# Telenet Group Holding NV
*and Subsidiaries*

**Report for the**
**Three months ended March 31, 2007**

**11.5% Senior Discount Notes due 2014**

**9% Senior Notes due 2013**
**(issued by Telenet Communications NV)**

## INTRODUCTION AND USE OF CERTAIN TERMS

Telenet Group Holding NV (the "Company") is a company organized under the laws of Belgium. References to the "Senior Discount Notes" are to the 11.5% Senior Discount Notes due 2014 and references to the "Senior Notes" are to the 9.0% Senior Notes due 2013 issued by Telenet Communications NV. References to the "Notes" are to both the Senior Notes and Senior Discount Notes. Both the Senior Discount Notes and Senior Notes were issued on December 22, 2003. Other notations and definitions herein apply as presented in our 2006 annual report which was published on April 30, 2007 (the "Annual Report"), a copy of which is available on our website at http://investors.telenet.be.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The condensed consolidated Interim Financial Statements of Telenet Group Holding as of and for the period ended March 31, 2007 and 2006 and the audited annual financial statements as of the year ended December 31, 2006 have in each case been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU GAAP").

The financial information included in this report is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification or exclusion of certain financial measures, including earnings before interest, tax, depreciation and amortization ("EBITDA"), EBITDA margin, subscriber acquisition costs, average revenue per subscriber and the presentation of certain other information not included herein. Further remarks on the limitations of EBITDA are stated in our 2006 Annual Report under the section "Presentation of Financial and Other Information", which also provides remarks regarding Industry Data and Other Data, the application of which has not changed since the publication of our 2006 Annual Report.

We acquired UPC Belgium NV/SA ("UPC Belgium") on December 31, 2006 (the "UPC Belgium Acquisition"). Our financial results for the three months ended March 31, 2007 include balance sheet, profit and loss and cash flows of UPC Belgium. Our audited financial results as of December 31, 2006 include balance sheet data from UPC Belgium. Our financial results for the three months ended March 31, 2006 do not include any contributions from UPC Belgium.

## INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "aims," "expects," "intends," "may," "will," "would" or "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report. In addition, even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in future periods.

We do not undertake any obligation, and do not intend, to review or confirm expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events that occur or circumstances that arise after the date of this document.

We urge you to read the sections of our 2006 Annual Report entitled Item 3, "Key information–Risk factors," Item 4, "Information on the company–Business overview" and Item 5, Operating and financial review and prospects–Operating results" for a more complete discussion of the factors that could affect our future performance and the industry in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this document may not occur.

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**PART I – FINANCIAL INFORMATION**



**PART II – OTHER INFORMATION**

## PART I – FINANCIAL INFORMATION

## ITEM 1 CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS OF TELENET GROUP HOLDING NV

### TELENET GROUP HOLDING NV
### CONDENSED CONSOLIDATED BALANCE SHEETS
**(in thousands of Euro)**
**(Unaudited)**

| | Notes | March 31, 2007 | December 31, 2006 |
|---|---|---|---|
| **ASSETS** | | | |
| ***NON-CURRENT ASSETS:*** | | | |
| Property and equipment, net | 3 | 981,792 | 973,379 |
| Goodwill | 4 | 1,134,394 | 1,148,745 |
| Other intangible assets, net | 5 | 269,404 | 278,813 |
| Other assets | | 1,894 | 2,319 |
| Total non-current assets | | 2,387,484 | 2,403,256 |
| ***CURRENT ASSETS:*** | | | |
| Trade receivables, net | 6 | 104,821 | 105,589 |
| Other current assets | 7 | 24,877 | 24,399 |
| Cash and cash equivalents | 8 | 93,590 | 58,844 |
| Total current assets | | 223,288 | 188,832 |
| TOTAL ASSETS | | 2,610,772 | 2,592,088 |
| **EQUITY AND LIABILITIES** | | | |
| ***EQUITY:*** | | | |
| Contributed Capital | | 1,662,721 | 1,656,645 |
| Other reserves | | 891,646 | 891,502 |
| Hedging reserves | 10 | (3,584) | (3,599) |
| Retained loss | | (1,812,133) | (1,822,891) |
| Total equity | | 738,650 | 721,657 |
| ***NON-CURRENT LIABILITIES:*** | | | |
| Long-term debt, less current portion | 9 | 1,316,259 | 1,330,843 |
| Derivative financial instruments | 10 | 32,796 | 36,485 |
| Unearned revenue | 13 | 14,305 | 14,825 |
| Other liabilities | | 31,455 | 29,708 |
| Total non-current liabilities | | 1,394,815 | 1,411,861 |
| ***CURRENT LIABILITIES:*** | | | |
| Short-term borrowings | 18 | 22,852 | 15,659 |
| Current portion of long-term debt | 9 | 71,021 | 59,767 |
| Accounts payable | | 176,742 | 180,473 |
| Accrued expenses and other current liabilities | 12 | 81,960 | 79,492 |
| Unearned revenue | 13 | 124,732 | 123,179 |
| Total current liabilities | | 477,307 | 458,570 |
| Total liabilities | | 1,872,122 | 1,870,431 |
| TOTAL EQUITY AND LIABILITIES | | 2,610,772 | 2,592,088 |

See notes to the condensed consolidated Interim Financial Statements.

**TELENET GROUP HOLDING NV**
**CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**
**(in thousands of Euro)**
**(Unaudited)**

| | Note | For the three months ended March 31, 2007 | For the three months ended March 31, 2006 |
|---|---|---|---|
| Revenue | 13 | 226,816 | 196,185 |
| Costs of services provided | 14 | (134,408) | (120,423) |
| **Gross profit** | | 92,408 | 75,762 |
| Selling, general and administrative | 14 | (42,277) | (39,024) |
| **Operating profit** | | 50,131 | 36,738 |
| Finance costs, net | 15 | (24,011) | (19,814) |
| **Net Profit before income tax** | | 26,120 | 16,924 |
| Income tax expense | 11 | (15,304) | (11,841) |
| Loss from unconsolidated company | | (58) | - |
| **Net income from continuing operations** | | 10,758 | 5,083 |
| **Discontinued operations** | | | |
| Loss from discontinued operations | | - | (34) |
| **Net income** | | 10,758 | 5,049 |
| **Basic earnings per share** | 16 | 0.11 | 0.05 |
| **Diluted earnings per share** | 16 | 0.10 | 0.05 |

See notes to the condensed consolidated Interim Financial Statements.

**TELENET GROUP HOLDING NV**
**CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**
**(in thousands of Euro, except share data)**
**(Unaudited)**

| | Notes | Number of Shares | Share Capital | Share premium and Other Reserves | Hedging Reserves | Retained Loss | Total |
|---|---|---|---|---|---|---|---|
| **January 1, 2006** | | 100,204,853 | 1,647,365 | 888,999 | 1,078 | (1,828,344) | 709,098 |
| Unrealized net gain (loss) on derivative contracts recognized directly in equity | | - | - | - | (4,677) | - | (4,677) |
| Net profit for the year | | - | - | - | - | 5,453 | 5,453 |
| Total recognized profit for the year | | - | - | - | (4,677) | 5,453 | 776 |
| Recognition of share-based compensation | | - | - | 559 | - | - | 559 |
| Proceeds received upon exercise of the Class A and Class B options | | - | - | 5,059 | - | - | 5,059 |
| Issuance of share capital through Employee Stock Purchase Plan | | 300,033 | 4,917 | 1,248 | | | 6,165 |
| Issuance of share capital via exchange of Class A and Class B Profit Certificates | 17 | 580,569 | 4,363 | (4,363) | - | - | - |
| **December 31, 2006** | | 101,085,455 | 1,656,645 | 891,502 | (3,599) | (1,822,891) | 721,657 |
| Unrealized net gain (loss) on derivative contracts recognized directly in equity | | - | - | - | 15 | - | 15 |
| Net profit for the period | | - | - | - | - | 10,758 | 10,758 |
| Total recognized profit for the period | | - | - | - | 15 | 10,758 | 10,773 |
| Recognition of share-based compensation | 14 | - | - | 84 | - | - | 84 |
| Proceeds received upon exercise of the Class A and Class B options | | - | - | 631 | - | - | 631 |
| Proceeds received upon exercise of debt warrants | 17 | 412,869 | 5,505 | | - | - | 5,505 |
| Issuance of share capital via exchange of Class B Profit Certificates | 17 | 68,553 | 571 | (571) | - | - | - |
| **March 31, 2007 ()** | | 101,566,877 | 1,662,721 | 891,646 | (3,584) | (1,812,133) | 738,650 |

See notes to the condensed consolidated Interim Financial Statements.

