Versatel Deutschland on 14 October 2005 of €728.6 million for which we received a loan from a related party amounting to €170.7 million. The net cash provided by financing activities for the year ended 31 December 2004, primarily relates to the net proceeds of the issue of our convertible senior notes of €122.1 million and the proceeds from exercised warrants into our ordinary shares resulting in €20.7 million cash receipts.

Net cash provided by financing activities was €141.5 million for the year ended 31 December 2004, compared to net cash provided by investing activities of €1.0 million for the year ended 31 December 2003. The net cash used in financing activities for the year ended 31 December 2003, primarily relates to the repayment of the short-term portion of our long-term debt to Flensburger Sparkasse, Germany amounting to €0.8 million.

Off Balance Sheet Items

As of 30 September 2006, we do not have any material off balance sheet arrangements other than commitments in connection with our capital expenditures relating to customer connections and network build-out in an amount of approximately €27.9 million, of which €23.3 million relates to The Netherlands and €4.6 million relates to Belgium. In addition, we have provided bank guarantees totalling approximately €25.1 million as of 30 September 2006 in connection with certain lease obligations or in favour of certain of our suppliers.

Rent and Operating Lease Commitments

The following table sets forth information with respect to our rent and operating lease minimum commitments as of 30 September 2006. The principal portion of our rent and operating commitments relates to the renting of office space and points-of-presence.

<i>(€ thousands)</i>	Total	2006	2007	2008	2009	2010 and further
Rent and operating leases....	118,102	2,712	15,055	13,193	11,198	75,944

Material Indebtedness

Convertible Notes

In October 2004 we issued €125.0 million principal amount of Convertible Notes. Interest is payable annually in arrears each year and the Convertible Notes rank equally with all of our other unsubordinated and unsecured indebtedness and senior in priority of payment to any of our subordinated indebtedness. In connection with the Tele2 Offers, Tele2 Finance purchased all of the Convertible Notes from the holders thereof and currently owns all of the Convertible Notes.

As of the date of this Prospectus, the Convertible Notes are convertible into an aggregate of 164,016,243 of our ordinary shares at a conversion price of €0.76 per ordinary share. The Convertible Notes are subject to a variety of anti-dilution adjustments, including in the event we issue subscription rights to purchase ordinary shares or ordinary shares themselves at a price below the current market price (as such term is used in the Convertible Notes). Upon the closing of the Offering, the conversion price of the Convertible Notes shall be recalculated according to a formula set forth in the terms of the Convertible Notes which takes into account the average price of the ordinary shares, weighted by turnover, and the average value of the SETs, weighted by turnover, during the Exercise Period. As a result of this recalculation the conversion price of the Convertible Notes may decrease and the number of shares issuable upon the conversion of the Convertible Notes may increase.

The terms of the Convertible Notes restrict our ability to secure certain indebtedness. We may at any time on or after 28 October 2009 redeem the Convertible Notes, in whole but not in part, at their principal amount together with accrued and unpaid interest to the date of redemption, provided that the trading price of our ordinary shares exceeds certain thresholds.

Related Party Loan with Tele2 Finance

Following the settlement of the Tele2 Offers we entered into a related party loan agreement with Tele2 Finance. This loan bears an interest rate of Euribor (or such other rate as may be notified by Tele2 Finance) plus 1.25% and is due in 2010. As of 31 December 2006, the amount outstanding under this loan, including accrued interest, totalled €177.9 million. We have agreed with Tele2 Finance, conditional upon the completion of the Offering, to refinance this loan in order to adjust the interest rate. As a result, the three months revolving interest rate of Euribor will be changed into a three year revolving interest rate of Interest Rate Swap. The margin (1.25%) above the Interest Rate Swap rate and due date (October 2010) will remain the same.

In addition we have agreed with Tele2 Finance that to the extent an amount is claimed under either of the two bank guarantees issued by Tele2 Finance on behalf of us (see "Principal Shareholders and Related Party Transactions – Related Party Transactions – Related to the Tele2 Offers" for a description of such guarantees) and the bank debits such claimed amount to the account of Tele2 Finance, such amount will be added to the principal amount of this loan under the same conditions that apply to such loan. After completion of the Offering it is our intention to cancel the two bank guarantees issued by Tele2 Finance and to issue said bank guarantees ourselves (if and to the extent still applicable and for the relevant amount).

Capital Expenditures

The following table shows our capital expenditures for the periods indicated:

	Unaudited Nine Month Period Ended 30 September (IFRS)		Year Ended 31 December (IFRS)		Year Ended 31 December (Dutch GAAP)	
	2006	2005	2005	2004	2004	2003
(€ thousands)						
Investment in intangible fixed assets	23,475	7,758	15,583	-	-	800
Investment in property, plant and equipment	63,311	232,917	269,829	135,448	135,448	88,247
Total	86,786	240,675	285,412	135,448	135,448	89,047

In 2005, we invested a total of €194.9 million in capital expenditures in The Netherlands, of which a significant portion was used to upgrade our IP network, invest in soft switches, media farms and customer premises equipment (including set-top boxes and multimedia modems). In 2004, we invested a total of €135.4 million and in 2003 a total of €89.0 million in capital expenditures, which related to the expansion and development of our network, to acquire various companies, to fund operating losses and for other general corporate purposes. We expect our future capital expenditures will primarily consist of customer specific expenditures including modems, routers, set-top boxes and other costs related to connecting customers to our network. We expect to fund these future capital expenditures with proceeds of the Offering which are not used to pay for the Acquisitions and operating cash flow.

For the nine month period ended 30 September 2006, we had invested a total of €63.1 million in capital expenditures in The Netherlands. In 2005, we invested a total of €6.8 million in capital expenditures in Belgium and invested for the nine month period ended 30 September 2006 an amount of €23.7 million. Higher investments in 2006 resulted from our DSL rollout in Belgium.

Commitments in connection with our capital expenditures relating to customer connections and network build, not yet recorded on the balance sheet amount to approximately €27.9 million as of 30 September 2006, of which €23.3 million relates to The Netherlands and €4.6 million relates to Belgium.

Qualitative Disclosure About Market Risk

The principal categories of market risk we are exposed to are credit risk and interest rate risk.

Credit Risk

We are exposed to credit risk from the sale of our products on credit to our customers as well as with respect to the usage of our network by other carriers. We assess our credit risk on a continuous basis and make provisions for expected losses. Our trade receivable accounts are not typically covered by collateral or credit insurance, and we therefore bear the risk that our counterparties will be unable to pay against their receivable accounts. In the event any of our large counterparties are unable to pay against their receivable accounts, we could suffer from a decline in revenues and profitability. Although we have procedures to limit our exposure to credit risk, we cannot guarantee that we will be able to limit our potential loss of revenues and income from counterparties who are unable to pay against their receivable accounts. In particular, if global, regional or national economic conditions significantly deteriorate, there is a risk that counterparties in those markets affected may suffer from a weakened financial condition and be unable to pay against their receivable account.

Interest Rate Risk

We are exposed to market risks from changes in interest rates charged on our outstanding loan with Tele2 Finance. As at 30 September 2006, €175.9 million under this loan was outstanding and payable in 2010. The loan with Tele2 Finance bears an interest rate equal to Euribor (or such other rate as may be notified by Tele2 Finance) plus 1.25%. The value of this loan is therefore subject to change as a result of movements in market rates and prices.

Principal Accounting Policies

The preparation of financial statements in conformity with Dutch GAAP and IFRS requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and any related disclosure of contingent assets and liabilities. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. As this can vary in each situation, actual results may differ from the estimates under different assumptions and conditions.

We consider the following principal accounting policies are important in understanding our financial statements beginning on page F-1. The following accounting policies relate to our accounting under IFRS, unless otherwise stated.

Foreign Currency Transactions

Our 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.

Intangible Fixed Assets

Goodwill originating from the acquisition of investments represents the difference of the fair value of the net assets and the acquisition cost of the investments at the time of the acquisition.

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. We allocate goodwill to each business segment in 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.

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

Other property, plant and equipment operated by us under a financial lease agreement are discounted at our refinancing rate and are capitalized. The related debt is presented under long-term lease obligations. The short-term portion is presented under short-term portion of long-term lease obligations.

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.

Financial Fixed Assets

Financial fixed assets include investments and long-term receivables. Financial fixed assets are stated at the lower of cost or fair value.

Impairment of Assets

We review our property, plant and equipment and intangible assets for impairment at least once a year 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.

Inventory

Inventory is stated at the lower of cost or net realizable value with cost being determined on a first-in first-out basis.

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 we 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".

Income Taxes and Deferred Income Tax

We account for income taxes 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.

Other Assets and Liabilities

The fair value of the liability component of the Convertible Notes is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in the equity, net of income tax effects.

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

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 tangible fixed assets 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. We have entered into alliances and revenue share arrangements with third parties for content and other voice services. Determining whether we are the principal or the agent in these transactions depends on the fact of each arrangement. When we are identified as the principal in the transaction the revenue is recorded as the gross proceeds billed, net of any discounts. When we are identified as an agent, the net commission earned is recorded as revenue. Specifically, our policies are as follows:

Voice Revenues

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

- *General Voice services:* we primarily generate 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:* We offer 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, we collect per minute fees and pass 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:* We provide 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 rateably over the period of the specific arrangement.
- *Data Centers and Central Office Facilities services:* We provide co-location, telehousing and interconnect facilities services. Revenues related to these services are recognized rateably 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 our 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 we do not act as a principal in the transaction.

Other Carrier Services Revenues

Operating revenues derived from other Carrier Service Revenues relate to transactions where we have sold infrastructure to other carriers.

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.

Share-based compensation

Until the closing of the Tele2 Offers, we operated an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense in the statement of operations over the vesting period.

The fair value of the options granted has been calculated using a binominal options valuation model. The charge to the statement of operations over the relevant option vesting periods is adjusted to reflect the actual levels of vesting. This charge is presented in the statement of operations as wages and salaries.

Currently, we do not operate any share-based compensation plans.

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 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.

Principles of consolidation

The consolidated financial statements include our accounts and all entities in which we have a controlling voting interest (each, a “**Subsidiary**” and together, “**Subsidiaries**”). The results of these entities are included from the respective dates of our acquiring control and excluded when this control ended during a particular year. All significant intercompany transactions have been eliminated.

Results attributable to minority interest in the consolidated statement of operations represent the minority shareholders’ share of the income or loss of the consolidated Subsidiaries. The minority interest in the consolidated balance sheet reflects the original investment by these minority shareholders in the consolidated Subsidiaries, adjusted for their proportional share of the income or loss of the Subsidiary. When the minority interest amount in the consolidated balance sheet is fully offset by losses of the Subsidiary, we recognize the entire net loss of such Subsidiary.

INDUSTRY OVERVIEW

Introduction

We are an alternative broadband telecommunications and media service provider in our target markets of The Netherlands and Belgium. Some of the characteristics of these markets are discussed below.

History and Deregulation

Historically, the fixed line telecommunications market in Europe was dominated by strong public service monopolies such as KPN and Belgacom. Deregulation in the 1980s and 1990s led to privatization of these monopolies and the introduction of competition for fixed line services throughout Europe. Taking advantage of the opportunities presented by deregulation, new competitors entered the market, responding to the changing requirements of customers and using the latest technologies to meet those requirements.

Despite the initial regulatory changes which created competition in European markets, KPN and Belgacom, as the former PTTs, continue to be the incumbent national operator in The Netherlands and Belgium, respectively. Alternative operators such as ourselves have often concentrated on customers and services where the incumbent PTTs appear weakest and customer expectations most demanding, for example, price-sensitive larger customers, value-added services and newer services, such as broadband. The substantial presence of the incumbent PTTs in many of the sub-markets of the telecommunications market has meant they are subject to extensive and potentially sustained regulation.

For further information how regulation impacts our industry, and to a direct and indirect extent us, see “Regulation”.

Competition

The telecommunications industry is highly competitive in the areas where we compete. This is particularly true where the opportunity for product differentiation is low and the customer’s purchasing decision is largely price driven, for example in switched voice traffic and point-to-point bandwidth services. Consequently, although the volume of switched voice traffic has increased significantly over the last ten years, the price for such services has declined over this period.

Competition is continuing to generate strong downward price pressure across the market for business telecommunications services. Most operators’ response to this situation has been to attempt to move into the value-added segments of the market.

The fixed-line sector is subject to increased competitive pressure from the mobile sector. This has to date principally been in the form of “fixed-mobile substitution”, where the ubiquity and ease of a mobile phone has led to customers making calls from mobiles that could otherwise be made from fixed lines.

In The Netherlands and Belgium, we primarily compete with the resident PTT (KPN or Belgacom) in the fixed line market. We also face competition for switched traffic from a number of smaller alternative service providers.

Systems Integrators which provide integrated IT systems are increasingly entering the telecoms market as they look to add more value to their offerings by integrating telecommunications services into their existing products. We have not sought to compete with Systems Integrators. We believe that in the information and communications technology market we are seen as an attractive partner for these companies.

The voice market is also subject to competition from new entrants in the VoIP market such as Skype and Vonage, who have offerings in the small and medium size corporate markets. We also regard the competition that will come from such new technologies and market entrants as important factors that will influence our medium to long term profitability as customers migrate to those new services and technologies. Our response to competition from these and other market entrants has been to launch our own new products such as VoIP in combination with a high-speed internet connection. A key priority for us will be to continue to develop such new products and to generate new revenues through the migration of existing customers to these new products and through winning new customers.

The incumbent PTTs’ continued strength and the inherent “any-to-any” nature of most voice telecommunications services (i.e. customers need to be able to talk to anyone and not only customers on an operator’s own network)

means that alternative operators must use incumbent PTTs' networks to provide services to their own customers. Some point-to-point connections are also purchased from incumbent PTTs to provide bandwidth service connectivity to alternative operators' customer locations that are "off network". Hence, PTTs are typically alternative operators' largest suppliers as well as their principal competitors. The basis on which operators connect their networks is known as "interconnection" and payments are made between operators for interconnection services. Regulators have required incumbent PTTs to provide interconnection services. Fixing the terms of interconnection services continues to be a source of dispute between alternative operators and incumbent PTTs. Despite continuing efforts by regulators, alternative operators may never achieve an equal footing with the incumbent PTTs without some radical restructuring of the incumbent PTTs. Certain operators, like us, have therefore developed direct access to customers, thereby minimising the need to use the incumbent networks. However our customers will usually need the ability to communicate with end-users connected to the networks of incumbent PTTs. As a result, we will continue to need interconnection services from incumbent PTTs.

Product Types

The types of products and services available in the fixed line and mobile telecommunications, broadband communications and media services markets are constantly evolving. We offer some products and services in each of the product segments identified:

Voice

The fixed line voice services generally provided for in our industry consist of: carrier (pre)select, dial around, least cost routing, ISDN and call termination services. Recently several products based on IP have been introduced in our industry, such as VoIP (a product making use of the IP protocol) in the residential market and IP Telephony in the business market. In addition, 0800- (free toll numbers) and 0900- (premium rate service numbers) are offered.

The mobile voice services generally provided for in our industry consist of: pre-paid, post-paid and mobile data services.

Data and Internet

The data services generally provided for in our industry consist of: IP-VPN, ATM Frame Relay, co-location, telehousing and interconnect facilities services. Some of these services are also offered to other carriers.

The Internet services generally provided for in our industry consist of: ADSL, ADSL2+, SDSL, dial-in narrowband, Web hosting, E-commerce and domain name registrations.

Bundling and Convergence

In competitive markets, bundling of products and services is becoming increasingly important. Bundling, where appropriate, allows an operator to increase the total revenue per customer while at the same time reducing churn and future price-pressure on the more price-sensitive services in the bundle. Bundling is particularly effective for operators that have direct connections to customers, as we do, where once the customer is connected the marginal cost of providing additional services is low. In parallel with this bundling approach to packaging and pricing services, the products and services in the telecommunications market are converging. This is principally driven by the position of IP as the de facto standard for transmission and routing telecoms equipment. Operators will require both the network skills to manage this convergence in their network, and to provide the managed services and support to customers.

Technological Developments

In our view, the following are currently among the most important technological developments in the European telecommunications market:

VoIP: This technology, which allows voice traffic to be transmitted over the internet, provides a new method of communication in the enterprise market. VoIP technology enables features such as unified messaging, presence management and a single contact number.

Fixed-Mobile Convergence: The mobile operators' strategy for convergence, providing services which operate from different end-user devices ranging from desktop personal computers to mobile handsets.

Multiprotocol Label Switching (“MPLS”): MPLS is widely used to deliver secure IP-based Virtual Private Networks (“**IP-VPN**”s). Operators are continuing to develop the IP-VPN features to add more quality of service and policy management features that enable the customer to use the bandwidth within the VPN more efficiently.

Carrier Ethernet: With Carrier Ethernet, enterprises can save costs on equipment, fulfil flexible high bandwidth requirements, deploy multi-site Information Technology (“**IT**”) architectures and consolidate servers. Since there is still excess demand for Carrier Ethernet, due to limited geographical availability of services, alternative carriers may have an opportunity to develop and offer Ethernet services faster than the incumbent PTTs.

Low Cost Access: Beyond Asymmetric Digital Subscriber Line (“**ADSL**”) and Symmetric Digital Subscriber Line (“**SDSL**”), there are a number of access technologies based on high frequency digital transmission over copper lines. These can deliver Ethernet or IP over copper lines at speeds of up to 100Mbit/s by bonding copper pairs and using advanced modulation techniques.

*Worldwide Interoperability for Microwave Access (“**WiMax**”) Forum:* This is an organization that aims to standardise and promote the use of broadband wireless access based on the IEEE 802.16d standard. This standardization will reduce the costs of wireless access equipment and enable non-line of sight radio systems to provide Ethernet based services to buildings using initially the 3.5GHz and 5.8GHz spectrum. These wireless systems are known to deliver cost effective services to suburban and rural areas.

BUSINESS

Overview

We are an alternative broadband telecommunications and media service provider in our 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. We provide services to business and residential customers as well as other telecommunications, data and internet service providers in our target markets.

We hold the required telecommunication registrations and licenses in The Netherlands and Belgium and as of 30 September 2006 have over 422,000 customers and approximately 860 employees. Our ordinary shares are currently traded on Euronext Amsterdam under the symbol "VRSA".

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

- **Backbone Infrastructure.** Our 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 allow us to connect customers directly to our network utilizing our own fiber, DSL and other copper-based technologies, wireless technology and leased lines on a cost effective basis; and
- **International Infrastructure.** We have established a dark fiber based international network extending our backbone infrastructure to the major interconnection and internet exchange points in Western Europe. We have points of presence in London, Paris, Frankfurt and Düsseldorf with extensive Synchronous Digital Hierarchy ("SDH") and IP connectivity to Amsterdam, Dortmund, Brussels, and our high bandwidth network in The Netherlands and Belgium. We have also extended our 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 30 September 2006, we had a backbone infrastructure consisting of approximately 2,000 kilometres in The Netherlands and Belgium. Additionally, as of 30 September 2006, we had local access infrastructure of approximately 1,500 kilometres in The Netherlands and Belgium.

Via our majority shareholder Tele2 Finance, we are part of the Tele2 group. Tele2 is one of Europe's leading alternative telecom operators. It has been listed on the Stockholm Stock Exchange since 1996. Tele2 operates in 22 countries in Europe. Its operations are divided into six market areas. We are part of the market area UK & Benelux.

Within the Tele2 group, we are a subholding company that conducts our business operations through our subsidiaries. Our principal direct and indirectly held operating subsidiaries are currently as follows:

Name	Country of Incorporation	Percentage of Ownership
Versatel Nederland B.V.	The Netherlands	100%
Versatel Belgium N.V.	Belgium	100%

History

We were incorporated under the laws of The Netherlands on 10 October 1995, as a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid* or B.V.) We converted our legal structure from a B.V. to a public company with limited liability (*naamloze vennootschap* or N.V.) on 15 October 1998.

We started as a switchless reseller of voice telecommunications services in The Netherlands. In 1998, we started the build-out of our broadband fiber network designed to provide high quality, broadband services over our own local access infrastructure to customers throughout our target market.

Prior to May 1998, we financed our infrastructure build and growth primarily through equity and subordinated loans from our shareholders. Between May 1998 and April 2000, we raised an aggregate of approximately €2.6 billion in proceeds, net of offering expenses, in a series of debt and equity offerings, which include our initial public offering in July 1999 and the listing of our ordinary shares on Euronext Amsterdam. As a result of adverse trading conditions, we completed our financial restructuring on 9 October 2002 by paying approximately €342.8 million in cash and issuing approximately 365 million new ordinary shares to our former bondholders in consideration for eliminating all of our outstanding high yield and convertible debt.

Tele2 Offers and Proceedings with the Enterprise Chamber

On 13 September 2005, Tele2 Finance, an indirect wholly owned subsidiary of Tele2, ourselves and Apax announced that final agreement had been reached on a recommended offer (“**Tele2 Offer I**”) by Tele2 Finance for all of our issued and outstanding ordinary shares and a recommended offer (“**Tele2 Offer II**”) by Tele2 Finance for all of our issued and outstanding 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 14 September 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 our 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 28 October 2005.

As part of the Tele2 Offers, 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 from us our telecommunications business in Germany for approximately €539.0 million. This acquisition of our German business was structured as a sale to Apax of all of the issued and outstanding shares of Versatel Deutschland. Upon the completion of such sale, the proceeds thereof were to be distributed to our 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 us following completion of the Tele2 Offers, inter alia, by means of entering into a triangular legal merger, pursuant to which our remaining shareholders following the consummation of the Tele2 Offers (other than Tele2) would have their shares in us exchanged for shares of a group company of Tele2.

On 20 September 2005, we announced that we had received notice that a group of our shareholders led by Centaurus Capital Limited had filed a request with the Enterprise Chamber for a judicial investigation into our affairs (*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 us 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 Board members in office at the time and their discharge from liability, the appointment of a new Managing Director and new Supervisory Board 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:

- we 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 our 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 our Supervisory Board and Management Board should not have recommended these Tele2 Offers to our shareholders and bondholders; 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 our shareholders 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 us.

On 27 September 2005, we 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 14 October 2005, as a result of the settlement of the Tele2 Offers:

- Tele2 Finance acquired 74% of our then-outstanding issued share capital and all of the Convertible Notes;
- the sale of Versatel Deutschland was completed;
- we made an interim distribution of €1.391585 per ordinary share to our current shareholders out of our freely distributable reserves, as distribution of the proceeds of the sale of Versatel Deutschland. We 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 our Supervisory Board 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 our Supervisory Board became effective.

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

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

- prohibit us from amending our existing corporate governance policy; and
- appoint two members to our Supervisory Board who would be exclusively authorized to represent us in all discussions, negotiations and transactions with Tele2 companies, including the contemplated legal merger that would cause the Petitioning Shareholders' ordinary shares in us to be exchanged for shares of a group company of Tele2.

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

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

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

- we would cease to exist as a separate legal entity and Tele2 Finance would acquire all of our assets and liabilities;

- our shareholders would receive non-listed shares in Tele2 Holdings in exchange for their current shares in us; and
- the trading of our ordinary shares on Euronext Amsterdam would terminate.

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

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

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

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

On 21 April 2006, we announced in reference to the 24 March 2006 ruling of the Enterprise Chamber that we would prepare a new proposal for a triangular merger between us, 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 us and our 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. We further announced that it was anticipated that a new merger proposal would be published within a few months.

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

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

On 16 August 2006, we announced our intention to acquire Tele2’s Dutch and Belgian businesses. See the section of the Prospectus entitled “Acquisitions of Tele2 Netherlands and Tele2 Belgium” for a more complete description of this contemplated transaction.

On 8 December 2006, we, jointly with Tele2, announced that the Enterprise Chamber in Amsterdam ruled that the request for an investigation into our affairs had been denied. The Enterprise Chamber found no grounds to doubt a proper policy which would justify such an investigation. We also announced that since the proceedings before the Enterprise Chamber had terminated, Messrs. Eschauzier, Bouma and Wortel resigned as members of our Supervisory Board, effective 8 December 2006. However, in the interest of continuity in our corporate governance, we 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 us until the closing of the Acquisitions and the Offering. Messrs. Eschauzier, Bouma, and Wortel have confirmed to us that they are willing to do so in their capacity as members of the Special Advisory Committee.

On 6 February 2007, we announced that new proceedings before the Enterprise Chamber had been filed against us 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 (*enquête*). The provisional measures were aimed at prohibiting us 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 12 February 2007, we announced that the Enterprise Chamber denied the request for the provisional measures. The request for an investigation into our affairs is still pending.

Recent Developments

On 2 October 2006, we announced the signing of a two-year agreement with ten provinces in The Netherlands – Drente, Flevoland, Friesland, Limburg, Noord-Brabant, Noord-Holland, Overijssel, Utrecht, Zeeland and Zuid-Holland – regarding the supply of fixed-line telecommunication services. The contract was awarded to us following a European tender called by the ten provinces and Inter Provinciaal Overleg, the umbrella organization of the Dutch provinces. The contract has a value of approximately €2.0 million and can, at the option of the provinces, be twice renewed for a one-year period at a time.

On 12 October 2006, we announced that we had been selected as a supplier of fixed-line telecommunication services 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. Regarding fixed-line telecommunication services, we are one of the telecommunication providers selected, whereas we have been selected as the sole provider for wholesale fixed-line telecommunication services.

On 14 November 2006, we announced the signing of agreements with the Municipalities of The Hague and Groningen, Informatie Beheer Groep and REISinformatiegroep. The long-term agreements with the Municipality of The Hague and the two-year agreement with the Municipality Groningen all relate to the termination of fixed line telecommunications and were awarded to us after winning a European tender called by the three government agencies. The agreement with REISinformatiegroep concerns the supply, servicing and hosting of REISinformatiegroep's entire server-infrastructure. In aggregate, the agreements with the Municipalities of The Hague and Groningen, Informatie Beheer Groep and REISinformatiegroep have a value of approximately €2.7 million.

On 27 November 2006, we announced the signing of an agreement with medical insurer Agis for interactive advertising by Agis on our TV channels.

On 7 December 2006, we announced that the Dutch national daily De Telegraaf has been engaged to produce a series of pay-web TV programs relating to the Eredivisie football matches. The programs shall be made available via our Eredivisie channels, as well as the website of De Telegraaf, including www.telesport.nl.

On 1 January 2007, Mr. J. van Berne, our Chief Development Officer and General Counsel, resigned.

On 26 January 2007, Mr. S. H. Zadler, one of the members of our Supervisory Board, resigned.

On 12 February 2007, at an extraordinary General Meeting Mr. E.J. van Rooijen, our Chief Financial Officer, was appointed as a member of the Management Board and Mr. J.L. Bouma, Mr. A. Olsson, and Mr. R.L. de Bakker as members of the Supervisory Board. Also at this General Meeting, Mr. H. Ringmar was appointed as a member of the Management Board and our Chief Executive Officer, subject to the resignation of our current Chief Executive Officer, Mr. P.G. Borgklint. Mr. Borgklint has indicated that he shall resign at the closing of the Acquisitions and the Offering or 1 May 2007, whichever date occurs earlier. Since 1998 Mr. Ringmar has held various positions within the Tele2 group including as Vice President Tele2, chief executive officer of Tele2 Norge AS and chief executive officer of Svenska UMTS-nät AB. His most recent position was that of chief executive officer of Procure IT Right, a subsidiary of Tele2. Messrs. Bouma and De Bakker have been appointed to the Supervisory Board as members who are independent in relation to Tele2. Their appointment is subject to the closing of the Acquisitions and the Offering.

Strategy

Our objective is to become the leading alternative provider of telecommunications and media services, including voice, data, internet, video/television and VAS services, to business and residential customers as well as other telecommunications, data and internet service providers in our target markets. The principal elements of our strategy are:

- **Continue to Connect Customers to Our Network.** We intend to continue to seek to directly connect as many customers as possible to our network using our own fiber, DSL technology, wireless technology, leased lines and other technologies to the extent such technologies become cost effective and available. We believe 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.** We intend 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;
- **Maintain Focus on Targeted Customer Segments.** In each of our core markets, we aim 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 preselection 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, we intend 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 our Existing Network.** In addition to the deployment of a dense backbone network and as part of our local access infrastructure network in The Netherlands and Belgium, we have made significant investments in central offices for the deployment of DSL infrastructure. As at 30 September 2006, we have 313 central offices operational in The Netherlands, covering an area that we estimate to represent approximately 65% of Dutch households. As a result, we believe that we are well positioned to deliver local access services cost-effectively to a large segment of the business and residential market in The Netherlands; and
- **Focus on Superior Customer Service.** We strive 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.

Products and Services Offerings

Business Products and Services Offerings

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

Fixed Telephony

We offer a full portfolio of fixed telephony services. This ranges from basic carrier (pre)select and ISDN connections on our 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

We offer 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 us.

Data

We offer data network solutions to our 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 our customers that require floor space for servers and network equipment.

Internet & Hosting

For internet access we offer 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, we offer shared and dedicated hosting services with email 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) we have offered the following products and services to carrier customers:

Leased Circuits

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

vPoP (“Virtual Point of Presence”)

Our vPoP service provides the dial-in service needed to support large scale internet access. Our 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

Our co-location service is designed to meet the specific needs of new carriers, established carriers, and ISPs. Our 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. Our 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 our network allow connection to national and international carriers thereby ensuring route diversity at competitive rates.

C(P)SH (“Carrier (Pre)select Hosting”)

The C(P)SH service provides the switching capacity needed to support switchless 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

Our 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. We adopt and deploy 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

Our internet uplink service is a high-quality internet transit service aimed to serve our customers' network capacity requirements. Our internet uplink service offers ISPs and corporate and telecom operators connectivity throughout Europe, the United States, and the rest of the world. We have 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. Our 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, we offer a comprehensive portfolio of call termination and originating services. Our connectivity options 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, we have offered Internet access services (both ADSL and dial-up narrowband) to residential customers. Our current DSL Internet access service offerings range in speeds from 1Mbps up to 20 Mbps.

Dual-play

Since the first quarter of 2006, we have offered DSL internet access in combination with a telephony service (which we refer 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, we have offered DSL internet access in combination with telephony and video/television services (which we refer 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. We currently deliver more than 50 television and radio channels, hundreds of movies, live Eredivisie football and "Uitzending gemist" delay television.

New Initiatives

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

In The Netherlands and Belgium, we have rebranded our residential operations to "Tele2" in order to capitalize on the better brand awareness that Tele2 has in this market. All residential marketing campaigns have been consolidated under the Tele2 brand name, in addition to our website interface where customers are offered additional services. In addition, we are currently considering a rebranding to the "Tele2" brand name in the business market.

In the first quarter of 2006, we 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 our network coverage area are connected by us and those outside of our coverage area are connected via Tele2's wholesale bitstream solution offered by KPN.

Following up on the launch of Tele2 Compleet in March 2006, we were 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.

Our Network

Our high bandwidth network has been designed and built to provide flexible, broadband local access services to major business customers and population centers in The Netherlands and Belgium and to several international destinations. Our network carries voice, data and internet traffic and supports all major protocols, including Frame Relay, ATM and 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 rollout of triple-play services are fully IP-based.

We connect with the major internet exchanges in Amsterdam, Frankfurt, Berlin, Brussels, London and Paris and have increased the number and quality of peering arrangements with carriers of IP-traffic to enhance our presence in the rapidly expanding European internet services market.

Our network consists of the following integrated elements:

- **Backbone Infrastructure.** Our 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 us to connect customers directly to our network utilizing our own fiber, DSL and other copper-based technologies, wireless technology and leased lines on a cost effective basis; and
- **International Infrastructure.** We have established a dark fiber based international network extending our backbone infrastructure to the major interconnection and internet exchange points in Western Europe. We have points of presence in London, Paris, Frankfurt and Düsseldorf with extensive SDH and IP connectivity to Amsterdam, Dortmund, Brussels, and our high bandwidth network in The Netherlands and Belgium. We have also extended our 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.

Service Platforms

Our network incorporates service platforms to deliver each of the major service categories we offer or plan 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 we provide to end-users and our offering of outsourced services to ISPs and content providers. An SDH transmission platform provides highly reliable transmission capacity for our other services and for capacity leased to other operators, service providers and customers. In parallel, we have an additional platform of IP equipment connected directly to fiber, which currently supports our internet and data services and we intend 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.

Network Management

We monitor our network 24 hours a day, seven days a week, at our network operations center. Our network operations center is able to identify network interruptions as soon as they occur and allows us to re-route traffic to ensure high quality service. Our network operations center also has an uninterrupted power supply as well as redundant communications access and computer processors. We control our own points of presence in The

Netherlands and Belgium, which allows us immediate access to our equipment and network for rapid service restoration when necessary.

We have a back-up network operations center in the event one of our primary network operations centers is forced off-line. Our primary network operations center for The Netherlands and Belgium is located at our headquarters in Amsterdam.

Sales and Marketing

We market the majority of our products and services under the “Versatel” and “Tele2” brand names through several marketing channels, including database marketing, targeted telemarketing, brand and promotional advertising, direct mail and our sales force. We are currently considering a rebranding to the “Tele2” brand name in the business market. In connection with the Tele2 Offers, Tele2 and a subsidiary of Apax agreed that we would transfer the “Versatel” trademark and tradenames for no consideration and we would receive an exclusive royalty free license to use such trademark and tradenames for a period of three years following the Tele2 Offers in the Benelux. However, we agreed, after the settlement of the Tele2 Offers in 2005, with Apax that the tradename “Versatel” registered in Germany will be transferred to them and are currently discussing their use of the “Versatel” tradename in other jurisdictions.

We have obtained the right to use the Tele2 brand (name and logo) for an indefinite period and free of charge. See “Principal Shareholders and Related Party Transactions”.

Our sales force is comprised of direct sales personnel, telemarketers, independent sales agents and systems integrators. In the future, based on our ability to continue to provision customers directly to our network, we expect to increase the number of our direct sales personnel. Our sales personnel make direct calls to prospective and existing business customers, analyse business customers’ usage and service needs and demonstrate how our services may improve customers’ communications capabilities and costs. In addition, we have a telemarketing group that screens prospective customers and monitors existing call volumes to identify prospective customers.

Customer Service

Our goal is to obtain an advantage over our competitors in our target markets by providing superior customer service. We believe that providing a high level of customer service is a key element to establishing customer loyalty and attracting new customers. We have dedicated customer service representatives who initiate contact with our 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, we provide detailed monthly billing statements and monthly call management reports that identify savings to customers and enable them to manage their telecommunications expenditures more effectively.

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

Competition

In The Netherlands and Belgium, our largest competitors are KPN and Belgacom, the respective 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 ours. In addition, the national PTTs own and operate significant portions of the infrastructure, which we must currently access to provide our services. We estimate 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 our main competitors in the areas of business, residential and carrier services:

<u>Market</u>	<u>The Netherlands</u>	<u>Belgium</u>
Business	KPN Telecom Colt Telecom Verizon BT Getronics	Belgacom Colt Telecom Scarlet Telenet Verizon BT
Residential	KPN Telecom Orange Tiscali UPC Essent/Casema/Multikabel Scarlet	Belgacom Telenet Scarlet
Carrier	KPN Telecom Colt Telecom BT BBNed Verizon	Belgacom Verizon Colt Telecom Telenet

Intellectual Property

We have previously registered several trademarks such as “Versatel” and “Tele2-Versatel” in The Netherlands and Belgium and in several other European countries. We have obtained rights to the internet domain name www.versatel.com and several related domain names, and continue to look at opportunities to register other valuable domain names. In connection with the Tele2 Offers, Tele2 and a subsidiary of Apax agreed that we would transfer the “Versatel” trademark and tradenames for no consideration and we would receive an exclusive royalty free license to use such trademark and tradenames in the Benelux for a period of three years following the Tele2 Offers. However, we agreed, after the settlement of the Tele2 Offers in 2005, with Apax that the tradename “Versatel” registered in Germany will be transferred to them and are currently discussing their use of the “Versatel” tradename in other jurisdictions.

We operated our residential internet service under the “Zon” name from September 1999 until December 2004, and have trademark registrations regarding the Zon name and logo. Sun Microsystems has contested our use of the Zon name and we had discussions with them regarding the use of the Zon name prior to terminating its use in December 2004. Currently we are 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 valid.

Legal Proceedings

As discussed earlier in “– Tele2 Offers and Proceedings with the Enterprise Chamber” the Petitioning Shareholders filed a request with the Enterprise Chamber for a judicial investigation into our affairs (*enquêteverzoek*) relating to a variety of matters, including the March Proposed Merger. The Enterprise Chamber ruled on 8 December 2006 that the request for an investigation into our affairs was denied. However, this ruling is still subject to the Petitioning Shareholders filing for an appeal with the Supreme Court in The Hague. On 6 February 2007, we announced that a new request for an investigation into our affairs had been filed. This request is still pending. If an investigation into our affairs is ultimately awarded, the outcome of these proceedings may ultimately be that certain resolutions of our Management Board, our Supervisory Board and our General Meetings are nullified, including but not limited to resolutions relating to the Tele2 Offers and the sale of our German business that was completed in 2005. Also, on 11 September 2006 certain of our shareholders filed a claim against us with the District Court in Amsterdam relating to certain resolutions of our General Meeting held on 29 September 2005, including, but not limited to, the sale of our German business and a distribution to our shareholders of approximately €728.6 million. Should 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 we have concluded with third parties.

In October 2000, we were informed by the public prosecutor in The Netherlands of potential civil and criminal tax liabilities relating to certain employee stock options granted prior to our initial public offering in July 1999. Although we had consulted with our Dutch tax advisors and the Dutch tax authorities prior to issuing these options and although we believe the tax treatment of these options was correct, we 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 us.

In June 2002, we 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. We lodged an objection against the assessment, and the Dutch tax authorities took a negative decision to this objection in January 2003. We then lodged an appeal at the Amsterdam Court of Appeals. In December 2005, the Court ruled against us. We filed for appeal in cassation at the Supreme Court in The Hague in January 2006, where we presented our case on 18 October 2006. This procedure is still pending. On 31 January 2007 we were 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 we do not need to provide them with any guarantees for the disputed amount so long as we maintain an agreed upon cash position. Since we were not able to maintain this cash position, our majority shareholder Tele2 Finance arranged for a bank guarantee in the amount of €14.6 million on 14 December 2006. We have signed a counter indemnity agreement by which costs incurred by Tele2 Finance are recharged to us at an arm's-length basis.

In December 2005, the Dutch Parliament passed tax bill 29 686 (amongst others) abolishing article 12 of CITA 1969, an article which had a significant impact on the tax treatment of our 2002 financial restructuring. At the end of December 2005 we announced that we had reached a covenant with the Dutch 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. As a result, our deferred tax liability position decreased by €116 million and this amount was added to our equity. In addition and for tax purposes only, the covenant we entered into with the Dutch tax authorities established an amortization rate for certain fixed assets, resulting in additional tax carry forward losses of €130 million that will become gradually available to us and that will terminate after 2007.

In October 2006, our 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 our 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 our case, the Belgian tax authorities asserted that we inappropriately applied the reverse charge mechanism and that we instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, we reached a settlement of this claim on 23 November 2006. Pursuant to the settlement the *Regularisatieopgave* covering the period of 2002 through part of 2004 was reissued and we agreed on 5 December 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 we inappropriately applied the reverse charge mechanism during such years, which may lead us to having to make a payment for VAT payable for these years as well.

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

In November 2006, the lessor of our current headquarters at Hullenbergweg 101, Amsterdam Zuid-Oost, Verwaltung Fünfunddreissigste IFH Geschlossener Immobilienfonds für Holland (“**IFH**”) initiated summary proceedings against us in the Subdistrict Section of the District Court of Amsterdam. IFH demands that we are prohibited from vacating the part of the premises we currently occupy at Hullenbergweg 101 and from moving

our corporate headquarters to the new building we rent at Wisselwerking 58, Diemen, The Netherlands (see “Business – Property”).

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

Property

We have leased office space in The Netherlands and Belgium. We use these locations primarily as office space and for technical support to our network.

As at the date of this Prospectus, our head offices in each country are located at the following addresses:

<u>Address</u>	<u>Expiration date of lease</u>
Hullenbergweg 101, 1101 CL Amsterdam Zuid-Oost, The Netherlands	February 2010
Koningin Astridlaan 166, 1780 Wemmel, Belgium	April 2009

During the third quarter of 2006, we reached an agreement to move our 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 31 December 2019, and will automatically renew, subject to us giving notice of termination before 31 December 2018. The lease agreement does not require us to physically occupy the Diemen building. We intend to have moved our corporate headquarters to the new building at Diemen by the end of the first quarter of 2007. We are currently attempting to sublease our existing corporate headquarters at Hullenbergweg 101. The lessor of the Hullenbergweg building has initiated summary proceedings against us in the Subdistrict Section of the District Court of Amsterdam with respect to our intention to move from this building. See “– Legal Proceedings” for a summary of these proceedings.

REGULATION

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 we provide our 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 our business, that national or international regulators or third parties will not raise material issues with regard to our 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 our business and financial and operating results.

The Netherlands

The current regulatory framework in The Netherlands is provided by the Dutch Telecommunications Act (“**DTA**”). The DTA 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’ (Dutch: *gedoogplicht*), subject to certain conditions, thereby facilitating the construction of our 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 our Dutch subsidiary, Versatel Nederland B.V., have significant market power with respect to the relevant market for call termination individual public telephone networks provided at a fixed location (market 9). Our relevant product market consists of termination its geographical numbers and its 088-numbers. Therefore OPTA has imposed on us and all other relevant providers access regulation, transparency regulation and tariff regulation. Our tariffs 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, we, BT, Verizon, Enertel and Priority have cooperated in the informal Association of Competitive Telecom Operators (“**ACT**”). In 2004, Orange, BBned and Tiscali 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.

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.

The Belgian Government has transposed the new regulatory Framework (5th EC Directives) in Belgian Law. BIPT installed some administrative measures including abolishing specific license requirements for the offering of telecommunications service and operating alternate network infrastructure. The Telecom Act has been approved by the Belgian parliament and has become applicable as of May 2005.

MANAGEMENT AND SUPERVISORY BOARD

General

Set out below is a summary of relevant information concerning our Management Board, Supervisory Board and employees and a brief summary of certain significant provisions of Dutch corporate law and our articles of association, which are incorporated herein by reference, as they currently read in respect of our Management Board and Supervisory Board.

Management Structure

We have a two-tier board structure consisting of a Management Board (*Raad van Bestuur*) and a Supervisory Board (*Raad van Commissarissen*).

Management Board

Powers, Composition and Function

Our Management Board is responsible for the day-to-day management of our operations under the supervision of our Supervisory Board. The Management Board is required to keep the Supervisory Board informed, consult with the Supervisory Board on important matters and submit certain important decisions to our Supervisory Board for its approval, as more fully described below.

The Management Board may perform all acts necessary or useful for achieving our corporate purpose, save for those acts that are prohibited by law or by our articles of association. The Management Board as a whole is authorized to represent us, as are any two members of the Management Board acting jointly. The Management Board may appoint officers with general or limited power to represent us, each officer being competent to represent us, subject to the restrictions imposed on him. We can also be represented by two such officers acting jointly, and a member of the Management Board and such an officer acting jointly. In the event of a conflict of interest between us and a member of the Management Board, we shall be represented by the Supervisory Board or by a Supervisory Director appointed by the Supervisory Board. A General Meeting may always appoint one or more other persons for that purpose.

Our Management Board consists of one or more members. The General Meeting appoints members of the Management Board. A General Meeting may appoint one of the members of the Management Board as Chief Executive Officer. The articles of association do not provide in a maximum period of appointment for members of the Management Board.

The General Meeting and the Supervisory Board may suspend Management Board members at any time and the General Meeting may dismiss Management Board members at any time. A suspension by the Supervisory Board may be discontinued at any time by the General Meeting.

Under our articles of association, the resolutions of the Management Board that must be approved by the Supervisory Board include resolutions on the following matters:

- issue and acquisition of any of our shares, or debentures at our expense, or of debentures at the expense of a limited partnership or general partnership in respect of which we are a partner with full liability;
- a petition for quotation or withdrawal of a quotation in any stock exchange list of debentures at our expense, or of debentures at the expense of a limited partnership or general partnership in respect of which we are a partner with full liability;
- entry into or termination of a long term cooperation by us or one of our dependent companies (*afhankelijke maatschappij*) with another legal entity or company or, as a partner with full liability, in a limited partnership or general partnership if such cooperation or termination is of fundamental importance for us;
- a participation by us or one of our dependent companies in the capital of another company if the value of such participation is at least one quarter of the amount of our issued capital plus reserves according to our balance sheet and explanatory notes, as well as significantly increasing or reducing such participation;

- investments requiring an amount equal to at least one quarter of our issued capital plus reserves according to our balance sheet and explanatory notes;
- a proposal to amend our articles of association;
- a proposal for our dissolution (*ontbinding*);
- a proposal to conclude a legal merger (*juridische fusie*) or a demerger (*splitsing*);
- a petition for bankruptcy (*faillissement*) or a request for suspension of payments (*surseance van betaling*);
- termination of the employment of a considerable number of our employees or of one of our dependent companies simultaneously or within a short period of time;
- material change in the employment conditions of a considerable number of our employees or of one of our dependent companies;
- a proposal to reduce our issued capital or to repurchase any of our shares;
- a resolution to make a cash payment exceeding €1 million;
- a resolution to make an interim (dividend) distribution; and
- the determination of the amount of the profits accrued in a financial year that shall be added to our reserves.

The Supervisory Board may require additional resolutions of the Management Board to be subject to its approval. The Management Board shall be notified in writing of such resolutions, which shall be clearly specified.

Our articles of association provide that decisions of the Management Board entailing a significant change in our identity or character or that of our business are subject to the approval at a General Meeting, including in any case:

- the transfer of our entire or nearly our entire business to a third party;
- the entry into or breaking off long-term co-operations by us or any of our subsidiaries with another legal entity or company or as fully liable partner in a limited partnership or general partnership, if this cooperation or termination is of major significance to us;
- the acquiring or disposal, by us or any of our subsidiaries, of participating interests in the capital of a company of at least one third of the sum of the our assets as shown on our balance sheet plus explanatory notes or, if we prepare a consolidated balance sheet, our consolidated balance sheet plus explanatory notes according to our last adopted annual accounts.

If a member of the Management Board is temporarily prevented from acting, the remaining members of the Management Board shall temporarily be responsible for the management of Versatel Telecom International N.V. If all members of the Management Board are prevented from acting, a person appointed by the Supervisory Board (who may be a member of the Supervisory Board) will be temporarily responsible for the management of Versatel Telecom International N.V.

The Supervisory Board of Directors has adopted Rules for the Management Board (published on our website www.versatel.com).

Until 12 February 2007, we had an Executive Board, which consisted of senior managers which assisted our Management Board in the performance of its tasks whilst not being members of the Management Board. At 31 December 2006 the Executive Board consisted of Mr. E.J. van Rooijen and Mr. J. van Berne. As Mr. Van Berne resigned as of 1 January 2007 and Mr. Van Rooijen was appointed to our Management Board on 12 February 2007 and with no new members being appointed to the Executive Board since 12 February 2007, we no longer have an Executive Board.

Current composition of the Management Board

The Management Board currently has the following two members

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Member Since</u>	<u>Term</u>
P.G. Borgklint ⁽¹⁾	34	Chief Executive Officer	1 January 2006	Indefinite
E.J. van Rooijen	36	Chief Financial Officer	12 February 2007	Indefinite

(1) Mr. Borgklint has indicated that he shall resign at either the closing of the Acquisitions and the Offering or 1 May 2007, whichever date occurs earlier. Mr. H. Ringmar was appointed as a member of the Management Board, subject to the resignation of Mr. Borgklint, at the General Meeting on 12 February 2007.

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

P. G. Borgklint (current Chief Executive Officer)

Mr. P. (Per) G. Borgklint (1972) is our Chief Executive Officer and member of our Management Board since 1 January 2006. He has been appointed to our Management Board for an indefinite period of time.

Mr. Borgklint combines his position as our Managing Director and Chief Executive Officer with the position of Market Area Director UK & Benelux within the Tele2 group. As such, Mr. Borgklint holds several management board positions within subsidiaries of the Tele2 group. Mr. Borgklint currently has no Supervisory Board memberships. Previously, Mr. Borgklint was the CEO of Tango, a mobile operator based in Luxembourg from 2001–2002, and the CEO of Optimal Telecom, a fixed line operator based in Sweden from 2000–2002. Prior to becoming CEO, Mr. Borgklint was the Sales & Marketing Manager of Optimal Telecom. From 1997-1999, Mr. Borgklint was the CEO of Autotillbehör AB, a car part retail company based in Sweden. Mr. Borgklint holds a Master of Science Degree in International Business from the International Business School in Jönköping, Sweden.

Mr. Borgklint has indicated that he shall resign at either the closing of the Acquisitions and the Offering or 1 May 2007, whichever date occurs earlier. In his position as Chief Executive Officer he shall be succeeded by Mr. Ringmar. Following his resignation, Mr. Borgklint will assume a position outside the Tele2 group of companies.

E.J. van Rooijen (Chief Financial Officer)

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

Mr. Van Rooijen has been with us 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.

H. Ringmar (future Chief Executive Officer)

Mr. H. (Henrik) Ringmar (1969) was appointed on 12 February 2007 as our Chief Executive Officer and a member of our Management Board, subject to the resignation of our current Chief Executive Officer, Mr. Borgklint. 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 is member of the board of Lund IP Products and the Swedish Basketball Federation.

Supervisory Board

Powers, Composition and Functioning

Our Supervisory Board is responsible for supervising the conduct and policy of, and providing advice to, the Management Board and supervising our business generally. In performing its duties, the Supervisory Board is required to act in the interests of our business as a whole. The members of the Supervisory Board are not authorized, however, to represent us in dealings with third parties, except in the event of a conflict of interest between us and a member of the Management Board, in which case we can be represented by the Supervisory Board or by a Supervisory Director appointed by the Supervisory Board.

