# Telenet Group Holding

NAAMLOZE VENNOOTSCHAP/ LIMITED LIABILITY COMPANY

Liersesteenweg 4
2800 Mechelen
Commercial Registry Mechelen no. 90.008
VAT BE 0477.702.333 RLP Mechelen

**Special Report of the board of directors in accordance with Articles 583, 596 and 598 of the Belgian Company Code**

**25 April 2008**

## 1. Introduction

This special report has been prepared by the board of directors of the public limited liability company "Telenet Group Holding" (the "Company"):

- on the one hand, in accordance with Article 583 of the Belgian Company Code in connection with the proposal to issue three hundred seventeen thousand (317,000) warrants (the "Stock Options"); and
- on the other hand, in accordance with Article 596 and Article 598 of the Belgian Company Code in connection with the proposal to cancel the preferential subscription rights of the existing shareholders in order to be able to offer the Stock Options to the Chief Executive Officer of the Telenet group.

The aforementioned proposals will be submitted to an extraordinary general shareholders' meeting to be held before notary public. In this report, the board of directors provides further background with respect to the proposed issuance of the Stock Options in accordance with Article 583 of the Belgian Company Code, and the proposed cancellation of the preferential subscription rights of the existing shareholders in accordance with Article 596 and Article 598 of the Belgian Company Code. In this respect, reference is also made to the report of the statutory auditor of the Company in accordance with Article 596 and Article 598 of the Belgian Company Code.

## 2. Description of the transaction

The board of directors proposes to issue three hundred seventeen thousand (317,000) Stock Options within the framework of a stock option plan, pursuant to which three hundred seventeen thousand Stock Options will be offered immediately upon their issuance to the Chief Executive Officer of the Telenet Group, a self-employed service provider.

In order to be able to grant the Stock Options to the Chief Executive Officer of the Telenet group, the board of directors proposes to cancel the preferential subscription rights of the existing shareholders, and in as far as necessary, of the holders of profit certificates, warrants or other securities issued by the Company. The Stock Options will be granted immediately upon their issuance to the Chief Executive Officer of the Telenet Group.

The terms and conditions of the Stock Options are attached hereto as Annex A. For information purposes only, the main terms of the Stock Options can be summarized as follows:

- *Stock Option Plan.* The Stock Options are issued in the framework of a stock option plan (the "Plan - 2008") for the Chief Executive Officer of the Telenet group.

- *Stock Options with respect to shares of the Company.* Each Stock Option will entitle the holder thereof to subscribe to one (1) new ordinary share of the Company.

- *Shares.* The shares to be issued by the Company upon exercise of the Stock Options shall be ordinary shares of the Company (other than the Golden Shares and Liquidation Dispreference Shares of the Company (as defined in the Company's articles of association)), and shall have the same rights and benefits (including as to dividend rights) as the ordinary shares of the Company that are outstanding immediately preceding the exercise of the Stock Options concerned. The shares to be issued by the Company upon exercise of the Stock Options shall benefit, at the time of their issuance, from the reduced withholding tax rate of 15%, *i.e.* the so-called "VVPR" status, with respect to the dividends, if any, that the Company may declare in its absolute discretion. Where applicable, such VVPR-right can be represented by a separate instrument.

- *Stock Option Agreement.* The grant of the Stock Options will be reflected in a stock option agreement (the "Stock Option Agreement"). The Stock Option Agreement shall (amongst others) state the date of grant of the Stock Options (i.e. the date of the issuance of the Stock Options), the number of Stock Options granted (i.e. three hundred seventeen thousand (317,000), the rules relating to the vesting of the Stock Options, the term of the Stock Options (i.e. five (5) years), the exercise price of the Stock Options and any other relevant fact and/or condition.

- *Issuance Price of the Stock Options.* The Stock Options will be offered free of charge.

- *Exercise Price of the Stock Options.* The exercise price of the Stock Options will be equal to the higher of:

  - the average of the closing prices of the Company's shares as traded on Euronext Brussels during the thirty (30) day period preceding the adoption date (i.e. the date upon which the shareholders approve the issuance of the Stock Options); and

  - fourteen euro and fifty cents (€ 14.50).

  Upon exercise of a Stock Option and issue of shares in accordance with the terms and conditions of the Plan-2008, the exercise price of the Stock Option will be allocated to the share capital of the Company.

