



TELIO HOLDING ASA

QUARTERLY REPORT

Q2 – 2007

Telio Holding ASA, Quarterly report - Second quarter 2007

Q2 07 revenues were NOK 90.5 million, an increase of 30% vs Q2 06, EBITDA of 18% of revenues, and operating profits of NOK 3.0 million.

The Telio Group reports continued strong growth in Q2 compared to the previous year. Revenues for the quarter were NOK 90.5 million, 30% above Q2 06.

Profit before tax of NOK 2.2 million (NOK 3.0 million before net financing costs) resulting from focus on profitable growth. In addition to continued growth and profitability key financial indicators included a healthy cash improvement to NOK 119.6 million, stable gross margin, and continuous scaling of OPEX. EBITDA for the quarter was 18% of revenues.

Management has cancelled a number of non-calling customers in Norway during the quarter, resulting in a flat subscription development during the quarter. July customer intake was satisfactory resulting in an improved net customer change of 1,600 to 97,100. In addition to an improved growth in July, the "gross sales to provisioned" ratio has improved reflecting higher quality on sales, especially in the telemarketing channel. In the retail channel Telio has initiated sales of broadband telephony bundled with cordless telephones, and initial results are promising.

In Denmark and the Netherlands Telio achieved a solid customer intake during the quarter. Customer service for the Danish customers was moved from Norway to Denmark in order to ensuring customer experience in a growing customer base.

In May, June, and July Telio conducted an extensive branding campaign including TV, radio, boards, and public transportation. This campaign will run throughout the year with varying visibility from month to month.

In late June, Telio launched an SMB product which is designed for the lower end of the corporate market (i.e. companies with 10 employees or less). The product offers a competitive value proposition with a monthly subscription fee of NOK 159 with a start up fee of NOK 0.39. Call charges are similar to the consumer product with zero costs to Western Europe, Poland, North America (incl. mobile), and China. Telio has during the quarter signed up a satisfactory number of resellers to market the SMB product.

During the quarter the CFO, Kyrre Grinde-Andersen, accepted new challenges outside the Telio Group. The new CFO, Tom Nøttveit, who commenced his position in Telio on August 20 was previously CFO in Norman ASA. Prior to Norman ASA Nøttveit held positions in KPMG and Telenor. Nøttveit has been awarded 150,000 options with a strike of NOK 16.

Financials

Total revenues in Q2 07 of NOK 90.5 million were up 30% compared to NOK 69.6 million in Q2 06, and 2% above the previous quarter.

Revenue growth was driven by a continuous increase in the subscriber base partially offset by price decrease to some international destinations.

Total gross profit in Q2 07 was NOK 52.1 million (58%) compared to NOK 36.5 million (52%) in Q2 06. Improved gross margin is due to reduced consumer prices being more than offset by better termination costs to international destinations.

Gross margin for Norwegian VoIP customers remained fairly stable at NOK 163.6 compared to NOK 166.4 during the previous quarter (-2%). Average revenue per customer (VoIP Norway) during the quarter was NOK 276 compared to NOK 283 during the previous quarter (reflecting reduced international tariffs and less traffic during Easter).

Salaries and personnel costs were NOK 8.6 million in Q2 07 (10% of revenues) compared to NOK 8.3 million (12% of revenues) in Q2 06. Total salaries and personnel costs include costs of NOK 0.3 million related to the stock option plan. Of this, change in contingent liabilities related to social security accounted for a credit of NOK 0.2 million.

Selling and marketing costs of NOK 15.0 million in Q2 07 (17% of revenues) reflect a branding campaign which was run during the second part of the quarter. The company capitalised customer acquisition costs of NOK 2.0 million during the quarter.

Operating profits were NOK 3.0 million in Q2 07 compared to operating losses of NOK 4.4 million in Q2 06. Profits before income tax were NOK 2.2 million (losses of NOK 4.9 million in Q2 06).

Cash and cash equivalents increased by NOK 11.0 million during the quarter to NOK 119.6 million at the end of Q2 07. Net cash from operating activities of NOK 17.9 million were partially offset by negative cash flow from financing activities of NOK 5.0 million and investing activities of NOK 1.9 million.