**TELENET GROUP HOLDING NV**
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**(in thousands of Euro)**
**(Unaudited)**

| | For the three months ended March 31, 2007 | 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Income | 10,758 | 5,049 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation, amortization and impairment | 56,193 | 51,995 |
| Income tax expense | 15,304 | 11,841 |
| Provision for liabilities and charges | 3,277 | 3,095 |
| Increase in allowance for bad debt | 244 | 732 |
| Amortization of financing cost | 993 | 1,848 |
| Interest income | (605) | (2,336) |
| Interest expense | 25,759 | 27,375 |
| (Gain)/loss on derivative instruments, net | 405 | (1,214) |
| Unrealized foreign exchange gain, net | (2,541) | (5,855) |
| Loss from unconsolidated company | 58 | - |
| Share based compensation | 84 | 118 |
| (Gain)/loss on disposal of fixed assets | 98 | (33) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 524 | 4,661 |
| Other assets | 1,781 | (1,826) |
| Unearned revenue | 1,033 | 1,520 |
| Accounts payable | (3,309) | (9,788) |
| Accrued expenses and other current liabilities | (3,644) | 223 |
| Cash provided by operations | 106,412 | 87,405 |
| Interest paid | (11,970) | (12,343) |
| Taxes paid | - | - |
| Net cash provided by operating activities | 94,442 | 75,062 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (44,047) | (43,654) |
| Proceeds on disposal of property and equipment | - | 33 |
| Purchases of intangibles | (4,578) | (4,759) |
| Cash paid in connection with acquisitions, net of cash acquired | (144) | (550) |
| Net cash used in investing activities | (48,769) | (48,930) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayments of long-term borrowings | (16,462) | (129,719) |
| Repayments of finance leases | (601) | (692) |
| Payments of redemption premiums | | (11,230) |
| Proceeds received upon capital increase (issuance of debt warrants) | 5,505 | - |
| Proceeds received upon exercise of Class A and Class B Options | 631 | - |
| Net cash used in financing activities | (10,927) | (141,641) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 34,746 | (115,509) |
| CASH AND CASH EQUIVALENTS: | | |
| Beginning of period | 58,844 | 210,359 |
| End of period | 93,590 | 94,850 |
| NON CASH INVESTING AND FINANCING ACTIVITIES: | | |
| Acquisition of property and equipment in exchange for short term borrowings | 7,126 | |

See notes to the condensed consolidated interim Financial Statements.

## 1. BASIS OF PRESENTATION

The accompanying condensed consolidated interim financial statements (the "Interim Financial Statements") present the operations of Telenet Group Holding NV ("Telenet Group Holding") and its subsidiaries (hereafter collectively referred to as the "Company"). Through its broadband network the Company offers cable television, including premium television services, broadband internet and telephony services to residential subscribers in Flanders and certain communities in Brussels as well as broadband internet, data and voice services in the business market throughout Belgium. The Company also offers mobile telephony services as a mobile virtual network operator (MVNO) which acquires wholesale airtime capacity from the Belgian mobile telephone operator Mobistar. Telenet Group Holding and its principal subsidiaries are limited liability companies organized under Belgian law. The Company is managed and operates in one operating segment, broadband communications.

The accompanying Interim Financial Statements are unaudited . In the opinion of management, these Interim Financial Statements include all adjustments which are necessary to present fairly the financial position and the results of operations for the interim periods. The Interim Financial Statements should be read in conjunction with the audited consolidated financial statements as of December 31, 2006. Results for the three months ended March 31, 2007 are not necessarily indicative of future results.

These condensed consolidated Interim Financial Statements were approved for issue by the Board of Directors on May 8, 2007.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended December 31, 2006.

***Management's Use of Estimates***

The preparation of financial statements in accordance with IAS 34 requires the use of certain critical accounting estimates and management judgment in the process of applying the Company's accounting policies that affects the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

**(in thousands of Euro)**

## 3. PROPERTY AND EQUIPMENT

| | Land, buildings and leasehold improvements | Network | Construction in progress | Furniture, equipment and vehicles | Total |
|---|---|---|---|---|---|
| ***Cost*** | | | | | |
| At December 31, 2006 | 54,900 | 1,609,428 | 45,419 | 38,850 | 1,748,597 |
| Additions | | 7,122 | 43,673 | 378 | 51,173 |
| Transfers | 615 | 37,736 | (39,564) | 1,213 | - |
| Impairment | - | (343) | - | - | (343) |
| Disposals | - | (1,183) | 1,088 | (8) | (103) |
| At March 31, 2007 | 55,515 | 1,652,760 | 50,616 | 40,433 | 1,799,324 |
| ***Accumulated Depreciation*** | | | | | |
| At December 31, 2006 | 7,514 | 743,811 | - | 23,893 | 775,218 |
| Depreciation charge for the year | 458 | 40,438 | - | 1,423 | 42,319 |
| Eliminated on Disposal | - | (5) | - | - | (5) |
| At March 31, 2007 | 7,972 | 784,244 | - | 25,316 | 817,532 |
| ***Carrying Amount*** | | | | | |
| At March 31, 2007 | 47,543 | 868,516 | 50,616 | 15,117 | 981,792 |

## 4. GOODWILL

A reconciliation of the changes in goodwill is depicted below:

| | |
|---|---|
| Balance at December 31, 2006 | 1,148,745 |
| Use of net operating losses acquired in business combinations (Note 11) | (14,351) |
| Acquisition | - |
| Balance at March 31, 2007 | 1,134,394 |

(in thousands of Euro)

## 5. OTHER INTANGIBLE ASSETS

| | Network user rights | Trade name | Software | Customer lists | Other | Total |
|---|---|---|---|---|---|---|
| ***Cost*** | | | | | | |
| At December 31, 2006 | 140,555 | 121,000 | 126,299 | 84,732 | 17,019 | 489,605 |
| Additions | 186 | - | 2,967 | - | 969 | 4,122 |
| Disposals | - | - | - | - | (1,065) | (1,065) |
| At March 31, 2007 | 140,741 | 121,000 | 129,266 | 84,732 | 16,923 | 492,662 |
| ***Accumulated Amortization*** | | | | | | |
| At December 31, 2006 | 49,785 | 46,383 | 79,685 | 29,561 | 5,378 | 210,792 |
| Charge for the year | 3,458 | 2,017 | 4,438 | 1,675 | 1,943 | 13,531 |
| Disposals | - | - | - | - | (1,065) | (1,065) |
| At March 31, 2007 | 53,243 | 48,400 | 84,123 | 31,236 | 6,256 | 223,258 |
| ***Carrying Amount*** | | | | | | |
| At March 31, 2007 | 87,498 | 72,600 | 45,143 | 53,496 | 10,667 | 269,404 |

## 6. TRADE RECEIVABLES

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Trade receivables | 123,044 | 123,568 |
| Less: provision for impairment of receivables | (18,223) | (17,979) |
| Trade receivables, net | 104,821 | 105,589 |

## 7. OTHER CURRENT ASSETS

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Prepaid taxes and VAT | 539 | 693 |
| Inventory | 11,418 | 12,200 |
| Miscellaneous receivable | 2,155 | 3,133 |
| Prepaid content | 3,274 | 3,187 |
| Prepayments | 5,614 | 3,038 |
| Receivable on disposal of Phone Plus | 470 | 1,175 |
| Other | 1,407 | 973 |
| | 24,877 | 24,399 |

(in thousands of Euro)

## 8. CASH AND CASH EQUIVALENTS

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Cash at bank and on hand | 15,775 | 37,875 |
| Commercial paper | 44,724 | 9,969 |
| Certificates of deposits | 33,091 | 11,000 |
| | 93,590 | 58,844 |

## 9. DEBT AND OTHER FINANCING

The debt balances specified below include accrued interest as of March 31, 2007 and December 31, 2006, respectively.