The General Meeting appoints members of the Supervisory Board. Our articles of association provide that the number of members of the Supervisory Board shall be three or more. A member of the Supervisory Board shall be appointed for an indefinite period of time, unless provided otherwise in the resolution to appoint the member concerned. The General Meeting may determine that members of the Supervisory Board shall retire periodically in accordance with a rotation plan to be drawn up by the Supervisory Board.

The General Meeting may appoint one of the members of the Supervisory Board as chairperson of the Supervisory Board. If the General Meeting has not appointed a chairperson, the Supervisory Board shall appoint a chairperson itself from among its members. The Supervisory Board may also appoint a deputy chairperson from among its members, who shall take over the duties and powers of the chairperson in the latter's absence.

The General Meeting may suspend and dismiss Supervisory Board members at any time.

All resolutions of the Supervisory Board shall be adopted by a majority of the votes cast. At a meeting, the Supervisory Board may only pass valid resolutions if the majority of its members then in office are present or represented.

The Supervisory Board Directors has adopted rules for itself (published on our website www.versatel.com).

Composition of the Supervisory Board

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

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Member Since</u>	<u>Term</u>
B.L.J. Jarnheimer	46	Chairman	14 October 2005	Indefinite
J.I. Svedberg	44	Member	14 October 2005	Indefinite
A. Olsson	37	Member	12 February 2007	Indefinite
J.L. Bouma	72	Member	(1)	Indefinite ⁽²⁾
R.L. de Bakker	55	Member	(1)	Indefinite ⁽²⁾

(1) The appointment of Messrs. Bouma and De Bakker on 12 February 2007 is subject to the closing of the Acquisitions and the Offering

(2) A rotation schedule will be prepared pursuant to which these members will step down within four years after the date of their appointment

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

B.L.J. Jarnheimer (Chairman)

Mr. B.L.J. (Lars Johan) Jarnheimer (1960) has been a member of our Supervisory Board since 14 October 2005. He has been appointed to our Supervisory Board for an indefinite period of time.

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 Supervisory Board since 14 October 2005. He has been appointed to our Supervisory Board for an indefinite period of time.

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 outside of Tele2 group companies. 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 Supervisory Board since 12 February 2007. He has been appointed to our Supervisory Board for an indefinite period of time.

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 outside of Tele2 group companies. 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 Supervisory Board on 12 February 2007. His appointment is subject to the closing of the Acquisitions and the Offering. Mr. Bouma was member of our Supervisory Board and its Special Committee by designation of the Enterprise Chamber since 14 December 2005. Since 8 December 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 Supervisory Board as a member which is independent in relation to Tele2. He has been appointed to our Supervisory Board for an indefinite period of time.

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 Supervisory Board on 12 February 2007. His appointment is subject to the closing of the Acquisitions and the Offering. Mr. De Bakker has been appointed to the Supervisory Board as a member which is independent in relation to Tele2. He has been appointed to our Supervisory Board for an indefinite period of time.

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 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 8 December 2006, Messrs. J.P. Eschauzier, J.L. Bouma, and P.A. Wortel were members of our Supervisory Board by designation of the Enterprise Chamber by means of its rulings of 14 and 21 December 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 8 December 2006 ruling of the Enterprise Chamber, Messrs. Eschauzier, Bouma and Wortel resigned as members of the Supervisory Board. 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 have agreed not to enter into material transactions with Tele2 or its subsidiaries unless we receive 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 "Management and Employees – Supervisory Board – Composition of the Supervisory Board".

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 have informed us that they will cease to act as members of our Special Advisory Committee, upon closing of the Acquisitions and the Offering.

Supervisory Board Committees

The Supervisory Board currently has an Audit Committee and a Remuneration, Selection and Appointment Committee.

Audit Committee

The Audit Committee makes recommendations to the Supervisory Board regarding audit, financial and related issues. It reviews our operating results 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. Particular attention is given to our risk management and control systems.

The Audit Committee shall consist of at least two members of which one is not required to be independent within the meaning of the Dutch Corporate Governance Code. At least one member of the Audit Committee shall be a financial expert. The Audit Committee shall appoint a chairman from among its members. The chairman is not the chairman of the Supervisory Board or a former member of the Management Board.

The members of the Audit Committee have been Mr. S. H. Zadler, who acted as Chairman and resigned from the Supervisory Board on 26 January 2007, and Mr. Svedberg. After the Acquisitions and the Offering have closed and the appointment to the Supervisory Board of Mr. De Bakker has become unconditional, the current members of the Supervisory Board shall propose that Mr. De Bakker shall act as a member of the Audit Committee.

The Supervisory Board has adopted Rules for the Audit Committee (published on our website www.versatel.com).

Remuneration, Selection and Appointment Committee

The Remuneration Selection and Appointment Committee makes recommendations to the Supervisory Board on salaries and incentive compensation for our employees, including the Management Board.

The duties of the Remuneration, Selection and Appointment Committee include (i) drafting a proposal to the Supervisory Board for the remuneration policy to be pursued, (ii) drafting a proposal for the remuneration of the individual members of the Management Board and the Supervisory Board, (ii) ensuring that the Supervisory Board once a year assesses the functioning of individual members of the Management Board and the Supervisory Board, and (iv) supervising the policy of the Management Board on the selection criteria and appointment procedures for senior management.

The Remuneration, Selection and Appointment Committee shall consist of at least two members, of which one is not required to be independent within the meaning of the Dutch Corporate Governance Code. It shall appoint a chairman from among its members. The chairman is not the chairman of the Supervisory Board or a former member of the Management Board, or a member of the Supervisory Board who is a member of the management board of another listed company.

Currently, Mr. Jarnheimer acts as the sole member of the Remuneration, Selection and Appointment Committee. After the Acquisitions and the Offering have closed and the appointment to the Supervisory Board of Mr. Bouma has become unconditional, the current members of the Supervisory Board shall propose that Mr. Bouma act as the member and chairman of the Remuneration, Selection and Appointment Committee.

The Supervisory Board has adopted Rules for the Remuneration, Selection and Appointment Committee (published on our website www.versatel.com).

Remuneration and Equity Holdings

Management Board Remuneration Information

The Supervisory Board establishes the remuneration of the individual members of the Management Board, in accordance with the Management Board remuneration policy, as adopted at a General Meeting upon the proposal of the Supervisory Board. The Supervisory Board presents to a General Meeting for approval any scheme providing for the remuneration of the members of the Management Board 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 held on 21 June 2006.

The policy aims to attract, motivate and retain highly qualified executives to the Management Board. 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 Management Board 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.

The level and structure of the remuneration package of the Management Board is determined in light of our strategic ambitions and market comparisons. The Supervisory Board holds the discretionary right to emphasise 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 on 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.

Our 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 [KPN] (The Netherlands)
Getronics (The Netherlands)	Tiscali (Italy)
KPN [Mobile] (The Netherlands)	UGC Europe [Liberty Global] (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 size similar to ours, 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.

Total remuneration levels of the Management Board should be broadly in line with median market levels.

Base salary

Base salary levels of the Management Board 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 Management Board. 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, in-time service delivery and number of subscribers. For 2007, the financial performance criteria are yet to be defined. The corresponding targets are not disclosed as these qualify as commercially sensitive information. The Supervisory Board holds the discretionary right to alter (the weighing of) these criteria and targets annually.

Pension arrangement

A defined contribution pension scheme is applicable to the Management Board. 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.

2006 Management Remuneration Information

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

Mr. Borgklint combines his position as Chief Executive Officer and member of our Management Board with the position of Market Area Director UK & Benelux within the Tele2 group. As Mr. Borgklint has an existing employment agreement with Tele2 Netherlands, it was agreed that this employment agreement would remain in place. Mr. Borgklint therefore does not have an employment agreement with us. Based on Mr. Borgklint's activities for us, we agreed with Tele2 that it shall recharge to us 85% of Mr. Borgklint's total compensation. 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.

Mr. Van Rooijen was appointed to our Management Board as per 12 February 2007. He is our Chief Financial Officer and has held that position since 1 April 2006. Mr. Van Rooijen has been with us since February 2000 in various positions. His last position prior to his appointment as Chief Financial Officer was Finance Director of Versatel Nederland B.V. In 2006, Mr. Van Rooijen received a total remuneration of €228,328.

Mr. Ringmar was appointed to our Management Board as per 12 February 2007, subject to the resignation of Mr. Borgklint, our current Chief Executive Officer and current member of the Management Board. As Mr. Ringmar was not employed by us in 2006, he did not receive any remuneration from us in relation to 2006..

2006 Supervisory Board Remuneration Information

The remuneration of each member of the Supervisory Board is established by the General Meeting. Messrs. Jarnheimer, Svedberg and Zadler (who resigned from our Supervisory Board on 26 January 2007) have been members of our Supervisory Board since 14 October 2005. They do not receive any remuneration or compensation for their role as members of our Supervisory Board.

Messrs. Bouma, Eschauzier and Wortel were members of our Supervisory Board and its Special Committee by designation of the Enterprise Chamber since 21 December 2005. Since their resignation as members of our Supervisory Board on 8 December 2006, they act as our special advisors and constitute our Special Advisory

Committee. The remuneration for Messrs. Eschauzier, Bouma, and Wortel in their capacity as additional members of our Supervisory Board payable pursuant to the Enterprise Chamber decree of 14 December was fixed at €250 per hour. We have agreed with them to pay the same for their services as members of the Special Advisory Committee. The remuneration paid to these individuals in 2006 amounted to €97,750 for Mr. Eschauzier, €65,500 for Mr. Bouma, and €67,750 for Mr. Wortel.

Mr. Olsson and Mr. De Bakker were appointed as members of our Supervisory Board as per 12 February 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.

Equity Holdings

At the date of this Prospectus, none of the current and appointed members of our Management Board, Supervisory Board, or Special Advisory Committee holds any of our shares or options on shares in our capital.

Employment Agreements and Severance Agreements

Mr. Borgklint combines his position as Chief Executive Officer and member of our Management Board with the position of Market Area Director UK & Benelux within the Tele2 group. As Mr. Borgklint has an existing employment agreement with Tele2 Netherlands, it was agreed that this agreement would remain in place. Mr. Borgklint therefore does not have an employment agreement with us. Based on Mr. Borgklint's activities for us, we agreed with Tele2 that it shall recharge to us 85% of Mr. Borgklint's total compensation. 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. The employment contract of Mr. Borgklint is entered into for an indefinite period of time with Tele2 Netherlands, and provides for a notice period of twelve months upon termination by Tele2 Netherlands. In the event of a dismissal by Tele2 Netherlands, Tele2 Netherlands will not recharge to us the amount of any severance payment Mr. Borgklint is entitled to, that exceeds one year's base salary.

The employment agreement with Mr. Ringmar, our future Chief Executive Officer subsequent to the resignation of Mr. Borgklint, 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 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.

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, 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.

Currently, except as stated above, no employment or service contracts exist, which provides benefits to current and appointed members of the Supervisory Board, the Management Board or Special Advisory Committee upon termination of service.

Other Information Relating to Members of the Supervisory Board, the Management Board, and Special Advisory Committee

With respect to each of the current and appointed members of the Supervisory Board, the Management Board, and Special Advisory Committee, there has been no (i) convictions in relation to fraudulent offences in the last five years, (ii) bankruptcies, receiverships or liquidations of any entities in which such members held any office, directorships or senior management positions in the last five years, or (iii) official public incrimination and/or sanctions of such person by statutory or regulatory authorities (including designated professional bodies), or disqualification by a court from acting as a member of the administrative, management or supervisory bodies of an issuer or from acting in the management or conduct of the affairs of any issuer for at least the previous five years.

Management and Supervisory Bodies Conflicts of Interest

We are a group company of Tele2, which, via Tele2 Finance, holds approximately 80.3% of our outstanding ordinary shares on an actual basis and 85.0% on a fully-diluted basis (assuming the conversion as of the date of this Prospectus by Tele2 Finance of all of the Convertible Notes that it owns). Our Chief Executive Officer and member of the Management Board, Mr. Borgklint combines his position as member of our Management Board with the position of Market Area Director UK & Benelux within the Tele2 group. In addition, Mr. Borgklint holds several management board positions within subsidiaries of the Tele2 group. Mr. Ringmar was a part of Tele2's senior management prior to his appointment to our Management Board. Messrs. Jarnheimer, Svedberg, and Olsson are all part of Tele2's senior management, and each holds several management board positions within subsidiaries of the Tele2 group. Mr. Zadler, our Supervisory Board member who resigned on 26 January 2007 also was formerly a member of Tele2's senior 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 favoured by our other shareholders, including any potential changes of control. See also "Risk Factors – We are effectively controlled by Tele2, whose interests may differ from those of our other shareholders".

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

Directors Indemnification and Insurance

Under Dutch law, members of the Management Board and the Supervisory Board may be liable to us for damages in the event of improper or negligent performance of their duties. They may be jointly and severally liable for damages to us and to third parties for infringement of the articles of association or of certain provisions of the Dutch Civil Code. In certain circumstances, they may also incur additional specific civil and criminal liabilities. Members of the Management Board, the Supervisory Board, the Special Advisory Committee and certain other officers and certain subsidiaries are insured under an insurance policy taken out by Tele2 against damages resulting from their conduct when acting in the capacities as such members or officers.

Employees

As of 30 September 2006, we had 856 full-time equivalent employees.

None of our employees is represented by a labor union or covered by a collective bargaining agreement, and we have never experienced a work stoppage. We consider our employee relations to be good.

The following table sets forth the average number of full-time employees on a by country basis for the nine month period ended 30 September 2006 and the years ended 2005, 2004, and 2003.

Country	Nine month period Ended 30 September 2006	Year Ended 31 December 2005	Year Ended 31 December 2004	Year Ended 31 December 2003
The Netherlands	702	859	805	759
Germany ⁽¹⁾	—	—	784	607
Belgium	154	156	142	126
Total	856	1,015	1,731	1,492

(1) We sold our German operations in 2005.

In 2006, we had an average of 86 temporary workers.

Works Councils

We have works councils in the two countries in which we operate. At the level of Versatel Nederland B.V., the Dutch operating company, a works council was established in May 2002. At the level of Versatel Belgium N.V., the Belgian operating company, a works council was established in May 2004. We consider our relations with the works councils to be good.

Pension Schemes

We operate a defined contribution scheme for our employees in The Netherlands and Belgium. This defined contribution pension scheme is applicable to the Management Board as well. In relation to members of the Management Board, the contribution amounts to a maximum of 20% (in the case of Mr. Ringmar the amount charged to us for contributions to the Tele2 pension scheme on his behalf amounts to 15%, and in the case of Mr. Van Rooijen the contribution amounts to 12%) of base salary and the target pension benefit age currently is 65. In our financial statements, contributions for pensions are directly charged to the statement of operations and are presented under pension cost. We have not made any provisions for the payment of pensions to the members of the Management Board.

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Principal Shareholders

As at the date of this Prospectus, 523,549,146 ordinary shares were issued and outstanding. Under the Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an interest in our capital or voting rights 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 our share capital or voting rights of 5.0% or more must renew its notification to reflect changes in the percentage held in our share capital or voting rights, including changes as a consequence of changes in our total issued share capital.

The following table sets forth information regarding the beneficial ownership of our ordinary shares by each beneficial holder of 5% or more of the ordinary shares. The percentages indicate the percentage of the outstanding shares held by each shareholder. All holders of ordinary shares are entitled to one vote per ordinary share. There are no cumulative voting rights.

Name of beneficial holder	<u>% of shares outstanding</u>
Tele2 Finance B.V.	80.3%
Centaurus Alpha Master Fund Limited (as of 1 November 2006).....	6.3% ⁽¹⁾

(1) Information regarding the percentage of outstanding shares held by Centaurus Alpha Master Fund Limited and Tele2 Finance has been notified to the AFM under the Financial Supervision Act.

Related Party Transactions

Subsequent to Tele2 Offers

Following the settlement of the Tele2 Offers, all transactions between us and Tele2 group companies have been entered into on what we believe to be on arm's length basis. Until 8 December 2006, all material arrangements between us and Tele2 group companies were subject to approval by the three members of the Special Committee and have since then been subject to approval by the three members of the Special Advisory Committee. The table below contains certain unaudited financial information with respect to transactions between us and Tele2 group companies for the periods indicated and has been presented using the following three categories:

- **Related Party Revenues:** These amounts consist of charges from us to Tele2 group companies for services rendered by us in the ordinary course of our business;
- **Related Party Compensations:** These amounts consist of charges from us to Tele2 group companies as compensation for operating expenses that we initially bear; and
- **Related Party Costs:** These amounts consist of amounts charged from Tele2 group companies to us with respect to operating expenses for which Tele2 companies bear the initial expense.

The unaudited financial information in the table below has been extracted from our management accounts, which accounts have been prepared using information derived from the accounting records that we use in preparation of our financial statements. This information has not been reviewed by our independent auditors. This financial information should be read in conjunction with our financial statements and related notes thereto included in this Prospectus. The data for the three month periods presented below are not necessarily indicative of any future period. For the purpose of this section “ – Subsequent to Tele2 Offers”, references to “Tele2” shall include various Tele2 group companies.

Unaudited Combined Related Party Transactions

<i>(€ thousands)</i>	Three months ended 31 December 2005	Three months ended 31 March 2006	Three months ended 30 June 2006	Three months ended 30 September 2006	Three months ended 31 December 2006	Total
Related Party Revenues:						
Leased lines	-	214	270	268	285	1,037
0800/0900	-	71	212	498	1,098	1,879
Co-location	-	74	29	33	30	166
Mobile transit ⁽¹⁾	-	-	66	434	25	525
(Inter)National voice termination	12	27	42	135	522	738
Total Related Party Revenues.	<u>12</u>	<u>386</u>	<u>619</u>	<u>1,368</u>	<u>1,960</u>	<u>4,345</u>
Related Party Compensation:						
License to Tele2 to use database for SOHO market	-	50	-	-	-	50
License to Tele2 to use database for residential market ...	-	32	-	-	-	32
Transfer of SOHO CPS customer base to Tele2	-	-	-	-	450	450
Recharge of employee costs to Tele2	-	59	61	156	296	572
Advisory charges	-	-	-	-	48	48
Facilities (rental, reception etc.)	-	87	42	74	95	298
Pay-roll activities	-	2	0	0	0	3
Total Related Party Compensation	<u>-</u>	<u>230</u>	<u>104</u>	<u>230</u>	<u>889</u>	<u>1,453</u>
Related Party Costs:						
Voice termination costs (fixed & mobile)	-	-	(986)	(7,827)	(14,731)	(23,544)
Recharged usage Eurocore IP network	-	-	-	(150)	(45)	(195)
Recharged marketing expenses	-	(2,965)	(1,751)	(1,714)	(5,829)	(12,259)
Use of Tele2 database to upsell to our product	-	-	-	-	-	-
Migration of Tele2 Belgium ADSL customers to us	-	-	-	-	-	-
Recharge insurances	-	-	(79)	(44)	(44)	(167)
Recharge of employee costs	-	(104)	(88)	(284)	(594)	(1,070)
Advisory charges	-	-	-	-	(334)	(334)
License costs for Lotus Notes ..	-	-	-	(20)	(30)	(50)
Usage of Tele2 mailbox service	-	-	-	-	(64)	(64)
Connection Arbinet London	-	-	-	-	-	-
Mobile subscriptions for employees	(75)	(129)	(158)	(136)	(122)	(620)
Related party loan interest and Convertible Note interest	(2,438)	(2,810)	(2,964)	(3,084)	(3,266)	(14,562)
Bank guarantee facility	-	-	-	-	(99)	(99)
Call center/credit & collection support (Transcom)	(236)	(1,626)	(1,526)	(2,535)	(2,915)	(8,838)
Total Related Party Costs	<u>(2,749)</u>	<u>(7,634)</u>	<u>(7,552)</u>	<u>(15,794)</u>	<u>(28,073)</u>	<u>(61,802)</u>
TOTAL	<u>(2,737)</u>	<u>(7,018)</u>	<u>(6,829)</u>	<u>(14,196)</u>	<u>(25,224)</u>	<u>(56,004)</u>

(1) We recognize only the margin on mobile transit services as revenue.

Upon the closing of the Acquisitions, Tele2 Netherlands and Tele2 Belgium will become wholly owned subsidiaries of ours. We will no longer recognize those transactions set forth in the above table as related party revenues, compensations or costs, except for those services/costs provided by Tele2 group companies other than Tele Netherlands and Tele2 Belgium.

The following is a summary of the material related party transactions entered into from the time of the settlement of the Tele2 Offers through 31 December 2006. The transactions summarized below relate to both The Netherlands and Belgium markets unless otherwise indicated.

Commercial / Marketing

In The Netherlands and Belgium, we have rebranded our residential operations as “Tele2” in order to capitalize on the better brand awareness that Tele2 has in these markets. All marketing campaigns have been and will be consolidated under the Tele2 brand name. Our website interface, where our residential customers are offered additional services, has been changed from www.versatel.nl to www.tele2.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 addition, we are currently considering a rebranding to the “Tele2” brand name in the business market.

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 bitstream 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 All-in and Tele2 Compleet 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 period from October 2005 through 31 December 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) are solely for the benefit, and at the expense, of Tele2 Netherlands, as we currently do not offer mobile subscriptions to residential customers.

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. 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.

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.

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 bitstream 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 Belgium for rendered leased lines amount to €1.0 million for the period from October 2005 through 31 December 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 period from October 2005 through 31 December 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 period from October 2005 through 31 December 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 €738,000 for the period from October 2005 through 31 December 2006. The total amount invoiced to us for these services is €23.5 million for the period from October 2005 through 31 December 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 period from October 2005 through 31 December 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 bitstream solution offered by KPN. See above under “– Commercial/ Marketing”.

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 period from October 2005 through 31 December 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 dialled 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 period from October 2005 through 31 December 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 period from October 2005 through 31 December 2006.

Several of our employees provide services to Tele2 group companies, mainly in the areas 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 through 31 December 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 period from October 2005 through 31 December 2006 is €1.1 million. This amount includes a recharge of 85% of Mr. Borgklint's 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 period from October 2005 through 31 December 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 period from October 2005 through 31 December 2006 for mobile phones is approximately €620,000.

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 period from October 2005 through 31 December 2006 is €8.8 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 period from October 2005 through 31 December 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 through 31 December 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 period from October 2005 through 31 December 2006.

Financial

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 31 December 2006, the amount outstanding under this loan, including interest, totalled €177.9 million. We have agreed with Tele2 Finance, conditional upon the completion of the Offering, to refinance this loan in order to adjust the interest rate. As a result, the three months revolving interest rate of Euribor will be changed into a three year revolving interest rate of Interest Rate Swap. The margin above the Interest Rate Swap rate (1.25%) and due date (October 2010) will remain the same.

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 through 31 December 2006 for the related party loan agreement and the Convertible Notes is €14.6 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 through 31 December 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 “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 Eredivisie C.V. See “Business – Legal Proceedings” and “General Information – Material Contracts – Eredivisie License Agreement” respectively. 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 through 31 December 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. After completion of the Offering it is our intention to cancel the two bank guarantees issued by Tele2 Finance and to issue such bank guarantees ourselves (if and to the extent still applicable and for the then relevant amount).

Related to the Acquisitions

Following the closing of the Acquisitions and in order to facilitate the transition of the operations of Tele2 Netherlands and Tele2 Belgium to us, we will enter into the Framework Agreement in order to maintain certain existing arrangements between Tele2 Netherlands and Tele2 Belgium with other Tele2 group companies. See “Acquisition of Tele2 Netherlands and Tele2 Belgium – Framework Agreement Regarding the Provision of Services” for a summary of this agreement.

DESCRIPTION OF SHARE CAPITAL AND CORPORATE GOVERNANCE

General

We are a public limited liability company (*naamloze vennootschap*) incorporated under Dutch law. We are registered with the Trade Register of the Chamber of Commerce of Amsterdam, The Netherlands under number 33272606. Our corporate seat is in Amsterdam, The Netherlands. Our business address is Hullenbergweg 101, 1101 CL, Amsterdam Zuid-Oost, The Netherlands (tel: +31 20 750 1000).

We were initially incorporated under Dutch law as a private limited liability company (*besloten vennootschap met beperkte aansprakelijkheid*) on 10 October 1995 and converted into a public limited liability company (*naamloze vennootschap*) on 15 October 1998. Our articles of association were last amended on 14 October 2005.

Set out below is a summary of certain relevant information concerning our share capital and certain significant provisions of Dutch corporate law and a brief summary of certain provisions of our articles of association as they currently read.

This summary does not purport to give a complete overview and should be read in conjunction with our articles of association – which are incorporated here by reference – , or with relevant provisions of Dutch law, and does not constitute legal advice regarding these matters and should not be considered as such. Our deed of incorporation and the full text of our articles of association are available, in Dutch and English, at our registered offices in Amsterdam Zuid-Oost. Furthermore, the full text of our articles of association is available, in Dutch and English, via our website: www.versatel.com. See “General Information”.

Corporate Purpose

Pursuant to Article 3 of our 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

Authorized and Issued Share Capital

Our authorized capital pursuant to our articles of association amounts to €30,000,000 and is divided into 1,500,000,000 ordinary shares, each with a par value of €0.02.

Immediately prior to the closing of the Offering, we will have 523,549,146 ordinary shares issued and outstanding. Immediately after the closing of the Offering, assuming 418,839,316 new ordinary shares will be offered, we will have 942,388,462 ordinary shares issued and outstanding. The percentage of immediate dilution resulting from the Offering is 44.4%, in the sense that if a shareholder does not subscribe for Offer Shares in the Offering, it shall experience a 44.4% dilution of its holding.

The following table shows the number of shares outstanding for the dates indicated.

	As of 31 December			Immediately prior to the Offering	Immediately following the Offering, assuming 418,839,316 Offer Shares will be subscribed for
	2003	2004	2005		
Shares	464,626,235	518,300,096	523,549,146	523,549,146	942,388,462

In 2003, 4.3 million ordinary shares were issued in relation to the buy-out of the minority shareholders in Zon Nederland N.V., a subsidiary which, effective as of 1 January 2005, merged with Versatel Nederland B.V. Furthermore in 2003, 2.1 million shares were issued in relation to a renegotiated long-term liability with a leased fiber provider in Germany.

In 2004, 15 million ordinary shares were issued to finance the purchase of Telco Executive GmbH's outstanding 10.5% minority interest in Versatel Deutschland. Also in 2004, 24 million shares were issued to fund the acquisition of Berlikomm.

Further changes in the number of ordinary shares outstanding in the period 2003 through 2005 primarily resulted from the exercise of options on shares and from the conversion of warrants.

Currently, none of the issued shares in our own capital are held by us or any of our subsidiaries.

All shares that are outstanding at the date of this Prospectus are fully paid up.

All our ordinary shares will be entered into a collection deposit (*verzameldepot*) and/or giro deposit (*girodepot*) on the basis of the Securities Giro Act (*Wet Giraal Effectenverkeer*). The affiliated institutions (*aangesloten instellingen*), as defined in the Securities Giro Act, are responsible for the management of the collection deposit and Euroclear Nederland, being the central institute (*Centraal Instituut*) for the purposes of the Securities Giro Act, will be responsible for the management of the giro deposit.

Warrants, Convertible Notes and Options on Shares

Warrants

In May and November 1998, we issued warrants in accordance with our previous high yield debt offerings. As of the date of this Prospectus, 51,135 warrants are outstanding, giving the holders of such warrants the rights to purchase an aggregate of 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 15 May 2008. The warrants are subject to certain anti-dilution provisions as set forth in the agreements governing such warrants. Exercise of a warrant requires surrender of the warrant certificate to the warrant agent, United States Trust Company of New York, and payment of the exercise price.

Convertible Notes

On 22 October 2004, we issued the Convertible Notes for an aggregate principal amount of €125 million. The Convertible Notes mature on 28 October 2011. The Convertible Notes are convertible into an aggregate of 164,016,243 ordinary shares at a conversion price of €0.76 per share as of the date of this Prospectus, subject to certain anti-dilution adjustments upon the occurrence of certain events, including a "Change of Control". Upon the closing of the Offering, the conversion price of the Convertible Notes shall be recalculated according to a formula set forth in the terms of the Convertible Notes, which takes into account the average price of the ordinary shares, weighted by turnover, and the average value of the SETs, weighted by turnover, during the Exercise Period. As a result of this recalculation the conversion price of the Convertible Notes may decrease and the number of shares issuable upon the conversion of the Convertible Notes may increase.

Exercise of the conversion right requires the delivery of a conversion notice to one of the conversion agents, JPMorgan Chase Bank and ING Bank N.V., and transfer of the Convertible Notes to be converted to the relevant conversion agent. A holder of the Convertible Notes, may convert all or any of its Convertible Notes into our ordinary shares at any time until the earlier of (i) 19 October 2011 and (ii) the fourteenth day prior to any date fixed for redemption of the Convertible Notes by us.

We may at any time on or after 28 October 2009 redeem the Convertible Notes, in whole but not in part, at their principal amount together with accrued and unpaid interest to the date of redemption, provided that the official closing price of our ordinary shares as derived from the Daily Official List of Euronext Amsterdam for at least 20 trading days in a period of 30 consecutive trading days ending no more than five trading days prior to the date on which the relevant notice of redemption is given to the holders of the Convertible Notes is at least 130% of the conversion price in effect on each of such trading days. In addition, at any time on or prior to 27 September 2011, we may redeem all, but not part of the Convertible Notes outstanding at 100% of their principal amount, plus

accrued and unpaid interest to the date of redemption if the aggregate principal amount of Convertible Notes outstanding at such time is less than 15% of the aggregate principal amount of Convertible Notes originally issued.

In addition, a holder of Convertible Notes will have the right to require us to redeem all (but not less than all) of its Convertible Notes on the date that is 30 days after the date on which a “Change of Control” occurs at 100% of their principal amount, plus accrued and unpaid interest to the date of redemption.

For purposes of the Convertible Notes, “Change of Control” is defined as (i) a “person” or “group” (within the meaning of Sections 13(d) and 14(d) (2) of the U.S. Securities Exchange Act of 1934) becomes the ultimate “beneficial owner” (as defined in Rule 13d-3 under the U.S. Securities Exchange Act of 1934) of more than 50 per cent. of the total voting power of our then outstanding voting stock on a fully diluted basis (“**Majority Voting Power**”) and such person or group has complied with the Act on Notification of Major Shareholdings in Listed Companies 1996 (“*Wet melding zeggenschap in ter beurze genoteerde vennootschappen 1996*”) (the “**Notification Act**”, which subsequent to the issue date of the Convertible Notes was replaced by the Financial Supervision Act) or, in the event of non-compliance with the Notification Act by such person or group, such person or group exercises such Majority Voting Power in a vote of our shareholders; (ii) the sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of our assets to any such “person” or “group”; or (iii) the merger or consolidation of us with or into another corporation or the merger of another corporation with or into us with the effect that immediately after such transaction any such “person” or “group” of persons or entities shall have become the beneficial owner of securities of the surviving corporation of such merger or consolidation representing more than 50 per cent. of the total voting power of the then outstanding voting stock of the surviving corporation.

As of the date of this Prospectus, Tele2 Finance holds all of the issued and outstanding Convertible Notes.

Options on Shares

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

Form and Transfer of Shares

The ordinary shares are in bearer or registered form, at the holder’s option. On the occasion of the issuance of shares the person becoming entitled to receive such share may request us, in writing, to deliver a registered ordinary share. At the request of the holder, a share in bearer form can be converted in a share in registered form and vice-versa.

All bearer shares in issue from time to time shall be represented by one single share certificate, is intended to be held, and is currently held, on behalf of the party or parties entitled to it by Euroclear Nederland. The ordinary shares in registered form shall be only in the form of an entry in the share register without any share certificate being issued.

The names and addresses of the holders of ordinary shares in registered form are entered in the shareholders’ register maintained by us or on our behalf. This register also indicates the number of registered shares held by each shareholder and includes the names and addresses of persons holding a right of usufruct or a right of pledge in respect of such shares. On request of the shareholder, a usufructuary or a pledgee, we are required to provide without charge an extract from the shareholders’ register in respect of the former’s rights to any ordinary share in registered form.

The transfer of a registered share shall be effected by means of a deed and, except where we are a party to the transaction, our acknowledgement in writing of the transfer. Currently, we have no registered shareholders.

Issue of Shares

Ordinary shares may be issued, and rights to subscribe for shares may be granted, pursuant to a resolution of the General Meeting or of another body of Versatel Telecom International N.V. to whom such authority is delegated for that purpose by a resolution of the General Meeting for a fixed period, not exceeding five years. On such delegation the number of shares which may be issued must be specified. The designation may be extended, from time to time, for a period not exceeding five years. Unless the delegation provides otherwise, it may not be

withdrawn. No resolution of the General Meeting or the said other delegated body is required for an issue of shares pursuant to the exercise of a previously granted right to subscribe for shares.

On 21 June 2006, the General Meeting delegated to the Management Board, for a period of two years, beginning from 21 June 2006, therefore until 21 June 2008, subject to the prior approval of the Supervisory Board, 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. On 12 February 2007, the General Meeting authorized the Management Board, subject to the approval of the Supervisory Board, to grant the SETs and to issue the Offer Shares.

Pre-Emption Rights

Dutch company law and our articles of association in most cases give shareholders pre-emption rights to subscribe on a *pro rata* basis for any issue of new shares or upon a grant of rights to subscribe for shares. Exceptions to these pre-emption rights include the issue of shares and the grant of rights to subscribe for shares (i) to our employees, (ii) in return for non-cash consideration, or (iii) the issue of shares to persons exercising a previously granted right to subscribe for shares.

A shareholder may exercise pre-emption rights during a period of two weeks from the date of the announcement of the issue or grant. The General Meeting, or the other body of Versatel Telecom International N.V. to whom such authority is delegated for that purpose by a resolution of the General Meeting, may restrict the right or exclude shareholder pre-emption rights. A resolution by the General Meeting to delegate the authority to exclude or limit pre-emption rights to the Management Board requires a majority of at least two-thirds of the votes cast, if less than 50% of our issued share capital is present or represented. If the General Meeting has not delegated this authority to the Management Board, shareholders at the General Meeting may vote to limit or exclude pre-emption rights, which vote will require a majority of at least two-thirds of the votes cast if less than 50% of our issued share capital is present or represented at such General Meeting.

On 21 June 2006, the General Meeting 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 Supervisory Board, 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 Management Board on such date (see above under “Description of Share Capital and Corporate Governance – Share Capital – Issue of Shares”). On 12 February 2007, the General Meeting authorized the Management Board, subject to the approval of the Supervisory Board, to exclude pre-emptive rights of shareholders in relation to the Offering.

Reduction of Share Capital

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

Dividends and Other Distributions

We may only make distributions to our shareholders in so far as our 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 our articles of association. Under our articles of association, the Management Board determines, subject to the prior approval of the Supervisory Board, which part of any profit will be reserved. After reservation by the Management Board of any profit, the remaining profit shall be at the disposal of the General Meeting.

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

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*).

See also “Dividends and Dividend Policy”.

Acquisition of Shares in Our Capital

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

Authorization from the General Meeting to acquire our 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 21 June 2006, the General Meeting authorized the Management Board to acquire shares in our capital up to the maximum permitted by law and for a price not exceeding 110% of the average of the closing price of our 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 21 December 2007.

Any shares we hold in our own capital may not be voted or counted for voting quorum purposes.

Corporate Governance

General Meetings of Shareholders and Voting Rights

The annual General Meeting must be held within six months after the end of each financial year. An extraordinary General Meeting shall be held as often as the Management Board or the Supervisory Board deems necessary. Shareholders (and/or persons having the rights conferred by law upon holders of depository receipts and shares issued with the company's cooperation for shares in its capital) representing alone or in aggregate at least one-tenth of our issued and outstanding share capital may, pursuant to the Dutch Civil Code and our articles of association, request that a General Meeting be held.

Notice of a General Meeting shall be given by the Management Board or the Supervisory Board. In the event that shareholders (and/or persons having the rights conferred by law upon holders of depository receipts and shares issued with the company's cooperation for shares in its capital) representing alone or in aggregate at least one-tenth of our issued and outstanding share capital have requested a General Meeting to be held, such persons may give notice thereof if the Management Board or the Supervisory Board has not done so within four weeks after the receipt of the request. Notice of a General Meeting shall be given no later than on the fifteenth day prior to the day of the meeting and shall take place by means of an advertisement in a Dutch national newspaper and the Official Price List.

The notice of a General Meeting must include an agenda indicating the items for discussion, as well as any proposals for the agenda. Shareholders (and/or persons having the rights conferred by law upon holders of depository receipts and shares issued with the company's cooperation for shares in its capital) representing alone or in aggregate at least 1% of our issued and outstanding share capital or shares representing a value of at least €50.0 million according to the Official Price List may submit proposals for the agenda. Provided we receive such proposals no later than the 60th day before the General Meeting, and provided that such proposal does not conflict with our general interest, we will have the proposals included in the notice we publish in a national newspaper distributed daily in The Netherlands at least 15 days before the meeting.

The Management Board may determine a record date to establish which shareholders are entitled to attend and vote in the General Meeting.

Each of our ordinary shares is entitled to one vote. Shareholders may vote by proxy. The voting rights attached to any of our shares held by us are suspended as long as they are held in treasury.

Resolutions of the General Meeting are taken by an absolute majority, except where Dutch law or our articles of association provide for a special majority. If less than 50% of our issued share capital is represented, matters requiring a majority of at least two-thirds of the votes cast include, among others:

- a resolution of the General Meeting regarding restricting and excluding pre-emption rights or resolution to delegate the authority to exclude or restrict pre-emption rights to another body of Versatel Telecom International N.V.;
- a resolution of the General Meeting to reduce our outstanding share capital; and
- a resolution of the General Meeting to have us merge or demerge.

Amendment of our Articles of Association

The General Meeting may resolve to amend our articles of association. Rights attached to our shares may be changed by means of an amendment of our articles of association.

Dutch Corporate Governance Code

On 9 December 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.

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 Management Board or Supervisory Board 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 18 May 2005, the General Meeting 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 again for discussion and approval.

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

In relation to the Management Board

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

Mr. Borgklint, Mr. Van Rooijen and Mr. Ringmar were all appointed to the Management Board 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 Management Board 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.

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

Pursuant to article 4 of the Rules of the Management Board, each member of the Management Board 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 Management Board 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 Management Board in the event of a dismissal*

Our current Chief Executive Officer Mr. Borgklint has an employment contract with Tele2 Netherlands. The amounts payable thereunder are (for the larger part) reimbursed by us. We will, however, not reimburse Tele2 for severance payments in the event of a dismissal by Tele2, exceeding one year's base salary.

In relation to the Supervisory Board

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

At the meeting of the Supervisory Board of 11 December 2000, a Remuneration Committee was established. We had previously not had a formal Selection and Appointment Committee. Due to the size of the Supervisory Board, 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 30 July 2004.

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

Pursuant to article 15 of the Rules of the Supervisory Board, each member of the Supervisory Board 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 Supervisory Board 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 shareholders and General Meetings

- *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. At the 2001 annual General Meeting, 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.

Dissolution and Liquidation

Under our articles of association, we may be dissolved by a resolution of the General Meeting.

In the event of dissolution, our business will be liquidated in accordance with Dutch law and our articles of association and the liquidation shall be arranged by the Management Board under supervision of the Supervisory Board, unless the General Meeting appoints other liquidators. During liquidation, the provisions of our articles of association will remain in force as far as possible.

The balance of our remaining equity after payment of debts and liquidation costs will be distributed to the shareholders, in proportion to the number of ordinary shares that each shareholder holds.

Liability of Directors

Under Dutch law, members of the Management Board and the Supervisory Board may be liable to us for damages in the event of improper or negligent performance of their duties. They may be jointly and severally liable for damages to us and to third parties for infringement of our articles of association or of certain provisions of the Dutch Civil Code. In certain circumstances, they may also incur additional specific civil and criminal liabilities. Members of the Management Board, the Supervisory Board, the Special Advisory Committee and certain other officers of us and certain of our subsidiaries are insured under an insurance policy taken out by Tele2 against damages resulting from their conduct when acting in the capacities as such members or officers.

Disclosure of Information

As a Dutch company admitted to trading on Euronext Amsterdam, we will be required to make our annual accounts (including the annual report) and our semi-annual report available to the public within five months and four months, respectively, of the end of the period to which the information relates. We must also make public certain inside information by means of a press release. Pursuant to the Financial Supervision Act, inside information is knowledge of concrete information directly or indirectly relating to the issuer or the trade in its securities which has not been made public and publication of which could significantly affect the trading price of the securities. The laws of The Netherlands contain specific rules intended to prevent insider trading. Pursuant to these rules, we have adopted the code of conduct in respect of the reporting and regulation of transactions in Versatel Telecom International N.V. securities (published on our website www.versatel.com) pursuant to the requirement to have a code of conduct in respect of the reporting and regulation of transactions in our securities.

Obligations of Shareholders to Make a Public Offer

Currently there is no obligation under the laws of The Netherlands for a shareholder whose interest in a company's share capital or voting rights passes a certain threshold to launch a public offer for all or part of the outstanding shares in the share capital of such company. However, when Directive 2004/25/EC on takeover bids (the "**Takeover Directive**") is fully implemented in The Netherlands, such obligation shall be introduced in Dutch law.

Although the Takeover Directive should have been implemented before 20 May 2006, the implementation in Dutch law has not taken place yet. With respect to the implementation of the Directive, Dutch government issued a bill on 31 December 2005 (the "**Directive Bill**") and an amendment to the Directive Bill on 18 June 2006 (the "**Amendment to the Directive Bill**"), which are expected to be enacted at the beginning of 2007.

The Takeover Directive sets out certain minimum requirements and principles in relation to mandatory and voluntary offers for the acquisitions of shares in listed companies. In addition, the Takeover Directive sets out principles in relation to the competent authority and applicable laws when a company listed in an EEA state while having its registered office in another EEA state. It is stated in article 4(2)(e) of the Takeover Directive that in relation to the percentage of voting rights which trigger the mandatory offer requirement and any derogation from the obligation to launch a bid, as well as the conditions under which the board of the offeree company may undertake any action which might result in the frustration of the bid, the competent authority and the applicable rules shall be those of the country in which the offeree company has its registered office (in our case The Netherlands). In matters relating to the consideration offered in the case of a bid, in particular the price, and in

matters relating to the bid procedure, the competent authority and the applicable rules shall be of the country where the company is listed (in our case The Netherlands as well).

The Directive Bill and the Amendment to the Directive Bill propose to set the threshold for triggering the mandatory offer requirement at 30.0% of the voting rights in a general meeting of shareholders. Under the Directive Bill and the Amendment to the Directive Bill, this provision would only apply to Tele2 Finance once its interest in our share capital would have decreased below 30% and then again increased to 30% or higher.

Squeeze Out Procedures

Pursuant to section 2:92a of the Dutch Civil Code, a shareholder who for his own account contributes at least 95.0% of our issued capital may institute proceedings against our other shareholders jointly for the transfer of their shares to the claimant. The proceedings are held before the Enterprise Chamber and can be instituted by means of a writ of summons served upon each of the minority shareholders in accordance with the provisions of the Dutch Code of Civil Procedure (*Wetboek van Burgerlijke Rechtsvordering*). The Enterprise Chamber may grant the claim for squeeze out in relation to all minority shareholders and will determine the price to be paid for the shares, if necessary after appointment of one or three experts who will offer an opinion to the Enterprise Chamber on the value to be paid for the shares of the minority shareholders. Once the order to transfer becomes final before the Enterprise Chamber, the person acquiring the shares shall give written notice of the date and place of payment and the price to the holders of the shares to be acquired whose addresses are known to him. Unless the addresses of all of them are known to him, he shall also publish the same in a newspaper with a national circulation.

With the implementation of the Takeover Directive, the rules for squeeze out procedures will be supplemented. The draft bill for the implementation of the Takeover Directive explicitly confirms that the offeror under a public offer is also entitled to start a squeeze out procedure, within three months after the public offer, if following the public offer the offeror contributes at least 95.0% of the class of shares subject to the public offer and represents at least 95.0% of the total voting rights attached to these shares. If there is a duty to make a mandatory offer, the mandatory offer price is in principle deemed to be a reasonable price, which has to be accepted by minority shareholders. In the event of a voluntary public offer, the point of departure is that the offered price is considered reasonable as long as 90.0% of the shares subject to the public offer have been acquired. Should the offeror's offer of a squeeze out not be forthcoming, the draft bill for the implementation of the Takeover Directive also entitles those minority shareholders that have not previously tendered their shares to the right of a squeeze out, if the offeror has acquired at least 95.0% of the class of shares subject to the public offer and represents at least 95.0% of the total voting rights attached to these shares. This regulation is not yet part of the laws of The Netherlands but will be implemented by the bill for the implementation of the Takeover Directive. With regard to price, the same procedure as for squeeze out proceedings initiated by an offeror applies and the claim also needs to be filed with the Enterprise Chamber within three months after the end of the period for tendering shares into the public offer.

Obligations of Shareholders to Disclose Holdings

Pursuant to the Financial Supervision Act, any person who, directly or indirectly, acquires or disposes of an interest in our capital or voting rights 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%.

We are required to notify the AFM of a change immediately if our share capital or voting rights changes 1.0% or more since our previous notification and each calendar quarter for other changes. The AFM will publish any notification pursuant to the Financial Supervision Act in a public registry. If as a consequence of such change a person's interest in our capital or voting rights meets or passes the thresholds mentioned in the above paragraph, the person in question must immediately give written notice to the AFM by means of the standard form no later than the fourth trading day after the AFM has published our notification.

Once in every calendar year, every holder of an interest in our share capital or voting rights of 5.0% or more must renew its notification with the AFM to reflect changes in the percentage held in our share capital or voting rights, including changes as a consequence of changes in our total issued share capital.

For the purpose of calculating the percentage of capital interest or voting rights, the following interests must be taken into account: (i) shares (or depositary receipts for shares) directly held (or acquired or disposed of) by any

person, (ii) shares (or depositary receipts for shares) held (or acquired or disposed of) by such person's subsidiaries or by a third party for such person's account or by a third party with whom such person has concluded an oral or written voting agreement, and (iii) shares (or depositary receipts for shares) which such person, or any subsidiary or third party referred to above, may acquire pursuant to any option or other right held by such person (or acquired or disposed of, including, but not limited to, on the basis of convertible bonds). Special rules apply to the attribution of shares (or depositary receipts for shares) which are part of the property of a partnership or other community of property. A holder of a pledge or right of usufruct in respect of shares (or depositary receipts for shares) can also be subject to the reporting obligations, if such person has, or can acquire, the right to vote on the shares or, in case of depositary receipts, the underlying shares. If a pledgee or usufructarian acquires such (conditional) voting rights, this may trigger the reporting obligations for the holder of the shares (or depositary receipts for the shares).

Furthermore, each member of the Management Board and Supervisory Board must immediately give written notice to the AFM by means of a standard form of any change in his or her holding of shares and voting rights in us.

Pursuant to the Financial Supervision Act, which also encompasses the implementation of the Market Abuse Directive 2003/6/EC and related Commission Directives 2003/124/EC in Netherlands law, 2003/125/EC and 2004/72/EC, members of our Management and Supervisory Boards and any other person who has day-to-day (co)managerial responsibilities or who has the authority to make decisions affecting our future developments and business prospects or who has regularly access to inside information relating, directly or indirectly, to us ("**Person**"), must notify the AFM of all transactions conducted on his own account relating to our ordinary shares or in securities which value is determined by the value of our ordinary shares.

In addition, persons designated by the governmental decree pursuant to the Financial Supervision Act dated 12 October 2006 (Besluit Marktmissbruik Wft) (the "**Market Abuse Decree**") who are closely associated with our members of the Management Board, Supervisory Board or any of the Persons (as described above), must notify the AFM of the existence of any transactions conducted on their own account relating to our ordinary shares or securities the value of which is determined by the value of our ordinary shares. The persons so designated include the following categories of persons: (i) the spouse or any partner considered by national law as equivalent to the spouse, (ii) dependent children, (iii) other relatives who have shared the same household for at least one year at the relevant transaction date, (iv) any legal person, trust or partnership, amongst other things, whose managerial responsibilities are discharged by a person referred to under (i), (ii) or (iii) above.

The AFM needs to be notified of transactions by such persons relating to our ordinary shares or securities which have a value that is determined by the value of our ordinary shares within five days following the transaction date. Notification may be postponed until the date the value of the transactions amounts to €5,000 or more per calendar year.

We have adopted the Code of conduct in respect of the reporting and regulation of transactions in Versatel Telecom International N.V. securities (published on our website www.versatel.com) pursuant to the requirement to have a code of conduct in respect of the reporting and regulation of transactions in our securities. We are also required to draw up a list of persons working for us, under an employment agreement or otherwise (including professional advisors), who could have access to inside information, to regularly update this list of persons and to inform persons on this list about the relevant prohibitions and sanctions in respect of insider information (voorwetenschap) and market abuse.

The AFM keeps a public register of all notifications made pursuant to the Financial Supervision Act.

MARKET INFORMATION

Our outstanding ordinary shares are traded on Euronext Amsterdam under the symbol “VRSA”. The table below sets forth the high and low and closing prices for the periods and days indicated for our Shares on Euronext Amsterdam as reported by Datastream. The table also includes the average daily trading volume of our Shares on Euronext Amsterdam as reported by Datastream for the periods indicated.