Deferred revenues (current liabilities) decreased by NOK 2.8 million during the quarter. Deferred income at the end of Q2 07 was NOK 49.3 million of which NOK 30.9 million has been collected and is non-refundable. Total financial lease debt was NOK 27.9 million at the end of Q2 07 which is NOK 1.7 million below the end of the previous quarter (NOK 29.6 million). Of the total financial lease debt, NOK 19.1 million was classified as current liabilities (payable within one year from the balance sheet day).

Consolidated equity was NOK 52.7 million at the end of Q2 07 (equity ratio of 20%) compared to equity ratio of 19%) at the end of the previous quarter.

Interim reporting summary

<i>(in thousands of NOK)</i>	2nd quarter 2007	1st quarter 2007	4th quarter 2006	3rd quarter 2006	2nd quarter 2006	1st quarter 2006
Total revenue	90,462	88,378	83,265	76,081	69,619	66,198
Revenue growth (year-on-year) (%)	30%	34%	60%	67%	90%	138%
Gross margin (%)	58%	58%	54%	56%	52%	55%
Operating profit (loss)	3,024	4,075	(9,321)	3,545	(4,449)	(2,161)
Operating margin (%)	3%	5%	(11%)	5%	(6%)	(3%)
EBITDA	16,369	15,469	4,202	12,522	2,922	4,279
EBITDA (%)	18%	18%	5%	16%	4%	6%
EPS (NOK)	0.05	0.11	(0.35)	0.04	(0.21)	(0.06)
EPS (NOK) fully diluted	0.05	0.11	(0.35)	0.04	(0.21)	(0.06)

Legal matters

There is no new information in the VAT issue since Q1 07.

The appeal in the Labs 2 case is planned for April 2008 in Borgarting lagmannsrett.

Telio Telecom AS has received a decision from the Ministry of Transport and Communications (SD) regarding the interconnect dispute between Telenor and Telio Telecom, where Telenor originally claimed lowering of interconnect prices from March 1st, 2006. The decision is final, unless Telio Telecom decides to bring the issue to the courts. SD has decided that Telio needs to lower its variable interconnect tariffs with approximate 25% from January 1st, 2008 and to Telenor level from July 1st, 2008. At the same time Telio Telecom is allowed to introduce fixed fees which will partially offset the negative effect. Telio is evaluating if the decision should be appealed or not.

Shareholder information

The total number of registered shares outstanding at the end of Q2 07 was 19,392,700 (19,392,700 at the end of Q1 07) out of which 45,000 shares were owned by Telio Holding ASA (77,500 shares at the end of Q1 07). The total number of shareholders was 516 at the end of Q2 07 (467 at the end of Q1 07) and 27% of the shares were registered abroad at the end of Q2 07 (27% at the end of Q1 07).

Total outstanding options at the end of Q2 07 were 1.6 million (1.6 million at the end of Q1 07) with an average strike price of NOK 16.01 (vs. NOK 15.88 at the end of Q1 06). The stock price moved from NOK 19.50 to NOK 16.50 (-15%) during the quarter.

Events after the quarter

In August Telio launched the world's first subscription based VoIP solution for high quality videoconferencing. Telio and Tandberg have established a cooperation for providing subscription-based VoIP Solution videoconferencing. Utilizing Tandberg video technology and Telio's SIP-based telephone service, Tandberg users can now make videoconferencing a regular part of their business and personal communication. Tandberg is a leading global provider of visual communication products and services. Tandberg designs, develops and markets systems and software for video, voice and data communication.