  However, to the extent that the amount of the exercise price of the Stock Option exceeds the fraction value (*fractiewaarde / valeur fractionnelle*) of the shares of the Company immediately preceding the exercise of the Stock Option concerned, a part of the exercise price equal to such fraction value shall be booked as share capital, whereby the balance, if any, shall be booked as issue premium. The issue premium, if any, shall serve as guarantee for third parties in the same manner as the Company's share capital and shall be booked on an unavailable account that can only be decreased or booked away pursuant to a resolution of a general shareholders' meeting passed in the manner required for an amendment to the Company's articles of association.

- *Term.* The Stock Options have a term of five (5) years as of the date of the issuance by the general shareholders' meeting.

- *Exercise period.* Stock Options which have vested can only be exercised during the following periods: (i) as of February 22 until April 10, (ii) as of May 10 until June 10, (iii) as of August 10 until October 10, and (iv) as of November 10 until December 15. The board of directors of the Company may in its absolute discretion, provide for additional exercise periods. The board of directors of the Company may also amend the aforementioned exercise periods if such periods were to coincide with applicable restricted or other periods during which the exercise of Stock Options would be restricted or not permitted pursuant to a dealing code or other restrictions imposed by the Company's board of directors or any other applicable rules or regulations

- *Vesting.* The Stock Options shall vest in sixteen equal instalments as follows: per quarter, a portion equal to one sixteenth of the aggregate number of Stock Options shall vest on the first day of the quarter concerned. The first quarter during which Stock Options will vest is the quarter in which the Date of Grant falls.

  All Stock Options will immediately and automatically vest upon a change of control over the Company.

For a detailed description of the terms and conditions of the Stock Options, reference is made to Annex A of this report.

## 3. Objective of the proposed transaction

As explained above, the Stock Options will be granted to the Chief Executive Officer of the Telenet Group within the framework of a stock option plan.

The proposed issuance of three hundred seventeen thousand Stock Options is related to the stock option plan that was approved by the extraordinary shareholders' meeting on December 27, 2007. On the basis of the latter stock option plan, stock options were offered on December 27, 2007 to a number of beneficiaries, including the Chief Executive Officer of the Telenet Group. The respective stock options had to be accepted within a certain period following the offer. The respective offer was however rejected on a large scale by the beneficiaries because of the decline of the trading price of the shares of the Company after December 27, 2007. To a number of beneficiaries a new offer of stock options was made on 5 March 2008 (in accordance with the stock option plan that was approved by the extraordinary general shareholders' meeting of December 27, 2007). The exercise price of the stock options offered on March 5, 2008 amounted to fourteen euro and fifty cents (€ 14.50). Because of the provisions of the Belgian Company Code and the terms and conditions of the stock option plan that was approved on December 27, 2007, it was not possible (in accordance with the stock option plan that was approved by the extraordinary general shareholders' meeting of December 27, 2007) to grant stock options on March 5, 2008 to the Chief Executive Officer of the Telenet Group with an exercise price of fourteen euro and fifty cents (€ 14.50). In order to still grant the intended three hundred seventeen thousand stock options to the Chief

Executive Officer of the Telenet group, it is now proposed to the general shareholders' meeting to issue three hundred seventeen thousand new stock options. In the framework of the proposed issuance of the three hundred seventeen thousand Stock Options, it is also proposed to the extraordinary general shareholders' meeting to annul three hundred seventeen thousand stock options that were issued on December 27, 2007, in order to keep the total amount of stock options under the Stock Option Plan 2007 (i.e. the plan that was approved by the extraordinary general shareholders' meeting on December 27, 2007) and the Stock Option Plan 2008 (which is the subject of this report) at a total of three million three hundred thousand (3,300,000).

The aim of the Plan-2008 is the realisation of certain corporate and human resources goals, such as:

- to encourage and motivate the Chief Executive Officer of the Telenet group;
- to enable the Company to keep a Chief Executive Officer with the requested experience and skills;
- to align the interest of the Chief Executive Officer of the Telenet group closer to those of the shareholders of the Company by giving them the opportunity to share in the potential increase of the value of the Company.

The board of directors believes that pursuing the above goals is in the interest of the Company. In addition,

- the granting of the Stock Options can be considered as a tax efficient incentive for this person.
- the grant of the Stock Options would enable the Company to benefit from new means within the Company at the moment of the exercise of the Stock Options.
- the Stock Options would allow the Company to offer to the beneficiary of the Stock Options a (potential) participation in the share capital of the Company, which can be regarded as an incentive for the participant to valuate and increase his loyalty and engagement.