	Share price (€)			Average Daily Volume (in 000s of shares)
	High	Low	Closing	
2003				
1st Quarter	0.71	0.29	0.65	3,692.8
2nd Quarter	1.17	0.66	1.13	3,515.0
3rd Quarter	1.73	1.08	1.63	4,394.8
4th Quarter	2.13	1.63	1.73	5,644.6
2004				
1st Quarter	2.33	1.66	1.91	9,120.8
2nd Quarter	1.98	1.43	1.60	6,935.6
3rd Quarter	1.66	1.29	1.60	8,025.3
4th Quarter	2.40	1.35	2.13	10,118.5
2005				
1st Quarter	2.15	1.71	1.73	4,259.9
2nd Quarter	2.19	1.50	1.85	7,206.6
3rd Quarter	2.28	0.80	0.80	4,732.7
4th Quarter	0.94	0.82	0.90	227.1
2006				
January	0.91	0.87	0.91	63.0
February	0.97	0.91	0.94	82.3
March	0.98	0.84	0.97	415.1
April	1.00	0.93	0.97	74.3
May	0.97	0.90	0.97	32.2
June	0.98	0.87	0.94	22.4
July	0.92	0.84	0.90	13.0
August	0.91	0.81	0.89	57.1
September	0.86	0.81	0.84	28.7
October	0.84	0.82	0.82	16.7
November	0.84	0.80	0.83	16.0
December	0.81	0.76	0.80	181.7
2007				
January	0.80	0.75	0.79	23.5
1 February	0.80	0.78	0.78	36.0
2 February	0.80	0.79	0.80	40.6
5 February	0.80	0.79	0.79	35.0
6 February	0.80	0.79	0.79	4.2
7 February	0.80	0.79	0.79	22.9
8 February	0.79	0.79	0.79	4.6
9 February	0.80	0.79	0.79	7.6
12 February	0.80	0.77	0.78	70.1
13 February	0.79	0.77	0.78	52.8

TAXATION

Taxation in The Netherlands

General

The information set out below is a general summary of certain Dutch tax consequences in connection with the acquisition, ownership and transfer of Offer Shares and/or SETs. The summary does not purport to be a comprehensive description of all the Dutch tax considerations that may be relevant for a particular holder of Offer Shares and/or SETs, who may be subject to special tax treatment under any applicable law and this summary is not intended to be applicable in respect of all categories of holders of Offer Shares and/or SETs. The summary is based upon the tax laws of The Netherlands as in effect on the date of this Prospectus, including regulations, rulings and decisions of The Netherlands and its taxing and other authorities available on or before such date and now in effect. These tax laws are subject to change, which could apply retroactively and could affect the continuing validity of this summary. As this is a general summary, we recommend investors and shareholders to consult their own tax advisors as to the Dutch or other tax consequences of the acquisition, ownership and transfer of Offer Shares and/or SETs, including, in particular, the application of their particular situations of the tax considerations discussed below.

The following summary does not address the tax consequences arising in any jurisdiction other than The Netherlands in connection with the acquisition, ownership and transfer of Offer Shares and/or SETs.

Withholding Tax

This summary does not describe the tax consequences for a holder of Offer Shares and/or SETs who benefits from the participation exemption (*deelnemingsvrijstelling*), as set out in the Dutch Corporate Income Tax Act 1969 (*Wet op de vennootschapsbelasting 1969*), regarding the dividends received on the Offer Shares, who is an entity that is a resident or deemed to be a resident of The Netherlands and that is not subject to or is exempt, in whole or in part, from Dutch corporate income tax or who is an investment institution (*beleggingsinstelling*) as defined in the Dutch Corporate Income Tax Act 1969.

Dividends paid on the Offer Shares to a holder of such Offer Shares are generally subject to withholding tax of 15% imposed by The Netherlands (rate of 2007). The term “dividends” for this purpose includes, but is not limited to:

- distributions in cash or in kind, deemed and constructive distributions, and repayments of paid-in capital not recognized for Dutch dividend withholding tax purposes;
- liquidation proceeds, proceeds of redemption of shares or, generally, consideration for the repurchase of shares in excess of the average paid-in capital recognized for Dutch dividend withholding tax purposes;
- the nominal value of shares issued to a shareholder or an increase of the nominal value of shares, as the case may be, to the extent that it does not appear that a contribution to the capital recognized for Dutch dividend withholding tax purposes was made or will be made; and
- partial repayment of paid-in capital, recognized for Dutch dividend withholding tax purposes, if and to the extent that there are net profits (*zuivere winst*), within the meaning of the Dividend Withholding Tax Act 1965 (*Wet op de dividendbelasting 1965*), unless a General Meeting has resolved in advance to make such a repayment and provided that the nominal value of the Shares concerned has been reduced by a corresponding amount by way of an amendment of our articles of association.

A holder of Offer Shares who is, or who is deemed to be, a resident of The Netherlands can generally credit the withholding tax against his Dutch income tax or Dutch corporate income tax liability and is generally entitled to a refund of dividend withholding taxes exceeding his aggregate Dutch income tax or Dutch corporate income tax liability, provided certain conditions are met, unless such holder of Offer Shares is not considered to be the beneficial owner of the dividends. A holder of Offer Shares, who is the recipient of dividends (the “**Recipient**”) will not be considered the beneficial owner of the dividends for this purpose if, as a consequence of a combination of transactions, a person other than the Recipient wholly or partly benefits from the dividends, whereby such other person retains, directly or indirectly, an interest in the Offer Shares on which the dividends were paid and that

other person is entitled to a credit, reduction or refund of dividend withholding tax that is less than that of the Recipient (“**Dividend Stripping**”).

With respect to a holder of Offer Shares, who is not and is not deemed to be a resident of The Netherlands for purposes of Dutch taxation (including, if he is an individual, a holder who opts to be taxed as a resident of The Netherlands for purposes of Dutch taxation) and who is considered to be a resident of The Netherlands Antilles or Aruba under the provisions of the Tax Convention for the Kingdom of The Netherlands (*Belastingregeling voor het Koninkrijk*), or who is considered to be a resident of a country other than The Netherlands under the provisions of a double taxation convention The Netherlands has concluded with such country, the following may apply. Such holder of Offer Shares may, depending on the terms of and subject to compliance with the procedures for claiming benefits under the Tax Convention for the Kingdom of The Netherlands or such double taxation convention, be eligible for a full or partial exemption from or a reduction or refund of Dutch dividend withholding tax. In addition, subject to certain conditions and based on Dutch legislation implementing the Parent Subsidiary Directive (Directive 90/435/EEG, as amended) an exemption from Dutch dividend withholding tax will generally apply to dividends distributed to certain qualifying entities that are resident of another EU Member State and that hold an interest of at least 5% of the nominal paid-in capital or, in relation to certain jurisdictions, of the voting power of the distributing entity. Furthermore, certain entities resident in an EU Member States and not subject to tax on their profits in such EU Member State might be entitled to obtain a full refund of Dutch dividend withholding tax provided they would not have been subject to Dutch corporate income tax would they have been resident in The Netherlands.

The concept of Dividend Stripping, described above, may also be applied to determine whether a holder of Offer Shares may be eligible for a full or partial exemption from, reduction or refund of Dutch dividend withholding tax, as described in the preceding paragraph.

Generally, the dividend withholding tax will not be borne by us, but will be withheld by us from the gross dividends paid on the Offer Shares.

Taxes on Income and Capital Gains

General

The description of taxation set out in this section of this Prospectus is not intended for any holder of Offer Shares and/or SETs, who:

- is an individual and for whom the income or capital gains derived from the Offer Shares and/or SETs are attributable to employment activities the income from which is taxable in The Netherlands;
- holds a Substantial Interest, or a deemed Substantial Interest in us (as defined below);
- is an entity that is a resident or deemed to be a resident of The Netherlands and that is not subject to or is exempt, in whole or in part, from Dutch corporate income tax;
- is an entity for which the income and/or capital gains derived in respect of the Offer Shares and/or SETs are exempt under the participation exemption (*deelnemingsvrijstelling*) as set out in the Dutch Corporate Income Tax Act 1969); or
- is an investment institution (*beleggingsinstelling*) as defined in the Dutch Corporate Income Tax Act 1969.

Generally a holder of Offer Shares and/or SETs will have a substantial interest in us (a “**Substantial Interest**”) if he holds, alone or together with his partner (statutorily defined term), whether directly or indirectly, the ownership of, or certain other rights over, shares representing 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares), or rights to acquire shares, whether or not already issued, that represent at any time 5% or more of our total issued and outstanding capital (or the issued and outstanding capital of any class of shares) or the ownership of certain profit participating certificates that relate to 5% or more of the annual profit and/or to 5% or more of our liquidation proceeds. A holder of Offer Shares and/or SETs will also have a Substantial Interest in us if one of certain relatives of that holder or of his partner has a Substantial Interest in us. If a holder of Offer Shares and/or SETs does not have a Substantial Interest, a deemed Substantial Interest will be present if (part of) a Substantial Interest has been disposed of, or is deemed to have been disposed of, on a non-recognition basis.

Residents of The Netherlands

Individuals

An individual who is resident or deemed to be resident in The Netherlands, or who opts to be taxed as a resident of The Netherlands for purposes of Dutch taxation (a “**Dutch Resident Individual**”) and who holds Offer Shares and/or SETs is subject to Dutch income tax on income and/or capital gains derived from the Offer Shares and/or SETs at the progressive rate (up to 52%) if:

- (i) the holder has an enterprise or an interest in an enterprise, to which enterprise the Offer Shares and/or SETs are attributable; or
- (ii) the holder derives income or capital gains from the Offer Shares and/or SETs that are taxable as benefits from “miscellaneous activities” (*resultaat uit overige werkzaamheden*, as defined in the Dutch Income Tax Act 2001).

If conditions (i) and (ii) mentioned above do not apply, any holder of Offer Shares and/or SETs who is a Dutch Resident Individual will be subject to Dutch income tax on a deemed return regardless of the actual income and/or capital gains benefits derived from the Offer Shares and/or SETs. The deemed return amounts to 4% of the average value of the holder’s net assets in the relevant financial year (including the Offer Shares and/or SETs) insofar as that average exceeds the exempt net asset amount (*heffingvrij vermogen*). The deemed return is taxed at a flat rate of 30%.

Entities

An entity that is resident or deemed to be resident in The Netherlands (a “**Dutch Resident Entity**”) will generally be subject to Dutch corporate income tax with respect to income and capital gains derived from the Offer Shares and/or SETs. The Dutch corporate income tax rate is 20% for the first €25,000 of taxable income and 23.5% for the taxable income exceeding €25,000 but not exceeding €60,000 and 25.5% for taxable income exceeding €60,000 (rates of 2007).

Non-Residents of The Netherlands

A person who is not a Dutch Resident Individual or Dutch Resident Entity (a “**Non-Dutch Resident**”) who holds Offer Shares and/or SETs is generally not subject to Dutch income or corporate income tax (other than dividend withholding tax described above) on the income and capital gains derived from the Offer Shares and/or SETs, provided that:

- such Non-Dutch Resident does not derive profits from an enterprise or deemed enterprise, whether as an entrepreneur (*ondernemer*) or pursuant to a co-entitlement to the net worth of such enterprise (other than as an entrepreneur or a shareholder) which enterprise is, in whole or in part, carried on through a permanent establishment or a permanent representative in The Netherlands and to which enterprise or part of an enterprise, as the case may be, the Offer Shares and/or SETs are attributable or deemed attributable;
- in the case of a Non-Dutch Resident who is an individual, such individual does not derive income or capital gains from the Offer Shares and/or SETs that are taxable as benefits from “miscellaneous activities” in The Netherlands (*resultaat uit overige werkzaamheden*, as defined the Dutch Income Tax Act 2001); and
- such Non-Dutch Resident is neither entitled to a share in the profits of an enterprise nor co-entitled to the net worth of such enterprise effectively managed in The Netherlands, other than by way of the holding of securities or through an employment contract, to which enterprise the Offer Shares and/or SETs or payments in respect of the Offer Shares and/or SETs are attributable.

Gift, Estate or Inheritance Taxes

No Dutch gift, estate or inheritance taxes will be levied on the transfer of Offer Shares and/or SETs by way of gift by or on the death of a holder, who neither is nor is deemed to be a resident of The Netherlands for the purpose of the relevant provisions, unless:

- the transfer is construed as an inheritance or bequest or as a gift made by or on behalf of a person who, at the time of the gift or death, is or is deemed to be a resident of The Netherlands for the purpose of the relevant provisions;
- the Offer Shares and/or SETs are attributable to an enterprise or part of an enterprise which is carried on through a permanent establishment or a permanent representative in The Netherlands; or
- the holder of such Offer Shares and/or SETs is entitled to a share in the profits of an enterprise effectively managed in The Netherlands, other than by way of the holding of securities or through an employment contract, to which enterprise such Offer Shares and/or SETs are attributable.

For purposes of Dutch gift, estate and inheritance tax, an individual who is of Dutch nationality will be deemed to be a resident of The Netherlands if he has been a resident in The Netherlands at any time during the 10 years preceding the date of the gift or his death. For purposes of Dutch gift tax, an individual who is not of Dutch nationality will be deemed to be resident of The Netherlands if he has been a resident in The Netherlands at any time during the 12 months preceding the date of the gift.

For purposes of Dutch gift estate and inheritance tax, if an individual transfers the Offer Shares and/or SETs by way of a gift while he is not and is not deemed to be a resident of The Netherlands and dies within 180 days after the date of such gift, while being resident or deemed to be resident in The Netherlands, such Offer Shares and/or SETs are construed as being transferred on the death of such holder.

Value-Added Tax

There is no Dutch value-added tax payable by a holder of Offer Shares and/or SETs in respect of payments in consideration for the Offer of the Offer Shares and/or SETs.

Other Taxes and Duties

There is no Dutch registration tax, capital tax, customs duty, stamp duty or any other similar tax or duty other than court fees payable in The Netherlands by a holder of Offer Shares and/or SETs in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of The Netherlands) of the Offer Shares and/or SETs.

Residence

A holder of Offer Shares and/or SETs will not become or be deemed to become a resident of The Netherlands solely by reason of holding these Offers Shares and/or SETs.

THE OFFERING

Overview

We are offering an aggregate of 418,839,316 Offer Shares in the Offering. Subject to applicable securities laws, shareholders that qualify as Eligible Persons as of the Record Date are being granted SETs in the SETs Offering to subscribe for the Offer Shares, in amounts *pro rata* to their respective shareholdings and at the Issue Price. The Issue Price has been calculated with reference, among other things, to the market price of our ordinary shares at the close of business on 13 February 2007 (being the latest practicable date prior to the publication of this Prospectus). After the Exercise Period for the SETs has expired, any Offer Shares not subscribed for through the exercise of the SETs (referred to collectively as the “Rump Shares”), will be available for subscription in a private placement with institutional and professional investors in The Netherlands and elsewhere (referred to as the “Rump Offering” and together with the SETs Offering, the “Offering”), facilitated by the Sole Global Coordinator. The Rump Offering will be subject to the terms and conditions of the Share Placement Agreement and the price per Offer Share in the Rump Offering will be at least equal to the total of €0.70 and any selling expenses related to such private placements (including any VAT). References herein to the “Offer Shares” include the Rump Shares. We have, upon consultation with the Special Advisory Committee, instructed the Sole Global Coordinator not to actively solicit purchasers for the Rump Offering or to otherwise actively market the Offering. Our largest shareholder, Tele2 Finance, a wholly owned subsidiary of Tele2, has agreed to (i) exercise the SETs granted to it in the SETs Offering at the Issue Price and (ii) subscribe and pay for any Offer Shares which are not subscribed and paid for in the Rump Offering at €0.70 per Offer Share, subject to the terms and conditions of the Commitment Agreement dated 25 January 2007. Tele2 Finance currently holds 80.3% of our outstanding ordinary shares as well as all our outstanding Convertible Notes. The Rump Offering is expected to commence on 1 March 2007 and to end no later than 17:30 hours (Central European Time) on 1 March 2007.

After the Exercise Period has ended, we will announce the results of the SETs Offering by means of a press release. After the Rump Offering has ended, we will announce the results of the Rump Offering by means of a press release, including the aggregate number of Offer Shares subscribed and paid for, the recalculated conversion price of the Convertible Notes and the percentage of ordinary shares that Tele2 Finance owns on a fully diluted basis, assuming conversion of the Convertible Notes.

The statutory pre-emptive rights (*voorkeursrechten*) of holders of our ordinary shares have been excluded with respect to the Offering. Instead, our shareholders who are Eligible Persons as of the Record Date are being granted SETs that will entitle them to subscribe for the Offer Shares at the Issue Price.

We may adjust the dates, times and periods given in the timetable and throughout this Prospectus.

If we should decide to adjust dates, times or periods, we will notify Euronext Amsterdam and inform you through publication in a Dutch national newspaper and in the Daily Official List (*Officiële Prijscourant*) of Euronext Amsterdam.

Selling and Transfer Restrictions

We are not taking any action outside The Netherlands to permit the exercise and transfer of SETs. We urge you to carefully read the restrictions described under “Selling and Transfer Restrictions”. We reserve the right, with sole and absolute discretion, to treat as invalid any subscription or purported subscription which appears to us to have been executed, effected or dispatched in a manner that may involve a breach or violation of the laws of any jurisdiction or if we believe that the same may violate applicable legal or regulatory requirements or may be inconsistent with the procedures and terms set out in this Prospectus or in breach of the representations and warranties to be made by an exercising SET holder, as described herein.

Timetable

The table below lists certain expected key dates for the Offering. All times referred to below are Central European Time.

Record date	After the close of trading on Euronext Amsterdam, 17:40 hours, on 14 February 2007
Ex-SETs trading in our ordinary shares commences on Euronext Amsterdam	15 February 2007
Exercise Period Commences	15 February 2007
Trading in SETs commences on Euronext Amsterdam	15 February 2007
Trading in SETs ceases on Euronext Amsterdam	13:15 hours, on 28 February 2007
End of Exercise Period	15:30 hours, on 28 February 2007
Rump Offering period	Starting on 1 March 2007 and ending no later than 17:30 hours on 1 March 2007
Expected allotment of Offer Shares	1 March 2007
Admission to trading of the Offer Shares on Euronext Amsterdam	6 March 2007
Issuance of, payment for and delivery of the Offer Shares	6 March 2007

The last date and/or time before which notification of exercise instructions may be validly given by you may be earlier than the date and/or time specified above as the end of the exercise period, depending on the financial intermediary through which your SETs are held.

SETs Offering

Subject to applicable securities laws, shareholders who qualify as Eligible Persons as at the Record Date are being granted SETs to subscribe for Offer Shares at the Issue Price. Each ordinary share that each shareholder who also qualifies as an Eligible Person holds immediately after the close of trading in our ordinary shares on Euronext Amsterdam at 17:40 hours (Central European Time) on 14 February 2007, which is the Record Date, will entitle it to one SET. An Eligible Person (whether a shareholder of ours as of the Record Date or a subsequent transferee of SETs) will be entitled to subscribe for 4 Offer Shares for every 5 SETs held. Accordingly, a shareholder of ours as of the Record Date that qualifies as an Eligible Person will be entitled to subscribe for 4 Offer Shares for every 5 ordinary shares held on the Record Date. SETs can only be exercised in multiples of 5. No fractional shares will be issued.

Only shareholders who qualify as Eligible Persons as of the Record Date will be entitled to receive SETs pursuant to the grant of SETs by us. SETs that are credited to the account of an Ineligible Person solely for administrative purposes shall not constitute a SET grant, shall not constitute an offer of Offer Shares to such person and shall not confer any rights upon such person, including the right to take up, exercise, sell or otherwise transfer such credited SETs. Receipt of this Prospectus by an Ineligible Person shall not constitute an offer of SETs or Offer Shares to such person. A financial institution may not acknowledge the receipt of any SETs, and we reserve the right to treat as invalid the exercise, purported exercise or transfer of any SETs, which may involve a breach of the laws or regulations of any jurisdiction or if we believe, or our agents believe, that the same may violate applicable legal or regulatory requirements or may be inconsistent with the procedures and terms set out in this Prospectus or in breach of the representations and warranties to be made by an accepting holder, as described herein. No SETs will be granted to a shareholder with a securities account with a registered address in the United States and SETs may not be transferred to any such shareholder.

If you hold our ordinary shares on the Record Date and are an Eligible Person, the financial intermediary through whom you hold our ordinary shares will customarily give you details of the aggregate number of SETs to which you will be entitled. Your financial intermediary will supply you with this information in accordance with its usual customer relations procedures. You should contact your financial intermediary if you are an Eligible Person entitled to receive SETs but have received no information with respect to the Offering.

Record Date

The Record Date for determining the holders of our outstanding ordinary shares whose securities accounts will be credited with SETs (subject to applicable securities laws) is immediately after the close of trading on Euronext Amsterdam at 17:40 hours (Central European Time) on 14 February 2007. Until the close of trading in the ordinary shares on Euronext Amsterdam on the Record Date, the ordinary shares will trade together with SETs. From 15 February 2007, the ordinary shares will trade ex-SETs.

Trading in SETs

Trading in the SETs on Euronext Amsterdam is expected to commence on 15 February 2007, and will continue until 13:15 hours (Central European Time) on 28 February 2007. The SETs will be admitted to trading under the symbol “VERST”. The transfer of SETs will take place through the book-entry systems of Euroclear Nederland, Euroclear and Clearstream Luxembourg.

Persons interested in trading or purchasing SETs should be aware that the exercise of SETs by holders who are located in countries other than The Netherlands is subject to restrictions as described under “Selling and Transfer Restrictions”.

Exercise Period

Subject to the restrictions set out below, if you are an Eligible Person (whether a shareholder of ours as of the Record Date or a subsequent transferee of SETs), you may subscribe for Offer Shares by exercising your SETs from 15 February 2007 up to 15:30 hours (Central European Time) on 28 February 2007, which is the end of the Exercise Period. **The last date and/or time before which notification of exercise instructions may be validly given may be earlier, depending on the financial institution through which your SETs are held.** If you have not exercised your SETs by the end of the Exercise Period, you will no longer be able to exercise your SETs. Once you have exercised your SETs, you cannot revoke or modify that exercise unless a supplement to the Prospectus in the meaning of Article 5:23 of the Financial Supervision Act is published, in which case you may revoke or modify the exercise of your SETs within two working days after the publication of such supplement to the Prospectus. Even if the market price of our ordinary shares fluctuates below the Issue Price, if you have exercised your SETs, you will be obliged to pay the Issue Price for any Offer Shares being subscribed for.

SETs can no longer be exercised after 15:30 hours (Central European Time) on 28 February 2007, which is the end of the Exercise Period. At that time, any unexercised SETs will continue to be reflected in your securities account solely for the purpose of the payment of the Excess Amount, if any.

Subscription and Payment

If you are an Eligible Person (whether a shareholder of ours as of the Record Date or a subsequent transferee of SETs), and you wish to exercise your SETs, you should instruct your financial intermediary in accordance with the instructions that you receive from it. The financial intermediary will be responsible for collecting exercise instructions from you and for informing the Subscription Agent of your exercise instructions.

Subject to applicable securities laws, you may instruct your financial intermediary to sell some or all of your SETs, or to purchase additional SETs, on your behalf. See “Trading in SETs” above.

You should pay the Issue Price for the Offer Shares that you subscribe for in accordance with the instructions you receive from the financial intermediary through which you exercise your SETs. The financial intermediary will pay the Issue Price to the Sole Global Coordinator, who will in turn pay it to us. Payment for the Offer Shares to the Sole Global Coordinator must be made no later than the Payment Date (which is expected to be 6 March 2007). Accordingly, financial intermediaries through which you exercise your SETs may require payment by you to be provided prior to the Payment Date.

All questions concerning the timeliness, validity and form of instructions to a financial intermediary in relation to the exercise, sale or purchase of SETs will be determined by the financial intermediary in accordance with its usual customer relations procedures or as it otherwise notifies you.

We are not liable for any action or failure to act by a financial intermediary through whom shareholders hold their ordinary shares or by the Sole Global Coordinator in connection with any subscriptions or purported subscriptions.

Subscription Agent

ING Bank N.V. will act as Subscription Agent for the receipt of subscriptions for the Offer Shares through the exercise of SETs. The financial institution through which you hold your SETs will be responsible for collecting exercise instructions from you and for informing the Subscription Agent of your subscription in a timely manner.

Rump Offering

Private Placements

After the Exercise Period has ended, the Sole Global Coordinator will, subject to the terms and conditions of the Share Placement Agreement, facilitate the Rump Offering, in which the Sole Global Coordinator will offer the Rump Shares by way of a private placement with institutional and professional investors in The Netherlands. The Sole Global Coordinator has agreed to facilitate the Rump Offering through a private placement of any Rump Shares at a price which is at least equal to the total of €0.70 and any selling expenses related to such private placements (including any VAT), which price will be determined on the basis of a book-building process. The Rump Offering, if any, is expected to commence on 1 March 2007, and to end no later than 17:30 hours (Central European Time) on 1 March 2007. Allocation to institutional and professional investors that applied to subscribe for Rump Shares will be made on the basis of systematic allocation, and full discretion will be exercised as to whether or not and how to allocate the Rump Shares applied for. As a result, certain investors may not be allocated Rump Shares that they applied to subscribe for. Ultimately, we and the Sole Global Coordinator will determine the allocation of the Rump Shares subscribed for in the Rump Offering. Participants in the Rump Offering will be informed about the number of Rump Shares allocated to them in the Rump Offering by the Sole Global Coordinator. We have instructed the Sole Global Coordinator not to actively solicit purchasers for the Rump Offering or to otherwise actively market the Offering.

Tele2 Finance, our largest shareholder and a subsidiary of Tele2, has agreed pursuant to the terms and conditions of the Commitment Agreement to acquire, at a price of €0.70 per share, any Offer Shares not subscribed and paid for through the exercise of SETs in the Offering or placed in the Rump Offering. If all of the Offer Shares were acquired by Tele2 Finance in the Offering, Tele2 Finance would own 90.5% of our outstanding ordinary shares (on a fully diluted basis and based on (i) no recalculation of the conversion price of the Convertible Notes as a result of the Offering and (ii) conversion of the Convertible Notes at their current conversion price of €0.76 per share) after the closing of the Offering.

Excess Amount

Upon the completion of the Rump Offering, the excess of (A) the aggregate of (i) the proceeds for the Rump Shares placed in the Rump Offering and (ii) the proceeds for the Rump Shares placed with Tele2 Finance pursuant to the Commitment Agreement, after deduction of selling expenses (including any VAT), over (B) the product of (x) €0.61 multiplied by (y) the total number of Rump Shares (such amount referred to herein as the “Excess Amount”), will be paid in the following manner:

- each holder, who is an Eligible Person, of a SET that was not exercised at the end of the Exercise Period will be entitled to receive a part of the Excess Amount in cash proportional to the number of unexercised SETs reflected in such holder’s securities account; and
- each Ineligible Person which held our ordinary shares as of the Record Date (assuming compliance by such Ineligible Person with the selling and transfer restrictions described in this Prospectus) will be entitled to receive a part of the Excess Amount in cash proportional to the number of SETs that such shareholder would have been granted but for such shareholder’s status as an Ineligible Person.

The Excess Amount will be paid as soon as practicable after the Closing Date and will be credited through the facilities of Euroclear Nederland, Euroclear and Clearstream Luxembourg. Payments will be made in Euro only, without interest and after the withholding of any applicable taxes. If we have announced that an Excess Amount is available for payment and you have not received payment therefore within a reasonable time following the closing of the Offering, you should contact the financial intermediary through which you hold unexercised SETs (if you are an Eligible Person) or ordinary shares (if you are an Ineligible Person and if you are entitled to the Excess Amount).

We cannot guarantee you that the Rump Offering will be completed. Neither we, Tele2 Finance nor the Sole Global Coordinator will be responsible for any lack of Excess Amount arising from any subscription for and purchase of the Rump Shares in the Rump Offering.

Conditions Precedent to the Offering

Each of the Share Placement Agreement and the Commitment Agreement contains customary conditions to the obligations of the Sole Global Coordinator and Tele2 Finance, respectively, with regards to the Offering and their respective obligations under these agreements are subject to the fulfilment, or waiver, of such conditions prior to the Closing Date, including:

- no event has occurred which has, or would be likely to have, a material adverse effect on our financial condition;
- no court or any other competent authority has prohibited or otherwise provided an impediment to the consummation of the Offering;
- solely with respect to the Share Placement Agreement and in the reasonable opinion of the Sole Global Coordinator, Tele2 Finance has failed, or is likely to fail, to perform its obligations under the Commitment Agreement; and
- solely with respect to the Commitment Agreement, all conditions precedent to the Acquisitions (including those described in “Acquisition of Tele2 Netherlands and Tele2 Belgium – Tele2 Acquisitions Agreement – Conditions to the Acquisitions” have been fulfilled or waived.

In addition, the Share Placement Agreement and the Commitment Agreement are interconditional, meaning that the failure to satisfy or waive the conditions precedent in one such document could result in the termination of the other document.

If the conditions precedent in the Share Placement Agreement and the Commitment Agreement are not fulfilled or waived by the Closing Date, or if either of the Share Placement Agreement or Commitment Agreement is terminated, the SETs Offering and the Rump Offering will be withdrawn. As a consequence:

- both the exercised and unexercised SETs will be forfeited without compensation to their holders; however, any settled trades in SETs shall not be affected, and there will be no refund or compensation in respect of any SETs purchased in the market;
- any subscription payments received by us in connection with the exercise of SETs will be returned promptly, without interest; and
- the Offer Shares shall not be issued, whether or not such Offer Shares were already allotted, following the SETs Offering and the Rump Offering, and no shareholder or investor shall be entitled to any compensation if he suffered losses or damages as a result thereof.

All dealings in SETs and Offer Shares prior to the closing of the Offering are at the sole risk of the parties concerned. Euronext Amsterdam does not accept any responsibility or liability by any person as a result of the withdrawal of the Offering or (the related) annulment of any transactions on Euronext Amsterdam. See “Risk Factors – If the closing of the Offering does not take place on the Closing Date, both the exercised and unexercised SETs may be forfeited without compensation to their holders and the subscriptions for and allotments of Offer Shares that have been made will be disregarded”.

Subscription for Shares by Tele2 Finance

Tele2 Finance has agreed to (i) exercise the SETs granted to it in the SETs Offering at the Issue Price and (ii) subscribe and pay for any Offer Shares which are not placed in the Rump Offering.

To that end, we entered into the Commitment Agreement with Tele2 Finance. Tele2 Finance's commitment contemplated thereby is subject to the conditions precedent, as described above under "– Conditions Precedent to the SETs Offering and the Rump Offering". On 13 February 2007, we agreed with Tele2 Finance that the price to be paid for the Offer Shares which are not subscribed and paid for in the Rump Offering would be €0.70 per share. There will be no lock-up on trading with third parties with respect to the shares purchased by Tele2 Finance pursuant to its commitment under the Commitment Agreement.

Tele2 Finance's address is Stepsbran 18, Box 2094, SE-103 13 Stockholm, Sweden.

Allotment of Offer Shares

Allotment of Offer Shares issued pursuant to the Offering is expected to take place on 1 March 2007.

No Stabilization

No stabilization shall be undertaken by the Sole Global Coordinator in connection with the Offering.

Listing and Paying Agent

ING Bank N.V. is the Listing and Paying Agent with respect to our ordinary shares on Euronext Amsterdam.

ING Bank N.V. is the Listing and Paying Agent with respect to the SETs and the Offer Shares.

Payment and delivery

Payment for and delivery of the Offer Shares is expected to take place on 6 March 2007. Delivery of the Offer Shares will take place through the book-entry systems of Euroclear Nederland, Euroclear, and Clearstream Luxembourg.

Admission to trading

Application has been made to admit the Offer Shares to trading on Euronext Amsterdam. We expect that Offer Shares will be admitted to trading, and that trading in such shares will commence, on Euronext Amsterdam on 5 March 2007, barring unforeseen circumstances. All dealings in Offer Shares prior to the closing of the Offering are at the sole risk of the parties concerned. Euronext Amsterdam does not accept any responsibility or liability by any person as a result of the withdrawal of the Offering or (the related) annulment of any transactions on Euronext Amsterdam.

Our outstanding ordinary shares are traded on Euronext Amsterdam under the symbol "VRSA". The SETs will be admitted to trading on Euronext Amsterdam under the symbol "VERST".

Share Placement Agreement

In addition to conditions to the closing of the Offering, the Share Placement Agreement contains customary representations and warranties from us to the Sole Global Coordinator. We will indemnify the Sole Global Coordinator against certain liabilities in connection with the Offering. The Share Placement Agreement provides that upon the occurrence of certain events the Share Placement Agreement may be terminated, such as any of our warranties in such agreement, subject to certain exceptions, being untrue, inaccurate or misleading and such is material in the context of the Offering. If the Share Placement Agreement is terminated the Offering will be withdrawn. In such an event, both the exercised and unexercised SETs will be forfeited without compensation to their holders, and subscriptions for and allotments of Offer Shares that have been made will be disregarded. Any subscription payments received by us will be returned, without interest. Any such forfeiture of SETs will be without prejudice to the validity of any settled trades in the SETs. There will be no refund in respect of any SETs purchases in the market. All dealings in SETs and Offer Shares prior to the closing of the Offering are at sole risk of the parties concerned. Euronext Amsterdam does not accept any responsibility or liability to any person as a result of the withdrawal of the Offering or (the related) annulment of any transactions on Euronext Amsterdam.

Fees and Expenses

In connection with the Acquisitions and the Offering, we anticipate we will pay a total of €5 million in expenses, commissions and applicable taxes.

SELLING AND TRANSFER RESTRICTIONS

General

We are not taking any action to register the SETs and the Offer Shares or otherwise to permit a public offering of the Offer Shares (pursuant to the exercise of SETs or otherwise), or a grant of SETs in any jurisdiction outside The Netherlands. In particular, no SETs or Offer Shares will be granted, offered or distributed in or into the United States, Canada, Australia, or Japan.

Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document will be sent for information only and should not be copied nor redistributed. If you receive a copy of this Prospectus in any territory other than The Netherlands you may not treat this document as constituting an invitation or offer to you, nor should you in any event deal in SETs or Offer Shares unless, in the relevant territory, such an invitation or offer could lawfully be made to you and SETs or Offer Shares can lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements.

Accordingly, if you receive a copy of this Prospectus, you should not, in connection with the SETs Offering or the Rump Offering, distribute or send this Prospectus, or transfer SETs or Offer Shares to any person or in or into any jurisdiction where to do so would or might contravene local securities laws or regulations. If you forward this document into any such territory (whether under a contractual or legal obligation or otherwise) you should draw the recipient's attention to the contents of this "Selling and Transfer Restrictions" section.

Subject to the specific restrictions described below, if you (including, without limitation, your nominees, custodians and trustees) are outside The Netherlands and wish to exercise SETs or purchase SETs or Offer Shares, you must satisfy yourself as to full observance of the applicable laws of any relevant territory including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories.

Subject to certain exceptions, financial intermediaries, including brokers, custodians and nominees, are not permitted to send or otherwise distribute this Prospectus or any other information regarding the Offering to any person that does not qualify as an Eligible Person.

The comments set out in this section are intended as a general guide only. If you are in any doubt as to your position you should consult your professional advisor.

Exercise of SETs

SETs will initially be granted to an Eligible Person as at the Record Date. SETs credited for administrative purposes to the account of any shareholder that is not an Eligible Person, shall be deemed not granted, shall not constitute an offer of any Offer Shares to such shareholder and shall not confer any rights upon such shareholder, including the right to take up, exercise, sell, or otherwise transfer such credited SETs. A financial institution may not credit the receipt of any SETs, and we reserve the right to treat as invalid the exercise, purported exercise or transfer of any SETs, which may involve a breach of the laws or regulations of any jurisdiction or if we believe, or our agents believe, that the same may violate applicable legal or regulatory requirements or may be inconsistent with the procedures and terms set out in this Prospectus or in breach of the representations and warranties to be made by an accepting holder, as described herein. No SETs will be granted to a shareholder with a securities account with a registered address in the United States and SETs may not be transferred to any such shareholder.

Exercise instructions or certifications sent from or postmarked in Australia, Canada, Japan or the United States will be deemed to be invalid and the Offer Shares being offered in the Offering will not be delivered to any address inside any of these jurisdictions. We and the Subscription Agent reserve the right to reject any exercise (or revocation of any exercise) in the name of any person that provides an address in Australia, Canada, Japan or the United States for acceptance, revocation of exercise or delivery.

Notwithstanding any other provision of this Prospectus, we reserve the right to permit you to exercise SETs if we in our sole and absolute discretion are satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question. In any such case, neither we nor the Sole Global Coordinator accept any liability for any actions that you take or for any consequences that you may suffer by our accepting your exercise of SETs.

Representations and Warranties by Investors in the SETs Offering and the Rump Offering

If you (1) take up, deliver or otherwise transfer SETs, (2) exercise SETs, or (3) purchase, subscribe for, trade or otherwise deal in SETs or the Offer Shares being granted or offered, respectively, in the Offering, you will be deemed to have made each of the following representations and warranties to us, to the Subscription Agent, to the Sole Global Coordinator and to any person acting on our or their behalf, unless in our sole discretion we waive such requirement:

- You (other than if you solely are purchasing, subscribing for, trading or otherwise dealing in Offer Shares):
 - were a shareholder in, and held ordinary shares of, Versatel Telecom International N.V. as at the Record Date; or
 - you legally acquired SETs (or, if you are acquiring SETs, you may lawfully acquire SETs);
- You may lawfully be offered, take up, exercise, obtain, subscribe for and receive the SETs and/or the Offer Shares in the jurisdiction in which you reside or are currently located;
- You are located outside Australia, Canada, Japan and the United States;
- You are not an Australian, Canadian or Japanese person;
- You are not a US person (as such term is defined in Regulation S, a “**US Person**”);
- You are not acting, and have not acted, for the account or benefit of an Australian, Canadian or Japanese person or a US Person;
- You are outside the United States and are acquiring the SETs and/or Offer Shares in an offshore transaction (as defined in Regulation S);
- You are either:
 - located outside the United Kingdom; or
 - you are a person to whom the SETs and the Offer Shares may be granted, offered or sold, as set out in “United Kingdom” below; and
- You understand that neither the SETs nor the Offer Shares have been or will be registered under the US Securities Act or with any securities regulatory authority of any state, territory, or possession of the United States and the SETs and the Offer Shares are being distributed and offered outside the United States in reliance on Regulation S. Consequently you understand the SETs and the Offer Shares may not be offered, granted, sold, pledged or otherwise transferred in the United States.

A person who can make the representations and warranties described above shall be deemed an “**Eligible Person**” for the purposes of the Offering.

We, the Subscription Agent and the Sole Global Coordinator, as well as any persons acting on behalf of any of us, will rely upon your representations and warranties. Any provision of false information or subsequent breach of these representations and warranties may subject you to liability.

If you are a person acting on behalf of another person exercising or purchasing SETs or Offer Shares (including, without limitation, as a nominee, custodian or trustee), you will be required to provide the foregoing representations and warranties to us and the Subscription Agent with respect to the exercise or purchase of SETs or Offer Shares on behalf of such person. If you do not provide the foregoing representations and warranties, neither we, nor the Subscription Agent, nor any persons acting on behalf of either of us, will be bound to authorise the allocation of any Offer Shares to you or the person whose behalf you are acting.

European Economic Area

In relation to each EEA State which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), an offer to the public of the SETs or the Offer Shares which are the subject of the Offering contemplated by this Prospectus may not be made in that Relevant Member State other than the offers contemplated in the Prospectus in The Netherlands once the Prospectus has been approved by the AFM, the competent authority in The Netherlands, and published in accordance with the Prospectus Directive as implemented in The Netherlands, except that an offer to the public in that Relevant Member State of any SETs or Offer Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (i) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) total balance sheet assets of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (iii) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3(2) of the Prospectus Directive;

provided that no such offer of the SETs and/or the Offer Shares shall result in a requirement for the publication by us, the Sole Global Coordinator or Tele2 Finance of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer to the public” in relation to any SETs or Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information the terms of the offer and the SETs and/or the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for SETs and/or the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive includes any relevant implementing measure in each Relevant Member State.

United States

None of the SETs or the Offer Shares has been or will be registered under the US Securities Act or with any securities regulatory authority of any state, territory or possession of the United States.

The SETs are being granted and the Offer Shares are being offered only in offshore transactions outside the United States in reliance on Regulation S under the US Securities Act. The SETs are not being granted and the Offer Shares are not being offered to any US Person. Accordingly, no SETs will be granted to any shareholder account with a registered address in the United States and SETs must not be transferred to any such shareholders.

United Kingdom

Neither this Prospectus nor any other offering material has been submitted to the clearance procedures of the Financial Services Authority in the UK. Neither the SETs nor the Offer Shares are being or have been offered or sold in the United Kingdom except to qualified investors. In the immediately preceding sentence, “qualified investors” has the meaning given to it in section 86 of the Financial Services and Markets Act 2000 (“**FSMA**”).

The Sole Global Coordinator has represented and agreed that:

- it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business;
- it has not offered or sold and will not offer or sell either the SETs or the Offer Shares in the United Kingdom other than to qualified investors as defined in section 86 of FSMA;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the SETs or the Offer Shares in

circumstances in which section 21(1) of the FSMA does not apply in respect of which an exemption (as set out in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended) applies; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the SETs or the Offer Shares in, from or otherwise involving the UK.

GENERAL INFORMATION

Available Information

Annually, within five months of the end of our fiscal year, unless the General Meeting has extended this period for a maximum of six months due to special circumstances, the Management Board is required to prepare annual accounts, accompanied by an annual report and an accountant's certificate. The annual accounts must be signed by all members of the Management Board and the Supervisory Board. The annual accounts, annual report and accountant's certificate as well as our articles of association will be available without charge at our head office in Amsterdam Zuid-Oost during regular business hours from the day of notice convening the annual General Meeting.

Copies of the Prospectus, our annual accounts for the years ended 31 December 2003, 31 December 2004, and 31 December 2005, our deed of incorporation, our articles of association and the valuation report issued by Kempen to our Special Committee on 5 December 2006, together with a letter by Kempen to us dated 26 January 2007 may also be obtained free of charge by sending a request in writing to us at our business address: Hullenbergweg 101, 1101 CL, Amsterdam Zuid-Oost, The Netherlands. Copies of this Prospectus may also be obtained free of charge by sending a request in writing to our business address, listed above, or to ING Bank N.V., Van Heenvlietlaan 220, 1083 Amsterdam, fax number: +31 20 7979 607 or email: iss.pas@mail.ing.nl.

Alternatively, this Prospectus may be obtained through the website of Euronext Amsterdam at www.euronext.com.

Corporate Resolutions

On 12 February 2007, the General Meeting authorized the Management Board, subject to the approval of the Supervisory Board, to grant the SETs and to issue the Offer Shares and to exclude pre-emptive rights of shareholders in relation to the Offering. On 13 February 2007, with the approval of the Supervisory Board, the Management Board resolved to grant the SETs and to issue the Offer Shares and to exclude pre-emptive rights of shareholders in relation to the Offering.

Organizational Structure

We are part of the Tele2 group of companies via our majority shareholder Tele Finance. Tele2 is one of Europe's leading alternative telecom operators. It has been listed on The Stockholm Stock Exchange since 1996. Tele2 operates in 22 countries in Europe. Its operations are divided into six market areas. We are part of the UK & Benelux market area.

Within the Tele2 group, we are a subholding company that conducts our business operations through our subsidiaries. Our principal direct and indirectly held operating subsidiaries are as follows:

- Versatel Nederland B.V. (The Netherlands) (held 100%); and
- Versatel Belgium N.V. (Belgium) (held 100%).

Material Contracts

The following contracts are the only contracts (not being contracts entered into in the ordinary course of business) that we have entered into within the two years immediately preceding the date of this Prospectus which are material or which have been entered into at any other time and which contain provisions under which we have an obligation or entitlement that is material as of the date of this Prospectus:

Tele2 Acquisitions Agreement

For a description of the Tele2 Acquisitions Agreement pursuant to which we intend to purchase Tele2 Netherlands and Tele2 Belgium, see "Acquisition of Tele2 Netherlands and Tele2 Belgium – Tele2 Acquisitions Agreement".

Share purchase agreement regarding the sale of Versatel Deutschland

In connection with the Tele2 Offers, we sold all of the outstanding shares of Versatel Deutschland, along with certain intra-group loans to a wholly owned subsidiary of Apax for approximately €539.0 million pursuant to a share purchase agreement dated 14 October 2005. We have not given any representations or warranties in connection with the transaction to the purchaser.

Eredivisie License Agreement

On 22 December 2004 we announced that we had won the tender for the live pay TV rights of the Eredivisie football matches. Pursuant to the agreement that we subsequently entered into with Eredivisie C.V. (a limited partnership between football clubs of the Eredivisie and Eredivisie N.V.), we agreed to pay Eredivisie C.V. €30,500,000 per season, entitling us to broadcast the Eredivisie football matches via pay-television. Under the agreement, Eredivisie C.V. may request that part of our payment obligations be secured by means of a bank guarantee. At present, Tele2 Finance has granted such bank guarantee for the benefit of Eredivisie C.V. on our behalf. The agreement has a three year term, ending on 1 July 2008.

In relation to our Eredivisie football channels, we have entered into the following agreements with CanalDigitaal, KPN and De Telegraaf.

- On 14 June 2005, we announced that we had entered into an agreement with CanalDigitaal to distribute the Eredivisie football matches of the football seasons 2005 through 2008 via satellite. These services are offered as an alternative for football fans that are located outside of our ADSL2+ coverage area. The agreement with CanalDigitaal was entered into for a period of 3 years.
- On 8 September 2006, we announced the signing of an agreement with KPN for the distribution of digital television. This agreement will allow us to use Digitenne, KPN's DTT network, as well as KPN's fixed-line interactive television network, Mine, for the distribution of our football-related pay-TV channels. In addition, we agreed that we will be allowed to use Digitenne to market a television product under our own brand name to our customers. KPN, in turn, will be able to expand the content offered to its Mine and Digitenne customers with our Eredivisie channels.
- On 7 December 2006, we announced that the Dutch national daily De Telegraaf has been engaged to produce a series of pay-web TV programs relating to the Eredivisie football matches. The programs shall be made available via our Eredivisie channels, as well as the website of De Telegraaf, including www.telesport.nl.

Related party loan agreement with Tele2 Finance as lender

In October 2005, following the settlement of the Tele2 Offers, we entered into a five-year related party loan agreement with Tele2 Finance as lender. As of 31 December 2006, the amount outstanding, including accrued interest totalled €177.9 million. The loan has a three-month revolving interest rate which is Euribor (or such other rate as may be determined by Tele2 Finance) plus 1.25%. The loan is repayable in October 2010.

We have agreed with Tele2 Finance, conditional upon the completion of the Offering, to refinance this loan in order to adjust the interest rate. As a result, the three months revolving interest rate of Euribor will be changed into a three year revolving interest rate of Interest Rate Swap. The margin above the Interest Rate Swap rate (1.25%) and due date (October 2010) will remain the same.

In addition we agreed with Tele2 Finance that to the extent an amount is claimed under either of the two bank guarantees issued by Tele2 Finance on behalf of us (see Principal Shareholders and Related Party Transactions – Related Party Transactions – Related to the Tele2 Offers) 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 said related party loan agreement. After completion of the Offering it is our intention to cancel the two bank guarantees issued by Tele2 Finance and to issue said bank guarantees ourselves (if and to the extent still applicable and for the then relevant amount).

Independent Auditors

Ernst & Young Accountants, independent auditors with their address at Boompjes 258, 3011 XZ, Rotterdam, The Netherlands, have audited, and rendered unqualified auditors' reports on, the financial statements of Versatel Telecom International N.V. for each of the financial years ended 31 December 2003, 31 December 2004, and 31 December 2005. Ernst & Young Accountants have given, and have not withdrawn, their written consent to the inclusion of their report (which report for the financial year ended 31 December 2003 is incorporated by reference in this Prospectus) and the references to themselves herein in the form and context in which they are included.

Deloitte Accountants B.V., independent auditors with their address at Orlyplein 10, 1040 HC Amsterdam, P.O. Box 58110, The Netherlands, have reviewed the consolidated interim financial statements of Versatel Telecom International N.V. for the nine month period ended 30 September 2006. Deloitte Accountants B.V. have given, and have not withdrawn, their written consent to the inclusion of their review report and the references to themselves herein in the form and context in which they are included.

Deloitte Accountants B.V., independent auditors with their address at Orlyplein 10, 1040 HC Amsterdam, P.O. Box 58110, The Netherlands, have reviewed the interim financial statements of Tele2 Netherlands for the nine month period ended 30 September 2006. Deloitte Accountants B.V. have given, and have not withdrawn, their written consent to the inclusion of their unqualified review report and the references to themselves herein in the form and context in which they are included. Deloitte Accountants B.V., independent auditors with their address at Orlyplein 10, 1040 HC Amsterdam, P.O. Box 58110, The Netherlands, have also audited, and rendered an unqualified auditors' report on, the financial statements of Tele2 Netherlands for the financial year ended 31 December 2005. Deloitte Accountants B.V. have given, and have not withdrawn, their written consent to the inclusion of the auditors' report on the 2005 financial statements and the references to themselves herein in the form and context in which they are included.

Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, independent auditors with their address at Berkenlaan 8B, 1831, Diegem, Belgium, have reviewed the financial statements of Tele2 Belgium for the nine month period ended 30 September 2006. Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA have given, and have not withdrawn, their written consent to the inclusion of their qualified review report and the references to themselves herein in the form and context in which they are included. Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA, independent auditors with their address at Berkenlaan 8B, 1831, Diegem, Belgium, have also audited, and rendered a qualified auditors' report on the financial statements of Tele2 Belgium for the financial year ended 31 December 2005. Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA have given, and have not withdrawn, their written consent to the inclusion of the qualified auditors' report on the 2005 financial statements and the references to themselves herein in the form and context in which they are included.

Ernst & Young Accountants and Deloitte Accountants B.V. are members of the Royal Dutch Institute of Chartered Accountants (*Koninklijk Nederlands Instituut van Registeraccountants*). Deloitte Bedrijfsrevisoren BV o.v.v.e. CVBA is a member of *Instituut der Bedrijfsrevisoren*.