Oslo, August 21st, 2007

Ingrid Simunic

Erik Osmundsen
(Chairman of the board)

Richard Kosowsky

Marit Wetterhus

Aril Resen

Eirik Lunde
(CEO)

Consolidated balance sheet (unaudited)

(in thousands of NOK)

	30.06.2007	30.06.2006	31.12.2006
ASSETS			
Non-current assets			
Property, plant and equipment	34,483	40,967	34,233
Intangible assets	41,424	38,223	48,079
Deferred income tax assets	9,784	13,265	9,989
	85,691	92,455	92,301
Current assets			
Trade and other receivables	56,928	52,239	54,594
Cash and cash equivalents	119,635	65,389	110,195
	176,563	117,628	164,789
Total assets	262,254	210,083	257,090
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	1,934	1,912	1,929
Other reserves	69,764	65,683	69,512
Retained earnings	(19,000)	(12,515)	(22,141)
Total equity before minority interest	52,698	55,080	49,300
Minority interest	-	-	-
Total equity	52,698	55,080	49,300
LIABILITIES			
Non-current liabilities			
Borrowings	68,029	14,341	67,916
Deferred income tax liabilities	-	52	48
	68,029	14,393	67,964
Current liabilities			
Trade and other payables	65,252	61,603	61,053
Current income tax liabilities	1,833	8,258	884
Borrowings	19,120	15,378	17,894
Deferred income	49,265	52,034	53,115
Contingent liabilities	6,057	3,337	6,880
	141,527	140,610	139,826
Total liabilities	209,556	155,003	207,790
Total equity and liabilities	262,254	210,083	257,090

Oslo August 21st, 2007

Ingrid Simunic

Erik Osmundsen
(Chairman of the board)

Richard Kosowsky

Marit Wetterhus

Arl Resen

Eirik Lunde (CEO)

Consolidated income statement (unaudited)

(in thousands of NOK)

	2 nd quarter		Accumulated 30 June		Year
	2007	2006	2007	2006	2006
Sales	89,344	69,484	176,507	135,605	289,691
Other revenues	1,118	135	2,333	212	1,140
Total revenue	90,462	69,619	178,840	135,817	290,831
Cost of connections and traffic charges	(38,367)	(33,145)	(75,775)	(63,075)	(134,398)
Salaries and personnel costs	(8,620)	(8,305)	(18,775)	(17,308)	(38,698)
Selling and marketing costs	(14,994)	(10,677)	(27,185)	(18,431)	(41,144)
Other expenses	(12,112)	(14,570)	(25,267)	(29,802)	(56,998)
Depreciation and amortisation	(13,345)	(7,371)	(24,739)	(13,811)	(36,311)
Operating profit (loss)	3,024	(4,449)	7,099	(6,610)	(16,718)
Finance costs	(809)	(450)	(1,241)	(1,266)	(2,005)
Profit (loss) before income tax	2,215	(4,899)	5,858	(7,876)	(18,723)
Income tax (expense) income	(1,261)	1,033	(2,717)	2,899	4,120
Profit (loss)	954	(3,866)	3,141	(4,977)	(14,603)
Attributable to :					
Equity holders of the Company	954	(3,850)	3,141	(4,956)	(14,582)
Minority interest	-	(16)	-	(21)	(21)
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in NOK per share)					
- basic	0.05	(0.21)	0.16	(0.27)	(0.78)
- diluted	0.05	(0.21)	0.16	(0.27)	(0.78)

Consolidated statement of changes in equity (unaudited)

(in thousands of NOK)

