



TELIO HOLDING ASA

4th QUARTER REPORT 2008





Telio Holding ASA – 4th Quarter Report 2008

Summary

The markets in which Telio operates have continued to develop positively in 4th quarter 2008. A major event in the quarter was the agreement with the Dutch telecom provider Pretium Telecom BV. Telio has had continued focus on profitable growth and the 4th quarter concludes a year with significant improvements in profitability for the company.

Products and markets

Telio has continued to increase its market share in the SMB segment. The company now has a complete offering for the lower end of this market segment and will continue to improve functionality in order to meet the needs of larger companies. The implementation project with the Dutch telecom provider Pretium Telecom BV has developed according to plan.

Financials Q4 08 (2007 figures in brackets)

Revenues for 4th quarter 2008 were NOK 100.4 million (94.3), representing a growth of 7%. Gross profit was NOK 61.2 million – 61% gross margin (58.1 – 62%). EBITDA was NOK 31.8 million – 32% (17 – 18%). Operating profit was NOK 21.7 million (5.3). Profit after tax was NOK 26.4 million (4.1).

Cash flow from operations was NOK 21.8 million in 4th quarter 2008. Cash and cash equivalents were NOK 123.9 million at 31 December.

Investments and financing

Investments in 4th quarter 2008 were NOK 9.1 million, of which NOK 4.4 million were related to development of the technology platform.

Related party transactions

There have been no transactions by related parties that have had a material effect on the Group's financial position or results in the period.

Risk

There have been no material changes in the principal risks and uncertainties for the business during the quarter.

Financial market conditions

With a solid financial situation (cash position, no interest-bearing debt except financial lease and cash generating operations), Telio has not been affected by the turmoil in the financial markets. The company does not foresee any material impact from this situation on its operations or financial performance.

Shareholder information

The total number of registered shares outstanding at the end of 4th quarter 2008 was 19,392,700 (19,392,700 at the end of Q3 08) out of which 92,100 shares were owned by Telio Holding ASA (97,100 shares at the end of Q3 08). The total number of shareholders was 427 (440 at the end of Q3 08) and 36.6% of the shares were registered abroad (35.1% at the end of Q3 08).

Total outstanding options at the end of Q4 08 were 1.34 million (1.35 million at the end of Q3 08) with an average strike price of NOK 15.71 (NOK 15.74 at the end of Q3 08). The stock price moved from NOK 16.40 to NOK 16.50 (+0.6%) during Q4 08.

Events after the quarter-end

The court trial regarding the ecom case between Telio Telecom AS and Telio SA on one hand and the Ministry of Communication and Transportation on the other commenced as planned 8 and 9 January 2009. The company received the ruling from the court 6 February 2009 and the ruling was in favor of Telio Telecom AS and Telio SA. The ruling concludes that the decision from the Norwegian Post and Telecom Authority to impose a regulatory fee on revenues in Telio SA is invalid.



Future market developments

The board expects no significant short term changes in the markets and business environment in which Telio operates.

Oslo, 11 February 2009
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>31.12.2008</u>	<u>31.12.2007</u>
ASSETS		
Non-current assets		
Property, plant and equipment	20,957	24,715
Intangible assets	30,463	36,257
Deferred tax assets	11,046	12,371
	<u>62,466</u>	<u>73,343</u>
Current assets		
Trade and other receivables	73,315	66,578
Cash and cash equivalents	123,902	122,851
	<u>197,217</u>	<u>189,429</u>
Total assets	<u>259,683</u>	<u>262,772</u>
EQUITY		
Capital and reserves attributable to equity holders of the Company		
Share capital	1,929	1,929
Other reserves	27,946	31,379
Retained earnings	85,155	24,544
Total equity	<u>115,030</u>	<u>57,852</u>
LIABILITIES		
Non-current liabilities		
Borrowings	3,718	63,770
Deferred tax liabilities	2,006	2,006
	<u>5,724</u>	<u>65,776</u>
Current liabilities		
Trade and other payables	72,328	67,195
Current income tax liabilities	14,280	3,472
Borrowings	14,279	14,963
Deferred income	38,041	47,389
Contingent liabilities	-	6,126
	<u>138,928</u>	<u>139,144</u>
Total liabilities	<u>144,652</u>	<u>204,920</u>
Total equity and liabilities	<u>259,683</u>	<u>262,772</u>