Kempen and EY TAS

In connection with the Acquisitions, Kempen & Co Corporate Finance B.V., a fully owned subsidiary of merchant bank Kempen & Co N.V., focusing on providing advice on mergers and acquisitions as well as capital market transactions, with its address at Beethovenstraat 300, 1077 WZ, Amsterdam, The Netherlands, has provided the Special Committee with a valuation report with respect to us as well as Tele2 Netherlands and Tele2 Belgium. In addition, the Special Advisory Committee received from Kempen a fairness opinion with respect to the purchase prices payable by us for each of Tele2 Netherlands and Tele2 Belgium pursuant to the Acquisitions. Kempen has given, and has not withdrawn, its written consent to the references to the fairness opinion issued by Kempen to the Special Advisory Committee and to the valuation report issued by Kempen to the Special Committee on 5 December 2006 and the letter by Kempen to us dated 26 January 2007 herein in the form and context in which they are included.

Also in connection with the Acquisitions, Ernst & Young Transaction Advisory Services B.V., an Ernst & Young undertaking providing transaction advisory services, with its address at Boompjes 258, 3011 XZ, Rotterdam, The Netherlands has provided the Special Advisory Committee with a fairness opinion with respect to the aggregate purchase price payable by us for each of Tele2 Netherlands and Tele2 Belgium pursuant to the Acquisitions. EY TAS has given, and has not withdrawn, its written consent to the inclusion of the EY TAS fairness opinion and the references to it herein in the form and context in which they are included.

APPENDIX



KEMPEN & CO
Merchant Bank

FAIRNESS OPINION

Special Advisory Committee of the
Supervisory Board Versatel
Telecom International N.V.
Attn. Messrs mr. J.P. Eschauzier
P.A. Wortel RA
prof. dr. J.L. Bouma
Hullenbergweg 101
1101 CL AMSTERDAM
ZUIDOOST

Amsterdam, 26 January 2007
PROO/MKLA/019.07

Dear members of the Special Advisory Committee,

We understand that Versatel Telecom International N.V. (“Versatel”) intends to acquire all outstanding ordinary shares of Tele2 Netherlands B.V. from Tele2 Netherlands Holdings B.V. and, together with Versatel Nederland B.V., intends to acquire all outstanding ordinary shares of Tele2 Belgium S.A. (together with Tele2 Netherlands B.V., the “Acquired Companies”) from Tele2 Europe S.A. and SEC Luxembourg S.A. (the “Acquisitions”) against payment of cash considerations (the “Considerations”).

The Special Advisory Committee of Versatel has requested Kempen & Co Corporate Finance B.V. (“Kempen & Co”) to render its opinion with respect to the fairness of the Considerations, from a financial point of view, to the shareholders of Versatel.

In arriving at our opinion, we have:

- Reviewed the financial terms and conditions of the documentation related to the Acquisitions, such as the Share Purchase Agreement;
- Reviewed certain publicly available business and financial information regarding the Acquired Companies;
- Reviewed certain other information relating to the Acquired Companies, including unaudited figures until 30 November 2006 and financial forecasts;
- Reviewed certain documentation related to related party transactions between Versatel on the one hand and the Acquired Companies, Tele2 AB and their respective affiliates on the other hand;
- Discussed the Acquisitions and the reviewed information with certain members of the management teams and/or the representatives of Versatel and the Acquired Companies;
- Reviewed certain information related to certain transactions we believe to be comparable to the Acquisitions, to the extent that the information is publicly available;
- Reviewed publicly available financial information with respect to certain other companies we believe to be comparable to the Acquired Companies;
- Considered such other information, performed such other financial studies, analyses and investigations and financial, economic and market information as we have deemed relevant.

In connection with our review, we do not assume or accept any liability or responsibility for any independent verification or checking of any of the foregoing information and we have relied on such information being true,

complete, accurate, correct and not misleading in all material respects. We have assumed that no information has been withheld from us that could have an impact on this opinion.

With respect to the financial forecasts for the Acquired Companies, the management teams of the Acquired Companies have advised us, and we have assumed, that such forecasts have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the Acquired Companies' management teams as to the future financial performance of the Acquired Companies at that time, and that no event subsequent to this and undisclosed to us has had a material effect on them. In reaching our conclusions we have also taken into account the views expressed by the management team of Versatel with respect to the financial forecasts for the Acquired Companies and with respect to the value of the potential synergies resulting from the Acquisitions.

In addition, we have not been requested to make, and have not made, an independent valuation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Acquired Companies, nor have we been furnished with any such valuations or appraisals.

We further have assumed that the representations and warranties of the parties expressed in the documentation related to the Acquisitions are true, complete, accurate, correct and not misleading, and that each of the parties involved in the Acquisitions will perform all of the covenants and agreements to be performed by it.

We have also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the Acquisitions will be obtained without any adverse effect on the Acquired Companies, Versatel or the Acquisitions and that no divestitures or assets sales from the Acquired Companies or Versatel will be required as a result of the Acquisitions, that in either case would in any respect be material to our analysis.

Our opinion is necessarily based upon information made available to us as of the date hereof, including developments related to the Acquired Companies since 30 November 2006 until the date hereof, and upon financial, economic, market and other conditions as they exist and can be evaluated on the date hereof. Subsequent developments in the aforementioned conditions may affect this opinion and the assumptions made in preparing in this opinion and we are not obliged to update, revise or reaffirm this opinion if such conditions change.

Our opinion exclusively focuses on the fairness of the Considerations, from a financial point of view, to the shareholders of Versatel. Kempen & Co has not provided any legal, tax, regulatory, accounting, actuarial or other advice, with the exception of the financial advice related to the Valuation Report (as defined below), and as such assumes no liability or responsibility in connection therewith.

Kempen & Co will receive a fixed fee for its services. This fee is not contingent upon the consummation of the Acquisitions or the contents of this opinion. From time to time, Kempen & Co may also have executed transactions, for its own account or for the accounts of its customers, in the shares of Versatel and/or Tele2 AB. No members of the Management Board and Supervisory Board of Versatel or the Acquired Companies act as board members of or advisors to Kempen & Co. No board members of Kempen & Co do act as board members of or advisors to Versatel or the Acquired Companies.

Kempen & Co nor any of its affiliates were at the date of this opinion engaged on any advisory assignments with Versatel, the Acquired Companies or Tele2 AB or had served as financial adviser to Versatel, the Acquired Companies or Tele2 AB on any mergers and acquisitions assignments within the previous year, with the exception of, on 5 December 2006, providing the Special Committee of Versatel with a valuation report that served as the basis for their negotiations with Tele2 AB with regard to the Acquisitions (the "Valuation Report"). The Valuation Report was submitted subject to similar assumptions, limitations and restrictions as apply to this opinion, most notably that we have not been requested to make, and have not made, an independent valuation or appraisal of any of the assets or liabilities (contingent or otherwise) of the Acquired Companies, and that have we not been furnished with any such valuations or appraisals.

Kempen & Co and certain of its affiliates might at the date of this valuation report have served as financial adviser to shareholders of Versatel and/or Tele2 AB and/or their affiliates on unrelated matters and had or might have received fees for such services. In addition, Kempen & Co or its affiliates may, in the future, provide financial advisory or other services to any of Versatel, the Acquired Companies, Tele2 AB and/or its affiliates and to shareholders of Versatel and/or Tele2 AB and/or their affiliates and may receive fees for such services.

The engagement of Kempen & Co, this letter and the opinion expressed herein are solely for the confidential use and benefit of the Special Advisory Committee of Versatel in connection with their evaluation, in their sole

independent judgment, of the Considerations. Third parties cannot derive any rights from this opinion. This opinion is not intended and does not in any way constitute a recommendation as to whether the Special Advisory Committee should engage in the Acquisitions. This opinion does also not address the relative merits of the underlying decision by Versatel to proceed with or engage in the Acquisitions or as to any aspect of the Acquisitions, other than the Considerations, nor does it address any other transaction that the Company has considered or may consider. This opinion is not intended to be, and does not in any way constitute, a recommendation of any kind by Kempen & Co to the shareholders of Versatel.

This opinion may not be reproduced or summarized or referred to in any form or document without our prior written consent. Notwithstanding the foregoing, this letter may be reproduced in full, for information purposes only, in the Shareholders Circular and the prospectus related to the possible offering of new Versatel shares to finance the Acquisitions.

Based upon and subject to the foregoing, Kempen & Co is of the opinion that, as at the date hereof, the Considerations are fair, from a financial point of view, to the shareholders of Versatel.

As set out in our general terms and conditions, this letter shall be governed by and construed in accordance with Dutch law and any claims, or disputes arising out of, or in connection with, this letter shall be subject to the exclusive jurisdiction of the Dutch courts.

Very truly yours,

Kempen & Co Corporate Finance B.V.



STRICTLY CONFIDENTIAL AND PRIVATE

Special Advisory Committee
of Versatel Telecom International N.V.
P.O. Box 7113
1007 JC AMSTERDAM
The Netherlands

Amsterdam, 26 January 2007

Dear Sirs,

You have requested Ernst & Young Transaction Advisory Services B.V. ("EY TAS") to issue an opinion ("Opinion") as to the fairness from a financial point of view of the considerations ("Considerations") for the acquisitions ("Acquisitions") of Tele2 Netherlands B.V. ("Tele2 NL") and Tele2 Belgium N.V.S.A. ("Tele2 Belgium") (all together the "Acquired Companies") by Versatel Telecom International N.V. and Versatel Nederland B.V. ("Versatel" or the "Company") from Tele2 Netherlands Holding B.V., Tele2 Europe S.A. and SEC Luxembourg S.A. (all together "Tele2") (hereinafter the "Transaction").

In arriving at our Opinion, we have, among other things:

1. Reviewed the financial terms and conditions of the Transaction;
2. Reviewed certain publicly available business and financial information regarding the Acquired Companies;
3. Reviewed certain other information relating to the Acquired Companies, including unaudited figures until 30 November 2006 and financial forecasts;
4. Reviewed certain documentation concerning related party transactions between Versatel on the one hand and the Acquired Companies and their respective affiliates on the other hand;
5. Discussed the Acquisitions and the reviewed information with certain members of the management, advisors and other representatives of Versatel and/or the Acquired Companies;
6. Reviewed certain information related to certain transactions we believe to be comparable to the Acquisitions, to the extent that the information is publicly available;
7. Reviewed publicly available financial information with respect to certain other companies we believe to be comparable to the Acquired Companies; and
8. Considered such other information, performed such other financial studies, analyses and investigations and financial, economic and market information as we have deemed relevant.

In connection with our review, we have, with your consent, not assumed any obligation independently to verify any of the financial or other information utilized, reviewed or considered by us in formulating our Opinion and have relied on such information, including financial forecasts, operating data and all information that was publicly available to us or provided to us by the Company and/or the Acquired Companies being in all material respects accurate, complete and not misleading. With respect to the financial forecasts, operating data and other information related to the Acquired Companies, provided or discussed with us by the management of the Company and/or the Acquired Companies we have furthermore, with your consent, assumed that they have been reasonably prepared with due care and on bases reflecting the best available estimates and judgments of the management of the Company and/or the Acquired Companies as to the future financial performance of the Acquired Companies. In reaching our conclusions we have taken into account the views expressed to us by the management of the Company and/or the Acquired Companies relating to the Acquired Companies' prospects and position in the markets in which they operate. We express no view, at your direction, as to the reasonableness of

such forecasts and projections or the assumptions on which they are based. We have assumed that no information has been withheld from us that could have an impact on this Opinion.

With respect to tax, legal and regulatory matters, we have fully relied, with your consent, on the advice of the counsel, experts and advisers of the Company and/or the Acquired Companies and, further, on discussions with, and information and materials furnished to us by the management of Versatel and/or the Acquired Companies. We have also assumed, at your direction, that there has not occurred any material change in the assets, financial condition, tax position, results of operations, business or other prospects of the Company and/or the Acquired Companies since the representative dates on which the most recent financial statements or other financial and business information relating to Versatel and/or the Acquired Companies were made available to us. Furthermore, with regard to tax, legal and regulatory matters we have assumed, with your consent, that the Transaction will not cause any extraordinary adverse effects.

We further have assumed, with your consent, that the representations and warranties of the parties expressed in the documentation related to the Transaction are true, correct and not misleading, that each of the parties involved in the Transaction will perform all of the covenants and agreements to be performed by it.

We have also assumed, with your consent, that all governmental, regulatory or other consents and approvals necessary for the consummation of the Transaction will be obtained without any adverse effect on the Company and/or the Acquired Companies or the Transaction and that no divestitures or assets sales from the Company and/or the Acquired Companies will be required as a result of the Transaction, in either case that would in any respect be material to our analysis.

We have, with your consent, not assumed responsibility for making an independent evaluation, appraisal or physical inspection of any of the assets or liabilities (contingent or otherwise) of the Acquired Companies nor have we been furnished with any such evaluations or appraisals nor have we evaluated the solvency or fair value of the Acquired Companies under any law relating to bankruptcy, insolvency or similar matters, both before and after giving effect to the Transaction.

Our Opinion is based on economic, monetary and market and other conditions as in effect on, and the information made available to us as of, the date hereof. Accordingly, although subsequent developments or new information may affect this Opinion, we have not assumed any obligation to update, revise or reaffirm this Opinion.

In connection with this Opinion, we have not evaluated any alternatives for the Transaction or any alternative financings, nor did we participate in any negotiations regarding the Transaction.

We are serving as financial adviser to the Company in connection with the delivery of this Opinion. We are entitled to payment of our fees upon the rendering of our Opinion or the termination of the Transaction. The amount of our fees is independent of the success of the Transaction.

We are currently not engaged on any advisory assignments with the Company or served as financial adviser to the Company on any mergers and acquisitions assignments within the past year. We and/or certain of our affiliates might have served, or may currently serve, as financial adviser to shareholders of the Company and/or their affiliates on unrelated matters and received fees or may receive fees for such services. In addition, we and/or our affiliates may, in the future, provide financial advisory or other services to the Company and/or its affiliates and/or to the shareholders of the Company and/or their affiliates and may receive fees for such services. We and/or our affiliates also may maintain relationships with the Company, the shareholders of the Company and their respective affiliates or related parties.

This Opinion is issued upon the request of and for the information of the special advisory committee of the Company in connection with its evaluation of the Transaction and does not constitute a recommendation as to how any stockholder should vote or act with respect to any corporate matter. Accordingly, we do not owe or assume any duty or responsibility to any third party who reviews this Opinion or any other information contained in this Opinion, whether in contract, tort (including without limitation for negligence or breach of statutory duty) or otherwise, in connection with this Opinion. Furthermore and with your consent, we shall not be liable to any third party for any loss arising directly or indirectly from any use of or reliance on this Opinion or otherwise in connection with them. For such purpose, the Company has agreed to sign a hold harmless letter indemnifying us and/or our affiliates for any damage and claims of whatsoever nature of third parties arising out of its engagement, including liabilities under securities laws. As set forth in more detail in our engagement letter agreed with you, we reiterate that the liability of EY TAS arising out of this engagement towards Versatel is limited.

This Opinion is limited to the fairness, from a financial point of view and as of the date hereof, of the Considerations, and does not address any other aspect of the Transaction. This Opinion does not address the proposed offering as defined in the shareholders circular dated 26 January 2007 (“Shareholders Circular”). With your consent, our Opinion does also not address, and we express no view as to, the relative merits of the underlying decision by the Company to proceed with or engage in the Transaction and related transactions or as to any aspect of the Transaction (including without limitation the structure of the Transaction), other than the Considerations, nor does it address any other transaction that the Company has considered or may consider, nor does it address or give advice regarding the Company’s underlying business decision to proceed with the Transaction.

This Opinion may not be disclosed, referred to, or communicated (in whole or in part) to any third party for any purpose whatsoever except with our prior written approval which will not be unreasonably withheld. If required by applicable law, rule or regulation, this Opinion may be reproduced in full in any disclosure document or proxy statement that the Company must file with any relevant securities laws regulatory authority, but may not otherwise be disclosed publicly in any manner without our prior written approval which will not be unreasonably withheld, and then only in full. Notwithstanding the foregoing, this Opinion may be reproduced in full, for information purposes only, in the Shareholders Circular and the prospectus related to the proposed offering of new Versatel Telecom International N.V. shares, inter alia for purposes of financing the Acquisitions.

In accordance with the engagement letter agreed with you, this Opinion shall be governed by and construed in accordance with Dutch law and any claims, or disputes arising out of, or in connection with, this letter shall be subject to the exclusive jurisdiction of the Dutch courts.

Based upon and subject to the foregoing and other factors we deem relevant in reliance thereon, it is our opinion that, as of the date hereof, the Considerations are fair from a financial point of view to the shareholders of the Company.

Very truly yours,

On behalf of Ernst & Young Transaction Advisory Services B.V.

/s/ Geer-Jan A.M. van Logtestijn

/s/ Wim T.M. Veerman

Geer-Jan A.M. van Logtestijn

Wim T.M. Veerman

GLOSSARY OF SELECTED TERMS

ADSL (Asymmetrical Digital Subscriber Line)	A member of the digital subscriber line family of copper loop enhancing technologies (see “DSL”), ADSL is asymmetric, meaning that it provides faster transmission rates downstream than upstream.
ADSL2 (Asymmetric Digital Subscriber Line)	Improved version of the ITU (International Telecommunications Union) standard for ADSL.
ADSL2+ (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 system.
Bitstream 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 preselection	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.
CDR (Call Data Record)	A data record used in internet telephony that contains information related to a telephone call, such as the origination and destination addresses of the call, the time the call started and ended, the duration of the call, the time of day the call was made and any toll charges that were added through the network or charges for operator services, among other details of the call.
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.
CLI (Command Line Interface)	A tool for interacting with computers, often using a text terminal.
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).
DNS (Domain Name System) ...	A system that stores and associates many types of information with domain names, translates domain names (computer hostnames) to IP addresses. It also lists mail exchange servers accepting e-mail for each domain. In providing a worldwide keyword-based redirection service, DNS is an essential component of contemporary Internet use.
DTT (Digital Terrestrial Television)	An implementation of digital technology to provide a greater number of channels and/or better quality of picture and sound through a conventional antenna (or aerial) instead of a satellite dish or cable connection.
Dual-play	Offering of a package of internet and voice services.
ESP (Enhanced Service Provider)	Services that 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.
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, video, and television 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.

- Fixed-mobile convergence** The mobile operators' strategy for convergence, providing services which operate from different end-user devices ranging from desktop personal computers to mobile handsets.
- Frame relay** A method of achieving high-speed, packet-switched 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)**..... A method of enhancing phones to enable them to send and receive data more rapidly. With a GPRS connection, the phone is "always on" and can transfer data immediately, and at higher speeds. An additional benefit is that data can be transferred at the same time as making a voice call. GPRS is now available on most new phones.
- 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/television 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**..... A private communications network often used within a company, or by several companies or organizations, to communicate confidentially over a publicly accessible network. VPN message traffic can be carried over a public networking infrastructure (e.g. the internet) on top of standard protocols, or over a service provider's private network with a defined Service Level Agreement (SLA) between the VPN customer and the VPN service provider.
- IP-Telephony** IP-Telephony is a term used to describe the usage of the internet protocol for voice traffic.
- IRU (Indefeasible rights of use)**. The effective long-term lease (temporary ownership) of a portion of the capacity of an international cable. IRUs are specified in terms of a certain number of channels of a given bandwidth. IRU is granted by the company or consortium of companies that built the (usually optical fiber) cable.
- 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 signalling protocols that conform to internationally defined standards.
- ISDN2**..... A type of ISDN service that utilizes standard twisted copper wires (regular telephone lines) to transmit voice and/or data.
- ISP (Internet Service Providers)** A company that provides access to the Internet.

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.
MDF (Main Distribution Frame).....	Patch panel for connecting customer equipment.
Media Farm	Hardware in data centers that is used for the broadcast of live television and television demand.
Mesh network.....	A way to route data, voice and instructions between nodes. It allows for continuous connections and reconfiguration around broken or blocked paths.
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.
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.....	A type of modem at customer premises which splits incoming television, Internet and telephone signals.
MVNO (mobile virtual network operator).....	A company that does not own a licensed frequency spectrum, but resells wireless services under their own brand name, using the network of another mobile phone operator.
Number Portability.....	The ability of end-users to keep their number when changing operators.
Operating Support System (OSS)	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 incumbent carrier or carriers in each Member State of the EU.
RADIUS (Remote Authentication Dial-In User Service)	An authentication and accounting system used by many ISPs. When you dial in to the ISP you must enter your username and password. This information is passed to a RADIUS server, which checks that the information is correct, and then authorises access to the ISP system.
Redundancy	Incorporation of duplicate components into a system so that a duplicate component immediately takes over if the primary components fails.
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.
Rights of way	A regulated arrangement through which local authorities permit operators to build and lay their telecommunications cables.
RIPE (Reseaux Internet Protocol Européens)	A nonprofit organization established to administer and register Internet Protocol (IP) numbers in Europe. It allocates blocks of IP addresses that it has received from IANA (Internet Assigned Number Authority).
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.
STM-1 (Synchronous Transport Module)	SDH notation for data transport, used for transport and connection providing capacity of 155 Mbps.
Sub Loop Unbundling	The ability of internet operators to interconnect with the local access network at a point between the PTTs site and the end-user.

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.
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, media, and television services.
VAS (Value Added Services)	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)	A line that able to deliver higher speeds and greater bandwidth transmission than ADSL.
Video on demand	Possibility to select videos for watching over distance through a communications network.
VoIP (Voice over IP)	Telephone connection through 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.
vPoP (Virtual Point of Presence)	A dial-in service needed to support large scale internet access. 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.
WAP (Wireless Application Protocol)	An open international standard for applications that use wireless communication that enables access to the internet from a mobile phone. The application provides all basic services of a computer-based web browser but simplified to operate within the restrictions of a mobile phone.
WiMax (Worldwide Microwave Interoperability for Microwave Access)	An organization that aims to standardise and promote the use of broadband wireless access based on the IEEE 802.16d standard. This standardization will reduce the costs of wireless access equipment and enable non-line of sight radio systems to provide Ethernet based services to buildings using initially 3.5GHz and 5.8GHz spectrum. These wireless systems are known to deliver cost effective services to suburban and rural areas.

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Financial Statements for Versatel Telecom International N.V.

**LIMITED REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
OF VERSATEL TELECOM INTERNATIONAL N.V. FOR THE NINE MONTH PERIOD ENDED
30 SEPTEMBER 2006**

Review Report

Introduction

We have been engaged to review the interim consolidated financial statements of Versatel Telecom International N.V., Amsterdam, The Netherlands, for the nine-month period ended 30 September 2006 as set out on pages F-4 to F-11. These interim consolidated financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these interim consolidated financial statements based on our review.

Scope

We conducted our review in accordance with standards for review engagements generally accepted in The Netherlands. These standards require that we plan and perform the review to obtain moderate assurance about whether the interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim consolidated financial statements of Versatel Telecom International N.V. for the nine-month period ended 30 September 2006 do not comply with International Financial Reporting Standards as adopted by the EU and the requirements for interim financial reporting as included in IAS 34.

15 February 2007

Deloitte Accountants B.V.

Amsterdam, The Netherlands

B.C.J. Dielissen

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF VERSATEL TELECOM
INTERNATIONAL N.V. FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2006 (IFRS)**

Condensed consolidated balance sheet as at 30 September 2006

(€ thousands)

	<u>Notes</u>	<u>Unaudited 30 September 2006</u>	<u>31 December 2005</u>
ASSETS			
Non-current assets			
Intangible fixed assets		55,313	77,975
Property, plant, and equipment		402,108	425,850
Financial fixed assets		1,167	1,240
Total non-current assets.....		<u>458,588</u>	<u>505,065</u>
Current assets			
<i>Accounts receivable</i>			
Trade.....		39,173	30,782
Unbilled revenues.....		20,197	23,415
Other receivables and prepaid expenses		4,659	25,361
		<u>64,029</u>	<u>79,558</u>
Cash and cash equivalents.....		86,000	106,549
Total current assets.....		<u>150,029</u>	<u>186,107</u>
Total assets		<u>608,617</u>	<u>691,172</u>

(€ thousands)

	<u>Notes</u>	<u>Unaudited 30 September 2006</u>	<u>31 December 2005</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Common stock, €0.02 par value.....		10,471	10,471
Additional paid-in capital.....		1,755,573	1,755,573
Accumulated deficit		(1,685,952)	(1,605,476)
Total equity.....		<u>80,092</u>	<u>160,568</u>
Non-current liabilities			
Deferred income tax liability		6,517	7,477
Long-term debt.....		17,899	44,585
Related party long-term senior notes		100,391	97,073
Related party long-term loan		175,879	170,655
Other non-current liabilities		26,558	-
Total non-current liabilities.....		<u>327,244</u>	<u>319,790</u>
Current liabilities			
Accounts payable		44,987	67,687
Accrued liabilities		111,098	96,949
Unearned revenue.....		38,629	46,178
Related party current accounts.....		6,567	-
Total current liabilities		<u>201,281</u>	<u>210,814</u>
Total equity and liabilities.....		<u>608,617</u>	<u>691,172</u>

Condensed consolidated statement of operations for the nine month period ended 30 September 2006

(€ thousands)

	<u>Notes</u>	<u>Unaudited Nine Month Period ended 30 September 2006</u>	<u>Unaudited Nine Month Period ended 30 September 2005</u>
Revenues			
Third party revenues.....		314,608	277,597
Related party revenues		2,373	-
Total Revenues	3	<u>316,981</u>	<u>277,597</u>
Operating expenses			
Direct cost of revenues.....		148,537	127,985
Wages and salaries		42,835	39,922
Social securities.....		6,702	5,630
Pension cost.....		1,305	1,388
Advertising and marketing expenses		13,158	11,663
Depreciation of property, plant, and equipment		87,429	64,561
Amortization of intangible fixed assets		22,286	7,450
Occupancy		16,401	9,699
Other cost of revenues.....		45,996	30,254
Total operating expenses		<u>384,649</u>	<u>298,552</u>
Operating result.....		(67,668)	(20,955)
Financial income and expense			
Interest and other income.....		2,607	11,792
Interest expense		(10,932)	(8,205)
Related party interest expense.....		(5,222)	-
Currency exchange gain/(loss).....		(221)	1,589
Total financial income and expense		<u>(13,768)</u>	<u>5,176</u>
Result before income taxes		(81,436)	(15,779)
Income tax credit.....		960	4,374
Result for the period from continuing operations.....		(80,476)	(11,405)
Result for the period from discontinued operations		-	4,403
Result for the period.....		<u>(80,476)</u>	<u>(7,002)</u>
Result attributable to:			
Equity holders of the parent company		(80,476)	(7,002)
Earnings per share:			
Basic		(0.15)	(0.02)
Diluted		(0.15)	(0.02)

Condensed Consolidated cash flow statement for the nine month period ended 30 September 2006

(€ thousands)

	Unaudited Nine Month Period ended 30 September 2006	Unaudited Nine Month Period ended 30 September 2005
Cash flows from operating activities		
Result for the period from continuing operations	(80,476)	(11,405)
Result from activities prior to discontinuance	-	4,403
	<u>(80,476)</u>	<u>(7,002)</u>
<i>Adjustments to reconcile net loss to net cash used in operating activities</i>		
Depreciation and amortization	109,715	122,197
Amortization finance cost	293	266
Deferred income tax movement	(960)	(4,490)
Non cash-portion of interest and other income	3,025	2,917
<i>Changes in other operating assets and liabilities</i>		
Accounts receivable	(8,390)	(9,623)
Inventory	-	(105)
Prepaid expenses and other.....	23,993	(9,962)
Accounts payable.....	(22,700)	9,638
Related party accounts payable	6,567	-
Unearned revenue	(7,551)	(3,008)
Accrued liabilities	14,149	14,255
	<u>37,665</u>	<u>115,083</u>
Net cash provided by operating activities.....		
Cash flows from investing activities		
Capital expenditures.....	(86,786)	(240,675)
	<u>(86,786)</u>	<u>(240,675)</u>
Net cash used in investing activities.....		
Cash flows from financing activities		
Proceeds under capital lease obligations	-	9,283
Proceeds (payments) of long term debt.....	(1,652)	19,435
Cash proceeds—lease incentive.....	25,000	-
Proceeds from exercised options	-	1,783
Refund of capital tax.....	-	111
Net proceeds from loans from related parties	5,224	-
	<u>28,572</u>	<u>30,612</u>
Net cash provided by financing activities.....		
Net decrease in cash	(20,549)	(94,980)
Cash and cash equivalents, beginning of the year	106,549	269,477
	<u>86,000</u>	<u>174,497</u>
Cash and cash equivalents, end of the period.....		
Supplemental disclosure of cash flow information:		
Cash paid for —Income taxes	332	286
Cash interest received	1,699	3,710

Condensed Consolidated statement of changes in equity for the nine month period ended 30 September 2006

<i>(€ thousands)</i>	Issued and Paid-in Capital	Additional Paid-in Capital	Accumulated Deficit	Net Result for the Period	Total
Balance 1 January 2006.....	10,471	1,755,573	(1,605,476)	-	160,568
Result for the period	-	-	-	(80,476)	(80,476)
Balance 30 September 2006	<u>10,471</u>	<u>1,755,573</u>	<u>(1,605,476)</u>	<u>(80,476)</u>	<u>80,092</u>

<i>(€ thousands)</i>	Issued and Paid-in Capital	Additional Paid-in Capital	Warrants	Accumulated Deficit	Net Result for the Period	Total
Balance 1 January 2005	10,367	2,365,961	336	(1,804,157)	-	572,507
Share based compensation ..	-	130	-	-	-	130
Refund of capital taxes.....	-	111	-	-	-	111
Options exercised.....	104	1,679	-	-	-	1,783
Result for the period.....	-	-	-	-	(7,002)	(7,002)
Balance 30 September 2005	<u>10,471</u>	<u>2,367,881</u>	<u>336</u>	<u>(1,804,157)</u>	<u>(7,002)</u>	<u>567,529</u>

Notes to the condensed interim consolidated financial statements at 30 September 2006

(In € thousands)

1. Basis of preparation

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

These condensed interim consolidated financial statements of Versatel Telecom International N.V. have been prepared in accordance with International Accounting standard (“IAS”) 34, Interim Financial Reporting.

2. Summary of significant accounting Principles

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 1 January 2005. For Versatel, there are no differences between EU-IFRS and IFRS since the carve-out sections are not applicable for Versatel.

The accounting policies and methods of computation followed in the condensed interim consolidated financial statements are the same as those followed in the annual financial statements at 31 December 2005.

3. Segment information

The table below sets forth our revenues by customer segment in The Netherlands and Belgium for the periods indicated:

(€ thousands)

	Nine Month Period ended 30 September 2006	Nine Month Period ended 30 September 2005
Netherlands		
Business	141,628	129,797
Residential	52,069	44,311
Carrier Services	49,294	46,189
Total Revenue	242,991	220,297
Operating result	(52,498)	(21,548)
Belgium		
Business	23,909	23,952
Residential	28,267	13,856
Carrier Services	21,814	19,492
Total Revenue	73,990	57,300
Operating result	(15,170)	593

The table below sets forth our revenues by customer segment for the periods indicated for our continued and discontinued businesses:

(€ thousands)

	Nine Month Period ended 30 September 2006	Nine Month Period ended 30 September 2005⁽¹⁾
Continued Operations		
Business	165,537	153,749
Residential	80,336	58,167
Carrier Services	71,108	65,681
Total Revenue	316,981	277,597
Operating result	(67,668)	(20,955)
Discontinued Operations		
Business	-	140,262
Residential	-	101,455
Carrier Services	-	46,260
Total Revenue	-	287,977
Operating result	-	16,561

(1) In our consolidated financial data for the nine month period ended 30 September 2005, Versatel Deutschland Holding GmbH ("Versatel Deutschland") is consolidated as it was divested on 14 October 2005. The consolidated statement of operations data has been re-presented in order to reflect the operations of Versatel Deutschland 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.

4. Seasonability and cyclicity of operations

There are no major seasonal effects in the operational business of the Company.

5. Major evolutions and transactions

2006 Reorganization

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

KPN Settlement

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

Lease Agreement for Corporate Headquarters

During the third quarter of 2006, we reached an agreement to move our corporate headquarters to a new building in Diemen, The Netherlands. As a result of signing a new long term lease for our new headquarters, we received

a one-time cash payment of €25.0 million from the lessor and recognized an idle building accrual of €5.7 million related to our existing lease obligations. Our nominal lease obligations for this idle building at 30 September 2006 are €10.4 million until 2010.

Settlement with Belgian tax authorities

In October 2006, our 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 our 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 our case, the Belgian tax authorities asserted that we inappropriately applied the reverse charge mechanism and that we instead should have invoiced certain resellers for Belgian VAT. After several discussions with the Belgian tax authorities, we reached a settlement of this claim on 23 November 2006. Pursuant to the settlement the “Regularisatieopgave” covering the period of 2002 through part of 2004 was reissued and we agreed on 5 December 2006 to settle for a total of €3.0 million.

6. Property, plant and equipment

During the reporting period, the Company spent approximately €86.8 million on new property, plant and equipment.

7. Borrowings

During the reporting period, the Company paid part of its debt to suppliers where the credit term is deferred beyond normal credit terms amounting to €22.5 million, which are in line with repayment terms disclosed in the annual financial statements at 31 December 2005.

8. Rent and operating lease commitments

Future minimum commitments in connection with rent and other operating lease agreements are as follows at 30 September 2005:

<i>(€ thousands)</i>	Rent & Operating Lease Commitments
2006	2,712
2007	15,055
2008	13,193
2009	11,198
2010 and further	75,944
	<hr/>
Total.....	118,102
	<hr/> <hr/>

9. 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 €27.9 million as of 30 September 2006. The Company and its subsidiaries provided, on behalf of third parties, bank guarantees amounting to approximately €25.1 million.

10. Related party transactions

The information with respect to transactions between the Company and Tele2 group companies for the nine month period 30 September 2006 is presented using three categories:

- **Related Party Revenues:** An amount of €2.4 million 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:** An amount of €0.6 million consist of charges from the Company to Tele2 group companies as compensation for operating expenses that we initially bear;
- **Related Party Costs:** An amount of €31.0 million consist of amounts charged from Tele2 group companies to the Company with respect to operating expenses for which Tele2 group companies bear the initial expense.

11. Subsequent events

On 8 December 2006, we, jointly with Tele2, announced that the Enterprise Chamber in Amsterdam ruled that the request for an investigation into our affairs had been denied. The Enterprise Chamber found no grounds to doubt a proper policy which would justify such an investigation. We also announced that as the proceedings before the Enterprise Chamber had terminated, Messrs. Eschauzier, Bouma and Wortel, had resigned as members of our Supervisory Board, as of 8 December 2006. However, in the interest of continuity in our corporate governance, they have agreed with us, with the endorsement of Tele2, to continue to act in the same manner as they have done before, as special advisors to us, until the completion of the Offering and the Acquisitions. They accepted this appointment.

On 13 December 2006, we announced that at an extraordinary general meeting to be held during the first quarter of 2007, it will be proposed that Mr. Henrik Ringmar be appointed as our Chief Executive Officer and Managing Director. Mr. Ringmar is intended to replace our current Chief Executive Officer and Managing Director, Mr. P.G. Borgklint, who on 2 November 2006 announced his intention to depart. Since 1998 Mr. Henrik Ringmar has held various positions within the Tele2 group including, as Vice President Tele2, chief executive officer of Tele2 Norge AS and chief executive officer of Svenska UMTS-nät AB. His most recent position was as chief executive officer of Procure IT Right, a subsidiary of Tele2. In addition we announced that Mr. Jan van Berne, our Chief Development Officer and General Counsel, departed from us on 1 January 2007.

Amsterdam, 15 February 2007

The Board of Management

**CONSOLIDATED FINANCIAL STATEMENTS OF VERSATEL TELECOM INTERNATIONAL N.V.
FOR THE YEAR ENDED 31 DECEMBER 2005 (IFRS)**

Consolidated balance sheet at 31 December 2005

<i>(€ thousands)</i>	<u>Notes</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Non-current assets			
Intangible fixed assets	4	77,975	26,507
Tangible fixed assets	5	425,850	667,171
Financial fixed assets	6	1,240	1,621
Total non-current assets.....		<u>505,065</u>	<u>695,299</u>
Current assets			
Inventory.....	7	-	133
<i>Accounts receivable</i>			
Trade.....	8	30,782	69,618
Unbilled revenues.....		23,415	42,878
Other receivables and prepaid expenses		25,361	22,232
		<u>79,558</u>	<u>134,728</u>
Cash and cash equivalents.....	9	106,549	269,477
Total current assets.....		<u>186,107</u>	<u>404,338</u>
Total assets		<u>691,172</u>	<u>1,099,637</u>

<i>(€ thousands)</i>	<u>Notes</u>	<u>2005</u>	<u>2004</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Common stock, euro 0.02 par value		10,471	10,367
Additional paid-in capital.....		1,755,573	2,365,961
Warrants.....		-	336
Accumulated deficit		(1,605,476)	(1,804,157)
Total equity.....	10	<u>160,568</u>	<u>572,507</u>
Non-current liabilities			
Deferred income tax liability	11	7,477	115,735
Long-term debt.....	12	44,585	2,977
Long-term lease obligations.....		-	35,928
Long-term senior notes	13	-	92,940
Related party long-term senior notes	13	97,073	-
Related party long-term loan	14	170,655	-
Total non-current liabilities.....		<u>319,790</u>	<u>247,580</u>
Current liabilities			
Short-term portion of long-term lease obligations.....		-	5,842
Accounts payable		67,687	103,280
Accrued liabilities	15	96,949	100,012
Unearned revenue.....		46,178	70,416
Total current liabilities		<u>210,814</u>	<u>279,550</u>
Total equity and liabilities.....		<u>691,172</u>	<u>1,099,637</u>

Consolidated statement of operations for the year ended 31 December 2005

<i>(€ thousands)</i>	Notes	2005	2004
Revenues	<i>18</i>	378,108	326,939
Operating expenses			
Direct cost of revenues		176,135	148,942
Wages and salaries		60,336	46,823
Social securities		8,302	8,092
Pension cost		1,894	2,213
Advertising and marketing expenses		16,763	8,104
Depreciation of tangible fixed assets		90,234	86,483
Amortization of intangible fixed assets		14,950	109
Occupancy		13,209	8,520
Other cost of revenues		37,024	30,817
Total operating expenses		<u>418,847</u>	<u>340,103</u>
Operating result		(40,739)	(13,164)
Financial income and expense			
Interest- and other income		12,433	15,353
Interest expense		(12,399)	(1,869)
Currency exchange gain/(loss)		2,250	(1,513)
Total financial income and expense		<u>2,284</u>	<u>11,971</u>
Result before income taxes		(38,455)	(1,193)
Income tax credit/(charge)	<i>11</i>	(8,701)	822
Result for the period from continuing operations		(47,156)	(371)
Result for the period from discontinued operations	<i>16</i>	245,837	(24,916)
Result for the period		<u>198,681</u>	<u>(25,287)</u>
Result attributable to:			
Equity holders of the parent company		198,681	(23,427)
Minority interest		-	(1,860)
Total		<u>198,681</u>	<u>(25,287)</u>
Earnings per share:			
Basic	<i>28</i>	0.38	0.05)
Diluted	<i>28</i>	0.35	(0.05)

Consolidated cash flow statement for the year ended 31 December 2005

(€ thousands)

	2005	2004
Cash flows from operating activities		
Result for the period from continuing operations.....	(47,156)	(371)
Result from activities prior to discontinuance	245,837	(24,916)
	<u>198,681</u>	<u>(25,287)</u>
<i>Adjustments to reconcile net loss to net cash used in operating activities</i>		
Depreciation and amortization	158,012	140,411
Amortization finance cost	807	799
Deferred income tax movement	8,380	(822)
Non cash-portion of interest and other income	3,468	153
<i>Changes in other operating assets and liabilities</i>		
Accounts receivable	(7,045)	(10,444)
Inventory	(105)	365
Prepaid expenses and other.....	(25,719)	(31,010)
Accounts payable.....	5,653	21,811
Unearned revenue	(3,941)	8,359
Accrued liabilities	17,014	(4,005)
	<u>355,205</u>	<u>100,330</u>
Net cash provided by operating activities.....		
Cash flows from investing activities		
Capital expenditures.....	(285,412)	(135,448)
Other investing activities.....	-	4,199
Net receipt from the disposal of investments	284,234	-
	<u>(1,178)</u>	<u>(131,249)</u>
Net cash used in investing activities		
Cash flows from financing activities		
Proceeds/(Payments) under capital lease obligations.....	5,555	(1,209)
Proceeds/(Redemption) of short term loans	17,332	(248)
Proceeds of senior notes convertible loans	-	122,125
Proceeds of long term debt	16,161	-
Proceeds from exercised warrants	-	20,695
Proceeds from exercised options	1,787	133
Refund of capital tax.....	111	-
Net proceeds from loans from related parties.....	170,655	-
Dividend distribution	(728,556)	-
	<u>(516,955)</u>	<u>141,496</u>
Net cash (used in) / provided by financing activities		
Net increase/(decrease) in cash.....	(162,928)	110,577
Cash and cash equivalents, beginning of the year	269,477	158,900
	<u>106,549</u>	<u>269,477</u>
Cash and cash equivalents, end of the year		
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for - Interest	4,864	2,055
- Income taxes	286	-
Cash interest received	4,583	3,191

Consolidated statement of changes in equity for the year ended 31 December 2005

<i>(€ thousands)</i>	Issued and Paid-in Capital	Additional Paid-in Capital	Warrants	Accumulated Deficit
Balance 1 January 2004.....	9,293	2,255,608	336	(1,780,730)
Result for the period.....	-	-	-	(23,427)
Business combinations	-	-	-	-
Buy out minority interest in Germany	300	19,765	-	-
Shares issued for acquisition	487	33,918	-	-
Change in corporate tax rate	-	16,047	-	-
Convertible bond equity component	-	19,929	-	-
Share-based compensation	-	153	-	-
Options exercised	9	124	-	-
Warrants exercised.....	278	20,417	-	-
Balance 31 December 2004.....	<u>10,367</u>	<u>2,365,961</u>	<u>336</u>	<u>(1,804,157)</u>
Result for the period.....	-	-	-	198,681
Refund capital tax.....	-	111	-	-
Reversal deferred tax liability recognized directly in equity	-	116,231	-	-
Share-based compensation	-	146	-	-
Options exercised	104	1,680	-	-
Warrants provided for.....	-	-	(336)	-
Dividend distribution	-	(728,556)	-	-
Balance 31 December 2005.....	<u>10,471</u>	<u>1,755,573</u>	<u>-</u>	<u>(1,605,476)</u>

<i>(€ thousands)</i>	Equity attributable to equity holders of the parent	Minority Interest	Total
Balance 1 January 2004	484,507	793	485,300
Result for the period.....	(23,427)	(1,860)	(25,287)
Business combinations	-	2,103	2,103
Buy out minority interest in Germany	20,065	(1,036)	19,029
Shares issued for acquisition.....	34,405	-	34,405
Change in corporate tax rate.	16,047	-	16,047
Convertible bond equity component	19,929	-	19,929
Share-based compensation	153	-	153
Options exercised	133	-	133
Warrants exercised.....	20,695	-	20,695
Balance 31 December 2004	<u>572,507</u>	<u>-</u>	<u>572,507</u>
Result for the period.....	198,681	-	198,681
Refund capital tax	111	-	111
Reversal deferred tax liability recognized directly in equity	116,231	-	116,231
Share-based compensation	146	-	146
Options exercised	1,784	-	1,784
Warrants provided for.....	(336)	-	(336)
Dividend Distribution	<u>(728,556)</u>	<u>-</u>	<u>(728,556)</u>
Balance 31 December 2005	<u>160,568</u>	<u>-</u>	<u>160,568</u>

Notes to Consolidated Financial Statements at 31 December 2005

(€ thousands)

1 General

a) General

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

b) Transition to 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 1 January 2005. For Versatel, there are no differences between EU-IFRS and IFRS since the carve-out sections are not applicable for Versatel.

Until 2004, Versatel prepared its consolidated financial statements in accordance with Generally Accepted Accounting Principles in The Netherlands (“Dutch GAAP”). The Company restated its 2004 financial information in the consolidated financial statements to IFRS for comparison purposes.

As the company financial information of Versatel is included in the financial statements, the company statement of operations is presented in abbreviated format in accordance with section 402, Book 2 of the Dutch Civil Code.

c) Basis of transition to IFRS

Versatel has prepared its IFRS opening balance sheet at 1 January 2004 in accordance with IFRS 1 “First-time adoption of International Financial Reporting Standards”.

The Company has used the same accounting policies in its opening IFRS balance sheet and throughout all periods presented in these IFRS financial statements. Those accounting policies comply with each IFRS effective as at 31 December 2005.

IFRS 1 has various exemptions to the principle that an entity’s opening IFRS balance sheet shall comply with each IFRS effective at 31 December 2005.

Versatel has applied IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: recognition and measurement” as of 1 January 2004 and therefore elected not to use the exemption available in IFRS 1 to apply IAS 32 and IAS 39 as of 1 January 2005 instead of the transition date.

The following exemptions have been applied by Versatel in preparing these financial statements:

I. Business Combinations

A first-time adopter of IFRS may elect not to apply IFRS 3 ‘Business Combinations’ retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has decided to use this exemption. The impact of IFRS 3 and the associated transitional arrangements is that all goodwill reported under Dutch GAAP is fixed as of 1 January 2004.

Regardless of whether there is any indication that the goodwill may be impaired, IFRS 1 requires a first-time adopter of IFRS to test goodwill for impairment at the date of transition to IFRS. This impairment test did not result in an impairment.

II. Share-based Compensation

Versatel elected not to apply IFRS 2 on share-based compensation to equity instruments that were granted on or before 7 November 2002.

d) Reconciliations between IFRS and Dutch GAAP

There are no effects of the transition to IFRS on the total equity attributable to equity holders of the parent as per 1 January 2004. The only effect of the transition to IFRS at that time is related to the IFRS 2 share-based compensation adjustment, which has no net impact on the equity attributable to equity holders of the parent, therefore the equity as per 1 January 2004 under IFRS is in line with the equity as per 1 January 2004 under Dutch GAAP.

The following reconciliations provide a quantification of the effect of the transition to IFRS from Dutch GAAP on:

- reconciliation of the consolidated balance sheet as per 31 December 2004
- reconciliation of the consolidated statement of operations for the year 2004
- equity reconciliation as of 31 December 2004

Reconciliation of the consolidated balance sheet at 31 December 2004

<i>(€ thousands)</i>	Dutch GAAP	Effects of transition to IFRS	IFRS
ASSETS			
Non-current assets			
Intangible fixed assets	25,367	1,140	26,507
Tangible fixed assets.....	667,171	-	667,171
Financial fixed assets.....	1,621	-	1,621
Total non-current assets	<u>694,159</u>	<u>1,140</u>	<u>695,299</u>
Current assets			
Inventory.....	133	-	133
<i>Accounts receivable</i>			
Trade.....	69,618	-	69,618
Unbilled revenues.....	42,878	-	42,878
Other receivables and prepaid expenses.....	22,232	-	22,232
Cash and cash equivalents.....	<u>269,477</u>	<u>-</u>	<u>269,477</u>
Total current assets	<u>404,338</u>	<u>-</u>	<u>404,338</u>
Total assets.....	<u>1,098,497</u>	<u>1,140</u>	<u>1,099,637</u>
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Common stock, euro 0.02 par value	10,367		10,367
Additional paid-in capital.....	2,365,961		2,365,961
Warrants.....	336		336
Accumulated deficit	<u>(1,805,297)</u>	1,140	<u>(1,804,157)</u>
Total equity	571,367	1,140	572,507
Non-current liabilities			
Deferred income tax liability	115,735	-	115,735
Long-term debt.....	2,977	-	2,977
Long-term lease obligations.....	35,928	-	35,928
Long term senior notes.....	<u>92,940</u>	<u>-</u>	<u>92,940</u>
Total non-current liabilities	247,580	-	247,580
Short-term liabilities			
Short-term portion of long-term lease obligations.....	5,842	-	5,842
Accounts payable	103,280	-	103,280
Accrued liabilities	100,012	-	100,012
Unearned revenue.....	<u>70,416</u>	<u>-</u>	<u>70,416</u>
Total short-term liabilities	279,550	-	279,550
Total equity and liabilities	<u>1,098,497</u>	<u>1,140</u>	<u>1,099,637</u>

Reconciliation of the consolidated statement of operations for the year ended 31 December 2004

<i>(€ thousands)</i>	Dutch GAAP	Effects of transition to IFRS	IFRS
Revenues	326,939		326,939
Operating expenses			
Direct cost of revenues	148,942		148,942
Wages and salaries	46,670	153	46,823
Social securities	8,092		8,092
Pension cost	2,213		2,213
Advertising and marketing expenses	8,104		8,104
Depreciation of tangible fixed assets	86,483		86,483
Amortization of intangible fixed assets	1,129	(1,020)	109
Occupancy	8,520		8,520
Other cost of revenues	30,817		30,817
Total operating expenses	<u>340,970</u>	<u>(867)</u>	<u>340,103</u>
Operating loss	(14,031)	867	(13,164)
Financial income and expense			
Interest- and other income	15,353		15,353
Interest expense	(1,869)		(1,869)
Currency exchange loss	(1,513)		(1,513)
Total financial income and expense	<u>(11,971)</u>	<u>-</u>	<u>(11,971)</u>
Result before income taxes	(2,060)	867	(1,193)
Income tax credit	822	-	822
Result for the period from continuing operations	<u>(1,238)</u>	<u>867</u>	<u>(371)</u>
Result for the period from discontinued operations	(25,036)	120	(24,916)
Result attributable to:			
Equity holders of the company	(24,414)	987	(23,427)
Minority interest	(1,860)	-	(1,860)
Total	<u>(26,274)</u>	<u>987</u>	<u>(25,287)</u>

Equity reconciliation as at 31 December 2004

<i>(€ thousands)</i>	Equity attributable to equity holders	Minority Interest	Group Equity
Equity at 31 December 2004 – Dutch GAAP	571,367	-	571,367
Write back of goodwill amortization	1,140	-	1,140
Equity at 31 December 2004 – IFRS	<u>572,507</u>	<u>-</u>	<u>572,507</u>
Equity at 1 January 2005 – IFRS	<u>572,507</u>	<u>-</u>	<u>572,507</u>

e) *Presentation and other reclassifications*

The main differences with Dutch GAAP with regard to presentation and other reclassifications can be summarized as follows:

I. Consolidated statement of operations

Under Dutch GAAP minority interests is a separate line in the consolidated statement of operations. Under IFRS Minority interests is no part of profit or loss after tax. IAS 1 requires both profit or loss attributable to minority interests and profit or loss attributable to equity holders to be disclosed on the face of the consolidated statement of operations. Under Dutch GAAP, profits attributable to minority interests amount to €1.9 million in 2004.