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Senior Credit Facility | 689,141 | 700,293 |
| Senior Notes | 377,980 | 369,691 |
| Senior Discount Notes (1) | 224,984 | 221,239 |
| Clientele Fee | 47,067 | 45,860 |
| Annuity Fee | 45,595 | 51,057 |
| Finance lease obligations | 24,871 | 25,821 |
| | 1,409,638 | 1,413,961 |
| Less: deferred financing fees | (22,358) | (23,351) |
| | 1,387,280 | 1,390,610 |
| Less: current portion | (71,021) | (59,767) |
| Total long-term debt | 1,316,259 | 1,330,843 |

(1) Accreted balance of the Senior Discount Notes, converted to Euros on March 31, 2007 and December 31, 2006 at the accounting rate of $1.3318 to €1.00 and $1.3170 to €1.00, respectively.

As of March 31, 2007, the fair market value of Company's outstanding long term debt is estimated to be €1,382,458 versus the carrying amount of €1,316,259.

(in thousands of Euro)

## 10. DERIVATIVE FINANCIAL INSTRUMENTS

The Company has entered into various derivative instruments to manage interest rate and foreign currency exposure. With the exception of the foreign exchange forwards that were purchased historically to hedge the U.S. dollar foreign exchange risk related to the U.S. dollar-denominated Senior Discount Notes the Company does not apply hedge accounting to its derivative instruments. Accordingly, changes in the fair values of all other derivative instruments are recorded in realized and unrealized gains (losses) on financial and derivative instruments in our consolidated statements of operations. The following table provides details of the fair value of our financial and derivative instrument assets (liabilities), net:

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Current asset | 470 | 48 |
| Long-term asset | - | 506 |
| Current liability | (4,268) | (274) |
| Long-term liability | (32,796) | (36,485) |
| | (36,594) | (36,205) |

Realized and unrealized gains (losses) on financial and derivative instruments are comprised of the following amounts:

| | March 31, 2007 | March 31, 2006 |
|---|---|---|
| Interest rate exchange contracts [(1)] | 621 | 3,899 |
| Foreign exchange options | 148 | (88) |
| Foreign exchange forwards | (1,174) | (2,597) |
| | (405) | 1,214 |

Cumulative gains (losses) on financial and derivative instruments deferred in hedging reserves are comprised of the following amounts:

| | March 31, 2007 | March 31, 2006 |
|---|---|---|
| Interest rate exchange contracts [(1)] | - | (148) |
| Foreign exchange forwards | (3,584) | (3,451) |
| | (3,584) | (3,599) |

(1) In the beginning of this year, the Company stopped applying hedge accounting for its Senior Credit Facility which resulted in a full release of hedge reserves relating to the interest rate derivatives for which cash flow hedge relationships were disrupted, amounting to €148. As a consequence, the interest rate derivatives were accounted for at fair value through profit or loss. The fair value of these interest rate derivatives amounted to a liability of €3,290 as of March 31, 2007.

(in thousands of Euro)

## 11. DEFERRED TAXES

Subsidiaries acquired in a previous business combination made taxable profits of €35,733, €29,503 and €85,366 during the three months ended March 31, 2007 and 2006 and the year ended December 31, 2006, respectively, and utilized tax loss carry forwards which had not been previously recognized as deferred tax assets. The utilization of tax losses carried forward from previous business combinations is recorded as a reduction of goodwill using the historic tax rate of 40.17% applicable at the time of the acquisition while the deferred tax asset is established using the current tax rate of 33.99%. This resulted in a deferred tax expense and a reduction of goodwill of €14,351, €11,852 and €34,292 as of and for the three months ended March 31, 2007 and 2006 and as of and for the year ended December 31, 2006, respectively.

## 12. ACCRUED EXPENSES AND OTHER CURRENT LIABILTIES

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Customer deposits | 25,516 | 25,859 |
| Compensation and employee benefits | 28,529 | 32,828 |
| Financial instruments | 4,269 | 275 |
| VAT and withholding taxes | 11,371 | 4,244 |
| Deferred tax liability | 1,342 | - |
| Copyright fees | 9,358 | 14,807 |
| Other current liabilities | 1,575 | 1,479 |
| | 81,960 | 79,492 |

## 13. REVENUE

The Company's revenue comprises:

| | For the three months ended March 31, | |
|---|---|---|
| | 2007 | 2006 |
| **Continuing operations** | | |
| Cable television: | | |
| - Basic Subscribers (1) | 54,872 | 49,792 |
| - Premium Subscribers (1) | 14,049 | 11,027 |
| - Distributors/Other | 9,667 | 8,390 |
| Residential: | | |
| - Internet | 78,467 | 63,896 |
| - Telephony(2) | 48,378 | 44,480 |
| Business | 21,383 | 18,600 |
| Subtotal continuing operations | 226,816 | 196,185 |
| **Discontinued operations** | | |
| Residential: | | |
| - Telephony(2) | - | 2,190 |
| Total | 226,816 | 198,375 |

(in thousands of Euro)

The Company also has unearned revenue as follows:

| | March 31, 2007 | December 31, 2006 |
|---|---|---|
| Cable television: | | |
| - Basic Subscribers [1] | 103,802 | 113,982 |
| - Premium Subscribers [1] | 13,184 | 10,104 |
| - Distributors/Other | 7,946 | 207 |
| Residential: | | |
| - Internet | 10,337 | 10,539 |
| - Telephony[2] | 2,625 | 2,529 |
| Business | 1,143 | 643 |
| Total | 139,037 | 138,004 |
| Current portion | 124,732 | 123,179 |
| Long-term portion | 14,305 | 14,825 |

(1) Basic and premium cable television substantially comprises residential customers, but also includes a small proportion of business customers.

(2) Residential telephony revenue also includes interconnection fees generated by business customers.

Unearned revenue is generally fees prepaid by the customers and are recognized in the Income Statement on a straight-line basis over the related service period.

## 14. EXPENSES BY NATURE

| | For the three months ended March 31, 2007 | For the three months ended March 31, 2006 |
|---|---|---|
| Employee benefits: | | |
| - Wages, salaries, commissions and social security costs | 24,443 | 22,870 |
| - Share options granted to directors and employees | 84 | 119 |
| - Other employee benefit costs | 6,799 | 5,123 |
| Employee benefits | 31,326 | 28,112 |
| Depreciation | 42,662 | 40,113 |
| Amortization | 11,723 | 10,611 |
| Amortization of broadcasting rights | 1,808 | 1,271 |
| Network operating and service costs | 65,222 | 59,211 |
| Advertising, sales and marketing | 14,258 | 14,070 |
| Other costs | 9,686 | 8,279 |
| Total costs and expenses | 176,685 | 161,667 |
| Attributable to: | | |
| Continuing operations | 176,685 | 159,447 |
| Discontinued operations | - | 2,220 |
| Total | 176,685 | 161,667 |

**(in thousands of Euro)**

## 15. FINANCE COSTS

| | For the three months ended March 31, 2007 | 2006 |
|---|---|---|
| Interest expense | 26,752 | 29,223 |
| Interest income | (605) | (2,336) |
| Interest expense, net | 26,147 | 26,887 |
| Net foreign exchange transaction gains on financing transactions | (2,541) | (5,855) |
| Change of fair value of foreign exchange forward contracts reclassified into earnings | 2,928 | 5,465 |
| Change in fair value of derivatives | (2,523) | (6,679) |
| Total (gains)/losses on derivative financial instruments | 405 | (1,214) |
| Loss on extinguishment of debt | - | - |
| Finance costs, net | 24,011 | 19,818 |
| Attributable to: | | |
| Continuing operations | 24,011 | 19,814 |
| Discontinued operations | - | 4 |
| Total | 24,011 | 19,818 |

(in thousands of Euro)

## 16. PROFIT PER SHARE

### *Basic*

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares and Class B Profit Certificates outstanding during the period.

| | For the three months ended March 31, 2007 | For the three months ended March 31, 2006 |
|---|---|---|
| Net income from continuing operations used in the calculation of basic earnings per share from continuing operations | 10,758 | 5,083 |
| Net loss from discontinued operations used in the calculation of basic earnings per share from discontinued operations | - | (34) |
| Net income attributable to the equity holders of the Company | 10,758 | 5,049 |
| Weighted average number of ordinary shares | 101,140,300 | 100,204,853 |
| Weighted average number of Class A Profit Certificates | 54,978 | - |
| Weighted average number of Class B Profit Certificates | 113,806 | 62,877 |
| Weighted average number of shares in issue | 101,309,084 | 100,267,730 |
| Basic earnings per share in € | 0.11 | 0.05 |

### *Diluted*

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential ordinary shares. During the three months ended March 31, 2007, the Company had three categories of dilutive potential ordinary shares: the Class A and Class B Options and the Subordinated Debt Warrants.