Oslo, 11 February 2009

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 income statement (unaudited)

(Figures in NOK '000)

	4 th quarter		Full year	
	2008	2007	2008	2007
Sales	96,127	92,313	374,669	356,900
Other revenues	4,314	1,969	9,699	5,402
Total revenue	100,441	94,282	384,368	362,302
Cost of connections and traffic charges	(39,206)	(36,189)	(148,599)	(148,470)
Salaries and personnel costs	(12,788)	(13,392)	(47,139)	(43,543)
Selling and marketing costs	(5,611)	(16,164)	(34,483)	(58,809)
Other expenses	(11,012)	(11,489)	(45,016)	(47,792)
Depreciation and amortization	(10,123)	(11,791)	(41,051)	(49,441)
Operating profit (loss)	21,701	5,257	68,080	14,247
Finance	6,288	(413)	7,491	(2,949)
Profit (loss) before income tax	27,989	4,844	75,571	11,298
Income tax (expense) income	(2,543)	(793)	(14,960)	(3,707)
Profit (loss)	25,446	4,051	60,611	7,591
Attributable to :				
Equity holders of the Company	25,446	4,051	60,611	7,591
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in NOK per share)				
– basic	1.32	0.21	3.14	0.39
– diluted	1.32	0.21	3.14	0.39



Telio Holding ASA
Condensed consolidated interim statement of changes in equity (unaudited)

(Figures in NOK '000)

	Attributable to equity holders of the Company			
	Share capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2007	1,929	69,512	(22,141)	49,300
Currency translation differences	-	370	-	370
Profit for the period	-	-	7,591	7,591
Total recognized income 2007	-	370	7,591	7,961
Share issue after transaction costs	10	1,340	-	1,350
Write-down of premium reserve	-	(39,094)	39,094	-
Employee share option scheme:				
– value of employee services	-	1,887	-	1,887
– proceeds from shares issued	-	611	-	611
Purchase of treasury shares	(10)	(3,247)	-	(3,257)
	-	(38,503)	39,094	591
Balance at 31 December 2007	1,929	31,379	24,544	57,852
Balance at 1 January 2008	1,929	31,379	24,544	57,852
Currency translation differences	-	(11,406)	-	(11,406)
Profit for the period	-	-	60,611	60,611
Total recognized income 2008	-	(11,406)	60,611	49,205
Previous year adjustment	-	5,793	-	5,793
Employee share option scheme:				
– value of employee services	-	2,080	-	2,080
– proceeds from shares issued	-	100	-	100
	-	7,973	-	7,973
Balance at 31 December 2008	1,929	27,946	85,155	115,030



Telio Holding ASA

Condensed consolidated interim statement of cash flows (unaudited)

(Figures in NOK '000)

	4 th quarter		Full year	
	2008	2007	2008	2007
Cash flows from operating activities				
Profit (loss) for the period	25,446	4,051	60,611	7,591
Adjustments for:				
– Tax	1,994	793	14,411	3,707
– Depreciation	5,661	6,746	22,837	25,220
– Amortization	4,462	5,046	18,214	24,221
– Non cash transaction related to cost of share options	487	754	2,080	1,887
Changes in working capital (excluding the effects of exchange differences on consolidation):				
– Trade and other receivables	(3,681)	(2,501)	(7,937)	(14,539)
– Trade and other payables	(9,471)	(11,269)	(1,972)	7,597
– Deferred revenue	(3,145)	(1,723)	(9,348)	(5,726)
Net cash generated from operating activities	21,753	1,897	98,896	49,958
Cash flows from investing activities				
Purchases of property, plant and equipment (PPE)	(799)	(1,542)	(2,479)	(3,203)
Purchases of intangible assets	(7,189)	(4,306)	(12,420)	(13,549)
Sale of intangible assets	-	-	-	850
Loans granted to related parties	-	-	-	92
Net cash flow from investing activities	(7,988)	(5,848)	(14,899)	(15,810)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	-	101	-	2,068
Sale/(purchase) of treasury shares	50	(984)	100	(3,264)
Repayments of borrowings	(1,583)	(4,631)	(76,196)	(20,006)
Net cash flow from financing activities	(1,533)	(5,514)	(76,096)	(21,202)
Net (decrease)/increase in cash, cash equivalents	12,232	(9,465)	7,901	12,946
Cash and cash equivalents at beginning of the period	117,094	132,378	122,851	110,195
Translation adjustments	(5,424)	(62)	(6,850)	(290)
Cash and cash equivalents at end of the period	123,902	122,851	123,902	122,851