II. Business Combinations

Under Dutch GAAP acquired goodwill is capitalized and amortized. IFRS 3 business combinations require goodwill not to be amortized, but to be subject to an annual impairment test or impairment test upon impairment indicators during the year. As a result we reversed the 2004 goodwill amortization recorded under Dutch GAAP amounting to €1.0 million.

We conducted an impairment test of the goodwill as of 1 January 2004 and 31 December 2004. No impairments were identified.

III. Discontinued Operations

Under Dutch GAAP discontinued operations were continued to be consolidated until the discontinuance was completed, with additional disclosures in the notes to the annual accounts regarding the discontinuance. 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.

IV. Share-based Compensation

Under Dutch GAAP share-based compensation did not result in charges to the statement of operations. IFRS 2 requires that the compensation expense is calculated at fair value at the date of the grant and recognized as an expense in the statement of operations over the vesting period. The fair value of the options granted in December 2002 and November 2003 has been calculated using the binominal options valuation model. The charge to the statement of operations over the relevant option vesting periods is adjusted to reflect the actual levels of vesting. As a result, an expense of €0.2 million has been recognized in the consolidated statement of operations within “wages and salaries” over 2004.

2 Accounting Principles

a) General

The consolidated financial statements of Versatel International N.V. have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared using the historical cost convention. As permitted by Section 402, Book 2 of The Netherlands 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 26.

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 Fixed Assets

Goodwill originating from the acquisition of investments represents the difference of the fair value of the net assets and the acquisition cost of the investments at the time of the acquisition.

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 business segment in 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) Tangible Fixed Assets

Tangible fixed assets 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 tangible fixed assets	3 - 5 years

Tangible fixed assets operated by Versatel under a financial lease agreement are discounted at the Company's refinancing rate and are capitalized. The related debt is presented under long-term lease obligations. The short-term portion is presented under short-term portion of long-term lease obligations.

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) Financial Fixed Assets

Financial fixed assets include investments and long-term receivables. Financial fixed assets are stated at the lower of cost or fair value.

f) Impairment of Assets

Versatel reviews its fixed assets and intangible assets for impairment at least once a year 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.

g) Inventory

Inventory is stated at the lower of cost or net realizable value with cost being determined on a first-in first-out basis.

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) Income Taxes and Deferred Income Tax

The Company accounts for income taxes 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.

j) Other Assets and Liabilities

The fair value of the liability component of the convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in the equity, net of income tax effects.

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

k) 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 tangible fixed assets 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 principle or the agent in these transactions depends on the fact of each arrangement. When the company is identified as the principle 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 rateably 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 rateably 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.

m) 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.

n) Share-based compensation

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

The fair value of the options granted has been calculated using a binominal options valuation model. The charge to the statement of operations over the relevant option vesting periods is adjusted to reflect the actual levels of vesting. This charge is presented in the statement of operations as wages and salaries.

o) 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 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.

3 Principles of Consolidation

The accompanying consolidated financial statements include the operations of the following subsidiaries as of 31 December 2005:

<u>Name</u>	<u>Legal Seat</u>	<u>Percentage Ownership</u>
Versatel Nederland B.V.	Amsterdam, The Netherlands	100%
Versatel Finance B.V.	Amsterdam, The Netherlands	100%
Xtraned Nederland 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 1 January 2005, a legal merger took place within the Versatel Group in The Netherlands, by which our consumer ISP Zon Nederland N.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. Simultaneously, the “Zon” brand was renamed “Versatel Consumer”.

In the course of 2005 Versatel renamed Versapoint B.V. to Versatel Internetdiensten B.V. as part of a re-branding operation into the Versatel brand name. Also Versatel Internet B.V. was incorporated.

As a result of settlement of the Offers Versatel Deutschland Holding GmbH to Ganymed on 14 October 2005, the following entities are no longer owned by Versatel: Versatel Deutschland Holding GmbH, Versatel Deutschland Verwaltungs GmbH, Versatel West-Deutschland GmbH & Co. KG, Versatel Nord-Deutschland GmbH, KomTel Telecommunications Services GmbH, Versatel Süd-Deutschland GmbH, Versatel Germany GmbH, Tesion Netzbetriebs- und Verwaltungs GmbH, Versatel Berlin GmbH, BerlinNet GmbH Telekommunikation und Neue Medien and BerliKomm Asset Management Kft.

The consolidated financial statements include the accounts of Versatel and all entities in which Versatel has a controlling voting interest (“Subsidiaries”). The results of these Subsidiaries are included from the respective dates of acquiring control by Versatel and excluded when this control ended during 2005. All significant intercompany transactions have been eliminated.

Results attributable to minority interest in the consolidated statement of operations represent the minority shareholders’ share of the income or loss of the consolidated Subsidiaries. The minority interest in the consolidated balance sheet reflects the original investment by these minority shareholders in the consolidated Subsidiaries, adjusted for their proportional share of the income or loss of the Subsidiary. When the minority interest amount in the consolidated balance sheet is fully offset by losses of the Subsidiary, Versatel recognizes the entire net loss of such Subsidiary.

As of 31 December 2005, Versatel accounted for the following investments at fair value:

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

4 Intangible Fixed Assets

The movement in intangible fixed assets is as follows:

<i>(€ thousands)</i>	2004		
	Goodwill	Licences	Total
Book value 1 January 2004.....	4,000	800	4,800
Additions	21,819	-	21,819
Amortization.....	-	(112)	(112)
Book value 31 December 2004.....	25,819	688	26,507
Original cost.....	26,026	800	26,826
Accumulated amortization	(207)	(112)	(319)
Book value 31 December 2004.....	25,819	688	26,507
<i>(€ thousands)</i>	2005		
	Goodwill	Licences	Total
Book value 1 January 2005.....	25,819	688	26,507
Additions	-	87,663	87,663
Discontinued operations.....	(21,245)	-	(21,245)
Amortization.....	-	(14,950)	(14,950)
Book value 31 December 2005.....	4,574	73,401	77,975
Original cost.....	4,781	88,463	93,244
Accumulated amortization	(207)	(15,062)	(15,269)
Book value 31 December 2005.....	4,574	73,401	77,975

During the year, Versatel's goodwill decreased by 21.2 million. This goodwill was related to Versatel Deutschland Holding GmbH and its subsidiaries that were sold to Apax on 14 October 2005.

During 2005 the Licences increased by €87.7 million. This increase is related to the purchase of various broadcasting rights and similar licenses; primarily this increase is caused by the purchase of the live pay TV rights of the Dutch Premier Division ("Eredivisie") football matches.

5 Tangible Fixed Assets

The movement in tangible fixed assets is as follows:

<i>(€ thousands)</i>	2004				Total
	Leasehold Improve- ments	Telecom- munications equipment	Other tangible fixed assets	Construction in progress	
Book value 1 January 2004	5,074	558,133	15,675	36,965	615,847
Acquisitions	-	54,476	683	1,019	56,178
Additions/Transfers.....	100	112,335	15,876	7,137	135,448
Depreciation.....	(2,310)	(126,224)	(11,768)	-	(140,302)
Book value 31 December 2004	<u>2,864</u>	<u>598,720</u>	<u>20,466</u>	<u>45,121</u>	<u>667,171</u>
Original cost Accumulated	16,128	1,386,802	130,754	45,121	1,578,805
Depreciation.....	(13,264)	(788,082)	(110,288)	-	(911,634)
Book value 31 December 2004	<u>2,864</u>	<u>598,720</u>	<u>20,466</u>	<u>45,121</u>	<u>667,171</u>
	2005				
<i>(€ thousands)</i>	Leasehold Improve- ments	Telecom- munications equipment	Other tangible fixed assets	Construction in progress	Total
Book value 1 January 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 31 December 2005	<u>705</u>	<u>378,078</u>	<u>8,824</u>	<u>38,243</u>	<u>425,850</u>
Original cost Accumulated	14,755	1,298,327	129,221	38,243	1,480,546
Depreciation.....	(14,050)	(920,249)	(120,397)	-	(1,054,696)
Book value 31 December 2005	<u>705</u>	<u>378,078</u>	<u>8,824</u>	<u>38,243</u>	<u>425,850</u>

6 Financial Fixed Assets

The movement in financial fixed assets is as follows:

<i>(€ thousands)</i>	2004		
	Investments	Long-term Receivables	Total
Book value 1 January 2004.....	-	2,050	2,050
Acquisitions.....	-	236	236
Transfer to other receivables and prepaid expenses.....	-	(665)	(665)
Book value 31 December 2004.....	-	1,621	1,621
	2005		
<i>(€ thousands)</i>	Investments	Long-term Receivables	Total
Book value 1 January 2005.....	-	1,621	1,621
Additions	-	7,016	7,016
Discontinued operations.....	-	(7,397)	(7,397)
Book value 31 December 2005.....	-	1,240	1,240

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

As of 31 December 2005, Versatel accounted for the following investments at fair value:

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

7 Inventory

The current value of the inventory does not significantly differ from its stated value.

8 Accounts Receivable

Accounts receivable as presented under current assets mature within one year.

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Gross accounts receivable on December 31	39,304	87,431
Doubtful debt allowance at January 1	17,813	18,726
Addition to allowance	3,916	1,738
Acquisitions	-	2,325
Discontinued operations.....	(9,120)	-
Utilization of allowance	(4,087)	(4,976)
Doubtful debt allowance at December 31	8,522	17,813
Net accounts receivable on December 31	<u>30,782</u>	<u>69,618</u>

9 Cash and cash equivalents

The cash balance is mainly denominated in Euro, although an amount equivalent to €0.1 million is denominated in US dollars.

10 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 31 December 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 no warrants were exercised. As of 31 December 2005, 53,135 warrants are outstanding, giving rights to purchase 708,502 shares. These warrants will expire in May 2008.

Versatel has established the following stock option plans: the 2000 Stock Option Plan (the “2000 Plan”), the 2001 Stock Option Plan (the “2001 Plan”) and the 2002/2003 Stock Option Plan (the “2002/2003 Plan”).

2000 Stock Option Plan

In December 1999, Versatel’s Board of Supervisory Directors approved the 2000 Stock Option Plan. The 2000 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence two years (except for an aggregate of 100,000 options which were immediately exercisable) after the date of the grant and will last five years. The option exercise price is determined in the particular grant of the option.

2001 Stock Option Plan

In May 2001, Versatel’s Board of Supervisory Directors approved the 2001 Stock Option Plan. The 2001 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence two years after the date of the grant and will last five years. The option exercise price is determined in the particular grant of the option.

2002/2003 Stock Option Plan

In November 2002, Versatel’s General Meeting of Shareholders approved the 2002/2003 Stock Option Plan. The 2002/2003 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence at the date of the grant and will last five years.

These options were awarded in three Series during December 2002. The options under Series 1 have an exercise price of €0.30. The options under Series 2 have an exercise price of €0.50. The options under Series 3 have an

exercise price of €0.75. These series can only be exercised if the market value of the Versatel stock is at least €0.85 during a period of 50 days in a consecutive 60 days period with the option period. As at 15 July 2003 this condition was complied with. In addition, during November 2003 options were issued to a newly recruited management team member. These options were awarded in three series of exercise prices of respectively €1.98, €2.28, and €2.58.

Upon completion of the Offer I by Tele2 in October 2005 all outstanding stock options under the above-described plans were cancelled. For the options under the 2000 Plan the participants did not receive any cash settlement. For the options under the 2001 Plan the participants received a cash settlement of €0.17 per stock option, being the value of the stock option calculated according to Black and Scholes formula. For the options issued under the 2002/2003 Plan, the participants received the net of the Tele2 Offer Price per share (€2.20) minus the respective grant price of the stock option, or in case the grant price of the stock option being greater than €2.20 the value of the stock option calculated according to Black and Scholes formula. Versatel's cancellation of the options is treated as a repurchase of an equity interest whereby the Company was reimbursed for the equity effect of such repurchase amounting to €15.9 million by Tele2. Reference is made to note 14.

All costs related to the above mentioned stock option plans are included in share-based compensation. For 2005 this amounted to €0.2 million (2004: €0.2 million).

The table below shows the details of the cash settlement per series of stock options issued and outstanding as at 17 October 2005:

<u>Issued</u>	<u>Expire</u>	<u>Exercise Price (€)</u>	<u>Cash settlement per Option (€)</u>
Jun-00	Jun-07	35.00	-
Jun-00	Jun-07	0.02	2.18
Jan-01	Jan-08	0.02	2.18
Jun-01	Jun-08	4.27	0.13
Dec-02	Dec-07	0.30	1.90
Dec-02	Dec-07	0.50	1.70
Dec-02	Dec-07	0.75	1.45
Nov-03	Nov-08	1.98	1.98
Nov-03	Nov-08	2.28	0.57
Nov-03	Nov-08	2.58	0.47

The table below shows the details of the stock options outstanding as of 31 December 2005:

<u>Issued</u>	<u>Expire</u>	<u>Outstanding 1 Jan 05</u>	<u>Exercised</u>	<u>Cancelled/Lapsed</u>	<u>Settled for Cash</u>	<u>Outstanding 31-Dec-05</u>	<u>Exercise Price (€)</u>
Jun-00	Jun-07	71,600	-	71,600	-	-	35.00
Jun-00	Jun-07	370,000	350,000	-	20,000	-	0.02
Jan-01	Jan-08	75,000	75,000	-	-	-	0.02
Jun-01	Jun-08	517,700	-	15,000	502,700	-	4.27
Dec-02	Dec-07	6,134,850	3,411,650	33,800	2,689,400	-	0.30
Dec-02	Dec-07	3,480,000	1,216,200	-	2,263,800	-	0.50
Dec-02	Dec-07	4,700,000	196,200	-	4,503,800	-	0.75
Nov-03	Nov-08	375,000	-	-	375,000	-	1.98
Nov-03	Nov-08	187,500	-	-	187,500	-	2.28
Nov-03	Nov-08	187,500	-	-	187,500	-	2.58
	Total	16,099,150	5,249,050	120,400	10,729,700	-	

11 Taxes

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.

The proceeds derived at the sale of Versatel Deutschland Holding GmbH are tax-exempt under said participation exemption.

In December 2005, the Dutch Parliament passed tax bill 29 686 (amongst others) abolishing article 12 of 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. As at 31 December 2005 the Company’s tax carry forward losses amount to €153 million. In The Netherlands tax losses can be carried forward indefinitely. The 2005 statutory rate in The Netherlands is 31.50%.

As of 31 December 2005, the Company’s deferred tax liability amounts to €7.5 million (2004: €115.7 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 2005 the income tax credit amounted to €1.3 million.

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

Belgium

As of 31 December 2005, Versatel Belgium N.V. had tax carry forward losses for income tax purposes totaling €25 million. For Belgian income tax purposes tax losses may generally be carried forward indefinitely. The 2005 statutory rate for Belgium is 33.99%.

In 2005 Versatel Telecom International N.V. waived €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.

Germany

On 14 October 2005, the Company sold its German activities to Ganymed 345. VV GmbH, a company fully owned by Apax, by means of a transfer of all of its shares in Versatel Deutschland Holding GmbH. As such, only the impact of these discontinued operations has been reported.

As per 31 December 2005, the Company has loss carry-forwards of €178 million in The Netherlands and Belgium. In assessing the realizability 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 net deferred tax assets as of 31 December 2005. 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 29.1% has been applied to the deferred tax asset and the valuation allowance.

Deferred tax assets and liabilities

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
<i>Deferred tax assets</i>		
Deferred tax assets discontinued operations.....	-	116,899
Deferred tax assets continuing operations	53,021	60,842
Total deferred tax assets.....	53,021	177,741
Less valuation allowance	(53,021)	(177,741)
<i>Deferred tax liabilities</i>		
Tax liability 2002 financial restructuring.....	-	106,979
Tax liability convertible senior notes	7,477	8,756
Total deferred tax liability.....	7,477	115,735
Net deferred tax liability	7,477	115,735

The movement in the net deferred tax liability is as follows:

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
As at beginning of the year.....	115,735	123,651
Deferred tax liability convertible senior notes.....	-	8,953
Impact of decrease in corporate tax rate.....	-	(16,047)
Release deferred tax liability to equity	(116,435)	-
Income tax charge (credit)	8,177	(822)
Net deferred tax liability	7,477	115,735

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 31 December 2005 and 2004 is reconciled as follows:

Income tax

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Expected income tax charge (credit) at the weighted average statutory rate of 41% (2004: 39%).....	84,944	(10,068)
Impact of discontinued operations.....	(71,571)	9,545
Participation exemption on sale discontinued operations.....	(23,368)	-
Tax covenant with the Dutch tax authorities	(8,190)	-
Versatel Belgium debt waiver arrangement	(5,428)	-
Other.....	(784)	(4,623)
Valuation allowance	33,098	4,324
Total income tax charge (credit)	8,701	(822)

12 Long term debt

Long term debt at 31 December 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 using the company's refinancing rate. The redemption schedule of the supplier finance is as follows:

<i>(€ thousands)</i>	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

The short term portion of the long term debt is included in the accrued liabilities. Reference is made to note 15.

As at 31 December 2004, long term debt also included Versatel Nord-Deutschland GmbH's loan facilities with the Flensburger Sparkasse, Germany, amounting to €3.0 million. The loan facilities were secured by specifically identified fixed assets of Versatel Nord-Deutschland GmbH with a cost of €9.1 million and a net book value of €4.9 million and gross accounts receivable of €7.1 million at 31 December 2004. Following settlement of the Offers and the subsequent sale of Versatel Deutschland Holding GmbH to Ganymed, this loan is no longer included.

13 Related party long term senior notes

On 22 October 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 8 December 2004 to the earlier of 19 October 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 taxes.

On 14 October 2005, Tele2 Finance B.V. acquired all the issued and outstanding 3.875% convertible senior notes.

The movement in the convertible senior notes is as follows:

<i>(€ thousands)</i>	2004
Nominal value of the convertible senior notes issued on 22 October 2004..	125,000
Equity component	(19,929)
Deferred income tax.....	(8,953)
Issuance costs.....	(3,951)
Liability component at initial recognition 22 October 2004	92,167
Accreted interest	773
Liability component at 31 December 2004	92,940
 <i>(€ thousands)</i>	 2005
Liability component at 1 January 2005	92,940
Interest expense.....	9,784
Interest paid.....	(4,844)
Interest accreted	(807)
Liability component at 31 December 2005	97,073

Interest expense on the convertible 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 convertible senior notes at 31 December 2005 amounts to €94,768.

14 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 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. The movement in the related party long term loan is as follows:

Related party long term loan <i>(€ thousands)</i>	2005	2004
Beginning of the year.....	-	-
Loans advanced during year	189,431	-
Contribution for option payments related to Offers	(15,874)	-
Other repayments	(4,129)	-
Interest charged	1,227	-
Related party long term loan at December 31	170,655	-

The loan repayments relate to the cash payments made by Versatel on behalf of Tele2 regarding the settlement of the option plans and a cash portion made on behalf of the distribution to shareholders relating to the Offers.

15 Accrued Liabilities

Accrued liabilities include:

<i>(€ thousands)</i>	2005	2004
Corporate income tax	407	171
Payroll tax and social securities	1,599	3,057
Short term portion of long term liabilities	46,674	-
Capital expenditure accruals	6,848	22,603
Compensation accruals	15,022	13,855
Network cost accruals	9,924	20,155
Other accrued liabilities	16,475	40,171
Accrued liabilities	<u>96,949</u>	<u>100,012</u>

16 Discontinued operations

On 14 October 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:

<i>(€ thousands)</i>	2005	2004
Revenue	303,181	273,740
Expenses	(284,996)	(283,008)
Gross Profit	18,185	(9,268)
Finance costs	(12,820)	(15,648)
Gain on disposal of investment	240,472	-
Result for the period from discontinued operations	<u>245,837</u>	<u>(24,916)</u>
Net result discontinued operations per common share:		
Basic	0.47	(0.05)
Diluted	0.42	(0.05)

The above revenue and expenses lines include intercompany amounts that were eliminated in the presentation of the 2004 consolidated financial statements.

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

The calculation of the net result from discontinued operations per common share is based on the net result for the period from discontinued operations for the year and on 520,325 thousand (2004 – 481,483 thousand) ordinary shares, being the weighted average number of ordinary shares outstanding. Due to the net loss over 2004, 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. 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:

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Net cash provided by operating activities.....	49,133	24,141
Net cash used in investing activities	(83,752)	(123,366)
Net cash (used in)/ provided by financing activities	(255)	124,675
Net increase/(decrease) in cash.....	(34,874)	25,450
Cash and cash equivalents, beginning of the year	47,976	22,526
Cash and cash equivalents, end of the year	<u>13,102</u>	<u>47,976</u>

17 Recharge Deal Costs & Corporate Costs

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 2005 amounts to €10.4 million that is included as a credit in other costs of revenues in the consolidated statement of operations.

18 Segment information

<i>(€ thousands)</i>	<u>Netherlands</u>		<u>Belgium</u>		<u>Total Continued Operations</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Statement of operations						
Business	176,545	151,918	32,523	27,119	209,068	179,037
Residential.....	60,944	62,258	19,008	7,527	79,952	69,785
Carrier services.....	62,274	52,752	26,814	25,365	89,088	78,117
Total Revenue	299,763	266,928	78,345	60,011	378,108	326,939
Operating result.....	(37,506)	(2,531)	(3,233)	(10,633)	(40,739)	(13,164)

<i>(€ thousands)</i>	<u>Netherlands</u>		<u>Belgium</u>		<u>Total Continued Operations</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Balance sheet						
Total Assets	601,871	543,248	89,301	95,808	691,172	639,056
Total Liabilities	501,816	318,127	28,788	32,141	530,604	350,268
Tangible fixed assets	323,980	265,059	63,627	68,744	387,607	333,803
Construction in progress	36,391	10,623	1,852	1,346	38,243	11,969
Total Tangible Fixed Assets	360,371	275,682	65,479	70,090	425,850	345,772
Investments in Intangible assets.....	87,663	-	-	-	87,663	-
Investments in PP&E	107,224	63,838	6,773	7,279	113,997	71,117
Depreciation, amortization..	(93,350)	(73,934)	(11,834)	(12,658)	(105,184)	(86,592)

(€ thousands)

	<u>Continued Operations</u>		<u>Discontinued Operations</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Statements of operations				
Business	209,068	179,037	147,012	151,302
Residential	79,952	69,785	107,237	76,217
Carrier services	89,088	78,117	48,932	46,221
Total Revenue	378,108	326,939	303,181	273,740
Operating result	(40,739)	(13,164)	18,185	(9,268)
Balance sheet				
Total Assets.....	691,172	639,056	-	460,581
Total Liabilities.....	530,604	350,268	-	176,862
Tangible fixed assets.....	387,607	333,803	-	288,247
Construction in progress.....	38,243	11,969	-	33,152
Total Tangible Fixed Assets	425,850	345,772	-	321,399
Investments in Intangible assets	87,663	-	-	21,819
Investments in PP&E.....	113,997	71,117	83,752	42,512
Depreciation, amortization	(105,184)	(86,592)	(52,828)	(53,820)

Due to the integrated nature of our activities a meaningful breakdown of the tangible fixed assets between services per customer type is not presented here.

a) *Revenues*

Generally, our services can be characterized as voice, data, Internet services, and media 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), and fixed monthly fees for services provided to our customers (generally internet, data and media). 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 (voice) at a discount to the local PTTs 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 margins. 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 is 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. 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.

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 website through our own fiber, DSL technology, other copper access technologies, wireless technologies or leased lines. For the year ended 31 December 2005, €236.9 million of our revenue was generated from on-net 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 the UWV Group, ABN AMRO and the Dutch Ministry of Justice in The Netherlands. We will continue to participate in bidding processes for large customers and believe we are well positioned to be awarded contracts as a result of our network and service offerings.

We will continue to focus on securing and provisioning customers that can be directly connected to our network utilizing our own fiber, DSL technology, other copper-based access technologies, wireless technology or leased lines. We believe these customers represent a long-term asset and provide the best economic return on our dense local access network. Also, with the introduction of ISDN voice and dedicated internet services over DSL to the business community, as well as the launch of a broadband internet and voice product 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 rollout DSL infrastructure in Belgium in order to better control the access and services it provides to its residential customers.

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.

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.

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 will continue to deploy leased lines to directly connect customers to our network in order either to accelerate such customer’s connection to our network, in which case we will replace the leased line with our own fiber, or to connect a customer for which it is not economically viable for us to directly connect that customer to our own backbone. This can either be due to low transaction volumes or a too far distance 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 cost 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 the PTTs 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.

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.

d) Tangible Fixed assets

Due to the integrated nature of our activities a meaningful breakdown of the tangible fixed assets between services per customer type is not presented here.

19 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.

20 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 as at 31 December 2005, by each beneficial holder of 5% or more of the Ordinary Shares as such information is notified to the Company under the 1996 Act on the Disclosure of Holdings in Listed Companies (Wet Melding Zeggenschap in ter beurze genoteerde vennootschappen), or as such information is otherwise available to Versatel.

<u><i>Name of Beneficial Holder</i></u>	<u><i>% of shares outstanding</i></u>
Tele2 Finance B.V.	80.31%
Centaurus Alpha Master Fund Limited	5.0%

No transactions have occurred during 2005 with Centaurus c.s.

The following transactions were carried out with Tele2:

Sales of goods and services

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Sale of Services.....	38	-

Services are provided on the basis of the price lists in force with non-related parties.

There have been no purchases of goods and services by Versatel from Tele2. Also no key management

compensation was paid to related parties.

All year-end balances arising from sales/purchases of goods/services between Versatel and Tele2 amount to zero.

Loans to related parties

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Related party long-term senior notes		
Liability component at January 1	92,940	-
Interest expense	9,784	-
Interest paid	(4,844)	-
Interest accreted	(807)	-
Liability component at December 31	<u>97,073</u>	<u>-</u>
Related party long-term loan		
Beginning of the year	-	-
Loans advanced during year	189,431	-
Contribution for option payments related to Offers	(15,874)	-
Other repayments	(4,129)	-
Interest charged	1,227	-
End of the year	<u>170,655</u>	<u>-</u>
Total loans to related parties	<u>267,728</u>	<u>-</u>

At 14 October 2005 Tele2 Finance B.V. acquired all the issued and outstanding 3.875% convertible senior notes. Reference is made to Note 13 for more details.

Versatel has entered into an intra-group loan agreement with Tele2 Finance B.V. totalling €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 14.

21 Board of Supervisory Directors and Board of Management

a) Compensation

The aggregate compensation for the Board of Supervisory Directors of the Company as a group in 2005 was €236,553 compared to €216,390 in 2004.

Upon settlement of the Tele2 Offer on Versatel on 14 October 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 29 September 2005 became effective. These members do 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 14 December 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 21 December 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. No compensation was paid in 2005.

The following table sets out certain information relating to the compensation received by the Board of Supervisory Directors for the years ended 31 December 2005 and 31 December 2004:

<i>(amounts in €)</i>	<u>2005</u>	<u>2004</u>
Supervisory Directors (as of October 14)		
Lars-Johan Jarnheimer (Chairman)	-	-
Håkan Zadler (Vice-Chairman)	-	-
Johnny Svedberg	-	-
Fredrik Berglund	-	-
Joop Bouma ⁽¹⁾	-	-
Jean Pierre Eschauzier ⁽¹⁾	-	-
Pieter Wortel ⁽¹⁾	-	-
Supervisory Directors (until October 14)		
Hans Huber (Acting Chairman) ⁽²⁾	73,750	50,471
Boudewijn Beerkens	40,000	25,470
Joop Drechsel	40,000	33,765
Loek Hermans	40,000	25,470
Leo van Doorne ⁽³⁾	27,500	47,449
<i>Resigned during 2005:</i>		
Nathaniel Meyohas	15,303	33,765
Total compensation	<u>236,553</u>	<u>216,390</u>

(1) Appointed by the Enterprise Chamber of the Amsterdam Court of Appeal as at 14 December 2005.

(2) 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)

(3) Mr. Van Doorne has not been an active member of the Board of Supervisory Directors since 12 May 2005.

Board of Management

At the annual general meeting of shareholders held on 18 May 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.

For 2005 the Board of Supervisory Directors approved that the Company's Managing Director base compensation was to be increased by 3.6%. This decision was based on a survey conducted on behalf of the Board of Supervisory Directors of comparable CEO compensation of a selected group of companies.

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.

The total aggregate compensation of the Managing Director in 2005 was €11,876,969 compared to €944,334 in 2004.

<i>(amounts in €)</i>	<u>Salary</u>	<u>Pension</u>	<u>Bonus</u>	<u>Share-based payment⁽¹⁾</u>	<u>Severance payment⁽²⁾</u>	<u>Other⁽³⁾</u>	<u>Total</u>
Raj Raithatha							
...2005	380,851	71,357	668,591	8,648,170	2,108,000	-	11,876,969
...2004	349,464	69,999	409,473	70,194	-	45,204	944,334

(1) Share-based payment for 2005 represents the proceeds of the exercise of employee stock options during 2005 as well as the settlement for cash upon the cancellation of the outstanding stock option plan following the settlement of the Offers on 14 October 2005. Share-based payment for 2004 represents proceeds of exercise of employee stock options during 2004.

(2) Severance payment represents the total payment of the severance package Mr. Raithatha received upon resignation as Managing Director of the Company effective 31 December 2005.

(3) Other for 2004 represents as a gross payment of €45,204 for pension counselling services paid by Versatel on behalf of Mr. Raithatha

Effective 31 December 2005 Mr. Raithatha resigned as Managing Director of the Company. Mr. Raithatha will stay available as a consultant to the company until 30 June 2006. For this period he will receive a payment of €150,000.

Effective 1 January 2006 Mr. Borgklint succeeded Mr. Raithatha as the sole Managing Director of Versatel Telecom International N.V. Mr. Borgklint combines 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 does 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.

b) Shareholdings

The Supervisory Directors did not hold any shares in the Company as at 31 December 2005 and 2004

The table below shows the detail of the shareholdings of the Managing Director.

Shareholdings	2005	2004
Raj Raithatha.....	-	2,850,900

No shares are held as at 31 December 2005 as all shares were tendered in connection with the Tele2 Offer during October 2005. At 31 December 2004, 2,850,900 shares were held.

c) Share Options

No options or performance shares have been granted to any of our Supervisory Directors.

During 2005 no option or performance shares were granted to the Managing Director.

As at 31 December 2005 the Managing Director holds no options to purchase Ordinary Shares under the various plans as a result of the cancellation of these outstanding stock options following the completion of the Cash Offer by Tele2 in October 2005. The table below sets out a breakdown transactions of these options during 2005:

Issued	Expire	Outstanding 1 Jan 05	Exercised	Settled for Cash	Outstanding 31-Dec-05	Exercise Price (€)
Jun. 00	Jun. 07	200,000	-	200,000	-	0.02
Jan. 01	Jan. 08	47,000	-	47,000	-	0.02
Dec. 02	Dec. 07	1,600,000	1,060,000	540,000	-	0.30
Dec. 02	Dec. 07	1,000,000	-	1,000,000	-	0.50
Dec. 02	Dec. 07	2,400,000	-	2,400,000	-	0.75
		5,247,000	1,060,000	4,187,000	-	

22 Financial Lease Obligations

Versatel entered into agreements for IRUs on fiber optic cable and network capacity. 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. After the sale of Versatel Deutschland Holding GmbH all IRU commitments owned by Versatel Deutschland Holding GmbH have been transferred and therefore are not included as financial lease obligations. The remaining IRU agreements are presented as telecommunications equipment. The amortization charge applicable to capital leases is included in depreciation of tangible fixed assets. The interest charge applicable to capital leases is included in interest expense.

23 Rent and Operating Lease Commitments

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

(€ thousands)

	Rent & Operating Lease Commitments
2006.....	13,329
2007.....	13,233
2008.....	11,553
2009.....	5,625
2010 and further	1,196
Total.....	<u>44,936</u>

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.

24 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 €14.3 million as of 31 December 2005. The Company and its subsidiaries provided, on behalf of third parties, bank guarantees amounting to approximately €49.2 million.

25 Financial risk management

Versatel's activities expose it 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 allowed 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. totalling €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 14.

On 22 October 2004 Versatel issued 3.875% convertible senior notes for €125 million due 2011. At 14 October 2005 Tele2 Finance B.V. acquired all the issued and outstanding 3.875% convertible senior notes. Reference is made to note 13.

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 than 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 31 December 2005 approximate their carrying amounts.

26 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 goodwill

The Company tests annually whether goodwill has 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.

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 taxes

Versatel is subject to income taxes in numerous jurisdictions. Significant judgment is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes 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 fixed assets

Fixed assets, consisting primarily of property, plant, and equipment and intangibles, 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.

27 Personnel

The average number of personnel during the year was approximately 1,015 (2004 – 1,731) employed in the following geographical areas:

	<u>2005</u>	<u>2004</u>
Netherlands	859	805
Belgium	156	142
Germany	-	784
Total.....	<u>1,015</u>	<u>1,731</u>

28 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.

	<u>2005</u>	<u>2004</u>
Result attributable to equity holders of the parent company	198,681	(23,427)
Weighted average number of ordinary shares outstanding (thousands)	520,325	481,483
Basic earnings per share (€ per share).....	0.38	(0.05)

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 2004 Versatel had two categories of dilutive potential ordinary shares: convertible senior notes and share options. Due to the net loss over 2004, 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. In 2005 Versatel has one category of dilutive potential ordinary shares: convertible senior notes. The convertible 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.

	<u>2005</u>	<u>2004</u>
Result attributable to equity holders of the parent company	198,681	(23,427)
Interest expense on convertible senior notes (net of tax)	6,386	-
Result used to determine diluted earnings per share	<u>205,067</u>	<u>(23,427)</u>
Weighted average number of ordinary shares outstanding	520,325	481,483
Adjustment for assumed conversion of convertible senior notes	61,485	-
Weighted average number of ordinary shares for diluted earnings per share	581,810	481,483
Diluted earnings per share (€ per share).....	0.35	(0.05)

The earnings per share of continuing operations are as follows:

Basic earnings per share continuing operations (€ per share).....	(0.09)	0.00
Diluted earnings per share continuing operations (€ per share).....	(0.09)	0.00

For the calculation of the earnings per share of discontinued operations reference is made to Note 16 for more details.

29 Legal Proceedings

Certain shareholders of Versatel, including Centaurus Capital Limited, SG Amber Fund, Arnhold & S. Bleichroeder Advisers LLC, Mellon HBV Alternative Strategies Limited and Barclays Capital Securities Limited (together with Centaurus Capital Limited: “**Centaurus c.s.**”) have filed a request with the Enterprise Chamber of the court of appeals in Amsterdam (*Ondernemingskamer*; “**Enterprise Chamber**”) for a judicial investigation into the affairs of Versatel (*enquêteverzoek*) to the extent they related to the Offers. The hearing scheduled for 11 May 2006 has been postponed. If granted, the Enterprise Chamber will appoint one or more investigators (*enqueteurs*) to initiate an investigation into certain affairs of Versatel. The outcome of such investigations may ultimately be that certain resolutions of the management board, supervisory board, or shareholders meeting of Versatel are nullified and that costs are awarded against Versatel, or certain of the members of its (present or former) management board, or supervisory board.

In October 2000 the Company was informed by the public prosecutor in The Netherlands of potential civil and criminal tax liabilities relating to certain employee stock options granted prior to its initial public offering in July 1999. Although the Company had consulted with its Dutch tax advisors and the Dutch Tax Authorities prior to issuing these options and it believes the tax treatment of these options was correct, it has agreed with the public prosecutor to 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 from the Dutch Tax Authorities regarding the valuation of the aforementioned employee stock options. The Company lodged an objection against the assessment and Dutch Tax Authorities took a negative decision this objection in January 2003. The Company then lodged an appeal at the Amsterdam Court of Appeal. In December 2005, the Court ruled negative for Versatel. Versatel filed for appeal in cassation at the Supreme Court in The Hague in January 2006. This procedure is still pending.

The Company has not made any provision for the additional potential tax exposure. Should the Company be successful in its case with the Dutch Tax Authorities, it intends to attempt to reclaim all or part of the potential settlement that was reached with the public prosecutor.

The Company has filed complaints in the past with the European Commission, with the Dutch Postal and Telecommunications Authority or *Onafhankelijke Post en Telecommunicatie Autoriteit* (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 its regulatory strategy. The Company also makes routine filings with the regulatory agencies and governmental authorities in the countries in which it operates.

Although not directed against Versatel, it is noted that on 11 May 2005, Versatel announced that it was informed by the public prosecutor’s office that they had started an investigation into possible insider trading in Versatel shares during 1999, including in relation to a suspicion of fraud.

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.

30 Subsequent Events

On 17 January 2006, Versatel announced that Mr. Berglund had resigned from his position as Supervisory Director at Versatel, due to family reasons. Mr. Berglund, who also functioned as Executive Vice President Sales and Marketing of Tele2 AB, has resigned from his position at Tele2 for the same reason. Versatel does not intend to replace Mr. Berglund.

On 8 February 2006, Versatel announced that Mr. Ernst Jan van Rooijen would be appointed, on an interim basis, as Chief Financial Officer and member of Versatel’s Executive Board effective 1 April 2006. Mr. Van Rooijen replaced Mr. Mark Lazar, who left the Company per 1 April 2006. Mr. Van Rooijen has been with Versatel since February 2000 in different positions.

Also, Versatel announced that Mr. Aad Beekhuis, Chief Operations Officer and also a member of Versatel’s Executive Board, left Versatel as at 1 March 2006. His tasks have been assumed by Mr. Borgklint, Managing Director of Versatel.

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

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

Following up on the launch of Tele2 Compleet, in March 2006, Versatel became one of the first operators in The Netherlands to offer television and "Video on Demand" via an adsl-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.

On 1 March 2005, Tele2 and Versatel jointly announced that a merger proposal prepared by Tele2, Versatel and Tele2 Netherlands Holdings B.V. ("**Tele2 Holdings**") was being filed with the Dutch commercial register and would be made available on Versatel's website www.versatel.com. Pursuant to the proposed legal merger (i) Versatel would cease to exist as a separate legal entity and Tele2 would acquire all of Versatel's assets and liabilities, (ii) the shareholders of Versatel would receive non-listed shares in Tele2 Holdings in exchange for their current shares in Versatel and (iii) the listing of Versatel would terminate. Versatel would convene an extraordinary shareholders meeting with respect to the proposed legal merger which was expected to take place on 3 April 2006. Versatel furthermore announced that it was the intention to execute the proposed legal merger immediately after the general meeting of Versatel had approved the same on 3 April 2006. The proposed legal merger and its legal effects set out above would then become effective on 4 April 2006.

On 8 March 2006, Versatel announced that Centaurus c.s. had filed a third request for injunctive relief with the Enterprise Chamber in Amsterdam. Centaurus c.s. had requested (i) to prohibit Versatel to consummate the proposed legal merger with Tele2 and (ii) to order Versatel to make a public disclosure of all transactions (and all possible future amendments thereto) between Versatel or its subsidiaries on the one side and (other) members of the Tele2 group of companies on the other side.

On 24 March 2006, Versatel announced that the Enterprise Chamber of the Amsterdam Court of Appeal had ruled that Versatel may currently not proceed with the legal merger with Tele2 in the manner proposed in the merger proposal filed with the Chamber of Commerce on 1 March 2006. Consequently, no resolution can be taken on the proposed legal merger at the shareholders meeting scheduled to be held on 3 April 2006 and the trading of Versatel shares on Euronext Amsterdam would therefore not end on 29 March 2006.

On 21 April 2006, Versatel announced in reference to the last ruling of the Enterprise Chamber of 24 March 2006 that Versatel will prepare a new proposal for a triangular merger among Versatel, Tele2 Finance B.V. and Tele2 Netherlands Holding B.V. without tracking stock. Tele2 is cooperating with this approach. Part of the process will 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 (including its Special Committee of supervisory directors appointed by the Enterprise Chamber) believes that such an ordinary triangular merger without the use of tracking stock is the best way to give effect to the Enterprise Chamber's ruling and is in the best interests of Versatel and all its stakeholders. It is anticipated that a merger proposal will be published within a few months.

On 10 May 2006, Versatel announced that the parties to the pending proceedings before the Enterprise Chamber have jointly decided to postpone the hearing of 11 May 2006. The parties agreed to postpone the hearing until the new merger proposal, as announced by Versatel in its press release of 21 April 2006, will have been finalized.

On 29 May 2006, Versatel announced that it will restructure its organization. This change in structure will lead to a reduction in the number of employees at Versatel. It is expected that this will result in a reduction of approximately 200 jobs for the entire group in The Netherlands and Belgium. As a result of this restructuring, Versatel will recognize a one-time charge of approximately €6 million in 2Q06 to cover employee termination costs. Total annual SG&A savings are estimated to be approximately €8 million.

Company Financial Statements for Versatel Telecom International N.V.

Balance sheet as at 31 December 2005

(Before appropriation of net result)

(€ thousands)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
ASSETS			
Non-current assets			
Intangible fixed assets		-	21,673
Financial fixed assets	3	(333,093)	(114,309)
Total non-current assets		(333,093)	(92,636)
Current assets			
<i>Accounts receivable</i>			
Group companies		711,518	692,859
Other current assets		19,246	-
Cash		40,506	182,434
Total current assets		771,270	875,293
Total assets		438,177	782,657
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Issued and paid-in capital		10,471	10,367
Additional paid-in capital		1,755,573	2,365,961
Warrants		-	336
Accumulated deficit		(1,804,157)	(1,780,730)
Net result for the period		198,681	(23,427)
Total shareholders' equity	4	160,568	572,507
Non-current liabilities			
Deferred income tax liability		7,477	115,735
Long term senior notes	5	-	92,940
Related party long term senior notes	5	97,073	
Related party long term loans	6	170,655	-
Total non-current liabilities		275,205	208,675
Current liabilities			
Accrued liabilities		2,404	1,475
Total shareholders' equity and liabilities		438,177	782,657

Statement of operations for the year ended 31 December 2005

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Results of participating interests after taxes	177,818	(57,316)
Other results after taxes	<u>20,863</u>	<u>33,889</u>
Net result	<u>198,681</u>	<u>(23,427)</u>

Notes to the company financial statements at 31 December 2005

(Currency – € thousands)

1 General

The company financial statements are part of the 2005 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 apply 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 abbreviated form.

2 Accounting Principles

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.

As a result of the application of the accounting policies used in the consolidated financial statements in the company financial statements, Versatel has implemented a change in accounting policies in the company financial statements. This change in accounting policies is the result of applying the option in article 2:362, paragraph 8 of the Dutch Civil Code. By applying this option, reconciliation is maintained between the consolidated financial statements and the company financial statements' equity.

The company financial statements were previously prepared in compliance with accounting policies referred to in Part 9, Book 2 of the Dutch Civil Code and Dutch GAAP. The change in accounting policies, which is treated retrospectively, has had an effect on the equity attributable to equity holders and the result. Comparative figures have been adjusted on the basis of the changed valuation principles. The tables below reconcile the equity attributable to equity holders (before the changes in accounting policies) as of 31 December 2004 and the result for the year 2004 (before the changes in accounting policies) to the equity attributable to equity holders (after the changes in accounting policies) as of 31 December 2004 and the result for the year 2004 (after the changes in accounting policies).

	Equity attributable to equity holders
Equity attributable to equity holders at 31 December 2004.....	552,157
Changes in accounting policies:	
Convertible senior notes equity component.....	19,929
Interest and issuance costs amortization convertible senior notes	(719)
Write back of goodwill amortization.....	1,140
Equity attributable to equity holders at 31 December 2004.....	572,507

	<u>Result for the year</u>
Result for the year 2004 before changes in accounting policies	(23,695)
Change in Accounting policies	
Goodwill amortization and share-based compensation	1,140
Share-based compensation.....	(153)
Interest and issuance costs amortization convertible senior notes	(719)
	<hr/>
Result for the year 2004 after changes in accounting policies.....	<u>(23,427)</u>

There are no effects of the transition to IFRS on the total equity attributable to equity holders of the parent as per 1 January 2004. The only effect of the transition to IFRS at that time is related to the IFRS 2 share-based compensation adjustment, which has no net impact on the equity attributable to equity holders of the parent, therefore the equity as per 1 January 2004 under IFRS is in line with the equity as at 1 January 2004 under Dutch GAAP.

In the 2004 company financial statements the convertible senior notes were stated at the nominal value net of issuance costs. Issuance costs were amortized over the lifetime of the convertible senior notes. As the 2004 comparative figures have been restated to comply with IFRS as adopted by the European Union an adjustment was made to the accounting for the convertible senior notes. Under IFRS, the component of a financial instrument that creates a financial liability of the entity is separately recognized from the grant of an option to the holder of the instrument to convert it into an equity instrument. The fair value of the liability component of the convertible senior notes is determined using company's market interest rate for equivalent non-convertible senior notes. This amount is recorded as a liability on an amortized basis until extinguished on conversion or maturity of the senior notes. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in the shareholders' equity, net of income tax.

For a detailed discussion of the other changes, reference is made to the consolidated financial statements.

3 Financial Fixed Assets

The movement in financial fixed assets is as follows:

<i>(€ thousands)</i>	Investments in Group Companies	Receivables from Group Companies	Total
	<hr/>	<hr/>	<hr/>
Balance 1 January	(547,255)	432,946	(114,309)
Dispositions.....	(71,104)	(325,498)	(396,602)
Net result from investments	177,818	-	177,818
	<hr/>	<hr/>	<hr/>
Balance 31 December	<u>(440,541)</u>	<u>107,448</u>	<u>(333,093)</u>

4 Shareholders' Equity

For a breakdown of the Shareholders' equity 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 31 December 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 no warrants were exercised. As of 31 December 2005, 53,135 warrants are outstanding, giving rights to purchase 708,502 shares. These warrants will expire in May 2008.

Versatel has established the following stock option plans: the 2000 Stock Option Plan (the “2000 Plan”), the 2001 Stock Option Plan (the “2001 Plan”) and the 2002/2003 Stock Option Plan (the “2002/2003 Plan”). For details on these stock Option plans reference is made to Note 10 of the consolidated financial statements.

5 Related party long term senior notes

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

6 Related party long term loan

Reference is made to Note 14 of the consolidated financial statements.

7 Board of Supervisory Directors and Board of Management Remuneration

Reference is made to Note 21 of the consolidated financial statements.

8 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:

<u>Name</u>	<u>Legal Seat</u>
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 €179,3 million (2004 – €63.8 million).

Amsterdam, 29 May 2006

The Board of Management

The Board of Supervisory Directors

AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

Auditors' Report

Introduction

We have audited the financial statements of Versatel Telecom International N.V., Amsterdam for the year 2005 as set out on pages F-12 to F-52. These financial statements consist of the consolidated financial statements and the company financial statements. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in The Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion with respect to the Consolidated Financial Statements

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result and the cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code as far as applicable.

Opinion with respect to the Company Financial Statements

In our opinion, the company financial statements give a true and fair view of the financial position of the company as at December 31, 2005 and of the result for the year ended in accordance with the accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Opinion with respect to the Annual Report

We have established to the extent of our competence that the annual report is consistent with the financial statements.