For the three months ended March 31, 2007, the calculation is performed for the Class A and Class B Options and the Subordinated Debt Warrants to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The earnings used in the calculation of diluted earnings per share measures are the same as those for the basic earnings per share measures, as outlined above.

| | For the three months ended March 31, 2007 | For the three months ended March 31, 2006 |
|---|---|---|
| Weighted average number of shares in issue | 101,309,084 | 100,267,730 |
| Adjustment for: | | |
| - Class A Options | 827,614 | 876,189 |
| - Class B Options | 361,237 | 441,014 |
| - Subordinated Debt Warrants | 4,369,784 | 1,925,115 |
| Weighted average number of shares for diluted earnings per share | 106,867,719 | 103,510,048 |
| Diluted earnings per share in € | 0.10 | 0.05 |

**(in thousands of Euro)**

## 17. CLASS A AND CLASS B OPTIONS

During February and March 2007, 30,000 Class A Options and 44,532 Class B Options were exercised versus payments of €260 and €371 and exchanged on a one-for-one basis for Class A and Class B Profit Certificates. This was accounted for as an increase in Other Reserves within Equity and did not result in an increase in the outstanding share capital of the Company. The average share price during February and March were €23.60 and 23.59. Also during March 2007, the Class B Profit Certificates that were issued in 2006 were exchanged for 68,553 shares of the Company and resulted in a transfer of €571 between Other Reserves and Share Capital within Equity

During the first quarter of 2007, LGI acquired 2,720,970 or 2.6% of Telenet's outstanding ordinary shares through transactions with third parties and the conversion of certain subordinated debt warrants. As a result of the transaction LGI holds 31,813,444 shares in Telenet Group Holding, representing 31.32% of the share capital.

## 18. DISPOSAL OF SUBSIDIARY

On November 28, 2006, Telenet signed an agreement for the 100% sale of its subsidiary Phone Plus to Toledo Telecom. Under the terms of the transaction, Telenet will receive total cash consideration of €2,350 less €1,056 cash and cash equivalents that was held by Phone Plus when disposed. Of the cash consideration, €470 is deferred until the fourth quarter of 2007. Telenet took the decision to sell Phone Plus as part of an optimisation of its products and services. In that review, Phone Plus was considered as a non-core business and is therefore being split off from Telenet through the sale of all the shares. Toledo Communications and Telenet Solutions are working towards further broadening and deepening of their business cooperation for voice and data products.

| | For the three months ended March 31, |
|---|---|
| | **2007** |
| **Loss from discontinued operations** | |
| Revenue | 2,190 |
| Expenses | (2,224) |
| Profit (loss) before tax | (34) |
| Attributable income tax expense | - |
| Profit (loss) from discontinued operations | (34) |
| **Cash flows from discontinued operations** | |
| Net cash flows from operating activities | (358) |
| Net cash flows from investing activities | (7) |
| Net cash flows from financing activities | - |
| Net decrease in cash and cash equivalents | (365) |
| **Net assets as at March 31, 2007** | |
| Non-current assets | 96 |
| Current assets | 3,339 |
| Non-current liabilities | - |
| Current liabilities | (2,615) |
| Net assets as at March 31, 2007 | 820 |

## 19. COMMITMENTS AND CONTINGENCIES

In our previous interconnection case before the Council of State, the auditor advised the Council to annul the BIPT decision of 11 June 2002 as the decision was not sufficiently motivated. We expect the Council to follow the advice of the auditor. We have introduced on comments on this advice. No final judgment by the Council of State is to be expected by the first quarter of 2008

On July 20, 2006, Telenet NV entered into an arrangement to finance the construction of a new building for a maximum amount of €30,000. At the end of the construction period the company will start paying quarterly lease payments, based on fixed capital repayments, in order to repay the total amount financed plus applicable interest charges. On March 31, 2007 the total amount capitalized for construction in progress was €22,671 and an equivalent amount is presented as short-term borrowings pursuant to the terms of the above mentioned finance agreement. At the end of the construction period a sale and lease back will be accounted for whereby the lease back is a finance lease. The lease period will last for 15 years starting at the end of the construction period and the Company has a bargain purchase option at the end of the lease.

## 20. RELATED PARTIES

There are no other significant related parties than those disclosed in our consolidated financial statements of 2006 and these related party transactions did not change significantly compared to those disclosed in the consolidated financial statements of 2006.

## 21. SUBSEQUENT EVENTS

***Liberty Global, Inc. nominates new members in Board of Directors***

LGI has submitted a request to nominate seven additional Directors, bringing their total number of representatives to nine of the 17 members in the Board of Directors of Telenet Group Holding at the occasion of the General Shareholder Meeting on May 31, 2007. The seven newly proposed LGI Directors are: Niall Curran, Bernie Dvorak, Diederik Karsten, Manuel Kohnstamm, Gene Musselman, Ruth Pirie and Jim Ryan.

***Interkabel***

Discussions between Telenet and Interkabel on an agreement for iDTV and video-on-demand services have diverged. These discussions have been complicated by the differences in interpretation of the precise scope of long-term cable usage rights for point-to-point services, which Interkabel contributed to capital of Telenet in 1996 in exchange for shares. Attempts at an amicable solution have failed so far. From recent statements and market indications, Telenet has learned that Interkabel and the PICs are considering to launch certain interactive (point-to-point) applications within the scope of the Cable Usage Rights transferred to Telenet under the 1996 Contribution Deed. Telenet considers this in breach of the Contribution Deed and therefore instituted legal action before the courts of Brussels to protect its rights. Telenet remains committed to working towards a constructive solution, consistent with its rights.

## ITEM 2 MANAGEMENT’S DISCUSSION AND ANALYSIS

### Introduction

The following discussion and analysis is based on the condensed consolidated Interim Financial Statements of Telenet Group Holding as of and for the three months ended March 31, 2007 and 2006 and the audited consolidated financial statements of Telenet Group Holding as of the period ended December 31, 2006 prepared in accordance with EU GAAP. We have included selected financial information on Telenet Group Holding as of and for the relevant periods. You should read the condensed consolidated interim financial statements attached hereto, including the notes thereto, together with the following discussion and analysis.

Telenet Group Holding is a holding company that does not conduct any business operations of its own. Substantially all the assets of Telenet Group Holding consist of shares of its subsidiary Telenet Communications and intercompany loans made to Telenet Communications in connection with the acquisition of our network from the mixed intercommunales (“MICs”) in August 2002 (the “MixtICS Acquisition”) and with the refinancing that took place on December 22, 2003 (the “Refinancing”). These intercompany loans bear interest at a rate that is similar to the rate at which debt incurred by Telenet Group Holding bears interest. Except for the impact of presenting as equity detachable warrants issued by Telenet Group Holding, the financial position and results of operations of Telenet Group Holding is substantially the same as the financial position and results of operations of Telenet Communications for the relevant periods.

