



# **TELIO HOLDING ASA**

## **QUARTERLY REPORT**

**Q1 – 2008**



## Telio Holding ASA - Quarterly Report - First Quarter 2008

**Telio reports strongest profits ever with an EBIT of NOK 12 million in Q1 08. Revenues were NOK 94.3 million, an increase of 7% compared to Q1 07. EBITDA margin was 24%.**

Revenues for the quarter were NOK 94.3 million, the same as in Q4 07. The company was able to sustain the Q4 07 revenue level despite the imposed reduction in termination prices from 1 January 2008 and Easter holidays in March.

Profits were the strongest ever for the company with an EBIT of NOK 12 million compared to NOK 4.1 million in Q1 07. Profit before tax was NOK 10.9 million. In addition to continued growth and profitability, key financial indicators included an improved gross margin and continuous scaling of OPEX. EBITDA margin for the quarter was 24%.

The Telio Group added net 4,210 VoIP customers in the first quarter. In Norway, the company added net 2,268 VoIP customers, giving a total of 104,854 customers at the end of the quarter.

Denmark and the Netherlands achieved a net customer intake of 1,950 customers during the quarter.

Telio is still in a build-up phase for establishing distribution channels for the SMB product launched towards the end of 2007. Resellers and agents have been recruited and performance is showing promising progress. 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.

### Financials

Total gross profit in Q1 08 was NOK 57.3 million (61%) compared to NOK 51 million (58%) in Q1 07.

Average monthly revenue per customer (VoIP Norway) during the quarter was NOK 261 compared to NOK 268 during the previous quarter. Average monthly gross profit per customer for Norwegian VoIP customers was NOK 168 during the quarter (NOK 173 in Q4 07).

Salaries and personnel costs were NOK 12.5 million in Q1 08 (13% of revenues) including NOK 0.7 million related to the stock option plans and change in contingent liabilities related to social security of NOK 0.1 million.

Selling and marketing costs were NOK 10.7 million in Q1 08 (11% of revenues). The company capitalised customer acquisition costs of NOK 2.1 million during the quarter.

Operating profit was NOK 12 million in Q1 08 and profit before tax was NOK 10.9 million.

Finance costs include additional interest expense and establishment fee related to the repayment of the bond loan at the end of March of NOK 0.9 million.

Deferred revenues (current liabilities) decreased by NOK 1.9 million during the quarter. Deferred income at the end of Q1 08 was NOK 45.5 million of which NOK 27 million has been collected and is non-refundable. Total financial lease debt was NOK 18 million at the end of the quarter which is NOK 1.3 million below the end of the previous quarter (NOK 19.3 million). Of the total financial lease debt, NOK 16 million was classified as current liabilities (payable within one year from the balance sheet date).

The bond loan of NOK 60 million was repaid to bondholders 27 March 2008, thus the company does no longer have any long-term interest bearing debt (except for financial lease).

Consolidated equity was NOK 65.9 million at the end of Q1 08 (equity ratio of 31%) compared to NOK 57.8 million at year-end.



Cash flow from operations was NOK 16.5 million in Q1 08. Cash and cash equivalents were NOK 72.1 million at the end of the quarter after repayment of the bond loan.

The Telio Group had 105 employees (FTE) at 31 March 2008.

<i>(Figures in NOK '000)</i>	<b>1<sup>st</sup> quarter 2008</b>	<b>4<sup>th</sup> quarter 2007</b>	<b>3<sup>rd</sup> quarter 2007</b>	<b>2<sup>nd</sup> quarter 2007</b>	<b>1<sup>st</sup> quarter 2007</b>
Total revenue	94,267	94,282	89,180	90,462	88,378
Revenue growth (year-on-year) (%)	7%	20%	17%	30%	34%
Gross margin (%)	61%	62%	59%	58%	58%
Operating profit	12,033	5,257	1,862	3,024	4,075
Operating margin (%)	13%	6%	2%	3%	5%
EBITDA	22,717	17,048	14,769	16,369	15,469
EBITDA (%)	24%	18%	17%	18%	18%
EPS (NOK)	0.40	0.21	0.02	0.05	0.11
EPS (NOK) fully diluted	0.40	0.21	0.02	0.05	0.11

#### **Legal matters update**

There is no new information to be reported regarding the upcoming ecom court trial in June 2008. The appeal in the Labs 2 court case is scheduled ultimo April 2008 in Borgarting lagmannsrett.

#### **Shareholder information**

The total number of registered shares outstanding at the end of Q1 08 was 19,392,700 (19,392,700 at the end of Q4 07) out of which 97,100 shares were owned by Telio Holding ASA (102,100 shares at the end of Q4 07). The total number of shareholders was 513 at the end of Q1 08 (531 at the end of Q4 08) and 27% of the shares were registered abroad at the end of Q1 08 (27% at the end of Q4 07).