## 4. Objective of the proposed cancellation of the preferential subscription right

In order to be able to offer the Stock Options to the Chief Executive Officer of the Telenet group, the board of directors proposes to cancel the preferential subscription rights of the existing shareholders, and in as far as necessary, those of the holders of profit certificates, warrants and other securities issued by the Company. The Stock Options will be granted the Chief Executive Officer of the Telenet group, i.e. Mr. Duco Sickinghe.

## 5. The proposed exercise price of the Stock Options

The exercise price of the Stock Options is equal to the higher of (i) the average of the closing prices of the Company's shares as traded on Euronext Brussels during a period of thirty (30) days prior to the date of the issuance (i.e. the date on which the shareholders approve the issuance of the Stock Options) and (ii) fourteen euro and fifty cents (€ 14.50). The amount of fourteen euro and fifty cents (€ 14.50) is the exercise price of the stock options that were offered on March 5, 2008 to a broader group of beneficiaries in accordance with the "Stock Option Plan 2007" that was approved by the shareholders on December 27, 2007.

Whether or not the respective Stock Options will be exercised (in those circumstances provided for in the Plan-2008 that they can be exercised) will depend on the individual decision of the participant. It can be expected that a Stock Option will only be exercised if and to the extent the stock exchange price of the Company's shares at the time of exercise is higher than the exercise price of the Stock Options. This would enable the participant to realize a capital gain on the share (not taking into account possible tax or other related costs) upon a subsequent sale of the share.

By determining the proposed exercise price in function of the price of the shares of the Company, as described above, the participant would in principle not be granted a discount to the applicable stock price of the Company's shares at the time of grant. Furthermore, the participant would only be able to realize a capital gain if and to the extent the stock exchange price at the time the participant sells the shares that he acquired upon the exercise of the Stock Options is higher than the exercise price and to the extent the participant is able to exercise the Stock Options according to the terms and conditions of the Plan-2008 at that time. This is in line with the human resource and incentive objectives of the Company as described above. Accordingly, the board of directors believes that the exercise price of the Stock Options as described above is justified.

## 6. Financial consequences of the proposed transaction for the shareholders

Below, the Board of Directors discusses the financial consequences of the proposed transaction.

### *a) With respect to the evolution of the share capital and the number of shares*

On the date of this special report, the share capital of the Company amounts to €1,087,953,657.10, represented by 110,006,756 shares without nominal value, each representing one 110,006,756$^{th}$ of the share capital of the Company. The fraction value of the shares currently amounts to (rounded) €9.89 per share.

The exercise of the Stock Options during their term will lead to an increase of the share capital of the Company through the issuance of new shares of the Company, as indicated above.

The exact evolution of the Company's share capital as a consequence of the exercise of Stock Options cannot be predicted since it will depend on (i) the exercise price of the Stock Options, (ii) whether the Stock Options will be exercised or not and (iii) the fractional value of the shares of the Company outstanding immediately before the exercise of the Stock Options. The exercise price of the Stock Options will be determined at the moment of grant in accordance with the terms and conditions of the Stock Options as indicated in section 2 above. Hence, the exercise price cannot yet be determined at the date of this report. Furthermore, whether the Stock Options will be exercised or not, will depend upon (amongst others) the compliance with the terms and conditions of the Stock Options and the decision of the individual holder of the Stock Options. The exercise of the Stock Options is neither automatic nor compulsory. The exercise will also depend on the price of the shares of the Company as listed on Euronext Brussels on the date of exercise of the Stock Options, as it can be expected that a Stock Option will only be exercised if and to the extent the stock exchange price of the Company's shares at the time of exercise is higher than the exercise price of the Stock Options. As a result, there is no certainty whether the Stock Options will be exercised or not.

Although the exact evolution of the Company's share capital cannot yet be determined at the date of this report for the reasons set forth above, a simulation of the possible evolution on the basis of a numeric example has nevertheless been included under point 7 below.