Amsterdam, May 29, 2006

for Ernst & Young Accountants

M.van Dam

F.A.L van der Bruggen

**CONSOLIDATED FINANCIAL STATEMENTS OF VERSATEL TELECOM INTERNATIONAL N.V.
FOR THE YEAR ENDED 31 DECEMBER 2004 (DUTCH GAAP)**

Consolidated balance sheet as at 31 December 2004

<i>(€ thousands)</i>	<u>Note</u>	<u>2004</u>	<u>2003</u>
ASSETS			
Fixed assets			
Intangible fixed assets	4	25,367	4,800
Tangible fixed assets	5	667,171	615,847
Financial fixed assets	6	1,621	2,050
Total fixed assets		<u>694,159</u>	<u>622,697</u>
Current assets			
Inventory	7	133	499
<i>Accounts receivable</i>			
Trade	8	69,618	54,799
Unbilled revenues		42,878	25,049
Other receivables and prepaid expenses	9	22,232	5,891
Total accounts receivable		<u>134,728</u>	<u>85,739</u>
Cash	10	269,477	158,900
Total current assets		<u>404,338</u>	<u>245,138</u>
Total assets		<u>1,098,497</u>	<u>867,835</u>
GROUP EQUITY AND LIABILITIES			
Group equity			
Shareholders' equity	11	571,367	484,507
Minority interest		-	793
Total group equity		<u>571,367</u>	<u>485,300</u>
Provisions			
Deferred income taxes	12	115,735	123,651
Long-term liabilities			
Convertible senior notes	13	92,940	-
Other debt	14	2,977	2,977
Lease obligations	15	35,928	25,939
Total long-term liabilities		<u>131,845</u>	<u>28,916</u>
Short-term liabilities			
Short-term portion of long-term lease obligations	15	5,842	3,977
Accounts payable		103,280	69,639
Accrued liabilities	16	100,012	97,671
Unearned revenue		70,416	58,681
Total short-term liabilities		<u>279,550</u>	<u>229,968</u>
Total group equity and liabilities		<u>1,098,497</u>	<u>867,835</u>

Consolidated statement of operations for the year ended 31 December 2004

<i>(€ thousands)</i>	<u>Note</u>	<u>2004</u>	<u>2003</u>
Revenues		600,679	462,139
Operating expenses			
Direct cost of revenues		282,383	214,761
Wages and salaries		82,705	72,268
Social securities.....		12,120	9,936
Pension cost.....		5,055	3,302
Restructuring expense		-	5,652
Claim settlement		-	(14,930)
Advertising and marketing expenses		16,434	9,050
Depreciation of tangible fixed assets		140,302	134,594
Amortization of intangible fixed assets		1,249	210
Occupancy		18,596	17,050
Other cost of revenues.....		65,332	55,004
Total operating expenses		<u>624,176</u>	<u>506,897</u>
Operating loss.....		(23,497)	(44,758)
Financial income and expense			
Interest- and other income		3,986	5,638
Interest expense		(6,137)	(4,407)
Currency exchange loss.....		(1,448)	(1,307)
Total financial income and expense		<u>(3,599)</u>	<u>(76)</u>
Loss before income taxes		(27,096)	(44,834)
Credit from income taxes	12	822	10,249
Loss before minority interest after income taxes.....		(26,274)	(34,585)
Minority interest.....		1,860	1,707
Net loss after income taxes		<u>(24,414)</u>	<u>(32,878)</u>
Net loss after income taxes per share (Basic and Diluted) ⁽¹⁾		<u>(0.05)</u>	<u>(0.07)</u>

(1) The calculation of earnings per share is based on the net loss after income taxes for the year and on 481,483 thousand (2003 – 460,705 thousand) ordinary shares, being the weighted average number of ordinary shares outstanding. Due to the net loss over 2003 and 2004, 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.

Consolidated cash flow statement for the year ended 31 December 2004

(€ thousands)

	2004	2003
Cash flows from operating activities		
Net loss	(24,414)	(32,878)
<i>Adjustments to reconcile net loss to net cash provided by operating activities</i>		
Depreciation and amortization	141,551	134,804
Amortization finance cost	799	-
Deferred income tax movement	(822)	(10,249)
Non-cash portion of interest- and other income	-	(724)
Minority interest	(1,860)	(1,707)
<i>Changes in other operating assets and liabilities</i>		
Accounts receivable	(10,444)	9,329
Inventory	365	169
Prepaid expenses and other	(31,010)	6,434
Accounts payable	21,811	(36,456)
Unearned revenue	8,359	17,712
Accrued liabilities	(4,005)	(13,853)
 Net cash provided by operating activities	 100,330	 72,581
Cash flows from investing activities		
Capital expenditures	(135,448)	(89,047)
Acquisition of business, net of cash acquired	4,199	(14,620)
 Net cash used in investing activities	 (131,249)	 (103,667)
Cash flows from financing activities		
Payments under lease obligations	(1,209)	(829)
Redemption of short-term loans	(248)	(753)
Proceeds of convertible senior notes	122,125	-
Proceeds from exercised warrants	20,695	-
Proceeds from exercised options	133	537
 Net cash provided by/(used in) financing activities	 141,496	 (1,045)
 Net increase/(decrease) in cash	 110,577	 (32,131)
Cash, beginning of the year	158,900	191,031
 Cash, end of the year	 269,477	 158,900

Notes to consolidated financial statements at 31 December 2004

(€ thousands)

1 GENERAL

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

2 ACCOUNTING PRINCIPLES

a) General

The financial statements have been prepared under the historical cost convention and in conformity with the requirements of The Netherlands Civil Code and accounting principles generally accepted in The Netherlands. As permitted by Section 402, Book 2 of The Netherlands 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 except for the accounting of convertible senior notes as explained in note b).

b) Change in Accounting Policy

Effective 1 January 2004, Versatel changed its accounting policy for the accounting of convertible senior notes. This change was made in anticipation of the requirement for all listed companies within the European Union member states to report under International Financial Reporting Standards (IFRS) from 1 January 2005 onwards.

The component of a financial instrument that creates a financial liability of the entity is separately recognized from the grant of an option to the holder of the instrument to convert it into an equity instrument.

The fair value of the liability component of the convertible senior notes is determined 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 on conversion or maturity of the senior notes. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in the shareholders’ equity, net of income tax effects.

This change in accounting policy does not have any impact on the prior period. The current year impact of the change in accounting policy on the financial statements consists of a €19.9 million equity component, net of deferred taxes, reflected in the shareholders equity, a deferred tax liability of €9.0 million and €0.7 million finance costs relating to the equity component.

Under the former accounting policy the legal substance would prevail.

c) 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 statement of operations.

d) Intangible Fixed Assets

Goodwill originating from the acquisition of investments represents the difference of the fair value of the net assets and the acquisition cost of the investments at the time of the acquisition. The goodwill is amortized based on the expected economical life, on a straight-line basis, over a period varying from 5 to 10 years.

Licenses are stated at the acquisition cost, less straight-line amortization. The amortization is calculated on the basis of acquisition cost and using the contractual terms. Amortization starts from the date that the services are actually offered under the license.

e) Tangible Fixed Assets

Tangible fixed assets are stated at the acquisition cost, less straight-line depreciation. The depreciation is calculated on the basis of acquisition cost less residual value and the estimated useful life of the related asset.

The estimated useful lives are:

Leasehold improvements	5 years
Telecommunications equipment	2 - 20 years
Other tangible fixed assets	3 - 5 years

Tangible fixed assets operated by Versatel under a financial lease agreement are discounted at the Company's refinancing rate and are capitalized. The related debt is presented under long-term lease obligations. The short-term portion is presented under short-term portion of long-term lease obligations.

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.

f) Financial Fixed Assets

Financial fixed assets are stated at the lower of cost or net realizable value.

g) Impairment of Assets

Versatel reviews its long-lived assets and intangibles for impairment when events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. This review consists of a comparison of the carrying value of the asset with the highest of the asset's expected future discounted cash flow without interest costs and fair value (recoverable amount). If the recoverable amount exceeds the carrying value of the asset, no impairment is recognized. If the carrying value of the asset exceeds the recoverable amount, impairment exists and is measured by the excess of the carrying value over the recoverable amount.

h) Inventory

Inventory is stated at the lower of cost or net realizable value with cost being determined on a first-in first-out basis. Versatel's inventory primarily consists of routers and telecommunications equipment used to connect customers directly to our network.

i) Accounts Receivable

Accounts receivable are stated at face value, less an allowance for possible uncollected accounts.

j) Income Taxes and Deferred Income Tax

The Company accounts for income taxes 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 difference 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) Other Assets and Liabilities

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

l) Recognition of Operating Revenues

Operating revenues are stated net of discounts and value added taxes and are recognized when the service is rendered or when 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 tangible fixed assets and depreciated over the estimated customer relationship period. Specifically, Versatel's policies are as follows:

Voice Revenues:

Operating revenues derived from providing various telecommunications 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. As a result of Versatel acting as an agent, Versatel reports these fees on a net basis, whereby reported revenues only include that portion of the fees that are not passed on to a local content provider. These premium dial-in revenues are recognized in the period in which these minutes are passed through.

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; and
- *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 customers include revenues from Dedicated Internet Connectivity, IP-Based Electronic Transaction services, Web and ISP hosting 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.

m) Pension Cost

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

n) Stock-based Compensation

The Company records stock-based compensation expense related to its stock option plans using the intrinsic method. This accounting method results in a compensation expense for the difference between the grant price and

the fair market value in case the grant price is below the fair market value at the time of the grant. This compensation expense is recognized in the statement of operations at the date of the grant.

o) Sales, General and Administration Expense (“SG&A”)

SG&A consists of wages and salaries, social securities, pension cost, advertising and marketing expenses, occupancy and other cost of revenues.

3 PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the operations of the following subsidiaries as of 31 December 2004:

<u>Name</u>	<u>Legal Seat</u>	<u>Percentage Ownership</u>
Versatel Nederland B.V.	Amsterdam, The Netherlands	100%
Versatel Finance B.V.	Amsterdam, The Netherlands	100%
Zon Nederland N.V.	Amsterdam, The Netherlands	100%
XtraNed Nederland B.V.	Amsterdam, The Netherlands	100%
Bizztel Telematica B.V.	Leeuwarden, The Netherlands	100%
Versatel Internet Group N.V.	Amsterdam, The Netherlands	100%
Versatel 3G N.V.	Amsterdam, The Netherlands	100%
Versatel Deutschland Holding GmbH	Berlin, Germany	100%
Versatel Deutschland Verwaltungs GmbH	Dortmund, Germany	100%
Versatel West-Deutschland GmbH & Co. KG	Dortmund, Germany	100%
Versatel Nord-Deutschland GmbH.....	Flensburg, Germany	92.5%
KomTel Telecommunications Services GmbH	Flensburg, Germany	100%
Versatel Süd-Deutschland GmbH.....	Stuttgart, Germany	100%
Versatel Germany GmbH	Munich, Germany	100%
tesion Netzbetriebs- und Verwaltungs GmbH.....	Stuttgart, Germany	100%
Versatel Berlin GmbH	Berlin, Germany	100%
BerlinNet GmbH Telekommunikation und Neue Medien	Berlin, Germany	100%
BerliKomm Asset Management Kft.	Budapest, Hungary	100%
Versatel Belgium N.V.	Wemmel, Belgium	100%
Compath N.V.	Wemmel, Belgium	100%
Burns & Perkins N.V.	Gent, Belgium	100%
Versapoint N.V.	Amsterdam, The Netherlands	100%
Versapoint B.V.	Amsterdam, The Netherlands	100%
Versapoint GmbH	Dortmund, Germany	100%
Versapoint S.A.S.	Paris, France	100%

On 31 March 2004 Telco Executive GmbH's (formerly known as Arques) stake in Versatel Deutschland Holding GmbH diluted from 12.8% to 10.5% as a result of a capital call by Versatel Deutschland Holding GmbH to its shareholders, at which Telco Executive GmbH did not participate.

On 29 July 2004, Versatel Deutschland Holding GmbH signed an agreement with Berlinwasser Holding Aktiengesellschaft (“BWH”), a company jointly owned by Land Berlin and RWE / Vivendi Berlinwasser Beteiligungs AG to purchase 100% of the outstanding share capital in BerliKomm Telekommunikationsgesellschaft mbH (“BerliKomm”) and its wholly owned subsidiaries BerlinNet and BerliKomm Asset Management. BerliKomm was subsequently renamed Versatel Berlin GmbH. In order to fund the acquisition price of €34.6 million, the Company issued approximately 24 million new ordinary shares at the closing of the acquisition 1 September 2004.

On 16 August 2004, Versatel Telecom International N.V. purchased Telco Executive's outstanding 10.5% minority interest in its German subsidiary, Versatel Deutschland Holding GmbH, by issuing 15 million ordinary shares at the day's closing price of €1.36 per ordinary share. At the time, this represented a value of €20 million, which was a discount of approximately 30% to the €29 million that would be owed to Telco Executive under the put/call arrangements agreed to as part of the tesion and CompleTel Germany acquisition in 2003. Telco Executive's ordinary shares were locked up until 4 November 2004.

On 19 November 2004, Versatel Nederland B.V. purchased 100% of the outstanding share capital in Iparix Networks B.V. and relating assets from XB Networks International B.V. for a purchase price of approximately €1.2 million. Iparix Networks B.V., a wireless network operator, was subsequently renamed XtraNed Nederland B.V.

In December 2004, as part of a continued corporate clean up within the Versatel group, Versapoint N.V., Wommel, Belgium, a 100% subsidiary of Versapoint N.V., Amsterdam, The Netherlands and Versatel Internet Group Belgium N.V., Wommel, Belgium, a 100% subsidiary of Versatel Internet Group N.V., Amsterdam, The Netherlands, were liquidated.

The consolidated financial statements include the accounts of Versatel and all entities in which Versatel has a controlling voting interest ("Subsidiaries"). The results of these Subsidiaries are included from the respective dates of acquiring control by Versatel during 2004. All significant intercompany transactions have been eliminated.

Minority interest in the consolidated statement of operations represents the minority shareholders' share of the income or loss of the consolidated Subsidiaries. The minority interest in the consolidated balance sheet reflects the original investment by these minority shareholders in the consolidated Subsidiaries, adjusted for their proportional share of the income or loss of the Subsidiary. When the minority interest amount in the consolidated balance sheet is fully offset by losses of the Subsidiary, Versatel recognizes the entire net loss of such Subsidiary.

As of 31 December 2004, Versatel accounted for the following investments at the lower of cost or net realizable value:

<u>Name</u>	<u>Legal Seat</u>	<u>Percentage Ownership</u>
Cedron Holding B.V. (formerly known as Consumerdesk Holding B.V.).....	Amsterdam, The Netherlands	1%
BORnet GmbH.....	Stadtlohn, Germany	5%
DOKOM Gesellschaft für Telekommunikation mbH	Dortmund, Germany	10%
RuhrNET Gesellschaft für Telekommunikation mbH	Schwerte, Germany	24%
Mobile Communication and Service SH GmbH.....	Flensburg, Germany	10%

4 INTANGIBLE FIXED ASSETS

The movement in intangible fixed assets is as follows:

<i>(€ thousands)</i>	<u>Goodwill</u>	<u>Licenses</u>	<u>Total</u>
Book value 1 January.....	4,000	800	4,800
Additions.....	21,816	-	21,816
Dispositions.....	-	-	-
Amortization.....	(1,137)	(112)	(1,249)
Book value 31 December.....	24,679	688	25,367
Original cost.....	26,026	800	26,826
Accumulated amortization.....	(1,347)	(112)	(1,459)
Book value 31 December.....	24,679	688	25,367

In the first quarter of 2004 an increase of €2.1 million in goodwill was the result of additional funding that was provided to the German subsidiary Versatel Deutschland Holding GbmH and which was not matched on a pro rata basis by its minority shareholder Telco Executive. As a result of this transaction, Telco's Executives' interest in Versatel Deutschland Holding GbmH was diluted from 12.8% to 10.5%. In the third quarter Versatel purchased

Telco Executives' outstanding 10.5% minority interest in Versatel Deutschland Holding GbmH. The purchase of the outstanding minority share has been recorded as €19.1 million in goodwill. This goodwill is amortized over a 10-year period.

The purchase of Iparix Networks B.V., a wireless local loop provider in The Netherlands, in November 2004 has resulted in a total amount of €0.6 million in goodwill. This goodwill is amortized over a 10-year period.

5 TANGIBLE FIXED ASSETS

The movement in tangible fixed assets is as follows:

(€ thousands)

	Leasehold improve- ments	Telecom- munications equipment	Other tangible fixed assets	Construction in progress	Total
Book value 1 January.....	5,074	558,133	15,675	36,965	615,847
Retirements	-	-	-	-	-
Acquisitions	-	54,476	683	1,019	56,178
Additions/Transfers.....	100	112,335	15,876	7,137	135,448
Depreciation.....	(2,310)	(126,224)	(11,768)	-	(140,302)
Book value 31 December.....	<u>2,864</u>	<u>598,720</u>	<u>20,466</u>	<u>45,121</u>	<u>667,171</u>
Original Accumulated Cost	16,128	1,386,802	130,754	45,121	1,578,805
Depreciation.....	<u>(13,264)</u>	<u>(788,082)</u>	<u>(110,288)</u>	<u>-</u>	<u>(911,634)</u>
Book value 31 December.....	<u>2,864</u>	<u>598,720</u>	<u>20,466</u>	<u>45,121</u>	<u>667,171</u>

6 FINANCIAL FIXED ASSETS

The movement in financial fixed assets is as follows:

(€ thousands)

	Other Receivables
Book value 1 January.....	2,050
Acquisitions	236
Transfer to other receivables and prepaid expenses	(665)
Book value 31 December.....	<u>1,621</u>

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

7 INVENTORY

The current value of the inventory does not significantly differ from its stated value.

8 ACCOUNTS RECEIVABLE

Accounts receivable as presented under current assets mature within one year.

<i>(€ thousands)</i>	2004	2003
Gross Accounts Receivable on 31 December.....	87,431	73,525
Doubtful debt allowance at 1 January	18,726	12,526
Addition to allowance	1,738	5,696
Acquisitions	2,325	2,901
Utilization of allowance	(4,976)	(2,397)
Doubtful debt allowance at 31 December	17,813	18,726
Net Accounts Receivable on 31 December	69,618	54,799

9 OTHER RECEIVABLES AND PREPAID EXPENSES

Other receivables and prepaid expenses include:

<i>(€ thousands)</i>	2004	2003
Prepaid expenses	7,028	4,310
Other current assets.....	9,618	1,581
Value added taxes.....	5,586	-
Total.....	22,232	5,891

10 CASH

The cash balance is mainly denominated in euro, although an amount equivalent to €21.8 million is denominated in US dollars.

11 SHAREHOLDERS' EQUITY

The movement in consolidated shareholders' equity is as follows:

<i>(€ thousands)</i>	2004	2003
Balance 1 January	484,507	509,486
Buy out minority interest in Germany	20,065	-
Shares issued for acquisition.....	34,405	-
Change in corporate tax rate	16,047	-
Convertible senior notes' equity component	19,929	-
Warrants exercised	20,695	10
Options exercised.....	133	526
Purchase minority interest Zon.....	-	4,163
German liability settlement.....	-	3,200
Net loss for the period.....	(24,414)	(32,878)
Balance 31 December	571,367	484,507

On 22 October 2004 the company issued €125 million of convertible senior notes. These convertible senior notes include an equity conversion component of €19.9 million, net of deferred taxes, which is included in shareholders' equity.

For further explanation of the movement in shareholders' equity we refer to the notes to the Company financial statements.

12 TAXES

The Company and the subsidiaries Versatel Nederland B.V., Bizztel Telematica B.V., Versatel 3G N.V. Versatel Internet Group N.V. and Zon Nederland N.V. constitute a fiscal unity in The Netherlands.

Netherlands

In general, a Dutch holding company may benefit from the so-called "participation exemption". The participation exemption is a facility in Dutch corporate tax laws which allows a Dutch company to exempt, from Dutch income tax, any dividend income and capital gains in relation to its participation in subsidiaries which are legal entities residing in The Netherlands or in a foreign country. Capital losses are also exempted, apart from the liquidation losses (under stringent conditions).

As of 31 December 2002, Versatel Telecom International N.V. and its Dutch subsidiaries included in the fiscal unity exhausted all its generated net operating loss ("NOL") carry forwards for income tax purposes against the result from the financial restructuring. Versatel made an agreement with the Dutch tax authorities on the treatment of the financial restructuring. The Company has taken temporary fiscal impairments on its investments in foreign subsidiaries to shield the resulting restructuring gain. These fiscal impairments are, in principal, to be added back in five equal annual installments depending on the year of investment. A portion was added back starting from 2003. Due to the restructuring gain Versatel has taken a deferred tax liability of €133.9 million for the fiscal year 2002. The gain can be shielded against generated NOLs by the Dutch fiscal unity, which lowered the deferred tax liability for 2004. As a result the 2004 tax liability decreased by €1.7 million. The Dutch government will gradually reduce the corporate income tax rate from 34.5% in 2004 to 30% in 2007. This resulted in a deferred tax liability reduction of €16.0 million decreasing shareholders' equity. In October 2004 the company issued convertible senior notes leading to a deferred tax liability of €9.0 million. This liability will result in credits from income taxes over the life of these convertible senior notes. Credit from income taxes at 31 December 2004 includes €0.2 million. Zon Nederland N.V. used its remaining generated NOL carry forwards for income tax purposes and was included in the Dutch fiscal unity during 2004. The current statutory rate for The Netherlands is 34.5%.

Germany

As of 31 December 2004, the German activities of Versatel had generated NOL carry forwards for income tax purposes totalling approximately €297 million. For German income tax purposes, NOL carry forwards may generally be carried forward indefinitely. The current statutory rate for Germany is 39.4%.

Belgium

As of 31 December 2004, Versatel Belgium had generated NOL carry forwards for income tax purposes totalling approximately €179 million. For Belgian income tax purposes NOL carry forwards may generally be carried forward indefinitely. The current statutory rate for Belgium is 34.0%.

The Company has recorded a valuation allowance equal to the total net deferred tax assets as of 31 December 2004 and 2003, due to the uncertainty of realization through future operations. 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.

<i>(€ thousands)</i>	<u>2004</u>	<u>2003</u>
Deferred tax assets	-	1,075
Operating loss carry forwards	177,741	92,474
Total deferred tax assets	177,741	93,549
Less valuation allowance	(177,741)	(92,474)
Deferred tax liability	115,735	124,726
Net deferred tax liability	<u>115,735</u>	<u>123,651</u>

The difference between the income tax expense provided in the consolidated financial statements and the expected income tax benefit at statutory rates related to the Company's corporate and foreign subsidiary operations for the years ended 31 December 2004 and 2003 is reconciled as follows:

<i>(€ thousands)</i>	<u>2004</u>	<u>2003</u>
Expected income tax benefit at the weighted average statutory rate of 39% (2003: 38%)	9,722	13,845
Amortization of goodwill	(398)	(72)
Other	4,623	(406)
Valuation allowance	(13,125)	(3,118)
Total income tax benefit	<u>822</u>	<u>10,249</u>

13 CONVERTIBLE SENIOR NOTES

On 22 October 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 8 December 2004 to the earlier of 19 October 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 the convertible 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 shareholder's equity, net of deferred income taxes.

The movement in the convertible senior notes is as follows:

<i>(€ thousands)</i>	<u>2004</u>
Nominal value of the convertible senior notes issued on 22 October 2004 ..	125,000
Equity component	(19,929)
Deferred income tax	(8,953)
Issuance costs	<u>(3,951)</u>
Liability component at initial recognition 22 October 2004	92,167
Accreted interest	773
Liability component at 31 December 2004	<u>92,940</u>

Interest expense on the convertible 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 convertible senior notes at 31 December 2004 approximates the carrying amount.

14 OTHER DEBT

Versatel Nord-Deutschland (formerly known as Komtel) has loan facilities with the Flensburger Sparkasse, Germany, amounting to €3.0, which is included in long-term debt at 31 December 2004. The loan facilities are secured by specifically identified fixed assets of Versatel Nord-Deutschland with a cost of €9.1 million and a net book value of €4.9 million and gross accounts receivable of €7.1 million at 31 December 2004.

15 LEASE OBLIGATIONS

Versatel entered into agreements for IRUs on fiber optic cable and network capacity. 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. A substantial portion of our IRU agreements have been prepaid and therefore are not included as capital lease obligations. These IRU agreements are presented as telecommunications equipment. The amortization charge applicable to capital leases is included in depreciation of tangible fixed assets. The interest charge applicable to capital leases is included on the interest expense.

Commitments for minimum rentals under non-cancellable capital leases per 31 December 2004 are as follows:

<i>(€ thousands)</i>	<u>Commitments</u>
2005.....	6,076
2006.....	6,026
2007.....	5,975
2008.....	5,925
2009 and further.....	60,598
Total minimum lease payments	<u>84,600</u>
Less amount representing interest.....	<u>(42,830)</u>
Present value of net minimum lease payments.....	<u>41,770</u>

Telecommunications equipment includes an amount of €52.8 million for capitalized leases (2003 – €70.2 million).

16 ACCRUED LIABILITIES

Accrued liabilities include:

<i>(€ thousands)</i>	<u>2004</u>	<u>2003</u>
Corporate income tax.....	171	163
Value added tax.....	-	1,153
Payroll tax and social securities.....	3,057	2,900
Short-term portion of long-term liabilities	-	279
Capital expenditure accruals	22,603	14,175
Compensation accruals	13,855	14,136
Network cost accruals	20,155	22,228
Other accrued liabilities	40,171	42,637
Accrued liabilities	<u>100,012</u>	<u>97,671</u>

At 31 December 2004 value added taxes was a receivable of €5.6 million and is classified as other receivables and prepaid expenses.

17 SEGMENT INFORMATION

a) Revenues

Generally, our services can be characterized as voice, data and Internet services and, in the future, media 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), and fixed monthly fees for services provided to our customers (generally internet and data). 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, acquisitions, including Svianed, Versatel West-Deutschland (formerly known as VEW Telnet) and Versatel Nord-Deutschland (formerly known as Komtel), Versatel Süd-Deutschland (formerly known as tesion) and Versatel Germany (formerly known as Completel) and most recently Versatel Berlin (formally known as BerliKomm) and the expansion of our product offering. As a result of these acquisitions, we have significantly increased the portion of our revenues generated from fixed monthly fees, expanded our geographical focus in Germany and expanded our customer base to include larger customers.

Historically, we have priced our variable communications services (voice) at a discount to the local PTTs 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 margins. 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 is 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. For the year ended 31 December 2004, 47.3% of our revenues were generated from the provision of data and internet services. 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 both Zon, (per 2005 renamed Versatel Consumer), and other internet service providers. Our consumer internet division, previously named ‘Zon’, generates revenues from the termination of minutes of traffic onto our network as described above, selling advertising on our portals and to a lesser extent receiving a percentage of some of the e-commerce revenue generated by our subscribers. Additionally, Zon generates revenues by providing broadband internet access and voice services over DSL technology for a fixed monthly fee. As of August 2005, we plan to generate additional revenues by providing triple-play 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 website through our own fiber, DSL technology, other copper access technologies, wireless technologies or leased lines. For the year ended 31 December 2004, €446.4 million of our revenue was generated from on-net customers.

Versatel’s revenues presented on a geographical basis are divided as follows:

<i>(€ thousands)</i>	<u>2004</u>	<u>2003</u>
Netherlands	266,928	225,449
Germany	273,740	189,633
Belgium	60,011	47,057
Total.....	<u>600,679</u>	<u>462,139</u>

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 the UWV Group, ABN AMRO and the Dutch Ministry of Justice in The Netherlands and Landesbank Baden-Württemberg in Germany. 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 and voice product to the residential market in The Netherlands and Germany, 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. Recently, we have limited the services we provide to other telecommunications service providers who solely focus on the voice resale market. This is as a result of financial difficulties experienced by certain of these service providers. Also, in The Netherlands, Versatel offers internet services directly to the residential internet market. In Germany, we believe market dynamics, including the high penetration of ISDN services, justify offering services directly to the residential market in selected situations. As a result, our German operations service residential customers, which has led to a substantial increase in our residential customer base. At the end of 2003, Versatel launched a nationwide ADSL product in Belgium over Bitstream access to the residential market.

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.

Further, Versatel believes the revenue per service by customer type is an important indicator of the evolution of its broadband services product portfolio. Versatel's revenues on a service by customer type are divided as follows:

<i>(€ thousands)</i>	2004	2003
Business customers		
Voice.....	170,330	144,879
Data.....	105,153	82,959
Internet.....	54,856	57,090
Residential customers		
Voice.....	66,783	41,994
Internet.....	79,219	53,494
Carrier services customers		
Voice.....	78,642	62,733
Data.....	44,624	18,990
Other.....	1,072	-
Total.....	600,679	462,139

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 and subscription charges. 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 will continue to deploy leased lines to directly connect customers to our network in order either to accelerate such customer's connection to our network, in which case we will replace the leased line with our own fiber, or to connect a customer for which it is not economically viable for us to directly connect that customer to our own backbone. This can either be due to low transaction volumes or a too far distance 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.

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 the PTTs 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.

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.

d) EBITDA

Versatel's EBITDA consists of earnings (loss) before interest expense, interest- and other income, income taxes, depreciation and amortization.

The Company's EBITDA presented on a geographical basis is divided as follows:

<i>(€ thousands)</i>	2004	2003
Netherlands	72,503	58,288
Germany	43,525	31,931
Belgium	2,025	(173)
Total consolidated EBITDA.....	118,053	90,046

e) Tangible Fixed Assets

Due to the integrated nature of our activities a meaningful breakdown of the tangible fixed assets between services per customer type is not presented here.

Versatel's tangible fixed assets presented on a geographical basis are divided as follows:

<i>(€ thousands)</i>	2004	2003
Netherlands	265,059	268,031
Germany	288,247	236,667
Belgium	68,744	74,184
Total.....	622,050	578,882
Construction in process.....	45,121	36,965
Total.....	667,171	615,847

We capitalize and depreciate our fixed assets, including switching and transmission equipment, routers, fiber optic cable and rights of use, over periods ranging from 3 to 20 years taking residual values into account. The development of our network, including construction, indefeasible rights of use, 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). Indirect expenses that can be attributed to this activity are also capitalized.

18 FINANCIAL INSTRUMENTS

a) Credit Risks

The Company has no significant credit risks, other than those, which have already been allowed 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 Nord-Deutschland has entered into a long-term loan facility totalling €3.0 million, which is repayable in 2008 and bears 4.7% interest. Also see note 14.

On 22 October 2004 Versatel issued 3.875% convertible senior notes for €125 million due 2011. Also see note 13.

c) 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 senior notes is calculated using the company's market interest rate for equivalent non-convertible senior notes. The fair value of the liability component of the convertible senior notes at 31 December 2004 approximates the carrying amount.

The fair value of financial instruments included in other long-term liabilities at 31 December 2004 also approximates their carrying amounts.

19 RENT AND OPERATING LEASE COMMITMENTS

Future minimum commitments in connection with rent and other operating lease agreements at 31 December 2004 are as follows:

<i>(€ thousands)</i>	<u>Rent & Operating Lease Commitments</u>
2005	21,621
2006	21,374
2007	20,912
2008	16,875
2009 and further	35,898
	<hr/>
Total	116,680
	<hr/>

Rent and operating lease expenses amounted to approximately €18.6 million in 2004. The main part of future commitments relates to the renting of office space and points-of-presence for a 10 year period.

20 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 €22.8 million as of 31 December 2004. The Company and its subsidiaries provided, on behalf of third parties, bank guarantees amounting to approximately €17.8 million.

In November 2004, Versatel entered into a non-exclusive framework agreement with Samsung Electronics Co. Ltd., Korea, with the intent to procure certain equipment to facilitate Versatel's roll out of its triple-play service offering starting 2005.

On 1 December 2004 Versatel signed a long-term sponsor contract with the KNVB (Royal Dutch Football Association). Versatel will become, amongst others, sponsor of the Dutch national football team and exclusive telecommunications partner of the KNVB and its subsidiaries. The financial commitment over a 3-year term of the contact is approximately €3.2 million.

In December 2004, Versatel announced that it won the bid for the live pay-TV rights of the Dutch Eredivisie football matches (including Ajax, Feyenoord, PSV and the 15 other teams of the Dutch Premier Football League). Starting with the new football season in August 2005, Versatel will pay the Eredivisie CV €30.5 million for these rights per season and will do so for in total three seasons. On 22 December 2004, a letter of intent was signed. It is expected that the final contract negotiation will be completed in 2005.

21 BOARD OF SUPERVISORY DIRECTORS AND BOARD OF MANAGEMENT

a) Compensation

The aggregate compensation for the Board of Supervisory Directors of the Company as a group in 2004 was €249,422, compared to €170,168 in 2003.

The following table sets out certain information relating to the compensation received by the Board of Supervisory Directors for the years ended 31 December 2004 and 2003:

<i>(€ thousands)</i>	<u>2004</u>	<u>2003</u>
Supervisory Directors		
Leo van Doorne (Chairman)	47,449	34,034
Hans Huber (Vice-Chairman) ⁽¹⁾	50,471	-
Boudewijn Beerkens	25,470	-
Joop Drechsel	33,765	22,689
Loek Hermans	25,470	-
Nathaniel Meyohas	33,765	22,689
 Resigned during 2004:		
Sander van Brummelen	8,258	22,689
Jan van Duyn	8,258	22,689
Frédéric Gastaldo	8,258	22,689
Jorg Mohaupt	8,258	22,689
 Total compensation	<u>249,422</u>	<u>170,168</u>

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

For 2004 the Board of Supervisory Directors approved that the Company's Managing Director base compensation was to be increased by 27.3%. This decision was based on a survey conducted on behalf of the Board of Supervisory Directors of comparable CEO compensation of a selected group of companies.

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

The total aggregate compensation of the Managing Director in 2004 was €874,140 compared to €547,846 in 2003.

<i>(€ thousands)</i>	<u>Compensation</u>	<u>Pension</u>	<u>Bonus</u>	<u>Other⁽¹⁾</u>	<u>Total</u>
Raj Raithatha.....2004	349,464	69,999	409,473	45,204	874,140
.....2003	279,868	54,998	175,000	37,980	547,846

(1) Other includes for 2004, a gross payment of €45,204 for pension counselling services paid by Versatel Telecom International N.V. on behalf of Mr. Raithatha.

b) Shareholdings

The table below shows the detail of the shareholdings by the Company's current Supervisory Directors and its Managing Director. In total, 2,850,900 shares are held by this group in aggregate at 31 December 2004 compared with 2,850,900 shares at 31 December 2003.

	<u>2004</u>	<u>2003</u>
Board of Supervisory Directors	-	-
Leo van Doorne (Chairman)	-	-
Hans Huber (Vice-Chairman)	-	-
Boudewijn Beerkens	-	-
Joop Drechsel.....	-	-
Loek Hermans.....	-	-
Nathaniel Meyohas	-	-
Managing Director		
Raj Raithatha.....	2,850,900	2,850,900
 Total shareholdings.....	<u>2,850,900</u>	<u>2,850,900</u>

c) Share Options

No options have been granted to any of our Supervisory Directors.

During 2004 no options were granted to the Managing Director.

As at 31 December 2004 the Managing Director in aggregate holds 5,247,000 options to purchase 5,247,000 Ordinary Shares under the various plans. The table below sets out a breakdown of these options:

<u>Issued</u>	<u>Expire</u>	<u>Outstanding 1 Jan 2004</u>	<u>Granted</u>	<u>Exercised</u>	<u>Outstanding 31-Dec-05</u>	<u>Exercise Price (€)</u>
Jun. 00	Jun. 07	200,000	-	-	200,000	0.02
Jan. 01	Jan. 08	47,000	-	-	47,000	0.02
Dec. 02	Dec. 07	1,600,000	-	-	1,600,000	0.30
Dec. 02	Dec. 07	1,000,000	-	-	1,000,000	0.50
Dec. 02	Dec. 07	2,400,000	-	-	2,400,000	0.75
		<u>5,247,000</u>	<u>-</u>	<u>-</u>	<u>5,247,000</u>	

22 PERSONNEL

The average number of personnel during the year was approximately 1,731 (2003 – 1,492) employed in the following geographical areas:

	<u>2004</u>	<u>2003</u>
Netherlands	805	759
Germany	784	607
Belgium	142	126
Total.....	<u>1,731</u>	<u>1,492</u>

23 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.

24 RELATED PARTIES

The following table sets forth information regarding the beneficial ownership of the Ordinary Shares of the Company as at 31 December 2004, by each beneficial holder of 5% or more of the Ordinary Shares, as notified to the Company under the 1996 Act on the Disclosure of Holdings in Listed Companies (*Wet Melding Zeggenschap in ter beurze genoteerde vennootschappen*).

Name of beneficial holder	<u>% of shares outstanding</u>
J.H.H. de Mol (Talpa Capital B.V.)	42.1% ^{(1) (3)}
Access Industries Inc.....	6.7% ^{(2) (3)}

(1) This approximate percentage is calculated by the Company and based upon the notifications under the 1996 Act on the Disclosure of Holdings in Listed Companies and the 1995 Act on the Supervision of the Securities Trade and does not take into account any subsequent dilution.

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

(3) This percentage is based upon Access Industries Inc.'s notification of 3 January 2003 under the 1996 Act on the Disclosure of Holdings in Listed Companies and does not take into account any subsequent dilution

No transactions have occurred during 2004 with these related parties.

25 LEGAL PROCEEDINGS

In October 2000 the Company was informed by the public prosecutor in The Netherlands of potential civil and criminal tax liabilities relating to certain employee stock options granted prior to its initial public offering in July 1999. Although the Company had consulted with its Dutch tax advisors and the Dutch Tax Authorities prior to issuing these options and it believes the tax treatment of these options was correct, it has agreed with the public prosecutor to 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 for an amount of €14.6 million from the Dutch Tax Authorities regarding the valuation of the aforementioned employee stock options. The Company lodged an objection against the assessment and Dutch Tax Authorities took a negative decision this objection in January 2003. The Company then lodged an appeal at the Amsterdam Court of Appeal. The Appeal Procedure is still pending.

The Company has not made any provision for the additional potential tax exposure. Should the Company be successful in its case with the Dutch Tax Authorities, it intends to attempt to reclaim all or part of the potential settlement that was reached with the public prosecutor.

The Company has filed complaints in the past with the European Commission, with the Dutch Postal and Telecommunications Authority or *Onafhankelijke Post en Telecommunicatie Autoriteit* (the “OPTA”) and the Minister of Transport and Waterways in The Netherlands, with the Belgium Institute for Post and Telecommunications (“BIPT”) in Belgium, and with the *Regulierungsbehörde für Telekommunikation und Post* (“RegTP”) in Germany as part of its regulatory strategy. The Company also makes routine filings with the regulatory agencies and governmental authorities in the countries in which it operates.

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.

Company Financial Statements for Versatel Telecom International N.V.

Balance sheet as at 31 December 2004

(Before appropriation of net result)

(€ thousands)

	<u>Note</u>	<u>2004</u>	<u>2003</u>
ASSETS			
Fixed assets			
Intangible fixed assets	3	20,533	-
Financial fixed assets	4	(114,309)	(339,626)
Total fixed assets		(93,776)	(339,626)
Current assets			
<i>Accounts receivable</i>			
Group companies		692,859	864,867
Cash		182,434	83,992
Total current assets		875,293	948,859
Total assets		781,517	609,233
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Issued and paid-in capital		10,367	9,293
Additional paid-in capital		2,345,703	2,255,432
Warrants		336	336
Accumulated deficit		(1,780,554)	(1,747,676)
Net loss for the period		(23,695)	(32,878)
Total shareholders' equity	5	552,157	484,507
Deferred income tax		106,782	124,726
Convertible senior notes	6	121,103	-
Accrued liabilities		1,475	-
Total shareholders' equity and liabilities		781,517	609,233

Statement of operations for the year ended 31 December 2004

(€ thousands)

	<u>Note</u>	<u>2004</u>	<u>2003</u>
Results of participating interests after taxes		(57,868)	202,403
Other results after taxes.....		34,173	(235,281)
Net loss.....		<u>(23,695)</u>	<u>(32,878)</u>

Notes to financial statements at 31 December 2004

(Currency – € thousands)

1 GENERAL

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

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

2 ACCOUNTING PRINCIPLES

a) General

The accounting principles as described in the notes to the consolidated financial statements also apply to the Company-only financial statements, unless indicated otherwise.

b) Financial Fixed Assets

The investments in subsidiaries are stated at the net asset value of the subsidiaries as of when control can be exercised over the subsidiaries' operational and financial activities. The net asset value is determined on the basis of the accounting principles as applied by the Company.

c) Convertible Senior Notes

The convertible senior notes are stated at the nominal value net of issuance costs. Issuance costs are amortized over the lifetime of the convertible senior notes.

3 INTANGIBLE FIXED ASSETS

The movement in intangible fixed assets is as follows:

<i>(€ thousands)</i>	Goodwill
Book value 1 January	-
Additions.....	21,248
Amortization.....	(715)
Book value 31 December	20,533
Original cost	21,248
Accumulated amortization.....	(715)
Book value 31 December	20,533

In the first quarter of 2004, an increase of €2.1 million in goodwill was the result of additional funding that was provided to the German subsidiary Versatel Deutschland Holding GbmH and which was not matched on a pro rata basis by its minority shareholder Telco Executive. As a result of this transaction, Telco's Executives' interest in Versatel Deutschland Holding GbmH was diluted from 12.8% to 10.5%. In the third quarter Versatel purchased Telco Executives' outstanding 10.5% minority interest in Versatel Deutschland Holding GbmH. The purchase of the outstanding minority share has been recorded as €19.1 million in goodwill. This goodwill is amortized over a 10-year period.

4 FINANCIAL FIXED ASSETS

The movement in financial fixed assets is as follows:

<i>(€ thousands)</i>	Investments in Group Companies	Receivables from Group Companies	Total
Balance 1 January.....	(574,487)	234,861	(339,626)
Additions	-	198,085	198,085
Dispositions	-	-	-
Net result from subsidiaries	(57,868)	-	(57,868)
Capital contributions	85,100	-	85,100
Balance 31 December.....	<u>(547,255)</u>	<u>432,946</u>	<u>(114,309)</u>

5 SHAREHOLDERS' EQUITY

The consolidated shareholders' equity is reconciled to the company shareholders' equity as follows:

<i>(€ thousands)</i>	Issued and Paid-in Capital	Additional Paid-in Capital	Warrants
Consolidated shareholders' equity 31 December 2004	10,367	2,365,632	336
Convertible senior notes' equity component.....	-	(19,929)	-
Result for the period.....	-	-	-
Company shareholders' equity 31 December 2004	<u>10,367</u>	<u>2,345,703</u>	<u>336</u>

<i>(€ thousands)</i>	Accumulated Deficit	Net Loss for the Year	Total 2004
Consolidated shareholders' equity 31 December 2004	(1,780,554)	(24,414)	571,367
Convertible senior notes' equity component.....	-	-	(19,929)
Result for the period.....	-	719	719
Company shareholders' equity 31 December 2004	<u>(1,780,554)</u>	<u>(23,695)</u>	<u>552,157</u>

The difference between consolidated shareholders' equity and company shareholders' equity is related to the presentation of the convertible senior notes issued on 22 October 2004. Convertible senior notes are presented in the consolidated financial statements in line with its economic substance by separately presenting the liability and equity component of the convertible senior notes determined using the fair value, calculated using a market interest rate for an equivalent non-convertible senior note at the date of issuance. In the company's financial statements the legal substance prevails in the presentation and therefore the convertible senior notes are presented as liabilities for the nominal value net of issuance costs.

The movement in shareholders' equity is as follows:

<i>(€ thousands)</i>	Issued and Paid-in Capital	Additional Paid-in Capital	Warrants
Balance 1 January.....	9,293	2,255,432	336
Buy out minority interest in Germany	300	19,765	-
Shares issued for acquisition.....	487	33,918	-
Change in corporate tax rate	-	16,047	-
Warrants exercised.....	278	20,417	-
Options exercised	9	124	-
Purchase minority interest ZON.....	-	-	-
German liability settlement.....	-	-	-
Appropriation of net result.....	-	-	-
Net loss for the period.....	-	-	-
Balance 31 December.....	<u>10,367</u>	<u>2,345,703</u>	<u>336</u>

<i>(€ thousands)</i>	Accumulated Deficit	Net Loss the Year	Total 2004	Total 2003
Balance 1 January	(1,747,676)	(32,878)	484,507	509,486
Buy out minority interest in Germany .	-	-	20,065	-
Shares issued for acquisition.....	-	-	34,405	-
Change in corporate tax rate	-	-	16,047	-
Warrants exercised	-	-	20,695	10
Options exercised	-	-	133	526
Purchase minority interest ZON	-	-	-	4,163
German liability settlement.....	-	-	-	3,200
Appropriation of net result.....	(32,878)	32,878	-	-
Net loss for the period.....	<u>-</u>	<u>(23,695)</u>	<u>(23,695)</u>	<u>(32,878)</u>
Balance 31 December	<u>(1,780,554)</u>	<u>(23,695)</u>	<u>552,157</u>	<u>484,507</u>

The authorized capital of Versatel is €36,400,000.02, consisting of 900 million ordinary shares of which 518,300,096 shares are issued and outstanding at 31 December 2004. The authorized capital further consists of 20 million preference-A shares, 900 million preference-B shares and one priority share. No such shares have yet been issued. All shares have a par value of €0.02 each.

In May and November 1998 Versatel issued in total 375,000 warrants in accordance with our first and second high yield offerings. Holders of these warrants have the right, for every warrant exercised, to purchase 13.334 fully paid and non-assessable shares of common stock of Versatel at a price of €1.16 per share. During 2004 no warrants were exercised. As of 31 December 2004, 53,135 warrants are outstanding, giving rights to purchase 708,502 shares. These warrants will expire in May 2008.

In October 2002, Versatel issued 91,364,747 warrants as part of the debt-to-equity conversion. Holders of these warrants have the right, for every 4.8 warrants exercised, to purchase one fully paid and non-assessable share of common stock of Versatel at a price of €1.50 per share. During 2003 and 2004 a total of 66,622,601 warrants were exercised and as a result 13,879,689 shares were issued. The remainder of warrants not exercised did expire in October 2004.

On 16 August 2004, the company purchased Telco Executive's outstanding 10.5% minority interest in its German subsidiary, Versatel Deutschland Holding GmbH, by issuing 15 million ordinary shares on the day's closing price of €1.36 per ordinary share. At the time, this represented a value of €20 million.

On 29 July 2004, Versatel Deutschland Holding GmbH signed an agreement with Berlinwasser Holding Aktiengesellschaft (“BWH”), a company jointly owned by Land Berlin and RWE / Vivendi Berlinwasser Beteiligungs AG to purchase 100% of the outstanding share capital in BerliKomm Telekommunikationsgesellschaft mbH (“BerliKomm”) and its wholly owned subsidiaries BerlinNet and BerliKomm Asset Management. BerliKomm was subsequently renamed Versatel Berlin GmbH. In order to fund the acquisition price of €34.6 million, the company issued approximately 24 million new ordinary shares at the closing of the acquisition 1 September 2004.

On 16 December 2004, the Dutch government decided to gradually reduce the corporate income tax rate from 34.5% in 2004 to 30% in 2007. This resulted in a reduction of €16.0 million a deferred tax liability originally formed via shareholders’ equity.

Versatel has established the following stock option plans: the 1999 Stock Option Plan (the “1999 Plan”), the 2000 Stock Option Plan (the “2000 Plan”), the 2001 Stock Option Plan (the “2001 Plan”) and the 2002/2003 Stock Option Plan (the “2002/2003 Plan”).

1999 Stock Option Plan

In January 1999, Versatel’s Board of Supervisory Directors approved the 1999 Stock Option Plan. The 1999 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence at the date of the grant and will last five years. The option exercise price is determined in the particular grant of the option.

During 2004 the right to exercise options granted under the 1999 Stock Option Plan expired. In total 1,908,500 options to purchase 1,908,500 ordinary shares have been granted under the 1999 Plan. In total 410,493 options granted under the 1999 Plan have been exercised for a total of 410,493 shares. As at 31 December 2004 no options are outstanding under the 1999 Plan.

2000 Stock Option Plan

In December 1999, Versatel’s Board of Supervisory Directors approved the 2000 Stock Option Plan. The 2000 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence two years (except for an aggregate of 100,000 options which were immediately exercisable) after the date of the grant and will last five years. The option exercise price is determined in the particular grant of the option.

As of 31 December 2004, options to purchase 2,688,850 ordinary shares have been granted under the 2000 Plan. As of 31 December 2004, 100,000 options granted under the 2000 Plan have been exercised for a total of 100,000 shares. A further 516,600 options are still outstanding under the 2000 Plan. The remaining options that were previously granted under this stock option plan have subsequently been cancelled, in most cases upon the request of the recipient of the options or the termination of the employment of the recipient of the options.

2001 Stock Option Plan

In May 2001, Versatel’s Board of Supervisory Directors approved the 2001 Stock Option Plan. The 2001 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence two years after the date of the grant and will last five years. The option exercise price is determined in the particular grant of the option.

As of 31 December 2004, 1,055,900 options to purchase 1,055,900 ordinary shares have been granted under the 2001 Plan. As of 31 December 2004, 517,700 options are still outstanding under the 2001 Plan. The remaining options that were previously granted under this stock option plan have subsequently been cancelled, in most cases upon the request of the recipient of the options or the termination of the employment of the recipient of the options.

2002/2003 Stock Option Plan

In November 2002, Versatel’s General Meeting of Shareholders approved the 2002/2003 Stock Option Plan. The 2002/2003 Plan allows Versatel to grant options to employees to purchase ordinary shares of Versatel. The option period will commence at the date of the grant and will last five years.

These options were awarded in three Series during December 2002. The options under Series 1 have an exercise price of €0.30. The options under Series 2 have an exercise price of €0.50. The options under Series 3 have an exercise price of €0.75. These series can only be exercised if the market value of the Versatel stock is at least €0.85 during a period of 50 days in a consecutive 60 days period with the option period. As per 15 July 2003 this condition was complied with. In addition, during November 2003 options were issued to a newly recruited management team member. These options were awarded in three series of exercise prices of respectively €1.98, €2.28, and €2.58.

As of 31 December 2004, 16,336,500 options to purchase 16,336,500 ordinary shares have been granted under the 2002/2003 Plan. As of 31 December 2004, 757,250 options granted under the 2002/2003 Plan have been exercised for a total of 757,250 shares. As of 31 December 2004, 15,064,850 options are still outstanding under the 2002/2003 Plan. The remaining options that were previously granted under this stock option plan have subsequently been cancelled, in most cases upon the termination of the employment of the recipient of the options.

All costs related to the above mentioned stock option plans are included in stock-based compensation.

The shares issued as a result from stock option exercises are newly issued ordinary shares.