	Attributable to equity holders of the Company			Minority interest	Total equity
	Share capital	Other reserves	Retained earnings		
Balance at 1 January 2006	179	48,835	(7,559)	21	41,476
Currency translation differences	-	52	-	-	52
Profit for the year	-	-	(4,956)	(21)	(4,977)
Total recognised income (loss) for the six month period ended June 30, 2006	-	52	(4,956)	(21)	(4,925)
Equity adjustment	1,643	(1,643)	-	-	-
Share issue after the transaction cost	70	13,555	-	-	13,625
Employee share option scheme:					
– value of employee services	-	1,695	-	-	1,695
– proceeds from shares issued	22	3,753	-	-	3,775
Purchase of treasury shares	(2)	(564)	-	-	(566)
	1,733	16,796	-	-	18,529
Balance at 30 June 2006	1,912	65,683	(12,515)	-	55,080
Balance at 1 July 2006	1,912	65,683	(12,515)	-	55,080
Currency translation differences	-	(148)	-	-	(148)
Profit for the period	-	-	(9,626)	-	(9,626)
Total recognised income (loss) for the six month period ended December 31, 2006	-	(148)	(9,626)	-	(9,774)
Share issue after the transaction cost		50			50
Employee share option scheme:					
– value of employee services	-	1,243	-	-	1,243
– proceeds from shares issued	19	3,137	-	-	3,156
Purchase of treasury shares	(2)	(453)	-	-	(455)
	17	3,977	-	-	3,944
Balance at 31 December 2006	1,929	69,512	(22,141)	-	49,300
	Attributable to equity holders of the Company			Minority interest	Total equity
	Share capital	Other reserves	Retained earnings		
Balance at 1 January 2007	1,929	69,512	(22,141)	-	49,300
Currency translation differences	-	189	-	-	189
Profit for the period	-	-	3,141	-	3,141
Total recognised income (loss) for the six month period ended June 30, 2007	-	189	3,141	-	3,330
Employee share option scheme:					
– value of employee services	-	458	-	-	458
– proceeds from shares issued	15	1,875	-	-	1,890
Purchase of treasury shares	(10)	(2,270)	-	-	(2,280)
	5	63	-	-	68
Balance at 30 June 2007	1,934	69,764	(19,000)	-	52,698

Consolidated cash flow statement (unaudited)

(in thousands of NOK)

	2 nd quarter		Accumulated 30 June		Year
	2007	2006	2007	2006	2006
Cash flows from operating activities					
Profit (loss) for the period	954	(3,866)	3,141	(4,977)	(14,603)
Adjustments for:					
– Tax	1,261	(1,033)	2,717	(2,899)	(4,120)
– Depreciation	6,985	4,859	12,492	9,047	21,992
– Amortisation	6,360	2,513	12,247	4,765	14,320
– Non cash transaction related to cost of share options	579	1,048	458	1,695	2,938
Changes in working capital (excluding the effects of exchange differences on consolidation):					
– Trade and other receivables	9,082	3,603	(2,334)	3,456	801
– Trade and other payables	(2,870)	10,515	3,618	19,525	22,139
– Deferred revenue	(2,841)	5,011	(3,850)	7,415	8,496
Cash generated from operations	19,510	22,650	28,489	38,027	51,963
Interest paid	(1,590)	(495)	(3,150)	(924)	(1,764)
Net cash generated from operating activities	17,920	22,155	25,339	37,103	50,199
Cash flows from investing activities					
Purchases of property, plant and equipment (PPE)	(940)	(629)	(1,554)	(795)	(1,262)
Purchases of intangible assets	(2,151)	(5,600)	(7,088)	(14,257)	(33,668)
Sale of intangible assets			850		-
Loans granted to related parties	92		92		92
Interest received	1,114	204	2,118	302	1,138
Net cash flow from investing activities	(1,885)	(6,025)	(5,582)	(14,750)	(33,700)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares	330	17,227	1,890	17,400	17,961
Purchase of treasury shares	-	(566)	(2,280)	(566)	(1,021)
Proceeds from borrowings	-	-	-	-	59,050
Repayments of borrowings	(5,323)	(3,307)	(9,874)	(6,077)	(14,501)
Net cash flow from financing activities	(4,993)	13,354	(10,264)	10,757	61,489
Net (decrease)/increase in cash, cash equivalents	11,042	29,484	9,493	33,110	77,988
Cash and cash equivalents at beginning of the period	108,607	36,017	110,195	32,124	32,124
Translation adjustments cash, cash equivalents and bank overdraft	(14)	(112)	(53)	155	83
Cash and cash equivalents at end of the year	119,635	65,389	119,635	65,389	110,195

1. Statement of compliance

The quarterly report, including comments and financial statements, compares the company's reported figures for the corresponding period in 2006 (in brackets), and are prepared according to IAS 34, "Interim Financial Reporting" (IFRS). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2006 as they provide an update of previously reported information. They were approved by the Board of Directors on August 21, 2007.