### *b) Evolution of certain rights attached to the shares*

Currently, all shares entitle the holders thereof to one vote and all shares have equal rights to participate in the possible profits of the Company. Furthermore, all shares have equal preferential subscription rights for capital increases through contributions in cash (if such preferential subscription rights are not cancelled or limited) and equal rights to participate in the liquidation proceeds in the event of liquidation of the Company (this does not apply to the Liquidation Dispreference Shares, as defined in the articles of association of the Company). To the extent new shares are issued upon the exercise of the Stock Options, these shares will have the same voting rights, dividend rights, preferential subscription rights and liquidation rights as the existing ordinary shares. Consequently, the relative value of each of the voting rights, dividend rights, preferential subscription rights and liquidation rights of the existing shares shall dilute. Further reference is made to the simulation under point 7 below.

### *c) Evolution of the participation in the accounting net equity*

As appears from the consolidated annual statements of the Company as per December 31, 2007, the consolidated accounting net equity of the Company on December 31, 2007 amounted to €170,063,000 or (rounded) €1.55 per share (based on the 109,313,539 shares then outstanding). According to the statutory annual accounts, the statutory accounting net equity of the Company on December 31, 2007 amounted to €1,109,477,702.18 or (rounded) €10.15 per share (based on 109,313,539 shares then outstanding).

In the assumption that all Stock Options have vested, are immediately exercisable (regardless of the relevant terms and conditions of the Stock Options) and have been exercised, upon exercise of the Stock Options, an amount equal to the product of the number of Stock Options and the exercise price of the Stock Options shall be allocated to the accounting net equity of the Company as share capital (and issuance premium, as the case may be).

If the exercise price of the Stock Options is higher than the participation of the existing shares in the statutory, respectively consolidated, net equity of the Company at the time of exercise of the Stock Options, the issuance of the shares upon exercise of the Stock Options would, from an accounting point of view, entail a dilution to the benefit of the existing shares. Conversely, if the exercise price of the Stock Options is lower than the participation of the existing shares in the statutory, respectively consolidated, net equity of the Company at the time of exercise, the issuance of the shares upon exercise of the Stock Options would, from an accounting point of view, entail a dilution to the benefit of the new shares.

In any event, from an investor's perspective, it can be expected that a Stock Option will only be exercised if and to the extent the stock exchange price of the Company's shares at the time of exercise is higher than the exercise price of the Stock Options. This would entail a financial dilution of the other shareholders at the time of exercise of the Stock Options.

## 7. <u>Simulation</u>

For the purpose of illustration, a numeric example of the possible financial consequences of the issue and exercise of the Stock Options has been included below. This simulation is based on a hypothetical exercise price of the Stock Options of respectively

€ 14.50, € 15 and € 16. These exercise prices are not an indication of, and do not express an expectation of, the final exercise price of the Stock Options, which will be determined in accordance with the terms and conditions of the Stock Options as indicated in section 2 above.

The simulation is also based on the following elements and assumptions:

(1) The simulation is based on the assumption that all Stock Options have vested, are immediately exercisable (regardless of the relevant terms and conditions of the Stock Options) and have been exercised.

(2) The simulation of the evolution of the share capital has been calculated on the basis of the share capital and number of issued and outstanding shares at the date of the present report, i.e. €1,087,953,657.10 and 110,006,756 outstanding shares. The simulation of the evolution of the share capital does not take into account the evolution of the share capital upon issue of other shares still to be issued as further described in paragraphs (3)(b) to (3)(d) below

(3) The simulation of the dilution is based on a total of 115,150.190 outstanding shares on a fully-diluted basis prior to the exercise of the Stock Options. This is based on the following:

a) On the date of this report, the Company has 110,006,756 issued and outstanding shares.

b) The Company has approved two option plans pursuant to which the board of directors granted "Class A Options" to senior management and "Class B Options" to management. Each Class A Option entitles the holder thereof, subject to certain conditions to subscribe to one Class A Profit Certificate against payment of €5.08. Each Class B Option entitles the holder thereof, subject to certain conditions, to one Class B Profit Certificate against payment of €6.35. Each Class A Profit Certificate and Class B Profit Certificate can be converted into one share of the Company. On the date of this report, there are 1,502,824 outstanding Class A Options and 578.842 outstanding Class B Options. There are currently no Class A Profit Certificates outstanding and 78,768 Class B Profit Certificates outstanding.

If all Class A and Class B Options are exercised and if all Class A and Class B Profit Certificates (i.e. the currently outstanding Class B Profit Certificates and the Class A and Class B Profit Certificates to be issued upon the exercise of the Class A and Class B Options) are converted into shares, 2.160.434 additional shares will be created.