The table below shows the details of the stock options outstanding as of 31 December 2004:

<u>Issued</u>	<u>Expired</u>	<u>Outstanding Jan-1-04</u>	<u>Granted</u>	<u>Exercised</u>	<u>Cancelled Lapsed</u>	<u>Outstanding Dec-31-04</u>	<u>Price (€)</u>
May-99	May-04	609,975	-	-	609,975	-	3.40
Jun-00	Jun-07	117,000	-	-	45,400	71,600	35.00
Jun-00	Jun-07	370,000	-	-	-	370,000	0.02
Jan-01	Jan-08	75,000	-	-	-	75,000	0.02
Jun-01	Jun-08	561,300	-	-	43,600	517,700	4.27
Dec-02	Dec-07	6,623,900	-	415,550	73,500	6,134,850	0.30
Dec-02	Dec-07	3,500,000	-	20,000	-	3,480,000	0.50
Dec-02	Dec-07	4,700,000	-	-	-	4,700,000	0.75
Nov-03	Nov-08	375,000	-	-	-	375,000	1.98
Nov-03	Nov-08	187,500	-	-	-	187,500	2.28
Nov-03	Nov-08	187,500	-	-	-	187,500	2.58
Total		<u>17,307,175</u>		<u>435,550</u>	<u>772,475</u>	<u>16,099,150</u>	

6 CONVERTIBLE SENIOR NOTES

On 22 October 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 8 December 2004 to the earlier of 19 October 2011 and the fourteenth day prior to any date fixed for redemption by the company.

The movement in the convertible senior notes is as follows:

<i>(€ thousands)</i>	<u>2004</u>
Nominal value of the convertible senior notes issues on 22 October 2004	125,000
Capitalized issuance costs	(3,975)
Amortization	78
Convertible senior notes at 31 December 2004.....	<u>121,103</u>

7 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 3G N.V.	Amsterdam
Bizztel Telematica B.V.	Leeuwarden
Zon Nederland N.V.	Amsterdam

The liabilities of these companies to third parties amount to €63.8 million (€58.8 million in 2003).

Amsterdam, 29 April 2005

The Board of Management

The Board of Supervisory Directors

AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2004

Auditors' Report

Introduction

We have audited the financial statements of Versatel Telecom International N.V., Amsterdam for the year 2004 as set out on pages F-54 to F-82. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2004 and of the result for the year ended in accordance with the accounting principles generally accepted in the Netherlands and comply with the financial reporting requirements included in Part 9 of Book 2 of the Netherlands Civil Code.

Amsterdam, April 29, 2005

Ernst & Young Accountants

Financial Statements for Tele2 (Netherlands) B.V.

**LIMITED REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS OF TELE2
(NETHERLANDS) B.V. FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2006**

Review report

Introduction

We have been engaged to review the interim financial statements of Tele 2 (Netherlands) B.V., Oude Meer, for the nine-month period ending September 30, 2006 as set out on pages F-86 to F-91. These interim financial statements are the responsibility of the company's management. Our responsibility is to issue a report on these interim financial statements based on our review.

Scope

We conducted our review in accordance with standards for review engagements generally accepted in the Netherlands. These standards require that we plan and perform the review to obtain moderate assurance about whether the interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Opinion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements of Tele2 Netherlands B.V. for the nine-month period ended September 30, 2006 do not comply with International Financial Reporting Standards as adopted by the EU and the requirements for interim financial reporting as included in IAS 34.

December 14, 2006

Amsterdam, The Netherlands

Deloitte Accountants B.V.

B.C.J. Dielissen

**INTERIM FINANCIAL STATEMENTS OF TELE2 (NETHERLANDS) B.V. FOR THE NINE MONTH
PERIOD ENDED 30 SEPTEMBER 2006 (IFRS)**

Introduction

The financial information reported below is presented in € and has been prepared in accordance with the measurement and recognition criteria of IFRS as adopted by the EU. The accounting policies and methods of computation followed in the reported financial information are the same as those followed in the most recent IFRS financial statements, as at 31 December 2005.

Condensed Income statement for the nine month period ended 30 September 2006

<i>(€ thousands)</i>	Notes	Unaudited Nine Month Period Ended 30 September 2006	Unaudited Nine Month Period Ended 30 September 2005
Continuing operations			
Revenues	4	207,653	223,310
Cost of sales		(143,067)	(156,749)
Gross profit		64,586	66,561
Selling expenses		(38,909)	(41,573)
General and administrative expenses		(21,832)	(16,709)
Profit from operations		3,845	8,279
Financial costs		(3,247)	(1,877)
Profit before tax		598	6,402
Write-off deferred tax asset		-	(1,625)
Tax on profit	5	(177)	(2,017)
Profit for the period from continuing operations		421	2,760
Profit for the year from discontinued operations		12,704	-
Profit for the period		13,125	2,760
Attributable to:			
Equity holders of the parent company		13,125	2,760

Condensed balance sheet at 30 September 2006

(Before proposed appropriation of result)

<i>(€ thousands)</i>	<u>Notes</u>	<u>Unaudited 30 September 2006</u>	<u>31 December 2005</u>
ASSETS			
Non-current assets			
Intangible assets		990	1,323
Property, plant and equipment	6	9,938	10,574
Deferred tax asset.....		22,242	23,790
Other long-term receivables		222	293
		<hr/>	<hr/>
		33,392	35,980
Current assets			
Inventories		4,459	1,469
Trade and other receivables.....		8,184	15,339
Amount due from shareholder		1	19
Amounts due from group companies		11,290	5,533
Assets held for sale	7	-	206,541
Deferred tax asset		1,540	168
Accrued revenues		27,220	26,719
Cash and cash equivalents.....		1,739	1,474
		<hr/>	<hr/>
		54,433	257,262
		<hr/>	<hr/>
Total assets		87,825	293,242
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	9	16	16
Share premium account.....	9	-	206,541
Legal reserve	9	2	2
Retained earnings	9	(62,075)	(62,380)
Net result	9	13,125	305
		<hr/>	<hr/>
Equity attributable to equity holders of the parent company		(48,932)	144,484
Liabilities			
Current liabilities			
Trade payables.....		25,052	27,954
Amounts due to group companies		10,644	4,215
Accruals and other liabilities		14,290	21,546
Deferred income		3,857	4,179
Short-term loan shareholder.....		82,838	90,781
Tax and other liabilities		76	83
		<hr/>	<hr/>
Total liabilities.....		136,757	148,758
		<hr/>	<hr/>
Total equity and liabilities		87,825	293,242

Condensed cash flow statement for the nine month period ended 30 September 2006

<i>(€ thousands)</i>	Unaudited Nine Month Period Ended 30 September 2006	Unaudited Nine Month Period Ended 30 September 2005
Profit from operations	3,845	8,279
Adjustment for:		
Depreciation of property, plant and equipment	2,303	3,332
Amortization of intangible assets	333	382
	<hr/> 2,636	<hr/> 3,714
Operating cash flow before movements in working capital	6,481	11,993
Decrease/ (increase) in inventories	(2,990)	708
(Increase)/ decrease in receivables.....	986	(10,171)
(Decrease) in payables	(12,001)	3,967
	<hr/> (14,005)	<hr/> (5,496)
Cash generated from operations	(7,524)	6,497
Interest paid.....	<hr/> (3,247)	<hr/> (1,877)
Net cash from operating activities	<hr/> (10,771)	<hr/> 4,620
Investing activities		
Purchase of property, plant and equipment	(1,668)	(1,450)
Profit for the year from discontinued operations.....	12,704	-
Net cash (used in)/from investing activities	<hr/> 11,036	<hr/> (1,450)
Net increase in cash and cash equivalents	265	3,170
Cash and cash equivalents 1 January	<hr/> 1,474	<hr/> 843
Cash and cash equivalents at 30 September	<hr/> <hr/> 1,739	<hr/> <hr/> 4,013

Statement of changes in equity for the period ended 30 September 2006

The movements in equity attributable to equity holders of the parent company are as follows:

<i>(€ thousands)</i>	Issued and paid- in capital	Shared Premium account	Legal Reserve	Retained earnings	Result for the year	Total
Balance as at 1 January 2005	16	-	2	(73,166)	10,786	(62,362)
Appropriation of result 2004.....	-	-	-	10,786	(10,786)	-
Share premium contribution.....	-	206,541	-	-	-	206,541
Result for the period ended 30 September 2005.....	-	-	-	-	2,760	2,760
Balance as at 30 September 2005	16	206,541	2	(62,380)	2,760	146,939
Balance as at 1 January 2006.....	16	206,541	2	(62,380)	305	144,484
Appropriation of result 2005.....	-	-	-	305	(305)	-
Share premium repayment	-	(206,541)	-	-	-	(206,541)
Result for the period ended 30 September 2006.....	-	-	-	-	13,125	13,125
Balance as at 30 September 2006	16	-	2	(62,075)	13,125	(48,932)

Notes to the interim financial statements for the period ended 30 September 2006

1 Basis of preparation

The financial statements have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting.

2 Seasonality and cyclicity of operations

There are no major seasonality effects in the operational business of the Company. One significant occasional item was the Tango transaction in August 2006, which is disclosed further in note 7.

3 Significant accounting policies

The accounting principles adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2005.

4 Segmentation of revenues

All revenue is realized in The Netherlands.

5 Income tax charge

Interim period income tax is accrued based on the estimated average annual effective income tax rate of 29.6% (2005: 31.5%).

6 Property, plant and equipment

During the reporting period, the Company spent approximately €1,668,000 on new property, plant and equipment. No disposals were recorded during the period.

7 Assets held for sale

On 9 September 2005, the shares of Tango S.A., a Luxembourg mobile network company and part of the Tele2 group, were transferred from Tele2 Europe S.A. to the Company at a value of €206,541,000, which was booked as a share premium reserve of €206,541,000.

The transfer of Tango S.A. was part of the legal and fiscal structuring of the Versatel transaction. On 1 August 2006, Tango S.A. was transferred back to Tele2 Europe S.A. at fair market value by way of repayment of share premium of €206,541,000 and reduction of the shareholder loan with €12,704,000. The gain on this transfer was €12,704,000.

8 Related party transactions

The details of the costs related to group companies as at and for the period of the nine month period ended 30 September 2006 are as follows:

Description (€ thousands)	Shareholder	Group companies
Revenue	-	6,281
Cost of sales	-	11,487
Selling expenses	-	-
General and administrative expenses	-	2,993
Management fee	-	822
Financial expenses	-	3,096
Receivables	1	11,290
Short-term loan payable	-	82,838
Payables	-	10,644

9 Equity

Share capital

The authorized share capital of the Company as at 30 September 2006 amounts to €79,412 and consists of 175 ordinary shares of €453.78 each, 35 ordinary shares have been issued and fully paid in. According to the Articles of Association, the nominal value of the shares is NLG 1,000. The Company has used the possibility to round the corresponding value in € into two figures behind the decimal point in accordance with art. 2:178c.1 of the Dutch Civil Code. There have been no changes in share capital in either the current or the prior reporting period.

Share Premium account

On 9 September 2005 the shares of Tango S.A., a Luxembourg mobile network company and part of the Tele2 group, were transferred from Tele2 Europe S.A. to the Company at a value of €206,541,000, which was booked as a share premium reserve of €206,541,000.

The transfer of Tango S.A. was part of the legal and fiscal structuring of the Versatel transaction. On 1 August 2006, Tango S.A. was transferred back to Tele2 Europe S.A. at fair market value by way of repayment of share premium of €206,541,000 and reduction of the shareholder loan with €12,704,000. The gain on this transfer was €12,704,000.

Legal reserve

The legal reserve for the compulsory allocation for minimum capital requirements remains unchanged during the reporting period and amounts to €2,218.

10 Contingencies and liabilities

Operational leases

The total commitment in connection with operational lease agreements of leased lines and lease cars amounts to €744,000 as per 30 September 2005. An amount of €214,000 expires within 1 year. The remaining amount of €530,000 expires within 5 years.

The total commitment in connection with rent agreements of buildings is €1,175,000 as per 30 September 2006. An amount of €312,000 expires within 1 year. The remaining amount of €863,000 expires within 5 years. The Company has issued a bank guarantee to the landlord for an amount of €112,315.

The buildings in above commitment have been rented to a third party. The company's expected proceeds will be €837,850. €253,165 will expire within one year. The remaining amount of €584,685 will expire within 5 years.

11 Going Concern

The directors believe that it is appropriate for the accounts to be prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends upon continuing financial support from the Tele2 group in combination with positive cash flows in the foreseeable future.

The Company is currently financed by means of a loan from a subsidiary of Tele2 AB. At 30 September 2006, the loan payable amounted to €82,838,000. This loan is repayable on demand. Given this, the Company has received confirmation of continuing financial support from Tele2 Sverige AB, a subsidiary of Tele2 AB. This guarantee is limited to the maximum amount of €97,971,500.

Notwithstanding the amount above, this guarantee will only be effective until 1 March 2008.

The directors believe that the confirmation of continued financial support from the Tele2 AB Group combined with forecasted positive cash flow will be sufficient to allow the Company to fulfill all its financial obligations for the foreseeable future.

The interim financial statements therefore do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

No event occurred in 2006 to date that gives management any reason to expect anything other than continued growth in the Dutch market.

12 Subsequent events

Resignation managing director

On 2 November 2006, Mr. P. G. Borgklint has announced that he will resign from his position as Managing Director of Tele2 (Netherlands) B.V., effective no later than 1 May 2007. Mr. Borgklint will assume a position outside the Tele2 group of companies.

Corporate income tax rate change

On 28 November 2006 the Dutch government has decided that as of 1 January 2007 new tax regulations concerning tax rates and losses carry forward are applicable. The corporate income tax rate as of that date will be 25.5%. Therefore the Company believes that in the fourth quarter of 2006 a further write down of approximately €2,800,000 of the deferred tax asset will be needed. This write-off has not been reflected in these interim financial statements.

**FINANCIAL STATEMENTS OF TELE2 (NETHERLANDS) B.V. FOR THE YEAR ENDED
31 DECEMBER 2005**

Introduction

The financial information reported below is presented in € and has been prepared in accordance with the measurement and recognition criteria of IFRS as adopted by the EU.

Income statement for the year ended 31 December 2005

<i>(€ thousands)</i>	Notes	Year Ended 2005	Year Ended 2004
Continuing operations			
Revenues	4.1	296,134	320,980
Cost of sales	4.4	(206,677)	(228,610)
Gross profit		89,457	92,370
Other operating income / (expenses)		-	450
Selling expenses		(60,308)	(47,246)
General and administrative expenses	4.3,4.4	(22,540)	(19,723)
Profit from operations		6,609	25,851
Financial costs	4.5	(2,778)	(4,011)
Profit before tax		3,831	21,840
Write-off deferred tax asset	5.3	(2,319)	(3,553)
Tax on result from operations	5.3	(1,207)	(7,501)
Profit for the year		305	10,786
Attributable to:			
Equity holders of the parent company		305	10,786

Balance sheet at 31 December 2005

(Before proposed appropriation of result)

(€ thousands)

ASSETS

Non-current assets

	Notes	31 December 2005	31 December 2004
Intangible assets	5.1	1,323	1,782
Property, plant and equipment	5.2	10,574	12,471
Deferred tax asset.....	5.3	23,790	25,108
Other long-term receivables	5.6	293	424
		35,980	39,785

Current assets

Inventories	5.4	1,469	2,417
Trade and other receivables.....	5.6	15,339	10,624
Amount due from shareholder	5.8	19	25
Amounts due from group companies.....	5.8	5,533	2,984
Assets held for sale	5.5	206,541	-
Deferred tax asset	5.3	168	2,376
Accrued revenues	5.12	26,719	28,120
Cash and cash equivalents.....	5.7	1,474	843
		257,262	47,389
Total assets		293,242	87,174

EQUITY AND LIABILITIES

Capital and reserves

Share capital	5.10	16	16
Share premium account.....	5.10	206,541	-
Legal reserve	5.10	2	2
Retained earnings		(62,380)	(73,166)
Net result		305	10,786

Equity attributable to equity holders of the parent company

144,484 (62,362)

Liabilities

Current liabilities

Trade payables.....	5.12	27,954	31,768
Amount due to shareholder.....	5.8	-	147
Amounts due to group companies	5.8	4,215	2,252
Accruals and other liabilities	5.12	21,546	23,620
Deferred income.....	5.12	4,179	3,424
Short-term loan group company	5.9	90,781	88,261
Tax and other liabilities	5.12	83	64
Total liabilities		148,758	149,536

Total equity and liabilities.....

293,242 87,174

The financial statements were approved by the board of directors and authorized for issue on 14 December 2006.

They were signed on its behalf by:

Mr. P.G. Borgklint, Director

.....

14 December 2006

Cash flow statement for the year ended 31 December 2005

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Profit from operations	6,609	25,851
Adjustment for:		
Depreciation of property, plant and equipment	4,358	2,874
Amortization of intangible assets	459	510
Loss/ (gain) on disposal of property, plant and equipment	-	(450)
	<u>4,817</u>	<u>2,934</u>
Operating cash flow before movements in working capital	11,426	28,785
Decrease/ (increase) in inventories	948	(2,007)
(Increase)/ decrease in receivables.....	(5,726)	34,391
(Decrease) in payables	(778)	(56,217)
	<u>(5,556)</u>	<u>(23,833)</u>
Cash generated from operations	5,870	4,952
Interest received	951	110
Interest paid.....	(3,467)	(3,836)
Other financial income/ (expense).....	(262)	(285)
	<u>3,092</u>	<u>941</u>
Net cash from operating activities	3,092	941
Investing activities		
Proceeds on disposal of property, plant and equipment	419	450
Purchase of property, plant and equipment	(2,880)	(953)
	<u>(2,461)</u>	<u>(503)</u>
Net cash used in investing activities	(2,461)	(503)
Net increase in cash and cash equivalents	631	438
Cash and cash equivalents at beginning of year	843	405
Cash and cash equivalents at end of year	<u>1,474</u>	<u>843</u>

Statement of changes in equity for the year ended 31 December 2005

The movements in equity attributable to equity holders of the parent company are as follows:

<i>(€ thousands)</i>	Issued and paid-in capital	Share Premium account	Legal Reserve	Retained earnings	Result for the year	Total
Balance as at 1 January 2004.....	16	-	2	(116,670)	43,504	(73,148)
Appropriation of result 2003.....	-	-	-	43,504	(43,504)	-
Result for the year 2004.....	-	-	-	-	10,786	10,786
Balance as at 31 December 2004.....	16	-	2	(73,166)	10,786	(62,362)
Balance as at 1 January 2005.....	16	-	2	(73,166)	10,786	(62,362)
Appropriation of result 2004.....	-	-	-	10,786	(10,786)	-
Share premium reserve 2005	-	206,541	-	-	-	206,541
Result for the year 2005.....	-	-	-	-	305	305
Balance as at 31 December 2005.....	16	206,541	2	(62,380)	305	144,484

Notes to the financial statements for the year ended 31 December 2005

1 General information

1.1 Activities

Tele2 (Netherlands) B.V. (the "Company") has its statutory seat in Oude Meer, The Netherlands and was founded in 1985. The address of the registered office is Hullenbergweg 101, 1101 CL, Amsterdam. The Company is a wholly owned subsidiary of Tele2 Netherlands Holdings B.V. The ultimate parent company is Tele2 AB, a Swedish publicly listed company. The Company provides fixed and mobile telephone as well as broadband internet services in the Dutch market to residential and business customers. In addition, the Company acts as a regional headquarter for other operations of its parent for which it does not receive a management fee.

The Company has an asset held for sale. Details for the asset are as follows:

Name	City	Ownership
Tango S.A.	Luxembourg	100%

As the financial information of the Company and its subsidiary company is included in the consolidated financial statements of Tele2 AB, the Company decided to apply IAS 27.10 and as a result therefore did not prepare a consolidated financial statement. The consolidated financial statements of Tele2 AB are available on the internet site www.tele2.com.

1.2 Going Concern

From inception through 31 December 2005, the Company has accumulated a deficit from operations of approximately €62,075,000 and a negative working capital, which might raise doubt about the ability of the Company to continue as a going concern. See also note 10.1, which explains that the shareholders' equity will be negative in 2006. At 30 September 2006, the company's negative shareholders' equity amounts to €48,932,000.

The directors believe that it is appropriate for the accounts to be prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends upon continuing financial support from the Tele2 AB group in combination with positive cash flows in the foreseeable future.

The Company is currently financed by means of a loan from a subsidiary of Tele2 AB. At 31 December 2005, the loan payable amounted to €90,781,000 and is repayable on demand. Given this, the Company has received confirmation of continuing financial support from Tele2 Sverige AB, a subsidiary of Tele2 AB. This guarantee is limited to the maximum amount of €97,971,500.

Notwithstanding the above, this guarantee will only be effective until 1 March 2008.

The directors believe that the confirmation of continued financial support from the Tele2 AB Group combined with forecasted positive cash flow will be sufficient to allow the Company to fulfill all its financial obligations for the foreseeable future.

The annual accounts therefore do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

1.3 Related party transactions – Versatel

Following the settlement of the offers on the shares and convertible bonds in Versatel, all material arrangements between Versatel and Tele2 group companies are subject to approval by the three Supervisory Board members of Versatel as appointed by the Enterprise Chamber on 21 December 2005.

The main transactions between Versatel and the Company entered into during 2005 are:

- Versatel has re-branded its residential operations to Tele2 Versatel in order to capitalize on the better brand awareness that Tele2 has in the Dutch residential market. Versatel has obtained the use of the Tele2 brand free of charge;
- The Company used certain customer databases of Versatel for targeted marketing initiatives to offer Tele2 services;
- Versatel decided to incorporate all marketing and sales efforts for the SOHO-market (small office and home offices) in The Netherlands into the Company. Versatel has been compensated for the projected loss of future cash flows;
- The Company purchases leased lines and co-location services from Versatel against Versatel's standard terms and conditions and market prices;
- Following the settlement of the offers some of the Company's employees have moved to the Versatel building. The Company pays a pro-rata share of the workspace used;
- Costs attributable to Versatel employees have been recharged to the Company on a pro-rata basis for services rendered;

For details on the recharged amounts, see Note 5.8.

1.4 Related party transactions – Other group companies

The Company has several transactions with other subsidiaries of Tele2 AB ("group companies"). These transactions relate mainly to terminating telephone traffic received from group companies and vice versa. The revenue received for terminating group company traffic is equal to the cost price of this termination plus a mark-up at arms length. The costs paid to group companies for termination of telephone traffic are based on the same principle.

Other group company transactions are cash pool transactions and service fees that are recharged by group companies for central services like IT, billing, marketing and general support. The group company transactions are mainly related to costs for customer services. Refer to paragraph 5.8 for details of the costs related to group companies.

1.5 Change of accounting estimate

In 2005, the Company extended the license agreement with the mobile network operator. Subsequently the economic life has been adjusted from five to eight years. In the years 2005 until 2008, the depreciation charge per year will be approximately €50,000 lower.

1.6 Assessments and estimates

The Company's financial reports are partly based on assumptions and estimates related to the preparation of the Company accounts. The estimates and calculations are based on historical experience and a number of other assumptions to result in a decision regarding the value of the assets or liabilities which cannot be determined in any other way. The actual outcome may vary from these estimates and assessments. The most critical assessments and estimates used in preparing the Company's financial reports are as follows:

Valuation of intangible assets

The amount consists of the one-time fee for the MVNO license agreement with a mobile network operator.

Valuation of property, plant and equipment with a finite useful life

If the recoverable amount falls below the book value, impairment is recognized. The decision of whether the existing factors indicating that an asset is exposed to impairment is based on management's evaluation of future cash flows including discounting factors.

Useful lives for property, plant and equipment.

Depreciation rates are based on the acquisition value of the property, plant and equipment and the estimated utilization period with deduction for calculated residual value at the end of the utilization period. If technology is developed faster than expected or the competition, regulating or market conditions develop differently than expected, the company's evaluation of utilization periods and residual values will be influenced.

Valuation of deferred income tax

Deferred income tax accounting takes into consideration temporary differences, including a valuation of unutilized loss carry-forwards. Deferred tax assets are reported for loss carry-forwards only to the extent that it is considered likely that the loss carry forward can be utilized to offset future profits. Management updates its assessments at regular intervals. The valuation of deferred tax assets is based on expectations of future results and market conditions, which in turn are subjective.

Valuation of disputes and damages

The Company is on a regular basis involved in disputes. For these disputes an assessment is made of the most likely outcome, and the income statement is affected by the estimated expenses.

Valuation of receivables

Receivables are valued continuously and are reported at accrued acquisition value. Reserves for possible uncollectible amounts are based on various assumptions as well as historic experience.

2 Significant accounting policies

2.1 Basis of accounting

In accordance with Title 9, Book 2, Article 362.8 of the Dutch Civil Code, the Company adopted International Financial Reporting Standards (IFRS) as adopted by the EU as its primary accounting basis for its financial statements from 1 January 2005.

The financial statements have been prepared on historical cost basis. Unless stated otherwise, assets and liabilities are stated at face value. Current assets and liabilities will mature within one year.

2.2 Comparison with prior year

The principles of valuation and determination of result for the year ended 31 December 2005 have for the first time this year been prepared in accordance with IFRS. Prior year's financial statements have been prepared under Dutch GAAP regulations. For comparison reasons, the comparative figures have been restated to comply with IFRS. The disclosures required by IFRS 1 concerning the transition from Dutch GAAP to IFRS are given in note 5.12.

2.3 New regulations

IFRS 6 Exploration for and Evaluation of Mineral Resources, IFRIC 4 Determining whether an Arrangement Contains a Lease and IFRIC 5 Rights to Interests Arising From Decommissioning, Restoration and Environmental Rehabilitation Funds are applied as of 1 January 2006. IFRS 7 Financial Instruments Disclosures will be applied as of 1 January 2007. Earlier application is encouraged. IFRIC 4 will be applied and provides guidelines for determining whether an arrangement which does not legally constitute a lease should still be reported in accordance with IAS 17 Leases. IFRS 7 does not involve any change to reporting and measurement of financial instruments. However, there will be certain additional disclosure requirements compared with previous requirements under IAS 32. Furthermore, the following new regulations have been enacted during 2006:

IFRS 6 Exploration for and Evaluation of Mineral Resources
 IFRS 7 Fin. Inst: Disclosure
 IFRS 8 Operating Segments
 IFRIC 3 Emission Rights
 IFRIC 4 Determining whether an Arrangement contains a Lease
 IFRIC 5 Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
 IFRIC 6 Waste Liabilities
 IFRIC 7 Hyperinflation
 IFRIC 8 Scope of IFRS 2
 IFRIC 9 Embedded Derivatives
 IFRIC 10 Interim/Impairment
 IFRIC 11 Group/Treasury
 IFRIC 12 Service Concessions

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company.

2.4 Intangible assets

The Company has entered into a MVNO-contract with a hosting-carrier and agreed to purchase a minimum number of minutes over the contract period.

The amount consists of the one time fee for the MVNO license agreement with a mobile network operator.

In preparing these annual accounts the Company has reviewed for indications of impairment in the carrying value of the intangible assets. The intangibles are based on a MVNO contract which has been prolonged in 2005 from 5 years to 8 years. As a result of this contract prolongation the economic life of the intangible asset has been prolonged with 3 years. This has resulted in a lower annual amortization rate for the remainder of the economic life. See also note 1.5

2.5 Property, plant and equipment

Property, plant and equipment are stated at costs less accumulated depreciation. Depreciation is based on the straight-line method over the following estimated useful economic lives:

- | | |
|---------------------|------------|
| – Telecom equipment | 5-10 years |
| – Other equipment | 3-10 years |

Maintenance and repairs are charged to the profit and loss when incurred, while improvements are capitalized. Leasehold improvements are amortized over the lesser of the lease term or the economic life of the asset.

Any impairment as at balance sheet date is taken into account; these are present if the book value of the asset (or of the cash-generating unit to which it belongs) is higher than its recoverable amount.

Insofar as there is a commitment to a third party, the estimated cost of dismantling and removing an asset and restoring the site/ area is included in the acquisition value. Any change to the estimated cost of dismantling and removing an asset and restoring the site is added to or subtracted from the carrying amount of the particular asset. The Company does not consider there to be any such material commitments in respect of the company's assets at the present time.

2.6 Impairment of assets

The Company reviews its intangible assets and property, plant and equipment for impairment at least once a year 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. Any write offs resulting from impairment are recognized in the income statement immediately.

2.7 Inventory

Inventories of materials and supplies are valued in accordance with the first-in, first-out principle at the lower of acquisition value and net realizable value. Tele2's inventories essentially consist of SIM cards, telephones and modems.

2.8 Receivables

Receivables are valued at face value less an allowance for possible uncollectible amounts. Short-term receivables mature within one year. No interest is charged to the outstanding receivables.

2.9 Assets held for sale

On 9 September 2005, the shares of Tango S.A., a Luxembourg mobile network company and part of the Tele2 group, were transferred from Tele2 Europe S.A. to the Company at a value of €206,541,000, which was booked as a share premium reserve of €206,541,000. These shares have been acquired exclusively with a view to subsequent disposal. Therefore, this investment does not need to be consolidated in accordance with IAS 27.10 d.

The assets held for sale are valued at the lower of acquisition value and fair value.

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances as well as current investments with a maturity of less than three months.

2.11 Deferred tax asset

The deferred tax asset is calculated based on tax rates prevailing at the year end or applicable future tax rates, insofar as already enacted. The deferred tax asset consists of tax loss carry-forwards. These may be valued if it can be reasonably assumed that these will be realized. It is expected that the tax asset will be recoverable within the next years. The deferred tax asset is recorded at face value. The part of the deferred tax asset that is expected to be realized within one year is classified as a current asset.

2.12 Other current assets and liabilities

Other current assets and liabilities are stated at the amount at which they were acquired or incurred.

2.13 Pensions

The Company does not participate in a pension agreement for its employees and subsequently no pension costs are payable. The pension costs stated in the income statement are the recharge from a group company for two foreign employees and one foreign managing director.

Pension cost relate to the cost of a defined contribution scheme. They represent the recharge from a group company for two foreign employees and one managing director. Contributions for pensions are directly charged to the income statement.

2.14 Financial risk management

Through its operations, the Company is exposed to financial risks such as exchange risk, liquidity risk and credit risk. The aim is to minimize the Company's financial risks.

Foreign currency exchange risk

The company's functional currency is the Euro. Receivables, liabilities and obligations denominated in foreign currency are translated at the exchange rates prevailing at balance sheet date. Transactions in foreign currency during the financial year are included in the financial statements at the exchange rates prevailing at transaction date. Exchange differences results are taken to the income statement.

Liquidity risk

The Company's cash balance is limited because all excess cash is being sent to the centralized Tele2 group cash-pool on a daily basis. Therefore the company has no substantial liquidity risk. For further information see 1.2 "Going concern".

Credit risk

The Company's credit risk primarily relates to accounts receivable and cash. The Company assesses its credit risk on a continuous basis. Since the customer base is much differentiated the exposure and thus the credit risk are limited as a whole. The Company makes provisions for expected customer losses.

Lease

A lease is classified as operational lease if substantially all the economic risks and rewards of ownership of an asset remain with the leasing company. Payments are expensed in the income statement on a straight-line basis over the leasing period.

3 Principles of determination of result

3.1 General

The result represents the difference between the value of the services rendered and the costs and other charges for the year. The results on transactions are recognized in the year they are realized; losses are taken as soon as they are foreseeable.

3.2 Revenues

Operating revenue includes customer-related revenues from mobile and fixed telephony services such as subscription charges, call charges, data and information services and other services. Operating revenue also includes interconnect revenue from other operators and income from the sale of products such as mobile phones. Revenues are reported at the selling value, less discounts and VAT.

Connection charges are recognized at the time of the sale. Subscription charges for cable TV, ADSL, dial-up internet, leased capacity and internet connection for direct access customers are recognized in the period covered by the charge. Call charges and interconnect revenue are recognized in the period during which the service is provided. Revenue from the sale of products is recognized at the time the product is supplied to the customer. Revenue from the sale of cash cards is recognized based on actual use of the card or when the expiry date has passed.

Revenue from data and information services such as text messages and ring tones is recognized when the service is provided. When Tele2 acts as agent for another supplier, the revenue is reported net, i.e. only that part of the revenue that is allocated to Tele2 is reported as revenue.

3.3 Cost of sales

Costs are recognized at the historical cost and are allocated to the reporting year to which they relate.

Cost of sales represents the direct and indirect expenses attributable to turnover. Cost of sales mainly consists of the costs for buying telephone minutes from telecom operators and the costs for the depreciation, lease and maintenance of the Company's telecom equipment. Amortization of intangible assets is based on the duration of the MVNO contract that is subject to the capitalized license fee. The amortization is entirely accounted for in cost of sales.

Included is a release of an accrual of approximately €1,800,000 regarding KPN disputes from previous years which have been settled.

3.4 Selling expenses

Selling expenses concern the direct expenses of the sales activities. Selling expenses include acquisition and

retention costs, call center costs and costs related to marketing personnel.

3.5 General and administrative expenses

Depreciation property, plant and equipment is based on historical cost. Depreciation is provided by the straight-line method over the estimated useful economic life. Depreciation of other equipment is accounted for in general and administrative expenses.

General and administrative expenses include the expenses not directly related to the selling activities and costs of depreciation of non-network related equipment.

3.6 Taxation

Tax on result is calculated by applying the current rate to the result for the financial year in the profit and loss account, taking into account tax losses carry-forward and tax exempt profit elements and after inclusion of non-deductible costs.

4 Notes to the income statement for the year ended 31 December 2005

4.1 Revenues

All revenue is realized in The Netherlands.

4.2 Staff

During 2005, an average of 28 full time equivalent employees was employed (2004: 27) divided over the following market areas:

	<u>Year Ended 2005</u>	<u>Year Ended 2004</u>
Mobile telephony	5	5
Fixed telephony and Internet	23	22
Total average full time equivalent employees.....	<u>28</u>	<u>27</u>

4.3 Wages, salaries and social security costs

<i>(€ thousands)</i>	<u>Year Ended 2005</u>	<u>Year Ended 2004</u>
Wages and salaries	2,587	2,365
Pension costs	85	156
Social security costs	142	183
	<u>2,814</u>	<u>2,704</u>

Wages, salaries and social securities are included in general and administrative expenses and selling expenses.

Pension cost relate to the cost of a defined contribution scheme. They represent the recharge from a group company for two foreign employees and one foreign managing director. Contributions for pensions are directly charged to the income statement.

4.4 Amortization of intangible assets and depreciation of property, plant and equipment

The amortization of intangible assets and the depreciation of telecom equipment have been accounted for in the income statement under cost of sales. Depreciation of other equipment has been reflected in the income statement under general and administrative expenses entirely.

4.5 Financial income and expenses

Interest expenses – group company	(3,467)	(3,726)
Interest expenses – third party	-	(110)
Interest income – third party	951	110
Currency profit/ (expense)	(15)	54
Other financial expenses	(247)	(339)
Net financial expense	<u>(2,778)</u>	<u>(4,011)</u>

Other financial expenses consist of bank charges.

4.6 Tax

The deferred tax asset has been affected by the decrease of the tax rates by the Dutch government. For 2006 a tax rate of 29.6% (2005: 31.5%) is applicable. This has resulted in a write off.

The tax on profit is based on the profit before tax, using the 2005 tax rate of 31.5%. The difference between the nominal tax rate and the effective tax rate is negligible.

5 Notes to the balance sheet at 31 December 2005

5.1 Intangible assets

(€ thousands)

	<u>License fee</u>
Cost	
At 1 January 2004.....	5,000
Additions	-
Disposals.....	-
	<hr/>
At 1 January 2005.....	5,000
Additions	-
Disposals.....	-
	<hr/>
At 31 December 2005.....	5,000
	<hr/>
Accumulated amortization and impairment	
At 1 January 2004.....	(2,708)
Charge for the year	(510)
Impairment loss	-
Eliminated on disposals.....	-
Eliminated on revaluation.....	-
	<hr/>
At 1 January 2005.....	(3,218)
Charge for the year	(459)
Impairment loss	-
Eliminated on disposals.....	-
Eliminated on revaluation.....	-
	<hr/>
At 31 December 2005.....	(3,677)
	<hr/>
Carrying amount	
At 31 December 2005.....	1,323
	<hr/>
At 31 December 2004.....	1,782
	<hr/>

In preparing these annual accounts the Company has reviewed for indications of impairment in the carrying value of the intangible assets. The intangibles are based on a MVNO contract which has been prolonged in 2005. As a result of this contract prolongation the economic life of the intangible asset has been prolonged. This has resulted in an approximate €50,000 lower annual amortization for the remainder of the economic life. The amortization is accounted for in the income statement under cost of sales entirely.

5.2 Property, plant and equipment

<i>(€ thousands)</i>	Telecom Equipment	Other equipment	Total
Cost or valuation			
At 1 January 2004	20,474	7,634	28,108
Additions	937	16	953
Disposals.....	(1,134)	-	(1,134)
At 1 January 2005	20,277	7,650	27,927
Additions	2,822	58	2,880
Disposals.....	(576)	-	(576)
At 31 December 2005	22,523	7,708	30,231
Accumulated depreciation and impairment			
At 1 January 2004	(12,229)	(1,487)	(13,716)
Charge for the year.....	(2,687)	(187)	(2,874)
Eliminated on disposals.....	1,134	-	1,134
At 1 January 2005	(13,782)	(1,674)	(15,456)
Charge for the year.....	(4,172)	(186)	(4,358)
Eliminated on disposals.....	157	-	157
At 31 December 2005	(17,797)	(1,860)	(19,657)
Carrying amount			
At 31 December 2005	4,726	5,848	10,574
At 31 December 2004	6,495	5,976	12,471

Other fixed assets include mainly (billing-) hardware and some office equipment.

In preparing these annual accounts the Company has reviewed for indications of impairment in the carrying value of the property, plant and equipment. As a result of this review, management does not believe that any impairment is needed at 31 December 2005.

Depreciation of telecom equipment has been accounted for in the income statement under cost of sales. Depreciation of other equipment has been accounted for under general and administrative expenses.

In 2005 the Company started with providing ADSL services. The ADSL modems will be installed at the customer but the Company remains the owner of the modems. The modems installed at the customer will be depreciated over 3 years. Modems that are acquired, but not yet installed at the customer, are booked as inventory.

5.3 Deferred tax asset

<i>(€ thousands)</i>	31 December 2005	31 December 2004
1 January		
Book value	27,484	38,538
Movements		
Write-off deferred tax asset	(2,319)	(3,553)
Tax (charge) on result from operations.....	(1,207)	(7,501)
31 December		
Book value	23,958	27,484
Long-term deferred tax asset	23,790	25,108
Short-term deferred tax asset	168	2,376
Total	<u>23,958</u>	<u>27,484</u>

An amount of €168,000 (29.6% of the forecasted net result for 2006) of the total deferred tax asset is expected to be realized within one year. The tax asset has been affected by the decrease of the tax rates by the Dutch government applicable at 31 December 2005. For 2006 a tax rate of 29.6% (2005:31.5%) is applicable. In the year beyond 2006 corporate income tax percentages will additionally be lowered. See also note 10.3.

The Company has recognized a deferred tax asset for all its tax loss carry forwards. This recognition is based on several scenarios of the Company's business plans for the future. Based on these plans management of the Company expects to realize its deferred tax asset over the years until 2010.

5.4 Inventory

Inventories of materials and supplies are valued in accordance with the first-in, first-out principle at the lower of acquisition value and net realizable value. Tele2's inventories essentially consist of SIM cards, telephones and modems.

5.5 Assets held for sale

On 9 September 2005, the shares of Tango S.A., a Luxembourg mobile network company and part of the Tele2 group, were transferred from Tele2 Europe S.A. to the Company at a value of €206,541,000, which was booked as a share premium reserve of €206,541,000.

See for further details paragraph 10 Subsequent events.

5.6 Trade and other receivables

Trade and other receivables consist of the following items.

<i>(€ thousands)</i>	31 December 2005	31 December 2004
Trade receivables.....	23,744	17,839
Long-term receivable	(293)	(424)
Allowance for doubtful debts	(12,034)	(8,895)
Net trade receivables.....	11,417	8,520
Prepayments.....	13	86
Other receivables.....	3,909	2,018
	<u>15,339</u>	<u>10,624</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Short-term receivables mature within one year. No interest is charged to the outstanding receivables.

5.7 Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less.

Cash at banks and in hand includes restricted deposits of €221,365 (2004: €146,463).

5.8 Transactions with group companies

Following the settlement of the offers on the shares and convertible bonds in Versatel all material arrangements between Versatel and Tele2 group companies are subject to approval by the three Supervisory Board members of Versatel as appointed by the Enterprise Chamber on 21 December 2005.

The Company has several transactions with other subsidiaries of Tele2 (“group companies”). These transactions relate mainly to terminating telephone traffic received from group companies and vice versa. The revenue received for terminating group company traffic is equal to the cost price of this termination plus a mark-up at arms length. The costs paid to group companies for termination of telephone traffic are based on the same principle.

Other group company transactions are cash pool transactions and service fees that are recharged by group companies for central services like IT, billing, marketing and general support. The group company transactions are mainly related to costs for customer services.

For the delivery of central services within the Tele2 Group, Service Level Agreements (SLAs) have been agreed upon. The SLA consists of, amongst other items, criteria of the service delivered and its transfer price.

The details of the related party transactions are listed below:

<i>(€ thousands)</i>	Description	Shareholder	Group companies
Revenue.....		-	5,029
Cost of sales.....		-	11,308
Selling expenses.....		-	390
General and administrative expenses.....		-	4,117
Management fees.....		-	1,211
Financial expenses.....		-	3,467
Receivables as per 31 December 2005.....		19	5,533
Short-term loan payable 31 December 2005.....		-	90,781
Payables as per 31 December 2005.....		-	4,215

5.9 Current liabilities

The short-term loan of €90,781,000 fully consists of a loan received from Tele2 Europe S.A. The loan bears interest at Euribor three months plus a markup of 1.5% until 31st of August 2006. From 1st of September 2006 the loan bears interest at Euribor three months plus a markup of 0.85%. No redemption scheme was put into place. The loan is due on demand.

5.10 Equity

Share capital

The authorized share capital of the Company as at 31 December 2005 amounts to €79,412 and consists of 175 ordinary shares of €453.78 each, 35 ordinary shares have been issued and fully paid in. According to the Articles of Association, the nominal value of the shares is NLG 1,000. The Company has used the possibility to round the corresponding value in € to two figures behind the decimal point in accordance with art. 2:178c.1 of the Dutch Civil Code. There have been no changes in share capital compared to prior year.

Share Premium account

On 9 September 2005, the shares of Tango S.A., a Luxembourg mobile network company and part of the Tele2 group, were transferred from Tele2 Europe S.A. to the Company at a value of €206,541,000, which was booked as a share premium reserve of €206,541,000.

See for further details 10 Subsequent events.

Legal reserve

The legal reserve for the compulsory allocation for minimum capital requirements remains unchanged during 2005 and amounts to €2,218.

5.11 Other current assets and liabilities

Other current assets and liabilities are stated at the amount at which they were acquired or incurred.

5.12 Explanation transition to IFRS

This is the first year that the company has presented its financial statements under IFRS. There has been a gradual transition to IFRS for a number of years in The Netherlands, with most of the recommendations of the Dutch Financial Standards Council (*Raad van de Jaarverslaggeving*, or RJ) having been revised to comply with IFRS. The Company has been applying all the recommendations issued by the RJ for some time, which means that the majority of its accounting is already in compliance with IFRS. In spite of this gradual transition, the requirements for full transition to IFRS will have an effect on the Company's presentation of accounts.

The following disclosures are required in the year of transition. The last financial statements under Dutch GAAP were for the year ended 31 December 2004 and the date of transition therefore was 1 January 2005.

Reconciliation of equity at 1 January 2005

<i>(€ thousands)</i>	Dutch GAAP	Effect of transition to IFRS	IFRS
ASSETS			
Non-current assets			
Intangible assets	-	1,782 ¹	1,782
Property, plant and equipment.....	14,253	(1,782) ¹	12,471
Deferred tax asset	25,108	-	25,108
Other long-term receivables	-	424 ²	424
	39,361	424	39,785
Current assets			
Inventories	2,417	-	2,417
Trade and other receivables.....	8,944	1,680 ^{2,3}	10,624
Amount due from shareholder	25	-	25
Amounts due from group companies	2,984	-	2,984
Other receivables	2,018	(2,018) ³	-
Prepayments	86	(86) ³	-
Deferred tax asset	2,376	-	2,376
Accrued revenues	28,120	-	28,120
Cash and cash equivalents	843	-	843
	47,813	(424)	47,389
Total assets	87,174	-	87,174

(1) *Reclassification MVNO contract*

A reclassification has been made regarding the MVNO contract. IFRS states that this should be categorized as intangible assets.

(2) *Other long term receivables*

The reclassification concerns the long-term part of a receivable. The rest of this receivable is expected to be due within one year.

(3) *Reclassifications of current assets*

IFRS requires that other receivables and prepayments are accounted for under trade and other receivables. Therefore a reclassification of these balance sheet items has been effected.

Reconciliation of equity at 1 January 2005 (continued)

<i>(€ thousands)</i>	Dutch GAAP	Effect of transition to IFRS	IFRS
LIABILITIES			
Current liabilities			
Trade payables.....	31,768	-	31,768
Amount due to shareholder.....	147	-	147
Amounts due to group companies.....	2,252	-	2,252
Accruals and other liabilities.....	23,620	-	23,620
Deferred income.....	3,424	-	3,424
Short-term loan shareholder.....	88,261	-	88,261
Tax and other liabilities.....	64	-	64
Total liabilities.....	149,536	-	149,536
Net assets.....	(62,362)	-	(62,362)
Equity			
Share capital.....	16	-	16
Share premium account.....	-	-	-
Legal reserve.....	2	-	2
Retained earnings.....	(73,166)	-	(73,166)
Net result.....	10,786	-	10,786
Equity attributable to equity holders of the parent company.....	(62,362)	-	(62,362)

Reconciliation of income statement for 2004

<i>(€ thousands)</i>	Dutch GAAP	Effect of transition to IFRS	IFRS
Continuing operations			
Revenues.....	320,980	-	320,980
Cost of sales	(225,413)	(3,197) ⁴	(228,610)
Gross profit	95,567	-	92,370
Other operating income / (expenses).....	504	(54) ⁵	450
Selling expenses	(47,246)	-	(47,246)
General and administrative expenses	(22,920)	3,197 ⁴	(19,723)
Profit from operations.....	25,905	(54)	25,851
Financial costs	(4,065)	54 ⁵	(4,011)
Profit before tax	21,840	-	21,840
Write-off deferred tax asset.....	(3,553)	-	(3,553)
Tax on profit	(7,501)	-	(7,501)
Profit for the year	10,786	-	10,786
Attributable to:			
Equity holders of the parent company	10,786	-	10,786

(4) *Reclassification of depreciation and amortization to cost of sales*

The depreciation and amortization directly attributable to turnover have been reclassified to cost of sales. This concerns depreciation of telecom equipment and amortization of intangible assets.

(5) *Reclassification currency result*

The currency result has been reclassified from other operating income/ (expense) to financial costs.

6 Contingencies and commitments

Guarantees

As per 31 December 2005, bank guarantees have been issued for €221,365 (2004: €146,463), in connection with rent and fiscal representative.

Fiscal representative

The Company is acting as a general fiscal representative for Tele2 Europe S.A. as of 1 January 2004. As a general fiscal representative the Company has a limited liability for Dutch VAT debts of Tele2 Europe S.A. This liability is limited to the amount of the bank guarantee that the company has issued (€100,000) per calendar year. The liability is limited to five years after the calendar year in which the debt occurred, because the Dutch Tax Authorities are only authorized to impose assessments during this five-year period. As the bank guarantee is €100,000, the maximum liability will be €500,000.

Claims

The Company is involved in some disputes and claims arising in the normal course of business. In the opinion of management the maximum exposure including legal interest is limited to €2,382,403. Management intends to defend these claims vigorously and has recorded a liability of €96,273 with respect to these cases.

Operational leases

The total commitment in connection with operational lease agreements of lease lines and lease cars amounts to €1,935,000 as per 31 December 2005. An amount of €1,745,000 expires within 1 year. The remaining amount of €190,000 expires within 5 years.

The total commitment in connection with rent agreements of buildings is €1,519,000 as per 31 December 2005. An amount of €460,000 expires within 1 year. The remaining amount of €1,059,000 expires within 5 years. The Company has issued a bank guarantee to the landlord for an amount of €112,315.

The buildings in above commitment have been rented to a third party. The company's expected proceeds will be €1,002,401. €199,391 will expire within one year. The remaining amount of €803,010 will expire within 5 years.

Investment commitments

The Company has no obligations under purchase orders for any plant, property and equipment as per 31 December 2005.

Other commitments

The Company has entered into a MVNO-contract with a hosting-carrier and agreed to purchase a minimum number of minutes over the contract period. The total commitment in connection with this MVNO-contract amounts to €31,322,000. An amount of €21,656,000 expires within 1 year. The remaining amount of €9,666,000 expires within 2 years.

7 Share based payments

At the Annual General Meeting of the Company's ultimate parent company, Tele2 AB, which was held on 16 May 2002, it was decided to undertake an incentive program for key employees of the Group. Tele2 AB offers these persons the opportunity, via warrants, to subscribe for Tele2 AB Series B shares. The par value of the Tele2 AB series B share is 5 SEK per share.

The warrants can be exercised between 1 September 2005 and 31 August 2007, between the first and fifth business day after the publication of the quarterly report of Tele2 AB, against an exercise price of 191 SEK, providing that the employee is still employed by the Tele2 Group. No premium is to be paid by the employees. The relating expenses will be fully recorded on the Tele2 AB level.

The Annual General Meeting of the Company's ultimate parent company, Tele2 AB, which was held on 11 May 2005 decided on a share split and a redemption procedure where each share was divided into 3 shares and 1 redemption share. This has resulted in the warrants and its exercise price being split using a 3.14 ratio. Exercise price as of 11 May 2005 will be 60.80 SEK.

The Company has chosen to use IFRS 1's exemption rule with regard to share-based payments. IFRS 2 Share-based payments is therefore not applied to the incentive programs that were granted before 7 November 2002 and were vested prior to 1 January 2005.