Total outstanding options at the end of Q1 08 were 1.8 million (1.81 million at the end of Q4 07) with an average strike price of NOK 16.06 (NOK 16.04 at the end of Q4 07). The stock price moved from NOK 12.10 to NOK 13.60 (+12%) during the quarter.

Oslo, 28 April 2008

Board of Directors  
Telio Holding ASA

Ingrid Simunic  
(sign.)

Erik Osmundsen  
Chairman of the Board  
(sign.)

Richard Kosowsky  
(sign.)

Marit Wetterhus  
(sign.)

Aril Resen  
(sign.)

Eirik Lunde  
CEO  
(sign.)



**Telio Holding ASA**  
**Condensed consolidated interim balance sheet (unaudited)**

(Figures in NOK '000)

	<u>31.03.2008</u>	<u>31.03.2007</u>	<u>31.12.2007</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	23,048	37,569	24,715
Intangible assets	32,791	45,633	36,257
Deferred income tax assets	12,371	9,982	12,371
	<u>68,210</u>	<u>93,184</u>	<u>73,343</u>
<b>Current assets</b>			
Trade and other receivables	74,088	66,160	66,578
Cash and cash equivalents	72,142	108,607	122,851
	<u>146,230</u>	<u>174,767</u>	<u>189,429</u>
<b>Total assets</b>	<b><u>214,440</u></b>	<b><u>267,951</u></b>	<b><u>262,772</u></b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Share capital	1,929	1,931	1,929
Other reserves	31,689	68,759	31,371
Retained earnings	32,252	(19,954)	24,544
<b>Total equity</b>	<u>65,870</u>	<u>50,736</u>	<u>57,852</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	2,025	68,569	63,770
Deferred income tax liabilities	2,006	-	2,006
	<u>4,031</u>	<u>68,569</u>	<u>65,776</u>
<b>Current liabilities</b>			
Trade and other payables	69,773	67,541	67,195
Current income tax liabilities	6,849	2,252	3,472
Borrowings	15,991	20,553	14,963
Deferred income	45,525	52,106	47,389
Contingent liabilities	6,401	6,194	6,126
	<u>144,539</u>	<u>148,646</u>	<u>139,144</u>
<b>Total liabilities</b>	<u>148,570</u>	<u>217,215</u>	<u>204,920</u>
<b>Total equity and liabilities</b>	<b><u>214,440</u></b>	<b><u>267,951</u></b>	<b><u>262,772</u></b>

Oslo, 28 April 2008

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**Telio Holding ASA**  
**Condensed consolidated interim income statement (unaudited)**

(Figures in NOK '000)

	1 <sup>st</sup> quarter		
	2008	2007	2007
Sales	92,073	87,163	356,900
Other revenues	2,194	1,215	5,402
<b>Total revenue</b>	<b>94,267</b>	<b>88,378</b>	<b>362,302</b>
Cost of connections and traffic charges	(36,918)	(37,408)	(148,470)
Salaries and personnel costs	(12,482)	(10,155)	(43,543)
Selling and marketing costs	(10,706)	(12,191)	(58,809)
Other expenses	(11,444)	(13,155)	(47,792)
Depreciation and amortisation	(10,684)	(11,394)	(49,441)
<b>Operating profit (loss)</b>	<b>12,033</b>	<b>4,075</b>	<b>14,247</b>
Finance costs	(1,108)	(432)	(2,949)
<b>Profit (loss) before income tax</b>	<b>10,925</b>	<b>3,643</b>	<b>11,298</b>
Income tax (expense) income	(3,217)	(1,456)	(3,707)
<b>Profit (loss)</b>	<b>7,708</b>	<b>2,187</b>	<b>7,591</b>
Attributable to :			
Equity holders of the Company	7,708	2,187	7,591
<b>Earnings per share for profit attributable to the equity holders of the Company during the period</b> (expressed in NOK per share)			
– basic	0.40	0.11	0.39
– diluted	0.40	0.11	0.39



(Figures in NOK '000)