The simulation is based on the assumption that all options have been exercised into profit certificates and that the profit certificates have been converted into shares.

c) On December 27, 2007, the Company's general shareholders' meeting approved the issue of three million three hundred thousand (3,300,000) stock options within the framework of a stock option plan. It is however proposed to the general shareholders' meeting to annul 317,000 stock options that were issued on December 27, 2007.

For the purposes of the simulation below, it is assumed that a total of 2,983,000 stock options were issued on December 27, 2007.

d) It is also proposed to the general shareholders' meeting to approve the issuance of new shares for a total subscription amount of € 23.5 million within the framework of the new stock purchase plan for the employees of the Company and its subsidiaries. If this capital increase is approved, the effective issuance will not take place before the end of 2008 / the beginning of 2009. For the purposes of the simulation below, this proposed issuance has not been taken into account. Reference is made to the report of the board of directors of the Company in accordance with article 596 of the Belgian Company Code within the framework of this new stock purchase plan.

Based on the foregoing, the evolution of the share capital and the number of shares as a result of the issuance of the new shares can be illustrated as follows:

| | | | |
|---|---|---|---|
| **Exercise price of a Stock Option:** | 14.50 | 15.00 | 16.00 |
| **Number of Stock Options:** | 317,000 | 317,000 | 317,000 |
| **Evolution of the share capital:** | | | |
| Current share capital and number of issued outstanding shares | | | |
| Share capital (in euro) | 1,087,953,657.10 | 1,087,953,657.10 | 1,087,953,657.10 |
| Number of shares | 110,006,756 | 110,006,756 | 110,006,756 |
| Fraction value per share (in euro) | 9.89 | 9.89 | 9.89 |
| Exercise of the Stock Options | | | |
| Number of new shares | 317,000 | 317,000 | 317,000 |
| Capital increase (in euro) | 3,135,098.30 | 3,135,098.30 | 3,135,098.30 |
| Issue premium (in euro) | 1,461,401.70 | 1,619,901.70 | 1,936,901.70 |
| Capital increase and issuance premium (in euro) | 4,596,500.00 | 4,755,000.00 | 5,072,000.00 |
| Fraction value per share (in euro) | 9.89 | 9.89 | 9.89 |
| After the exercise of the Stock Options | | | |
| Share capital (in euro) | 1,091,088,755.40 | 1,091,088,755.40 | 1,091,088,755.40 |
| Number of shares | 110,323,756 | 110,323,756 | 110,323,756 |
| Fraction value per share (in euro) | 9.89 | 9.89 | 9.89 |
| **Dilution:** | | | |
| Number of outstanding shares | | | |
| Issued outstanding shares | 110,006,756 | 110,006,756 | 110,006,756 |
| Shares issuable upon conversion of Class A Profit Certificates | 1,502,824 | 1,502,824 | 1,502,824 |
| Shares issuable upon conversion of Class B Profit Certificates | 657,610 | 657,610 | 657,610 |
| Shares issuable within the context of the Stock Options 2007 | 2,983,000 | 2,983,000 | 2,983,000 |
| Total | 115,150,190 | 115,150,190 | 115,150,190 |
| Dilution as a result of Stock Options | | | |
| On the basis of currently issued and outstanding shares (before dilution) | | | |
| Issued outstanding shares | 110,006,756 | 110,006,756 | 110,006,756 |
| Shares issuable upon exercise of Stock Options 2008 | 317,000 | 317,000 | 317,000 |
| Total | 110,323,756 | 110,323,756 | 110,323,756 |
| Dilution | 0.29% | 0.29% | 0.29% |
| On a fully diluted basis | | | |
| Outstanding shares (other than shares issuable upon exercise Stock Options) | 115,150,190 | 115,150,190 | 115,150,190 |
| Shares issuable upon exercise of Stock Options 2008 | 317,000 | 317,000 | 317,000 |
| Total | 115,467,190 | 115,467,190 | 115,467,190 |
| Dilution | 0.27% | 0.27% | 0.27% |

* * *

Done at Mechelen, on 25 April, 2008,

On behalf of the board of directors,

By: ______________________
F. DONCK........................
Director

By: ______________________
D. SICKINGHE.......................
Director

# ANNEX A

# STOCK OPTION PLAN

# BIJLAGE A

# AANDELENOPTIEPLAN