### Balance Sheet Information

| (Euro in millions) | As of March 31, 2007 | As of December 31, 2006 |
|---|---|---|
| | (Unaudited) | (Audited) |
| Cash and cash equivalents | 93.6 | 58.8 |
| Current assets, excluding cash and cash equivalents | 129.7 | 130.0 |
| Property and equipment, net | 981.8 | 973.4 |
| Total assets | 2,610.8 | 2,592.1 |
| Trade payables | 176.7 | 180.5 |
| Total cash pay debt | 1,168.5 | 1,185.7 |
| Total debt | 1,387.3 | 1,390.6 |
| Shareholders' equity | 738.7 | 721.7 |

### Subsequent Events

Please see note 21 of our condensed consolidated Interim Financial Statements for information regarding changes in the composition of our Board of Directors and the situation with Interkabel.

**Results of Operation**

The following tables set forth certain summary operating information as of and for the periods indicated:

| **As of and for the three months ended,** | **March 31, 2007** | **March 31, 2006** | **% Change** |
|---|---|---|---|
| Homes passed – Telenet Network (in thousands) | 1,719 | 1,703 | 1% |
| Homes passed – Partner Network (in thousands) | 818 | 811 | 1% |
| Homes passed – Telenet Brussels Network [(1)] (in thousands) | 187 | - | - |
| **RGUs** (in thousands) | | | |
| Television | | | |
| Basic analog TV [(2)] | 1,454 | 1,481 | -2% |
| Basic digital TV [(2)] | 281 | 115 | 143% |
| Total basic TV [(2)] | 1,735 | 1,597 | 9% |
| Premium – Telenet & Telenet Brussels Network [(3)] | 16 | 39 | -59% |
| Premium – Partner & Other Networks [(3)] | 26 | 35 | -24% |
| iDTV – Telenet Network [(3)] | 276 | 115 | 139% |
| Total Premium TV [(3)] | 318 | 189 | 69% |
| Internet | | | |
| Residential Broadband Internet [(4)] [(5)] | 777 | 626 | 24% |
| Business Broadband Internet | 27 | 24 | 13% |
| Total Broadband Internet [(4)] [(5)] | 804 | 650 | 24% |
| Telephony | | | |
| Residential Telephony [(5)] | 474 | 375 | 26% |
| Business Telephony | 8 | 6 | 28% |
| Total Telephony | 482 | 381 | 26% |
| Mobile Telephony (active SIM cards) | 28 | - | - |
| Total, excluding basic Mobile Telephony | 3,338 | 2,816 | 19% |
| **Unique Customer Information (on Telenet Network)** | | | |
| RGUs per unique customers [(6)] | 1.52 | 1.44 | 6% |
| Total unique customers (in thousands) | 1,603 | 1,597 | 0% |
| ARPU [(7)] for the three months ended | 28.7 | 25.3 | 11% |

(1) Consists of homes passed by network acquired pursuant to UPC Belgium acquisition on December 31, 2006 in Brussels and in Leuven.

(2) Our basic analog TV services comprises 1.6 million analog TV customers in the Telenet Network area and 126,330 basic analog and 4,843 basic digital TV customers on the Telenet Brussels Network.

(3) Our premium cable services on the Telenet and Telenet Brussels Network comprise our Prime premium service customers (former Canal+) in our Network area and include 6,273 premium service subscribers on the UPC Belgium network. Our iDTV service comprises premium enabled customers as those who have purchased a digital set top box and registered a smartcard for use in conjunction with digital services other than our basic digital cable service, which is only offered to customers in the Telenet Network area.

(4) Our residential broadband internet RGUs include households and small businesses with up to four employees ("SoHos") that receive our broadband internet through a coaxial connection. On March 31, 2007 our residential broadband internet RGUs included 44,155 residential broadband internet RGUs in the newly acquired UPC Belgium area. FreeSurf narrowband internet subscribers are not included in our RGU statistics.

(5) Our residential telephony RGUs include households and small businesses with up to four employees ("SoHos") that receive our telephony services through a coaxial connection.

(6) Revenue Generating Unit (RGU) is separately a Basic Cable Subscriber, Broadband Internet Subscriber or Fixed

Telephony Subscriber. A home may contain one or more RGUs.

(7) Average monthly revenue (ARPU) per unique customer is calculated as follows: average total monthly recurring revenue (including revenue earned from carriage fees and excluding interconnection revenue and installation fees) for the indicated period, divided by the average of the opening and closing unique customers for the period.

The following table sets forth certain summary financial information[(1)] for the periods indicated:

| **(Euro in millions, except percentages and per share amounts)** | **For the three months ended March 31,** | |
|---|---|---|
| | **2007** | **2006** |
| **Revenue Continuing Operations** | | |
| Basic cable television | 54.9 | 49.8 |
| Premium cable television | 14.0 | 11.0 |
| Distributors / other | 9.7 | 8.4 |
| Residential broadband internet | 78.5 | 63.9 |
| Residential telephony | 48.4 | 44.5 |
| Business services | 21.4 | 18.6 |
| Subtotal Continuing Operations | 226.8 | 196.2 |
| **Revenue Discontinued Operations** | | |
| Residential telephony | - | 2.2 |
| Total | 226.8 | 198.4 |
| **Expenses** | | |
| Costs of services provided | (134.4) | (120.4) |
| Gross Profit | 92.4 | 75.8 |
| Selling, general and administrative costs | (42.3) | (39.0) |
| Operating profit | 50.1 | 36.7 |
| Finance costs, net | (24.0) | (19.8) |
| Net profit (loss) before income taxes | 26.1 | 16.9 |
| Income tax expense | (15.3) | (11.8) |
| Net income | 10.8 | 5.1 |
| **EBITDA**[(2)] | 106.3 | 88.7 |
| **EBITDA margin** | 47% | 45% |
| Weighted average shares outstanding | 101,309,084 | 100,267,730 |
| Basic net earnings per share | 0.11 | 0.05 |
| Diluted net earnings per share | 0.10 | 0.05 |
| **Expenses by Nature** | | |
| Employee benefits | 31.3 | 28.1 |
| Depreciation | 42.7 | 40.1 |
| Amortization | 11.7 | 10.6 |
| Amortization of broadcasting rights | 1.8 | 1.3 |
| Network operating and service costs | 66.9 | 60.6 |
| Advertising, sales and marketing | 14.3 | 14.1 |
| Other costs | 8.0 | 6.8 |
| Total Expenses | 176.7 | 161.7 |

(1) The financial results for the three months ended March 31, 2007 include the financial results of UPC Belgium, acquired on December 31, 2006.

(2) EBITDA is defined as Operating Profit + Depreciation and Impairment + Amortization + Amortization of Broadcasting Rights.

**Three months ended March 31, 2007 compared to the three months ended March 31, 2006 and year ended December 31, 2006**

The financial information for the three months periods ended March 31, 2007 and March 31, 2006 included in the discussion set forth below is derived from Telenet Group Holding's condensed consolidated Interim Financial Statements for the three months ended March 31, 2006 and 2007 and from the audited consolidated financial statements for the period ended December 31, 2006.

***Revenue***

Revenue of continued operations, including UPC Belgium contributions in the 2007 result, increased by €30.6 million, or 16%, to €226.8 million for the three months ended March 31, 2007 from €196.2 million for the three months ended March 31, 2006. Excluding the acquisition of UPC Belgium, revenue grew by €21.6 million or 11%. The principal drivers of our revenue growth were subscriber growth in our residential broadband internet and telephony businesses, sales of set top boxes for our iDTV service and to a lesser degree in our business services operations.

*Cable Television*

Our aggregate cable television revenue was €78.6 million for the three months ended March 31, 2007, an increase of €9.4 million compared to the three months ended March 31, 2006.

We generated €54.9 million of basic cable television revenue for the three months ended March 31, 2007, compared with €49.8 million for the three months ended March 31, 2006, an increase of 10%. This increase is mainly a consequence of the UPC Belgium Acquisition, without which our basic cable television revenue would have remained steady. The steadiness of this revenue reflects the sustained high penetration of our basic cable services and stable basic cable television tariffs.

Our premium cable television business, which combines both the Prime premium service and the iDTV service we launched in September 2005, contributed €14.0 million to our aggregate cable revenue for the three months ended March 31, 2007, compared to €11.0 million for the same period in the prior year. This increase is resulting from the combination of strong subscriber growth and steady ARPUs of €13.4 per month in our iDTV business.