The financial statements are prepared in consistency with the accounting policies used in the annual financial statements for the year ending December 31, 2006.

Management has assessed that there are no new IFRS accounting standards, amendments and interpretations to standards that are relevant to Telio in the period.

The preparation of these Interim Financial Statements requires management to make estimates and assumptions that affect the reported revenues, costs, assets, liabilities, and disclosure of contingent liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

2. Segment information

Primary reporting format - business segments

IAS 14 requires segmental reporting on both a primary and secondary basis. Business segments are primary reporting format for Telio, as products and services represent the predominant source and nature of risks and returns. Telio is a niche company specializing in development, marketing and sales of Voice over IP telecommunication and operates only in one business segment.

Secondary reporting format - geographical segments

The Group operations are defined into two different segments; Norway and Europe. The risks and returns of an entity are influenced both by the geographical *location of its operations* and also by the *location of its markets*. Telio's definition of geographical segments is based on the location of its markets and customers. Transactions within the two segments are eliminated.

Sales	2nd quarter 2007	2nd quarter 2006	Accumulated 30 June 2007	Accumulated 30 June 2006	Year 2006
<i>(in thousands of NOK)</i>					
Norway	83,384	65,425	166,380	128,261	275,162
Europe outside Norway	5,960	4,059	10,127	7,344	14,529
Total	89,344	69,484	176,507	135,605	289,691

Capital expenditure	2nd quarter 2007	2nd quarter 2006	Accumulated 30 June 2007	Accumulated 30 June 2006	Year 2006
<i>(in thousands of NOK)</i>					
Norway	2,322	6,207	7,873	14,930	34,783
Europe outside Norway	769	22	769	122	147
Total	3,091	6,229	8,642	15,052	34,930

Capital expenditure includes both property, plant and equipment and intangible assets. Geographical allocation is based on where the assets are located.

Total assets	30.06.2007	30.06.2006	31.12.2006
<i>(in thousands of NOK)</i>			
Norway	248,011	204,588	246,639
Europe outside Norway	14,243	5,495	10,451
Total	262,254	210,083	257,090

Analysis of sales by category	2nd quarter 2007	2nd quarter 2006	Accumulated 30 June 2007	Accumulated 30 June 2006	Year 2006
<i>(in thousands of NOK)</i>					
Connection fees	3,040	2,365	5,860	4,548	9,854
Subscriptions	43,922	33,123	86,450	63,936	77,429
Traffic	35,706	32,972	71,739	62,799	67,345
ASP	2,654	1,024	4,547	4,322	1,878
Mobil	4,022	-	7,911	-	5,721
Total	89,344	69,484	176,507	135,605	289,691

3. Deferred revenues

Deferred revenues include revenues generated from connection fees, subscriptions and software lease agreements (ASP). These are recognised as follows (as stated in section 2.15 in the annual report for 2006):

Connection fee

Connection fee revenues are recognized over a 5 year period, which represent the average expected duration of a customer relationship. Revenues are being recognized as from when the customer has entered into a subscription agreement, has paid the connection fee and has been connected to the network. The connection fee includes the initial connection service, adapter delivery and porting (to technically transfer the unique telephone number from another telephone operator to the Company). The connection fee is non refundable and the subscription agreement has no lock-in period. Revenues generated from porting services (transfer of a telephone number from Telio to another telecom operator) are being recognized when the porting service has been delivered.

Subscriptions

Income from subscriptions is recognised on an accruals basis over the subscription period in accordance with the substance of the subscription agreement, starting as at the date of the activation of the subscription.

Software lease agreements (ASP)

Revenue from software lease agreements (ASP) is recognized on an accrual basis over the contract period in accordance with the substance of the lease agreement.

<i>(in thousands of NOK)</i>	30.06.2007	30.06.2006	31.12.2006
Deferred revenues connection fee	30,946	35,503	34,825
Deferred revenues subscriptions	18,319	16,394	18,290
Deferred revenues ASP revenues	-	137	-
Total deferred revenues	49,265	52,034	53,115