	Attributable to equity holders of the Company			Total equity
	Share capital	Other reserves	Retained earnings	
<b>Balance at 1 January 2007</b>	<b>1,929</b>	<b>69,512</b>	<b>(22,141)</b>	<b>49,300</b>
Currency translation differences	-	90	-	90
Profit for the period	-	-	2,187	2,187
<b>Total recognised income (loss) in Q1 2007</b>	-	90	2,187	2,277
Share issue after transaction costs	10	1,340		1,350
Employee share option scheme:				
– value of employee services	-	(121)	-	(121)
– proceeds from shares issued	-	208	-	208
Purchase of treasury shares	(8)	(2,270)	-	(2,278)
	2	(843)	-	(841)
<b>Balance at 31 March 2007</b>	<b>1,931</b>	<b>68,759</b>	<b>(19,954)</b>	<b>50,736</b>
<b>Balance at 1 April 2007</b>	<b>1,931</b>	<b>68,759</b>	<b>(19,954)</b>	<b>50,736</b>
Currency translation differences	-	280	-	280
Profit for the period	-	-	5,404	5,404
<b>Total recognised income (loss) for the nine month period ended 31 December 2007</b>	-	280	5,404	5,684
Reduction of share premium reserve	-	-39,094	39,094	-
Employee share option scheme:				
– value of employee services	-	2,008	-	2,008
– proceeds from shares issued	-	403	-	403
Purchase of treasury shares	(2)	(977)	-	(979)
	(2)	(37,660)	39,094	1,432
<b>Balance at 31 December 2007</b>	<b>1,929</b>	<b>31,379</b>	<b>24,544</b>	<b>57,852</b>
<b>Balance at 1 January 2008</b>	<b>1,929</b>	<b>31,379</b>	<b>24,544</b>	<b>57,852</b>
Currency translation differences	-	(309)	-	(309)
Profit for the period	-	-	7,708	7,708
<b>Total recognised income (loss) in 2008</b>	-	(309)	7,708	7,399
Employee share option scheme:				
– value of employee services	-	569	-	569
– proceeds from shares issued	-	50	-	50
	-	619	-	619
<b>Balance at 31 March 2008</b>	<b>1,929</b>	<b>31,689</b>	<b>32,252</b>	<b>65,870</b>



**Telio Holding ASA**  
**Condensed consolidated interim statement of cash flows (unaudited)**

(Figures in NOK '000)

	1 <sup>st</sup> quarter		
	2008	2007	2007
<b>Cash flows from operating activities</b>			
Profit (loss) for the period	7,708	2,187	7,591
Adjustments for:			
– Tax	3,058	1,456	3,707
– Depreciation	5,773	5,507	25,220
– Amortisation	4,911	5,887	24,221
– Non cash transaction related to cost of share options	569	(121)	1,887
Changes in working capital (excluding the effects of exchange differences on consolidation):			
– Trade and other receivables	(7,511)	(11,972)	(14,539)
– Trade and other payables	3,954	6,488	7,597
– Deferred revenue	(1,937)	(1,009)	(5,726)
<b>Net cash generated from operating activities</b>	<b>16,525</b>	<b>8,423</b>	<b>49,958</b>
<b>Cash flows from investing activities</b>			
Purchases of property, plant and equipment (PPE)	(1,422)	(614)	(3,203)
Purchases of intangible assets	(1,445)	(4,937)	(13,549)
Sale of intangible assets	-	850	850
Loans granted to related parties	-	-	92
<b>Net cash flow from investing activities</b>	<b>(2,867)</b>	<b>(4,701)</b>	<b>(15,810)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares	-	1,560	2,068
Sale/(purchase) of treasury shares	50	(2,280)	(3,264)
Repayments of borrowings	(64,428)	(4,551)	(20,006)
<b>Net cash flow from financing activities</b>	<b>(64,378)</b>	<b>(5,271)</b>	<b>(21,202)</b>
<b>Net (decrease)/increase in cash, cash equivalents</b>	<b>(50,720)</b>	<b>(1,549)</b>	<b>12,946</b>
Cash and cash equivalents at beginning of the period	122,851	110,195	110,195
Translation adjustments cash, cash equivalents and bank overdraft	11	(39)	-290
<b>Cash and cash equivalents at end of the period</b>	<b>72,142</b>	<b>108,607</b>	<b>122,851</b>



## Telio Holding ASA

### Notes to the condensed consolidated interim financial statements (unaudited)

#### **Note 1: Reporting entity**

Telio Holding ASA (the "Company") is a company domiciled in Oslo, Norway. These March 2008 condensed consolidated interim financial statements of Telio Holding ASA and its subsidiaries (together "the Group") are for the three months ended 31 March 2008.

The consolidated financial statements of the Group as at and for the year ended 31 December 2007 are available upon request from the Company's registered office at Støperigaten 2, Oslo, or at [www.telioholding.no/investor\\_relations](http://www.telioholding.no/investor_relations).

#### **Note 2: Statement of compliance**

These condensed consolidated interim financial statements of Telio Holding ASA Group have been prepared in accordance with rules and regulations from Oslo Stock Exchange and International Financial Reporting Standard (IFRS) IAS 34, Interim Financial Reporting. They do not include all of the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group as at and for the year ended 31 December 2007.

These condensed consolidated interim financial statements were approved by the Board of Directors on 28 April 2008.

#### **Note 3: Significant accounting policies**

These condensed consolidated interim financial statements have been prepared under the historical cost convention. They have been prepared under the same accounting principles as those set out in the consolidated financial statements of the Group as at and for the year ended 31 December 2007.

#### **Note 4: Estimates**

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2007.