Our cable television revenue also includes carriage fee revenue from the distribution of certain content on our network and set top box revenue. Set top box revenue was the principal factor resulting in a €1.3 million increase in distributor and other revenue to €9.7 million for the three months ended March 31, 2007, from €8.4 million for the three months ended March 31, 2006.

*Residential Broadband Internet*

Revenue generated by our residential broadband internet business continued to grow, by 23%, to €78.5 million for the three months ended March 31, 2007 from €63.9 million for the three months ended March 31, 2006. Approximately 73% of this revenue growth represents the organic growth of our residential broadband internet subscribers between March 31, 2006 and March 31, 2007, combined with the steady ARPUs generated by these subscribers. The remaining 27% is attributable to the UPC Belgium acquisition.

*Residential Telephony*

Residential telephony revenue (including interconnection revenue for both residential subscribers and business customers) increased for the three months ended March 31, 2007 by 9%, to €48.4 million for the three months ended March 31, 2007, from €44.5 million for the three months ended March 31, 2006. This increase was primarily due to the 26% net subscriber growth for the period ended March 31, 2007 compared to March 31, 2006, the benefit of which was partially offset by a decline in the ARPUs reflecting the ongoing take up of our Freephone tariff plans and of bundled offers, which applied to new subscribers and which have also been adopted by a significant portion of our existing telephony subscribers. The discount embedded in a bundled offer has been attributed on a pro rata basis of the stand-alone subscription fees to broadband internet, telephony and iDTV revenue, as applicable.

*Business Services*

Business services revenue increased by 15%, to €21.4 million for the three months ended March 31, 2007, from €18.6 million for the three months ended March 31, 2006. This increase represents a faster growth rate than the overall market, and was partly attributable to higher customer installation revenue and the revenue from the high profile contract wins during the second half of 2006. In an environment that is highly sensitive to price and imposes more demanding service requirements, we seek to offer a combination of qualities, including high levels of service, a full product portfolio and geographic coverage.

***Costs and Expenses***

*Costs of Services Provided*

Costs of services provided increased by €14.0 million, or 12%, to €134.4 million for the three months ended March 31, 2007, from €120.4 million for the three months ended March 31, 2006. As a percentage of revenue, costs of services provided decreased to 59% for the three months ended March 31, 2007, from 61% for the three months ended March 31, 2006. The decrease in costs of services provided as a percentage of revenue, reflects the implementation of several efficiency enhancing programs, offsetting the impact of the strong subscriber growth in residential telephony and iDTV services, which resulted in higher call center activity, network operating costs, programming and personnel and customer service costs.

***Gross Profit***

Our gross profit for the three months ended March 31, 2007 increased by 22% to €92.4 million, compared to €75.8 million for the three months ended March 31, 2006. Our gross margin increased to 41% for the three months ended March 31, 2007, from 39% for the three months ended March 31, 2006.

*Selling, General and Administrative Expenses*

Selling, general and administrative (SG&A) expenses increased by €3.3 million, or 8%, to €42.3 million for the three months ended March 31, 2007, from €39.0 million for the three months ended March 31, 2006. As a percentage of revenue, SG&A expenses were 19% for the three months ended March 31, 2007 and 20% for the three months ended March 31, 2006.

The principal factors contributing to the increase of our SG&A expenses were the high level of sales activity across all residential product lines, reflected both in higher personnel costs and in higher advertising and marketing costs. Notwithstanding the growth of the overall growth of our business and the continued rapid growth of our iDTV subscriber base, our SG&A expenses declined slightly as a percentage of total revenue.

***Operating Profit***

Operating profit increased by 37%, to €50.1 million for the three months ended March 31, 2007, from €36.7 million for the three months ended March 31, 2006, as a result of the factors described above. Our operating profit margins increased to 22% for the three months ended March 31, 2007, from 19% for the three months ended March 31, 2006.

***EBITDA***

Our EBITDA increased by €17.6 million, or 20%, to €106.3 million for the three months ended March 31, 2007, from €88.7 million for the three months ended March 31, 2006. Our EBITDA margin increased to 47% for the three months ended March 31, 2007, from 45% for the three months ended March 31, 2006. Excluding the UPC Belgium Acquisition, our EBITDA increased by 15% to €101.6 million for the three months ended March 31, 2007.

***Finance Costs***

*Net Interest Expense*

Net interest expense decreased to €26.1 million for the three months ended March 31, 2007 from €26.9 million for the three months ended March 31, 2006. This decrease is primarily due to the reduction in our total debt following the debt prepayments under the Senior Credit Facility and Senior Notes between January and May 2006 and the lower margins we paid on our Senior Credit Facility as a result of the decreased leverage we attained and the refinancing of our Senior Credit Facility in May 2006. These effects were to a large extent offset by our increased net debt balance following the UPC Belgium Acquisition and the steady increase of 3-month EURIBOR interest rate payable on the Senior Credit Facility.

*Gains and Losses Resulting from Foreign Exchange Exposures and Derivatives*

Net foreign exchange and derivatives income or expense consists of (i) net foreign exchange transaction gains or losses, which reflects changes in the spot value of our foreign currency debt obligations, (ii) the change in the fair value of foreign exchange forward contracts reclassified into earnings, which reflects the effect of the hedging for the changes in the spot value of our foreign currency hedges for these foreign currency debt obligations, and (iii) the change in the fair value of other derivatives. These effects generated a gain of €2.1 million for the three months ended March 31, 2007 compared to a gain of €7.1 million for the three months ended March 31, 2006. These changes are primarily a result of fluctuations in the fair value of the forward points on the foreign exchange forward contracts and the change in the fair value of our interest rate derivatives.

As a percentage of revenue, net finance costs were 11% for the three months ended March 31, 2007 and 10% for the three months ended March 31, 2006.

***Income tax expense***

Income tax expenses amounted to €15.3 million for the three months ended March 31, 2007 and €11.8 million for the three months ended March 31, 2006. Although we have significant tax loss carry forwards in our group, these deferred taxes were recorded under goodwill at the time of the acquisition of Telenet Holding NV by Telenet Bidco in 2001. The vast majority of the reported deferred taxes did not have any cash consequences. See note 11 to the condensed consolidated Interim Financial Statements.

***Net Income***

Including all the factors described above, our net income increased by 112% or €5.7 million, to €10.8 million for the three months ended March 31, 2007, from net income of €5.1 million for the three months ended March 31, 2006.

As of December 31, 2006, Telenet Group Holding and its subsidiaries had combined cumulative tax loss carry forwards of €698.9 million, which we believe can be offset against current and future taxable income of the group.

***Net Income per Share***

Our basic net income per share improved to €0.11 for the three months ended March 31, 2007 compared to a net income per share of €0.05 for the three months ended March 31, 2006 as a result of the factors described above.

Our diluted net income per share increased to €0.10 for the three months ended March 31, 2007, compared to a net income per share of €0.05 for the three months ended March 31, 2006 as a result of the factors described above.

**Liquidity and Capital Resources**

***Historical Cash Flows***

The following table sets forth the components of our historical cash flows for the periods indicated:

| | For the three months ended March 31, | |
|---|---|---|
| **(Euro in millions)** | **2007** | **2006** |
| Cash flows provided by operating activities | 94.4 | 75.1 |
| Cash flows used in investing activities | (48.8) | (48.9) |
| Cash flows used in financing activities | (10.9) | (141.6) |
| Net increase (decrease) in cash and cash equivalents | 34.7 | (115.5) |

*Cash Flows Provided by Operating Activities*

Net cash provided by operating activities increased to €94.4 million for the three months ended March 31, 2007 from €75.1 million for the three months ended March 31, 2006. This increase mainly reflects the higher EBITDA in the first three months of 2007, offset by slightly higher interest expenses, as compared to the comparable period of the prior year.

*Cash Flows Used  in Investing Activities*

Net cash used in investing activities remained stable at €48.8 million for the three months ended March 31, 2007 compared to €48.9 million for the three months ended March 31, 2006, reflecting similar levels of capital expenditures in both periods.