Movement schedule incentive program

	<u>31 December 2005</u>	<u>31 December 2004</u>
1 January 2005		
Warrants outstanding with (former) directors as at 1 January.....	52,500	67,500
Warrants outstanding with (former) employees as at 1 January.....	6,000	6,000
Total warrants outstanding as at 1 January (before split).....	<u>58,500</u>	<u>73,500</u>
Total warrants outstanding as at 11 May 2005 (after split)	183,690	
Movements (after the split for 2005)		
Warrants exercised by (former) directors	(70,650)	(15,000)
Warrants forfeited by (former) employees.....	(9,420)	-
Warrants exercised by (former) employees	(9,420)	-
Warrants reduced during the year.....	<u>(89,490)</u>	<u>(15,000)</u>
31 December		
Warrants outstanding with (former) directors as at 31 December	94,200	52,500
Warrants outstanding with (former) employees as at 31 December	-	6,000
Total warrants outstanding as at 31 December	<u>94,200</u>	<u>58,500</u>

8 Taxation result on ordinary activities

With respect to the carry forward tax losses, the Company expects to realize the tax benefits in the next couple of years until 2010. Based on margins and results in the past year and review of the latest forecast management believes that it is likely that the profits of the Company in the next few years will fully compensate for the accumulated losses. Management therefore believes it is appropriate to record the deferred tax asset at its full value.

Based on the result before taxation of €3,831,000, the Company has realized €1,207,000 of its deferred tax asset. In addition, as a result of a change in Dutch Corporate Income tax percentage from 31.5% to 29.6%, part of the deferred tax asset, which was recorded at 31.5% of the cumulative losses incurred, can not be used for compensation anymore and is therefore written off. This amounts to €2,319,000. The nominal tax rate for 2006 is 29.6%. The expected deferred tax asset to be realized within one year amounts to €168,000 which has been presented as a current asset. The remainder of the tax asset is valued at 29.1%, representing €23,958,000.

On 28 November 2006, the Dutch government has decided that as of 1 January 2007 new tax regulations concerning tax rates and losses carry forward are applicable. The corporate income tax rate as of that date will be 25.5%. Therefore the Company believes that in 2006 a further write down of the tax asset will be needed. See also note 10.3.

9 Remuneration of directors

The Company does not pay direct remunerations to the directors Mr. J.I. Svedberg and Mr. B.L.J. Jarnheimer who are employed by the Tele2 Group. Mr. P.G. Borgklint is the only director directly employed by the Company.

Remuneration Mr. P.G. Borgklint
(€ thousands)

2005

Basic salary.....	286
Pension recharge.....	60
Variable remuneration.....	154
	<hr/>
Total remuneration director	500

The variable remuneration contains the payout on exercise of 9,420 warrants. However, the Company has been fully compensated for this by the Company's ultimate parent company Tele2 AB. For further details on share based payments, see 7 Contingencies and commitments.

10 Subsequent events

10.1 Transfer of assets held for sale

On 9 September 2005 the shares of Tango S.A., a Luxembourg mobile network company and part of the Tele2 group, were transferred from Tele2 Europe S.A. to the Company at a value of €206,541,000, which was booked as a share premium reserve of €206,541,000.

The transfer of Tango S.A. was part of the legal and fiscal structuring of the Versatel transaction. On 1 August 2006, Tango S.A. was transferred back to Tele2 Europe S.A. at fair market value by way of repayment of share premium and reduction of the shareholder loan. The gain on this transfer was €12,704,000. Consequently, the company's shareholders' equity is negative again in 2006. At 30 September 2006, the company's shareholders' equity amounts to €48,932,000. Due to the short time nature of this investment this investment has been classified as assets held for sale in accordance with IFRS 5.

10.2 Resignation managing director

On 2 November 2006, Mr. P. G. Borgklint has announced that he will resign from his position as Managing Director of Tele2 (Netherlands) B.V., effective no later than 1 May 2007. Mr. Borgklint will assume a position outside the Tele2 group of companies.

10.3 Corporate income tax rate change

On 28 November 2006 the Dutch government has decided that as of 1 January 2007 new tax regulations concerning tax rates and losses carry forward are applicable. The corporate income tax rate as of that date will be 25.5%. Therefore the Company believes that in 2006 a further write down of the tax asset of approximately €2,800,000 will be needed. This has not been reflected in these financial statements.

Amsterdam, 14 December 2006

Managing Directors

.....
Bert Lars-Johan Jarnheimer
(since 18/11/2000)

.....
Per Borgklint
(since 01/06/2002)

.....
Johnny Svedberg
(since 14/01/2004)

AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

Auditors' report

Introduction

In accordance with your instructions we have read the financial information of Tele2 (Netherlands) B.V., Oude Meer, as included on pages F-92 through F-114 of this prospectus dated 15 February 2007. This Prospectus is the responsibility of the Versatel Telecom International N.V.'s management. Our responsibility is to express an opinion on whether the financial information of Tele2 (Netherlands) B.V. for 2005, as included in this Prospectus on pages F-92 through F-114, are consistent, in all material respects, with the financial statements of Tele2 (Netherlands) B.V. for the year ended December 31, 2005 from which it has been derived.

Scope

We conducted our procedures in accordance with auditing standards generally accepted in the Netherlands. Those standards require that we plan and perform the procedures to obtain reasonable assurance about whether the financial information of Tele2 (Netherlands) B.V. for 2005, as included in this Prospectus on pages F-92 through F-114, are consistent, in all material respects, with the financial statements of Tele2 (Netherlands) B.V. for the year ended December 31, 2005 from which it has been derived. We believe that our procedures provide a reasonable basis for our opinion.

Opinion

In our opinion, the financial information of Tele2 (Netherlands) B.V. for 2005, as included in this Prospectus on pages F-92 through F-114, are consistent, in all material respects, with the financial statements of Tele2 (Netherlands) B.V. for the year ended December 31, 2005 from which it has been derived. We issued an unqualified opinion on these financial statements on December 14, 2006.

Emphasis of matter

Without qualifying our opinion above, we emphasize that for a better understanding of the Company's financial position and results and of the scope of our audit, the aforementioned financial information should be read in conjunction with the financial statements from which it has been derived and our auditors' report thereon.

15 February 2007

Amsterdam, The Netherlands

Deloitte Accountants B.V.

B.C.J. Dielissen

Financial Statements for Tele2 Belgium N.V.

**LIMITED REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS OF TELE2 BELGIUM
N.V. FOR THE NINE MONTH PERIOD ENDED 30 SEPTEMBER 2006**

We have performed a limited review of the accompanying balance sheet, income statement, cash flow statement and statement of changes in equity (jointly the “interim financial information”) of Tele2 Belgium N.V. (“the Company”) for the nine month period ended 30 September 2006. The Board of Directors of the Company is responsible for the preparation and fair presentation of this interim financial information. Our responsibility is to express a conclusion on this interim financial information based on our review.

The interim financial information has been prepared in accordance with the recognition and measurement criteria of IFRS as adopted by the European Union.

Our limited review of the interim financial information was conducted in accordance with the recommended auditing standards on limited reviews applicable in Belgium, as issued by the “Institut des Reviseurs d’Entreprises/Instituut der Bedrijfsrevisoren”. A limited review consists of making inquiries of Company’s management and applying analytical and other review procedures to the interim financial information and underlying financial data. A limited review is substantially less in scope than an audit performed in accordance with the auditing standards on consolidated annual accounts as issued by the “Institut des Reviseurs d’Entreprises/Instituut der Bedrijfsrevisoren”. Accordingly, we do not express an audit opinion.

In 2004, the Company obtained a conditional debt waiver for an amount of €36,003,000 from SEC Luxembourg SA, a Tele2 group company. The waived amounts is to be reinstated, and become due and payable by the Company at the date of the annual ordinary shareholders’ meeting approving the accounts of the financial year, if the Company returns to a profitable position and is capable of discharging and/or refunding partially or totally the amounts waived. The Company has not accounted for this transaction under the stipulations of IAS 32 ‘*Financial Instruments: Disclosure and presentation*’ and IAS 39 ‘*Financial Instruments: Recognition and Measurement*’. These standards require the Company to replace the waived debt with the net present value of the future cash flows the Company expects to make in order to repay the waived debt. In the accompanying financial statements, the Company has considered this transaction to be outside the scope of the above-mentioned standards, derecognized the debt and disclosed this transaction as a contingent liability. The impact of not accounting for this transaction under the stipulations of IAS 32 ‘*Financial Instruments: Disclosure and presentation*’ and IAS 39 ‘*Financial Instruments: Recognition and Measurement*’ leads to an understatement of the Company’s liabilities as of 30 September 2005 and 30 September 2006 for an amount ranging between €18,696,000 and €23,731,000, depending on the parameters used for the calculation of the above-mentioned net present value.

Except for what is stated in the preceding paragraph, and based on our limited review, nothing has come to our attention that causes us to believe that the interim financial information for the nine month period ended 30 September 2006 is not prepared, in all material respects, in accordance with the recognition and measurement criteria of IFRS as adopted by the European Union.

22 January 2007

The Independent Auditor

DELOITTE Bedrijfsrevisoren / Reviseurs d’Entreprises

BV o.v.v.e. CVBA/SC s.f.d. SCRL

Represented by Rik Neckebroeck

**INTERIM FINANCIAL STATEMENTS OF TELE2 BELGIUM N.V. FOR THE NINE MONTH
PERIOD ENDED 30 SEPTEMBER 2006 (IFRS)**

Income statement for the nine month period ended 30 September 2006

<i>(€ thousands)</i>	Nine Month Period Ended 30 September 2006	Nine Month Period Ended 30 September 2005
Continuing operations		
Revenue	47,692	65,734
Cost of sales	(37,684)	(43,457)
Gross profit	10,008	22,277
Other operating income / (expenses)	220	258
Sales and marketing expenses.....	(1,522)	(16,798)
General and administrative expenses.....	(5,618)	(5,399)
Profit from operations	3,088	338
Financial costs.....	(131)	(137)
Profit before tax	2,957	202
Tax on profit	–	–
Profit for the period	2,957	202

Balance sheet as at 30 September 2006 and 31 December 2005

(before proposed appropriation of result)

<i>(€ thousands)</i>	30 September 2006	31 December 2005
ASSETS		
Non-current assets		
Intangible assets	76	97
Property, plant and equipment	2,058	2,098
	2,134	2,195
Current assets		
Inventories	8	45
Trade and other receivables	10,054	19,743
Amounts due from group companies.....	5,886	1,226
Cash and cash equivalents	3,854	3,145
	19,802	24,159
Total assets	21,936	26,354
LIABILITIES		
Current liabilities		
Trade and other payables	10,740	12,288
Amounts due to group companies	8,049	6,237
Loans due to group companies	-	7,639
Total liabilities	18,789	26,164
Net assets	3,147	190
Equity		
Share capital	62	62
Legal reserve	6	-
Retained earnings	122	-
Net result	2,957	128
	3,147	190
Equity attributable to equity holders of the parent company	3,147	190

Cash flow statement for the nine month period ended 30 September 2006 and 2005

<i>(€ thousands)</i>	Nine Month Period Ended 30 September 2006	Nine Month Period Ended 30 September 2005
Profit before taxes	2,957	202
Adjustment for:		
Depreciation and amortization	508	446
Interest expense	131	137
Expense (income) from doubtful debtors	(47)	1,068
	3,549	1,853
Movements working capital		
(Increase) / decrease in inventories	37	(94)
(Increase) / decrease in trade and other receivables	9,736	(7,289)
(Increase) in amounts due from group companies	(4,660)	(1,275)
Increase / (decrease) in trade and other payables	(1,739)	1,174
Increase in amounts due to group companies	2,131	2,120
	5,505	(5,364)
Cash generated from / (used) in operations	9,054	(3,511)
Interest paid	(131)	(147)
Net cash from / (used) in operating activities	8,923	(3,658)
Investing activities		
Proceeds on disposal of property, plant and equipment	8	-
Interest received	17	31
Purchase of intangibles	-	(10)
Purchase of property, plant and equipment	(600)	(80)
Net cash used in investing activities	(575)	(59)
Increase (decrease) in loans due to group companies	(7,639)	3,000
Net cash from financing activities	(7,639)	3,000
Net increase/ (decrease) in cash and cash equivalents	709	(717)
Cash and cash equivalents at beginning of the year	3,145	10,072
Cash and cash equivalents at end of year	3,854	9,355

Statement of changes in equity for the nine month period ended 30 September 2006 and 2005

	<u>Share capital</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 1 January 2005.....	62	-	-	62
Net profit, Nine month period ended 30 September 2005.....	-	-	202	202
Balance at 30 September 2005.....	<u>62</u>	<u>-</u>	<u>202</u>	<u>264</u>
Balance at 1 January 2006.....	62	6	122	190
Net profit, Nine month period ended 30 September 2006.....	-	-	2.957	2.957
Balance at 30 September 2006.....	<u>62</u>	<u>6</u>	<u>3.079</u>	<u>3.147</u>

Notes to the interim financial statements

1. GENERAL INFORMATION

Tele2 Belgium N.V. (the "Company") has its statutory seat in Wemmel, Belgium, and was founded in 1996. The address of the registered office is Koningin Astridlaan 166, 1780 Wemmel, Belgium. The Company is a privately held subsidiary of Tele2 Europe SA, who holds 2,500 of the Company's 2,501 shares. The one remaining share lies with SEC Luxembourg SA. The ultimate parent company is Tele2 AB, a Swedish publicly listed company.

The Company provides (since 2003) fixed telephone as well as broadband internet services in the Belgian market to residential customers.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These interim financial statements have been prepared in accordance with the measurement and recognition principles of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union. The interim financial statements are presented in € thousands.

The accounting policies and methods of computation followed in the interim financial statements are the same as those followed in the most recent IFRS financial statements, as of 31 December 2005.

2.2 Going concern

In 2005 and in the first three quarters of 2006, the Company was able to generate both operational and bottom line positive results.

The directors believe that it is appropriate for the accounts to be prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends however upon positive cash flows in the foreseeable future.

The directors believe that the forecasted and realized positive cash flow will be sufficient to allow the Company to fulfil all its financial obligations for the foreseeable future.

The financial statements therefore do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

2.3 Seasonability and cyclicity of operations

There are no major seasonal effects in the operational business of the Company.

2.4 Major evolutions and transactions

In 2006, Versatel Belgium N.V. and the Company further combined their operations. The Company closed its offices and moved into the offices of Versatel Belgium N.V.

2.5 Subsequent events

No major events occurred since 30 September 2006 that would require disclosure.

2.6 Contingencies and commitments

Guarantees

As per 30 September 2006, bank guarantees have been issued for €2.603 (2004: €2.603), in connection with rent.

Debt waiver

On 1 June 2003, the Company and SEC Luxembourg SA, concluded a EUR 30,000,000 loan facility, under which the Company could lend at Euribor 3 months plus 1.50%.

On 22 December 2004, the outstanding amount of the loan was EUR 43,398,193, consisting of EUR 42,290,005 in principal and EUR 1,108,188 in accrued interest. On the same date, both parties concluded a debt waiver agreement (“Waiver of Debt Agreement with Reinstatement Condition in Case of a Return to a More Sound Financial Position”).

Due to start-up losses, the Company had incurred a negative net equity, and would be exposed to a so-called “alarm procedure” under Belgian company law, which the Company wanted to avoid.

Under this debt waiver agreement:

- Part of the debt, for an amount of EUR 36,003,205, was waived by SEC Luxembourg SA.
- The waived amounts would be reinstated, and become due and payable by the Company at the date of the annual ordinary shareholders’ meeting approving the accounts of the financial year, if the Company returns to a profitable position and is capable of discharging and/or refunding partially or totally the amounts waived. This will be when “upon two financial years the accounts of [the Company], as approved by the Company’s shareholders’ meeting, show the existence of a positive net profit”.
- Reinstatement will be for an amount equal to (i) the positive net profit before tax of the financial year (ii) minus an amount equal to the estimated corporate income tax liability on the disallowed expenses of the financial year in the hands of [the Company] – up to the maximum of the amounts waived.
- The waived amounts will bear no interest for the period between the waiver and the date at which the reinstatement is due and payable.

Operational leases

The total commitment in connection with operational lease agreements of lease lines and rent agreements of buildings amounts to €2,920,000 as per 30 September 2006. The amount expires within one year.

Wemmel, 21 January 2007

The Directors

.....
Bert Lars-Johan Jarnheimer
(since 29/07/2004)

.....
Per Borgklint
(since 27/07/2004)

.....
Johnny Svedberg
(since 27/07/2004)

**FINANCIAL STATEMENTS OF TELE2 BELGIUM N.V.
FOR THE YEAR ENDED 31 DECEMBER 2005 (IFRS)**

Income statement for the year ended 31 December 2005

<i>(€ thousands)</i>	<u>Notes</u>	<u>Year Ended 31 December 2005</u>	<u>Year Ended 31 December 2004</u>
Continuing operations			
Revenue	5	86,598	66,870
Cost of sales	8	<u>(57,827)</u>	<u>(48,557)</u>
Gross profit		<u>28,771</u>	<u>18,313</u>
Other operating income/ (expenses)	11	328	68
Sales and marketing expenses	9	(21,396)	(28,296)
General and administrative expenses	10	<u>(7,353)</u>	<u>(6,430)</u>
Profit (loss) from operations		<u>350</u>	<u>(16,345)</u>
Finance income	12	45	15
Finance costs	12	(267)	(1,123)
Debt waiver	13	–	36,003
Profit before tax		<u>128</u>	<u>18,550</u>
Income taxes	14	–	–
Profit for the period		<u>128</u>	<u>18,550</u>

Balance sheet at 31 December 2005 and 2004

<i>(€ thousands)</i>	<u>Notes</u>	<u>31 December 2005</u>	<u>31 December 2004</u>
ASSETS			
Non-current assets			
Intangible assets	15	97	98
Property, plant and equipment	16	2,098	2,446
		<u>2,195</u>	<u>2,544</u>
Current assets			
Inventories	17	45	-
Trade and other receivables.....	18	19,743	13,993
Amounts due from group companies.....	22	1,226	222
Cash and cash equivalents.....	19	3,145	10,072
		<u>24,159</u>	<u>24,287</u>
Total assets		<u>26,354</u>	<u>26,831</u>
LIABILITIES			
Current liabilities			
Financial debt towards related parties.....	22	(7,639)	(7,395)
Trade and other payables	20	(12,288)	(14,354)
Amounts due to group companies	22	(6,237)	(5,020)
		<u>(26,164)</u>	<u>(26,769)</u>
Total liabilities		<u>(26,164)</u>	<u>(26,769)</u>
Equity			
Share capital	21	(62)	(62)
Retained earnings			18,550
Net result		(128)	(18,550)
		<u>(190)</u>	<u>(62)</u>
Total liabilities and equity		<u>(26,354)</u>	<u>(26,831)</u>

Cash flow statement for the years ended 31 December 2005 and 2004

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Profit before taxes	128	18,550
Adjustment for:		
Depreciation and amortization	613	466
Income from debt waiver	-	(36,003)
Interest expense	222	1,108
Expense from doubtful receivables	2,297	1,761
	3,260	(14,118)
Movements working capital		
(Increase) in inventories	(45)	-
(Increase) / decrease in trade and other receivables	(8,047)	(9,419)
(Increase) in amounts due from group companies	(1,004)	(193)
Increase / (decrease) in trade payables	(2,066)	6,481
Increase in amounts due to group companies	1,217	2,075
	(9,945)	(1,056)
Cash generated from (used) in operations	(6,685)	(15,174)
Interest paid	(245)	(1,108)
Net cash from (used in) operating activities	(6,930)	(16,282)
Investing activities		
Proceeds on disposal of property, plant and equipment	40	12
Interest received	45	15
Purchase of intangibles	(10)	(92)
Purchase of property, plant and equipment	(316)	(1,719)
Net cash used in investing activities	(241)	(1,784)
Cash flows from financing activities		
Increase (decrease) in loans due to group companies	244	25,211
Net cash from financing activities	244	25,211
Net increase (decrease) in cash and cash equivalents	(6,927)	7,145
Cash and cash equivalents at beginning of year	10,072	2,927
Cash and cash equivalents at end of year	3,145	10,072

Statement of changes in equity for the years ended 31 December 2005 and 2004

	<u>Share capital</u>	<u>Legal reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at 1 January 2004	(62)		18,550	18,488
Net profit 2004			(18,550)	(18,550)
Balance at 31 December 2004	<u>(62)</u>		<u>0</u>	<u>(62)</u>
Net profit 2005			(128)	(128)
Balance at 31 December 2005	<u>(62)</u>		<u>(128)</u>	<u>(190)</u>

Notes to the financial statements

1. General information

Tele2 Belgium NV (the “Company”) has its statutory seat in Wemmel, Belgium and was founded in 1996. The address of the registered office is Koningin Astridlaan 166, 1780 Wemmel, Belgium. The Company is a privately held subsidiary of Tele2 Europe SA, who holds 2,500 of the Company’s 2,501 shares. The 1 remaining share lies with SEC Luxembourg SA. The ultimate parent company is Tele2 AB, a Swedish publicly listed company.

The Company provides (since 2003) fixed telephone as well as broadband internet services in the Belgian market to residential customers.

2. Summary of significant accounting policies

2.1 Basis of preparation

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and adopted by the European Union. The financial statements are presented in '000 euro.

The financial statements have been prepared on the historical cost basis except for certain items for which IFRSs require another measurement principle. Such deviation from historical cost is explained in the summary of significant accounting principles. The accounting policies set out below have been applied consistently to all periods presented in these statements. The exemptions taken in preparing the opening balance sheet at 1 January 2004 for the purposes of the transition to IFRSs are explained in note 11.

These financial statements were authorised for issue on 11 January 2007.

2.2 Going Concern

In 2005, the Company was able to generate both operational and bottom line positive results.

The directors believe that it is appropriate for the accounts to be prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. The validity of this assumption depends however upon positive cash flows in the foreseeable future.

The directors believe that the forecasted positive cash flow will be sufficient to allow the Company to fulfil all its financial obligations for the foreseeable future.

The financial statements therefore do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of this uncertainty.

2.3 First time adoption of IFRS

These are the Company’s first financial statements prepared in accordance with IFRSs. Until 31 December 2005, the Company’s statutory financial statements were prepared in accordance with Belgian Generally Accepted Accounting Principles (Belgian GAAP). Belgian GAAP differs in some areas from IFRSs. For comparison reasons, the comparative figures have been restated to comply with IFRSs. An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in note 25.

2.4 New Standards and Interpretations

At the date of authorisation of these financial statements, the following Standards and Interpretations became applicable for 2006 financial statements or were in issue but not yet effective:

Became applicable for 2006:

IFRS 6 Exploration for and Evaluation of Mineral Resources (applicable for accounting years beginning on or after 1 January 2006)

IAS 19 Employee Benefits - Amendment - Actuarial Gains and Losses, Group Plans and Disclosures (applicable for accounting years beginning on or after 1 January 2006)

IAS 21 The Effect of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation (applicable for accounting years beginning on or after 1 January 2006)

IAS 39 Financial Instruments: Recognition and Measurement - Amendment – The Fair Value Option (applicable for accounting years beginning on or after 1 January 2006)

IAS 39 Financial Instruments: Recognition and Measurement - Amendment – Financial Guarantee Contracts (applicable for accounting years beginning on or after 1 January 2006)

IFRIC 4 Determining whether an Arrangement contains a Lease (applicable for accounting years beginning on or after 1 January 2006)

IFRIC 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitations Funds (applicable for accounting years beginning on or after 1 January 2006)

IFRIC 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (applicable for accounting years beginning on or after 1 December 2005)

Issued but not yet effective:

IFRS 7 Financial Instruments: Disclosures (applicable for accounting years beginning on or after 1 January 2007)

IFRS 8 Operating Segments (applicable for accounting years beginning on or after 1 January 2009)

IAS 1 Presentation of Financial Statements - Amendment - Capital Disclosures (applicable for accounting years beginning on or after 1 January 2007)

IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies (applicable for accounting years beginning on or after 1 March 2006)

IFRIC 8 Scope of IFRS 2 (applicable for accounting years beginning on or after 1 May 2006)

IFRIC 9 Reassessment of Embedded Derivatives (applicable for accounting years beginning on or after 1 June 2006)

IFRIC 10 Interim Financial Reporting and Impairment (applicable for accounting years beginning on or after 1 November 2006)

IFRIC 11 IFRS 2 Group and Treasury share Transactions (applicable for accounting years beginning on or after 1 March 2007)

IFRIC 12 Service Concession Arrangements (applicable for accounting years beginning on or after 1 January 2008)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Company in the period of initial application.

2.5 Foreign currency transactions

Foreign currency transactions are recognized initially at exchange rates prevailing at the date of the transactions. Subsequently, at closing, monetary assets and liabilities denominated in foreign currencies are translated at the balance sheet currency rate. Gains and losses resulting from the settlement of foreign currency transactions and

from the translation of monetary assets and liabilities denominated in foreign currencies are included in the income statement. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

2.6 Intangible assets

Purchased intangible assets

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives which is normally considered to be 3 years.

Acquired knowledge in the form of licences is recorded at cost less accumulated amortisation and impairment. They are amortised on a straight line basis over their estimated useful life, which is the period over which the company expects to receive economic benefits from such licences.

Internally-generated intangible assets

The Company has no internally-generated intangible assets.

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical costs less accumulated depreciation and impairment. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repair and maintenance costs are charged to the income statement as incurred. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are recognised in the income statement as part of the gain or loss on disposal in the year of disposal. Gains and losses on disposals of property, plant and equipment are included in other income or expense.

Depreciation is calculated using the straight-line method to allocate the cost of property, plant and equipment to their estimated residual values over their estimated useful lives as follows:

- Telecom equipment 5-10 years
- Other equipment 3-10 years

Leasehold improvements are amortized over the lesser of the lease term or the useful life of the asset.

Insofar as there is a commitment to a third party, the estimated cost of dismantling and removing an asset and restoring the site/ area is included in the acquisition value. Any change to the estimated cost of dismantling and removing an asset and restoring the site is added to or subtracted from the carrying amount of the particular asset. The Company does not consider there to be any such material commitments in respect of the Company's assets at the present time.

2.8 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Assets held under finance leases are recognized as assets of the Group at the lower of their fair value and the present value of the minimum lease payments less cumulative depreciation and impairment losses. The corresponding liability to the lessor is included in the balance sheet as obligations under finance leases.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

The depreciable amount of a leased asset is allocated to each accounting period during the period of expected use on a systematic basis consistent with the depreciation policy the lessee adopts for depreciable assets that are owned. If there is reasonable certainty that the lessee will obtain ownership by the end of the lease term, the period of expected use is the useful life of the asset; otherwise the asset is depreciated over the shorter of the lease term and its useful life.

Operating lease

Lease payments under an operating lease are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

2.9 Impairment of intangible assets and property, plant and equipment

Intangible assets having an indefinite useful life or not yet available for use are not subject to amortisation but are tested annually for impairment.

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. For assets other than goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the income statement.

2.10 Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

2.11 Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

Loans and trade receivables

Loans and trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term (with less than 3 months maturity) highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liabilities

Financial liabilities issued by the Company are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Trade payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Derivative financial instruments

Derivatives are measured at fair value. The Company did not make use of derivatives. Company policy does not engage in speculative transactions nor does it issue or hold financial instruments for trading purposes.

2.12 Pension obligations

The Company operates a defined contribution retirement benefit plan, the assets of which are held in separate trustee-administered funds. Payments to defined contribution benefit plans are charged as an expense as they fall due.

2.13 Revenue recognition

Operating revenue includes customer-related revenues from fixed telephony services and ADSL such as subscription charges and call charges, as well as interconnect revenue from terminating calls from other Tele2 group companies. Operating revenue also includes limited sale of products such as modems. Revenues are reported at the selling value, less discounts and VAT.

Subscription charges for ADSL are recognized in the period covered by the charge. Call charges and interconnect revenue are recognized in the period during which the service is provided. Revenue from the sale of products (modems) is recognized when the significant risks and rewards of ownership are transferred to the buyer.

2.14 Cost of sales

Costs are recognized at the historical cost and are allocated to the reporting year to which they relate.

Cost of sales represents the direct and indirect expenses attributable to turnover. Cost of sales mainly consists of the costs for buying telephone minutes from telecom operators and the costs for the lease, depreciation and maintenance of the Company's telecom equipment.

2.15 Sales and marketing expenses

Sales and marketing expenses concern the direct expenses of the sales and marketing activities. Sales and marketing expenses include promotion and acquisition costs, call center costs and costs related to marketing personnel.

2.16 General and administrative expenses

General and administrative expenses include the expenses not directly related to the selling activities, the costs of depreciation of non-network related equipment as well as the costs incurred in providing helpdesk services to customers.

3. Critical accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management and the directors to make estimates and use assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Management and the directors are not aware of any reasonably possible change in a key estimate used that would cause a material adjustment to the carrying amount of assets and liabilities within the next financial year.

4. Financial risk management

Through its operations, the Company is exposed to financial risks, such as exchange risk, liquidity risk and credit risk. The aim is to minimize the Company's financial risks.

Foreign currency exchange risk

The Company's functional currency is the Euro. Receivables, liabilities and obligations denominated in foreign currency are translated at the exchange rates prevailing at balance sheet date. Transactions in foreign currency during the financial year are included in the financial statements at the exchange rates prevailing at transaction date. Exchange differences results are taken to the income statement.

The Company has limited transactions in currencies, other than the Euro.

Liquidity risk

The Company's cash balance is limited because excess cash is being sent to the centralized Tele2 group treasury on a regular basis. The Company's liquidity risk is limited as the Company can depend upon the financial support of other Tele2 group companies.

Credit risk

The Company's credit risk primarily relates to accounts receivable and cash. The Company assesses its credit risk on a continuous basis. Since the customer base is highly differentiated the exposure and thus the credit risk are limited as a whole.

5. Revenue

The Company has two main types of revenue: 'fixed line'-revenue (comprising fixed telephony services, dial-in internet and ADSL), and 'carrier'-revenue (interconnect revenue).

The operating revenue per type is as follows:

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Fixed telephony and Internet	81,633	64,287
Carrier	4,965	2,583
Revenue	<u>86,598</u>	<u>66,870</u>

All of the Company's revenue is generated in Belgium.

6. Staff

During 2005, an average of 14 full time equivalent employees was employed (2004: 11) divided over the following:

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Cost of Sales	3	3
Sales and marketing expenses.....	8	5
General and administrative expenses.....	3	3
	<hr/>	<hr/>
Total average full time equivalent employees.....	14	11

7. Employee benefits

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Wages and salaries	(784)	(849)
Social security costs.....	(264)	(187)
Pension costs – defined contribution plan	(41)	(29)
Other costs	(3)	(2)
	<hr/>	<hr/>
	(1,092)	(1,067)

Wages, salaries and social securities are included in cost of goods sold, general and administrative expenses and sales and marketing expenses.

Pension cost relate to the cost of a defined contribution scheme. Contributions for pensions are directly charged to the income statement.

8. Cost of sales

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Interconnect costs.....	(54,586)	(46,607)
ADSL Circuit costs.....	(1,070)	-
Employee benefits.....	(234)	(267)
Other cost of sales.....	(1,355)	(1,240)
	<hr/>	<hr/>
Subtotal	(57,245)	(48,114)
Depreciation and amortization.....	(582)	(443)
	<hr/>	<hr/>
Total Cost of sales.....	(57,827)	(48,557)

Other costs of sales relate to costs for leased lines, maintenance costs for network equipment, recharges from other Tele2 group companies for the use of the group network/systems and the related maintenance and surveillance costs.

ADSL Circuit costs only relate to 2005, as the ADSL product was only launched in 2005.

9. Sales and marketing expenses

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Call center expenses.....	(3,784)	(6,496)
Media expenses.....	(3,703)	(6,159)
Dealer commissions.....	(2,639)	(4,055)
Doubtful debtors.....	(2,297)	(1,761)
Mailing expenses.....	(2,326)	(1,560)
Preselection costs.....	(601)	(1,437)
Production costs.....	(2,297)	(2,717)
Employee benefits.....	(624)	(533)
Other.....	(3,125)	(3,578)
Subtotal.....	(21,396)	(28,296)
Depreciation and amortization.....	-	-
Total Sales and marketing expenses.....	(21,396)	(28,296)

Other sales and marketing expenses mainly include promotional expenses, as well as the charge through from other Tele2 group companies for the use of the brand name, shared marketing campaigns and shared resources.

10. General and administrative expenses

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Billing expenses.....	(2,430)	(2,322)
Employee benefits.....	(234)	(267)
Customer care service.....	(3,409)	(2,688)
Other.....	(1,249)	(1,130)
Subtotal.....	(7,322)	(6,407)
Depreciation and amortization.....	(31)	(23)
Total General and administrative expenses.....	(7,353)	(6,430)

Other general and administrative expenses mainly represent management fees, legal fees and audit fees, as well as recharges from other Tele2 group companies for centralized billing services, IT-support and services and data warehousing.

11. Other operating income / (expenses)

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Total other operating income.....	328	68

Other operating income mainly consists of penalties received from late payers, personnel charges that are charged through to the employee and several duties and taxes.

12. Finance income/costs

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Interest expenses – group companies	(245)	(1,111)
Interest income	45	15
Other financial expenses	(22)	(12)
Net finance costs	(222)	(1,108)

The interest expenses towards group companies relate to the interest charges on the loans received. Other financial expenses relates mainly to bank charges. Interest income relates to the interest received on the Company's current cash position.

13. Debt waiver

On 1 June 2003, the Company and SEC Luxembourg SA, concluded a €30,000,000 loan facility, under which the Company could lend at Euribor 3 months plus 1.50%.

On 22 December 2004, the outstanding amount of the loan was €43,398,193, consisting of €42,290,005 in principal and €1,108,188 in accrued interest. On the same date, both parties concluded a debt waiver agreement ("Waiver of Debt Agreement with Reinstatement Condition in Case of a Return to a More Sound Financial Position").

Due to start-up losses, the Company had incurred a negative net equity, and would be exposed to a so-called "alarm procedure" under Belgian company law, which the Company wanted to avoid.

Under this debt waiver agreement:

- Part of the debt, for an amount of €36,003,205, was waived by SEC Luxembourg SA.
- The waived amounts would be reinstated, and become due and payable by the Company at the date of the annual ordinary shareholders' meeting approving the accounts of the financial year, if the Company returns to a profitable position and is capable of discharging and/or refunding partially or totally the amounts waived. This will be when "upon two financial years the accounts of the Company, as approved by the Company's shareholders' meeting, show the existence of a positive net profit".
- Reinstatement will be for an amount equal to (i) the positive net profit before tax of the financial year (ii) minus an amount equal to the estimated corporate income tax liability on the disallowed expensed of the financial year in the hands of the Company – up to the maximum of the amounts waived.
- The waived amounts will bear no interest for the period between the waiver and the date at which the reinstatement is due and payable.

14. Income taxes

A reconciliation setting forth the difference between the expected income tax of the Company and the actual tax charge is as follows:

<i>(€ thousands)</i>	<u>2005</u>	<u>2004</u>
Expected income tax charge, computed by applying the Belgian statutory tax rate of 33.99% to the net income	44	6,305
Investment deduction	(11)	-
Non deductible expenses.....	17	13
Unrecognized deferred tax assets	(50)	(6,318)
Effective income taxes	<u>-</u>	<u>-</u>

The main difference between theoretical tax and effective tax is explained by the unrecognized deferred tax assets on tax losses carried forward. As a result of the debt waiver in 2004, the tax losses decreased significantly. At the end of 2005, no tax losses remain to be carried forward. However, due to the reinstatement clause in the debt waiver agreement (see note 13), the Company does not anticipate any taxable income in the foreseeable future.

15. Intangible assets

<i>(€ thousands)</i>	<u>License fee</u>
Cost	
At 1 January 2004.....	21
Additions	92
At 1 January 2005.....	113
Additions	10
At 31 December 2005.....	123
Accumulated amortization	
At 1 January 2004.....	(6)
Charge for the year.....	(10)
At 1 January 2005.....	(16)
Charge for the year.....	(11)
At 31 December 2005.....	(27)
Carrying amount	
At 31 December 2005.....	97
At 31 December 2004.....	98

In preparing these financial statements, the Company has reviewed for indications of impairment in the carrying value of the intangible assets. As a result of this review, the directors do not believe that any impairment is needed at 31 December 2005.

The amortization expense is accounted for in the income statement under cost of sales and general and administrative expenses.

16. Property, plant and equipment

<i>(€ thousands)</i>	<u>Telecom Equipment</u>	<u>Other equipment</u>	<u>Total</u>
Cost or valuation			
At 1 January 2004	1,508	115	1,623
Additions	1,719	-	1,719
Disposals	(12)	-	(12)
At 1 January 2005	3,215	115	3,330
Additions	311	5	316
Disposals	(68)	-	(68)
At 31 December 2005	3,458	120	3,578
Accumulated depreciation and impairment			
At 1 January 2004	381	47	428
Charge for the year.....	437	20	457
Eliminated on disposals	(1)	-	(1)
At 1 January 2005	817	67	884
Charge for the year.....	581	21	602
Eliminated on disposals	(6)	-	(6)
At 31 December 2005	1,392	88	1,480
Carrying amount			
At 31 December 2005	2,066	32	2,098
At 31 December 2004	2,398	48	2,446

Other equipment includes mainly (billing-) hardware and office equipment.

In preparing these financial statements, the Company has reviewed for indications of impairment in the carrying value of the property, plant and equipment. As a result of this review, the directors do not believe that any impairment is needed at 31 December 2005.

The amortization expense is accounted for in the income statement under cost of sales and general and administrative expenses.

17. Inventories

Tele2 Belgium's inventories essentially consist of ADSL modems. These are expensed upon delivery at the client.

18. Trade and other receivables

Trade and other receivables consist of the following items.

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Trade receivables.....	9,144	9,331
Allowance for doubtful debts	(4,331)	(2,206)
Net trade receivables.....	4,813	7,125
Deferred charges	74	69
Unbilled revenues.....	13,683	6,684
Other receivables.....	1,173	115
	<u>19,743</u>	<u>13,993</u>

Unbilled revenues relate to services rendered during the period which have only been billed after year-end. In December 2005, only one billing run took place, instead of the usual two billing runs.

The other receivables mainly consist of VAT receivable.

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Short-term receivables mature within one year. No interest is charged to the outstanding receivables.

19. Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with maturity of three months or less. As of 31 December 2005 and 2004, the entire balance consisted of cash at bank.

Cash at banks and in hand includes restricted deposits of €425,000 (2004: -).

20. Trade and other payables

<i>(€ thousands)</i>	Year Ended 31 December 2005	Year Ended 31 December 2004
Total trade payables	(6,774)	(7,424)
Invoices to receive.....	(5,101)	(6,666)
Employee benefits.....	(241)	(229)
Other liabilities.....	(172)	(35)
	<u>(12,288)</u>	<u>(14,354)</u>

Trade payables principally comprise amounts outstanding for trade purchases. The directors consider that the carrying amount of trade payables approximates their fair value.

The invoices to receive relate mainly to the cost-of-sales related charges incurred prior to year-end, for which no invoice has been received yet from the supplier. Employee benefits mainly include the provision for vacation pay.

21. Share capital

The authorized share capital of the Company as at 31 December 2005 amounts to €61,998 and consists of 2,501 ordinary shares without par value. The Company only has one class of ordinary shares, all issued and fully paid. Each share gives right to one vote in the Company's shareholders' meeting.

There have been no changes in share capital compared to prior year.

22. Related Party Transactions

Versatel transaction

On 18 July 2005, Tele2 (Netherlands) B.V. and Apax jointly announced a public offer on all the outstanding ordinary shares and all the outstanding convertible bonds in Versatel Telecom International N.V. ("Versatel").

On 29 September 2005, Mr. P.G. Borgklint, Managing Director of Tele2 (Netherlands) B.V., was appointed as Managing Director of Versatel, which became effective from 1 January 2006.

On 14 October 2005 the public offers were settled and the appointment of Mr. J.I. Svedberg and Mr. B.L.-J. Jarnheimer, both Managing Directors of Tele2 (Netherlands) B.V., and Mr. H. Zadler, CFO of Tele2 AB, as members of Versatel's Supervisory Board became effective.

21 December 2005, the Enterprise Chamber of the Amsterdam Court of Appeal appointed three independent members on Versatel's Supervisory Board who have exclusive powers to deal with material arrangements between Versatel and Tele2 group companies.

On 1 March 2006, Tele2 and Versatel jointly filed a merger proposal prepared by Tele2 (Netherlands) B.V., Tele2 Netherlands Holdings B.V. and Versatel. On 24 March 2006, the Enterprise Chamber Amsterdam Court of Appeal ruled that Tele2 and Versatel could not proceed with the legal merger in the manner proposed.

16 August 2006, Versatel and Tele2 jointly announced that they agreed in principle to combine their Dutch and Belgian operations. It is intended that the combination is effected by means of an acquisition by Versatel of the Dutch and Belgian businesses of Tele2.

Versatel – Tele2 transactions

Following the settlement of the offers on the shares and convertible bonds in Versatel all transactions between Versatel and Tele2 group companies are entered into at 'arms length' basis. All material arrangements between Versatel and Tele2 group companies are subject to approval by the three Supervisory Board members of Versatel as appointed by the Enterprise Chamber in the Netherlands on 21 December 2005.

The main transactions between Versatel and the Company entered into during 2005 are:

- Versatel has re-branded its residential operations to Tele2 Versatel in order to capitalize on the better brand awareness that Tele2 has in the Belgian residential market. Versatel has obtained the use of the Tele2 brand free of charge;
- The Company used certain customer databases of Versatel for targeted marketing initiatives to offer Tele2 services;
- The Company purchases leased lines and co-location services from Versatel against Versatel's standard terms and conditions and market prices;
- Following the settlement of the offers some of the Company's employees have moved to the Versatel building. The Company pays a pro-rata share of the workspace used;
- Costs attributable to Versatel employees have been recharged to the Company on a pro-rata basis for services rendered.

Transactions with other group companies

The Company has several transactions with other subsidiaries of Tele2 AB (“group companies”), mainly relating to service fees that are recharged by group companies for central services like IT, billing, marketing and general support. We refer to the below table for details of the costs related to group companies.

<i>(€ thousands)</i>	Year Ended 31 December 2005		Year Ended 31 December 2004	
	Share- holders	Group companies	Share- holders	Group companies
Revenue	-	4,767	-	2,407
Cost of sales.....	(192)	(3,780)	(422)	(2,881)
Sales and marketing expenses	(198)	(280)	(423)	(127)
General and administrative expenses	(192)	(1,323)	(422)	(1,032)
Receivables as per December 31	11	1,215	222	-
Payables as per December 31	(5,190)	(1,047)	(4,022)	(998)
Loan payable as per December 31	(7,639)	-	(7,395)	-

Revenue mostly relates to interconnect fees for international calls terminating at the Company. Cost of sales, sales and marketing expenses and general and administrative expenses mainly relate to the charge through of different types of expenses that are incurred at the level of the shareholders or at a Tele2 group level, and of the interconnect fees charged for international calls terminating at other group companies.

No interest is charged on receivables and payables with shareholders and other group companies, as these are paid on a regular basis with the available cash and cash equivalents. The large payables outstanding with shareholders relate to cash transfers from Tele2 Europe SA in order to finance the Company’s activities, as well as charge through for corporate services. No interest is charged on these cash transfers, as they are paid back on a regular basis.

The short-term loan of €7,639,000 (2004: €7,395,000) fully consists of a loan received from the shareholder SEC Luxembourg SA. The loan bears interest at Euribor three months plus a markup of 1.5%. The loan is due on demand and has been fully repaid during 2006.

Remuneration of directors

The Company’s directors do not receive any compensation from the Company in their capacity as director or in any other capacity.

23. Contingencies and commitments

23.1 Guarantees

As per 31 December 2005 bank guarantees have been issued for €2,603,000 (2004: €2,603,000), in connection with rent.

23.2 Operational leases

The total commitment in connection with operational lease agreements of lease lines and rent agreements of buildings amounts to €5,835,000 as per 31 December 2005. An amount of €3,935,000 expires within 1 year. The remaining amount of €1,900,000 expires within 5 years.

23.3 Investment commitments

The Company has no obligations under purchase orders for any plant, property and equipment as per 31 December 2005.

23.4 Other commitments

We refer to note 13 for the commitment relating to the reinstatement of the debt waiver.

24. Subsequent events

Transfer of legal seat

As of 6 June 2006, the Company moved its legal seat from 1160 Brussel, Waversesteenweg 1945 to 1780 Wemmel, Koningin Astridlaan 166.

25. Explanation transition to IFRS

IFRS 1 - First-time Adoption of International Financial Reporting Standards requires retrospective application of each IFRS effective at the reporting date for the first IFRS financial statements. Limited exemptions are permitted to this principle. The Company has elected to use the following exemption:

- The Company did not apply IAS 32 Financial Instruments: Disclosure and Presentation and IAS 39 Financial Instruments: Recognition and Measurement to the comparative periods 2004.

The accounting policies set out in notes 2.1 to 2.16 have been applied in preparing the financial statements for the year ended 31 December 2005, the comparative information presented in these financial statements for the year ended 31 December 2004, and in the preparation of the opening IFRS balance sheet at 1 January 2004 (the Company's date of transition).

In preparing its opening IFRS balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (Belgian GAAP). An explanation of how the transition from Belgian GAAP to adopted IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the table.

Reconciliation of equity

<i>(€ thousands)</i>	1 January 2004	31 December 2004	31 December 2005
As per Belgian GAAP.....	(18,488)	62	190
As per IFRS.....	(18,488)	62	190

Note that as of 31 December 2005 under Belgian GAAP, a legal reserve of €6,000 was set-up in accordance with Belgian company law. Under IFRS, this €6,000 remains part of the retained earnings until the result has been appropriated.

Reconciliation of profit or loss

<i>(€ thousands)</i>	31 December 2004	31 December 2005
As per Belgian GAAP.....	18,550	128
As per IFRS	18,550	128

Explanation of material reclassifications to the income statement for 2005 (date of the last BELGIAN GAAP financial statements)

The classification of expenses on a functional basis in accordance with IAS 1 'Presentation of financial statements' resulted in the reclassification of:

- amortization and depreciation expenses to cost of sales and general and administrative expenses;
- payroll expenses to cost of sales, sales and marketing expenses, general and administrative expenses;

Explanation of material adjustments to the cash flow statement for 2005 (date of the last BELGIAN GAAP financial statements)

No cash flow statement was required under Belgian GAAP.

Explanation of material reclassifications to the balance sheet for 2005 (date of the last BELGIAN GAAP financial statements)

There has been no material impact on the balance sheet classifications as a result of the transition to IFRS.

Wemmel, 11 January 2007

The Directors

.....
Lars-Johan Jarnheimer
(since 29/07/2004)

.....
Per Borgklint
(since 27/07/2004)

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Johnny Svedberg
(since 27/07/2004)

AUDITORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2005

TELE2 BELGIUM NV

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER'S MEETING ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

To the shareholders

We are pleased to report to you on the audit assignment, which you have entrusted to us.

We have audited the accompanying financial statements of Tele2 Belgium NV ("the Company"), prepared in accordance with the International Financial Reporting Standards as adopted by the European Union. Those financial statements comprise the balance sheet as at 31 December 2005, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, as well as the summary of significant accounting policies and other explanatory notes. The balance sheet shows total assets of 26.354 (000) EUR and a profit for the year then ended of 128 (000) EUR.

The Board of Directors of the Company is responsible for the preparation of the financial statements.

Our audit of the financial statements was conducted in accordance with the legal requirements and the auditing standards applicable in Belgium, as issued by the "Instituut des Reviseurs d'Enterprises/Instituut der Bedrijfsrevisoren"

Qualified audit opinion on the financial statements

The forementioned auditing standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

In accordance with these standards, we considered the Company's administrative and accounting organization as well as its internal control processes. We have obtained the explanations and information required for our audit. We have examined, on a test basis, the evidence supporting the amounts in the financial statements. We have assessed the basis of the accounting methods used, the consolidation policies and significant estimates made by management as well as evaluating the presentation of the financial statements taken as a whole. We believe that our audit provides a reasonable basis for our opinion.

In 2004, the Company obtained a conditional debt waiver for an amount of 36.003 (000) from SEC Luxemburg SA, a Tele2 group company. The waived amounts are to be reinstated, and become due and payable by the Company at the date of the annual ordinary shareholders' meeting approving the accounts of the financial year, if the Company returns to a profitable position and is capable of discharging and/or refunding partially or totally the amounts waived. The Company has not accounted for this transaction under the stipulations of IAS 32 "*Financial Instruments: Disclosure and presentation*" and ISA 39 "*Financial Instruments: Recognition and Measurement*". These standards require the Company to replace the waived debt with the net present value of the future cash flows the company expects to make in order to repay the waived debt. In accompanying financial statements, the Company has considered this transaction to be outside the scope of the above mentioned standards, derecognized the debt and disclosed this transaction as a contingent liability. The impact of not accounting for this transaction under the stipulations of ISA 32 "*Principle Instruments: Disclosure and presentation*" and IAS 39 "*Financial Instruments: Recognition and Measurement*" leads to an understatement of the Company's liabilities as of 31 December 2004 and 2005 for an amount ranging between 18,696 (000) EUR and 23,731 (000) EUR, depending on the parameters used for the calculation of the above mentioned net present value.

In our opinion, except for the impact of what is stated above in the preceding paragraph, the financial statements give a true and fair view of the Company's financial position as of 31 December 2005, and of its results and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the EU.

12 January 2007

The Independent Auditor

DELOITTE Bedrijfsrevisoren/Reviseurs d'Entreprises
BV o.v.v.e. CVBA/SA s.f.d SCRL
Represented by Rik Neckebroeck

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.versatel.
A COMPANY WITHIN THE TELE2 GROUP