#### **Note 5: Segment reporting**

##### Primary reporting format - business segments

IAS 14 requires segment reporting on both a primary and secondary basis. Business segments are the 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's operations are defined into three geographical segments; Norway, Switzerland and the rest of 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 between segments are eliminated.



<b>Revenues</b>	<b>1<sup>st</sup> quarter 2008</b>	<b>1<sup>st</sup> quarter 2007</b>	<b>Full year 2007</b>
<i>(Figures in NOK '000)</i>			
Norway	48,813	47,247	188,174
Switzerland (Norwegian customers)	37,369	35,749	144,931
	<b>86,182</b>	<b>82,996</b>	<b>333,105</b>
Other Europe	5,891	4,167	23,795
<b>Total</b>	<b>92,073</b>	<b>87,163</b>	<b>356,900</b>

#### **Capital expenditure**

*(Figures in NOK '000)*

Norway	2,837	5,510	15,927
Switzerland	30	41	56
Other Europe	-	-	769
<b>Total</b>	<b>2,867</b>	<b>5,551</b>	<b>16,752</b>

Capital expenditure includes both property, plant and equipment (not equipment on financial lease) and intangible assets. Geographical allocation is based on where the assets are located.

<b>Total assets</b>	<b>31.03.2008</b>	<b>31.03.2007</b>	<b>31.12.2007</b>
<i>(Figures in NOK '000)</i>			
Norway	133,033	222,094	173,433
Switzerland	64,026	36,004	73,505
Other Europe	17,381	9,853	15,834
<b>Total</b>	<b>214,440</b>	<b>267,951</b>	<b>262,772</b>

<b>Analysis of sales by category</b>	<b>1<sup>st</sup> quarter 2008</b>	<b>1<sup>st</sup> quarter 2007</b>	<b>Full year 2007</b>
<i>(Figures in NOK '000)</i>			
Connection fees	3,233	2,820	12,102
Subscriptions	46,038	42,528	176,137
Traffic	36,365	36,033	142,895
ASP	2,790	1,893	9,771
Mobil	3,647	3,889	15,995
<b>Total</b>	<b>92,073</b>	<b>87,163</b>	<b>356,900</b>



**Note 6: Property, plant and equipment**

	1 <sup>st</sup> quarter 2008	1 <sup>st</sup> quarter 2007	Full year 2007
<b><u>Adapters</u></b>			
Book value beg. of period	16,008	20,460	20,460
Additions	2,790	8,621	13,670
Depreciation	(4,068)	(3,824)	(18,122)
<b>Book value end of period</b>	<b>14,730</b>	<b>25,257</b>	<b>16,008</b>
<b><u>Other equipment</u></b>			
Book value beg. of period	8,707	13,773	13,773
Additions	1,316	222	2,102
Depreciation	(1,705)	(1,683)	(7,168)
<b>Book value end of period</b>	<b>8,318</b>	<b>12,312</b>	<b>8,707</b>
<b>Total property, plant and equipment</b>	<b>23,048</b>	<b>37,569</b>	<b>24,715</b>

**Note 7: Intangible assets**

	1 <sup>st</sup> quarter 2008	1 <sup>st</sup> quarter 2007	Full year 2007
<b><u>Customer acquisition costs</u></b>			
Book value beg. of period	27,650	35,428	35,428
Additions	2,068	4,639	11,987
Amortization	(3,742)	(4,802)	(19,765)
<b>Book value end of period</b>	<b>25,976</b>	<b>35,265</b>	<b>27,650</b>
<b><u>Technology platform</u></b>			
Book value beg. of period	5,775	6,308	6,308
Additions	(623)	(390)	2,291
Amortization	(849)	(638)	(2,824)
<b>Book value end of period</b>	<b>4,303</b>	<b>5,280</b>	<b>5,775</b>
<b><u>Other intangible assets</u></b>			
Book value beg. of period	2,832	6,343	6,343
Additions/(disposals)	-	(808)	(1,579)
Amortization	(320)	(447)	(1,932)
<b>Book value end of period</b>	<b>2,512</b>	<b>5,088</b>	<b>2,832</b>
<b>Total intangible assets</b>	<b>32,791</b>	<b>45,633</b>	<b>36,257</b>

**Note 8: 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 2007):

**Connection fee**

Connection fee revenues are recognized over a 5 year period, which represents the average expected duration of a customer relationship. Revenues are being recognized 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

Revenues from subscriptions are recognized 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)

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

*(Figures in NOK '000)*

	<b>31.03.2008</b>	<b>31.03.2007</b>	<b>31.12.2007</b>
Deferred revenues connection fee	27,037	33,717	28,557
Deferred revenues subscriptions	18,488	18,389	18,832
<b>Total deferred revenues in balance sheet</b>	<b>45,525</b>	<b>52,106</b>	<b>47,389</b>