*Cash FlowsUsed in Financing Activities*

Net cash used in financing activities was €10.9 million for the three months ended March 31, 2007 and €141.6 million for the three months ended March 31, 2006.  These uses of cash primarily reflect the redemption of €124.8 million of the Senior Notes of Telenet Communications in January 2006 and capital repayments under the Annuity Fee Agreement with the Pure Intercommunales in the first quarters of 2007 and 2006. On March 31, 2007 Telenet fulfilled a first scheduled repayment of  €11.0 million under Tranche A of the Senior Credit Facility.

***Capital Expenditure***

Our business is highly capital intensive. Capital expenditure on fixed assets was €44.0 million for the three months ended March 31, 2007 and €43.7 million for the three months ended March 31, 2006, including €7.1 million spent on land and the construction of our office extension. During each of these periods, a significant portion of our purchases of fixed assets was related to capital expenditures for customer premise equipment and related installation costs for new subscribers and to capital expenditures on network capacity, which was also related to subscriber growth.

***Available Liquidity***

We maintain cash and cash equivalents to fund the day-to-day cash requirements of our business. We hold cash primarily in Euros. We held €93.6 million of cash and cash equivalents as of March 31, 2007, as compared to €58.5 million as of December 31, 2006.  On March 31, 2007 we made our first scheduled payment of €11.0 million under Tranche A of the Senior Credit Facility.

As of March 31, 2007, €100.0 million of Tranche B of the Senior Credit Facility, which is a €200.0 million revolving credit facility, was available to us subject to our being in compliance with certain financial covenants and other conditions. On December 29, 2006, €100.0 million of Tranche B was drawn. On April 30, 2007, Telenet Bidco has executed a voluntary prepayment of €50.0 million under Tranche B of the Senior Credit Facility.

An additional liquidity facility of €200 million, or, if utilised for the acquisition of certain Belgian cable assets, up to €350.0 million remains available to us under Tranche C of the Senior Credit Facility, subject to certain conditions being fulfilled.

The principal risks to our sources of liquidity are operational risks, including risks associated with decreased pricing, reduced subscriber growth, increased marketing costs and other consequences of increasing competition. Our ability to service our debt (including payments on the Notes) and to fund our ongoing operations will depend on our ability to generate cash. Although we anticipate generating positive cash flow after deducting interest and taxes, we cannot assure you that we will continue to generate net positive cash flow.

We believe that our cash flow from operations and our existing cash resources, together with available borrowings under the Senior Credit Facility, will be sufficient to fund our currently anticipated working capital needs, capital expenditures and debt service requirements.

***Contingent Liabilities and Commitments***

For a discussion of our contingent liabilities and commitments, some of which are significant, see note 18 to our Condensed Consolidated Interim Financial Statements and the Company's 2006 Annual Report. Following past litigation concerning our copyright fees and the subsequent settlement, as of March 31, 2007, we retained an accrual of approximately €13.4 million.

***Off-Balance Sheet Arrangements***

Historically, we have not used special-purposes vehicles or similar financing arrangements. In addition, we do not have any off-balance sheet financing arrangements with any of our affiliates or with any unconsolidated entities.

***Lack of Tax Consolidation***

To the extent mismatches between taxable income and deductible expenses occur within the Telenet group, our ability to generate cash flow could be adversely affected (because Belgian tax law does not provide for group-wide consolidation).

## ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks relating to fluctuations in interest rates and foreign exchange rates, primarily between the U.S. dollar and the Euro, and use financial instruments to manage our exposure to interest rate and foreign exchange rate fluctuations.

*Interest Rate and Related Risk*

Borrowings under the Senior Credit Facility and the original lease of our headquarters building bear interest at variable rates. We are therefore exposed to changes in interest rates. In order to mitigate this exposure, we have entered into interest rate swap agreements, caps and interest rate collars. Pursuant to interest rate swap agreements, at specified intervals, we pay a fixed interest rate and receive a variable interest rate calculated by reference to an agreed-upon notional principal amount. As a result of numerous changes we have made to our senior credit facilities in recent years, we had excess hedging amounts until December 29, 2006. In anticipation of the purchase of UPC Belgium, on December 29, 2006, we drew down €100.0 million on our Senior Credit Facility to fund a portion of this acquisition. As a result of this drawdown, we were under-hedged compared to our floating rate debt by €85.3 million on March 31, 2007.

In conjunction with entering into our new Senior Credit Facility in May 2006, the Company discontinued cash flow hedge accounting for all outstanding interest rate derivatives. Consequently, cumulative losses that were previously recorded through hedging reserves were reversed into profit or loss. Interest rate derivatives still outstanding as of December 31, 2006 were accounted for at fair value through profit or loss. On June 30, 2006, the Company defined new hedge relationships for all of its interest rate derivatives related to the floating rate debt under the Senior Credit Facility. On December 31, 2006, the Company defined new hedge relationships for part of its interest rate derivatives for which no hedge relationship was defined prior to the additional drawdown of December 29, 2006.

In the beginning of this year, the Company stopped applying hedge accounting for its Senior Credit Facility which resulted in a full release of hedge reserves relating to the interest rate derivatives for which cash flow hedge relationships were disrupted, amounting to €148. As a consequence, the interest rate derivatives were accounted for at fair value through profit or loss. The fair value of these interest rate derivatives amounted to a liability of €3,290 as of March 31, 2007.

*Interest Rate Sensitivity Testing*

The following table summarises our outstanding indebtedness which carries a floating rate of interest, as well as the aggregate installments due under such indebtedness as of March 31, 2007:

| | Expected Maturity Date (Amounts expressed in thousands of Euro) | | | | | | |
|---|---|---|---|---|---|---|---|
| **Principal Payments** | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** | **Total** |
| Senior Credit Facility | | | | | | | |
| Tranche A (Euribor +1.00%) | 33,000 | 52,000 | 62,000 | 72,000 | 370,000 | - | 589,000 |
| Tranche B (Euribor +1.00%) | - | - | - | - | 100,000 | - | 100,000 |
| Tranche C (Uncommitted) | - | - | - | - | - | - | - |
| Capital Lease on Buildings [3] (Euribor + 0.25%) | 819 | 1,463 | 1,965 | 1,965 | 2,184 | 10,350 | 18,746 |
| **Total Principal Payments on Floating Rate Debt** | 33,819 | 53,463 | 63,965 | 73,965 | 472,184 | 10,350 | 707,746 |
| **Interest payments [1] [2] [3]** | | | | | | | |
| Senior Credit Facility | 26,466 | 33,049 | 29,976 | 26,646 | 6,472 | - | 122,609 |
| Capital Lease Buildings | 647 | 808 | 727 | 633 | 535 | 1,021 | 4,371 |
| **Interest Payment Sensitivity [4]** | | | | | | | |
| Interest rate increase of 0.25% | 28,009 | 34,378 | 31,267 | 27,729 | 6,639 | - | 128,022 |
| Interest rate increase of 1.00% | 30,377 | 38,091 | 34,903 | 30,769 | 6,930 | - | 141,070 |

(1) Interest payments on the Senior Credit Facility are based on outstanding balances as of March 31, 2007 and do not take into account any possible effects of the margin ratchet provisions that are included in the Tranche A and Tranche B Margin.

(2) *Pro forma* interest calculations are based on a 3.914% three-month Euribor as of March 31, 2007, and include net payments due under the outstanding interest rate derivative instruments as of that date.

(3) These amounts exclude our €22.7 million short-term borrowings as part of our capital lease related to our headquarters building extension. See also note 18 to our condensed consolidated financial statements.

(4) Taking into the account the effects of our interest rate hedges, we have calculated the impact of interest rate increases of 0.25% and 1.00%. The equivalent total net cashflow impact is €5.4 million in the 0.25% interest rate increase example and €18.5 million in the 1.00% interest rate increase example, in both cases over the remaining lifetime of the Senior Credit Facility.

For fixed rate debt, changes in interest rates generally affect the fair value of the debt instrument, but not our earnings or cash flows. We do not currently have any obligation to prepay fixed rate debt prior to maturity and, accordingly, interest rate risk and changes in fair market value should not have a significant effect on the fixed rate debt until we would be required to refinance such debt. At March 31, 2007, we had outstanding fixed rate debt and other obligations of €599.0 million.

*Foreign Currency Risk*

Our functional currency is the Euro. However, we conduct, and will continue to conduct transactions in currencies other than the Euro, particularly the U.S. dollar. Approximately 5% of our costs of operations (primarily the costs of network hardware equipment and software and premium cable television rights) for the three months ended March 31, 2007 were denominated in U.S. dollars, while all of our revenue was generated in Euros.

The Company has used forward and option contracts in order to limit its exposure to the U.S. dollar fluctuations against the Euro for transactions that are part of daily operations. These derivatives are economic hedges but have not been accounted for as cash flow hedges.

In order to hedge the foreign exchange exposure resulting from the issuance of the $558 million Senior Discount Notes by Telenet Group Holding, we initially entered into a series of foreign exchange forward contracts (FECs) (for the purchase of US dollars in exchange for Euros) for a total nominal amount of $558 million with a maturity on December 15, 2008, the end of accretion period of the Senior Discount Notes (the "Full Accretion Date"). Following the partial redemptions of our Senior Discount Notes on November 22, 2005 and November 23, 2005 for a total of $195,300,000 in fully accreted value, we unwound forward exchange contracts for an equivalent amount.

We are considering the further use of derivative instruments to hedge the US dollar cash outflow related to the cash interest payments under the Senior Discount Notes which are payable from June 15, 2009 until the maturity of the Senior Discount Notes.

**Credit Risk**

Credit risk relates to the risk of loss that we would incur as a result of non-performance by counterparties. We maintain credit risk policies with regard to our counterparties to minimize overall credit risk. These policies include an evaluation of a potential counterparty's financial condition, credit rating, and other credit criteria and risk mitigation tools as deemed appropriate.

## PART II – OTHER INFORMATION

### ITEM 1 LEGAL PROCEEDINGS

Please refer to our 2006 Annual Report for information on litigation regarding copyrights and interconnect matters.

As of March 31, 2007, the Company retained an accrual of €13.4 million in other liabilities for the amounts that the Company expects to pay as a result of past copyright litigation settlements.

Other than the update to our copyright litigation accrual, there are no further amendments to our disclosures regarding these items.

**ANNEX**
**SUMMARY GUARANTOR FINANCIAL INFORMATION**
**(in thousands of Euro)**
**(Unaudited)**

The following condensed consolidated financial information presents the financial information of Telenet Group Holding, Telenet Communications, the Subsidiary Guarantors of the 9% Senior Notes due 2013 issued by Telenet Communications (consisting of Telenet Bidco, Telenet NV and Telenet Vlaanderen) and the non-guarantor subsidiaries in the Telenet group (consisting of Merrion Communications) on a non-consolidated basis, accounting for the investments in subsidiaries under the equity method. The financial information may not necessarily be indicative of the financial position or the results of operations had Telenet Group Holding, Telenet Communications, the Subsidiary Guarantors or non-guarantor subsidiaries operated as independent entities as of and for the year ended December 31, 2005. The obligations of Telenet NV under the senior credit facility included within the ‘‘Unconsolidated Subsidiary Guarantors’’ column have been guaranteed by certain Subsidiary Guarantors.

| | For the three months ended March 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| **(Euro in millions)** | **Telenet Group Holding** | **Telenet Communi-cations** | **Unconsoli-dated Subsidiary Guarantors** | **Unconsoli-dated Non-Guarantor Subsidiaries** | **Eliminations** | **Consolidated** |
| **Income Statement** | | | | | | |
| Revenues | - | - | 217.9 | 9.0 | (0.1) | 226.8 |
| Costs of services provided | - | - | (130.1) | (4.4) | 0.1 | (134.4) |
| **Gross Profit** | - | - | 87.8 | 4.6 | - | 92.4 |
| Selling, general and administrative | (0.8) | (0.1) | (39.2) | (2.3) | 0.1 | (42.3) |
| **Operating profit (loss)** | (0.8) | (0.1) | 48.6 | 2.3 | 0.1 | 50.1 |
| Finance costs, net | (5.0) | (8.6) | (10.4) | 0.2 | (0.2) | (24.0) |
| Finance costs, net - intercompany | 11.0 | 10.9 | (22.1) | - | 0.2 | - |
| Equity in subsidiaries | 5.6 | 3.4 | 1.6 | - | (10.6) | - |
| **Total other income (expense)** | 11.6 | 5.7 | (30.9) | 2.5 | (10.6) | (24.0) |
| **Net income (loss) before income taxes** | 10.8 | 5.6 | 17.7 | 0.4 | (10.5) | 26.1 |
| Income tax expense | - | - | (14.4) | (0.9) | - | (15.3) |
| **Net loss** | 10.8 | 5.6 | 3.3 | 1.6 | (10.5) | 10.8 |

**ANNEX**
**SUMMARY GUARANTOR FINANCIAL INFORMATION**
**(in thousands of Euro)**
**(Unaudited)**

| (Euro in millions) | Telenet Group Holding | Telenet Communi-cations | Unconsoli-dated Subsidiary Guarantors | Unconsoli-dated Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | As of March 31, 2007 | | | | | |
| **Balance Sheet Information** | | | | | | |
| **Assets** | | | | | | |
| Property and equipment, net....... | - | - | 965.5 | 16.3 | - | 981.8 |
| Goodwill, net ............................. | - | - | 959.9 | 174.5 | - | 1,134.4 |
| Intangible assets, net.................. | - | - | 253.0 | 16.4 | - | 269.4 |
| Other assets................................ | - | - | 1.7 | 0.1 | - | 1.8 |
| Investments in subsidiaries......... | 621.6 | 503.4 | 207.5 | - | (1,332.4) | 0.1 |
| **Total non-current assets** ....... | 621.6 | 503.4 | 2,387.6 | 207.3 | (1,332.4) | 2,387.5 |
| Accounts receivable.................... | - | - | 104.3 | 1.2 | (0.7) | 104.8 |
| Other receivables ....................... | - | - | 24.7 | 0.2 | - | 24.9 |
| Cash and cash equivalents | 8.1 | 0.4 | 84.2 | 0.9 | - | 93.6 |
| Intercompany receivables and short term loans ....................... | 7.6 | - | 3.8 | 24.5 | (35.9) | - |
| **Total current assets** .............. | 15.7 | 0.4 | 217.0 | 26.8 | (36.6) | 223.3 |
| **Total assets** ............................ | 637.3 | 503.8 | 2,604.6 | 234.1 | (1,369.0) | 2,610.8 |
| **Liabilities and Shareholders' Equity** | | | | | | |
| **Shareholders' equity**................ | 738.7 | 621.5 | 503.4 | 207.5 | (1,332.4) | 738.7 |
| Long-term debt, less current portion..................................... | 220.3 | 361.6 | 734.4 | - | - | 1,316.3 |
| Other noncurrent liabilities......... | 32.8 | - | 39.8 | 5.9 | - | 78.5 |
| Intercompany loans, net ............. | (360.2) | (489.2) | 849.4 | - | - | - |
| **Total non-current liabilities**..... | (107.1) | (127.6) | 1,623.6 | 5.9 | - | 1,394.8 |
| Short term borrowings | - | - | 22.9 | - | - | 22.9 |
| Current portion of long term debt ......................................... | 0.0 | 9.6 | 61.4 | - | - | 71.0 |
| Accounts payable........................ | 0.1 | - | 174.0 | 3.3 | (0.7) | 176.7 |
| Accrued expenses and other current liabilities ..................... | 2.3 | - | 71.2 | 8.5 | - | 82.0 |
| Intercompany payables and short term debt......................... | 3.3 | 0.3 | 31.8 | 0.5 | (35.9) | - |
| Unearned revenue ...................... | - | - | 116.3 | 8.4 | - | 124.7 |
| **Total current liabilities** ....... | 5.7 | 9.9 | 477.6 | 20.7 | (36.6) | 477.3 |
| **Total liabilities**..................... | (101.4) | (117.7) | 2,101.2 | 26.6 | (36.6) | 1,872.1 |
| **Total liabilities and shareholders' equity** ............. | 637.3 | 503.8 | 2,604.6 | 234.1 | (1,369.0) | 2,610.8 |