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 December 2008 condensed consolidated interim financial statements of Telio Holding ASA and its subsidiaries (together “the Group”) are for the twelve months ended 31 December 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.

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 11 February 2009.

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.



Revenues	4th quarter 2008	4th quarter 2007	Full year 2008	Full year 2007
<i>(Figures in NOK '000)</i>				
Norway	44,987	46,065	183,857	188,174
Switzerland	39,390	36,892	154,257	144,931
	84,377	82,957	338,114	333,105
Other Europe	11,750	9,356	36,555	23,795
Total	96,127	92,313	374,669	356,900

Capital expenditure

(Figures in NOK '000)

Norway	7,986	5,833	14,258	15,927
Switzerland	2	15	32	56
Other Europe	-	-	609	769
Total	7,988	5,848	14,899	16,752

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.

Total assets	31.12.2008	31.12.2007
<i>(Figures in NOK '000)</i>		
Norway	117,801	173,433
Switzerland	89,551	73,505
Other Europe	53,531	15,834
Total	260,883	262,772

Analysis of sales by category	4th quarter 2008	4th quarter 2007	Full year 2008	Full year 2007
<i>(Figures in NOK '000)</i>				
Connection fees	3,221	3,183	12,848	12,102
Subscriptions	50,648	45,501	192,822	176,137
Traffic	34,341	37,252	140,744	142,895
ASP	4,362	2,529	12,998	9,771
Mobile	3,555	3,848	15,257	15,995
Total	96,127	92,313	374,669	356,900



Note 6: Property, plant and equipment

	4th quarter 2008	4th quarter 2007	Full year 2008	Full year 2007
<u>Adapters</u>				
Book value beg. of period	19,071	19,294	16,008	20,460
Additions	915	1,261	16,144	13,670
Depreciation	(4,373)	(4,547)	(16,539)	(18,122)
Book value end of period	15,613	16,008	15,613	16,008
<u>Other equipment</u>				
Book value beg. of period	5,376	8,579	8,707	13,773
Additions	959	1,627	2,639	2,102
Depreciation	(991)	(1,499)	(6,002)	(7,168)
Book value end of period	5,344	8,707	5,344	8,707
Total property, plant and equipment	20,957	24,715	20,957	24,715

Note 7: Intangible assets

	4th quarter 2008	4th quarter 2007	Full year 2008	Full year 2007
<u>Customer acquisition costs</u>				
Book value beg. of period	21,414	29,585	27,650	35,428
Additions	2,801	2,691	7,046	11,687
Amortization	(3,279)	(4,626)	(13,760)	(19,465)
Book value end of period	20,936	27,650	20,936	27,650
<u>Technology platform</u>				
Book value beg. of period	4,449	4,202	5,775	6,308
Additions	4,388	2,414	5,374	2,291
Amortization	(863)	(841)	(3,175)	(2,824)
Book value end of period	7,974	5,775	7,974	5,775
<u>Other intangible assets</u>				
Book value beg. of period	1,873	4,208	2,833	6,343
Additions/(disposals)	-	(799)	-	(1,579)
Amortization	(320)	(577)	(1,280)	(1,932)
Book value end of period	1,553	2,832	1,553	2,832
Total intangible assets	30,463	36,257	30,463	36,257

Note 8: Deferred revenues

Deferred revenues include revenues generated from connection fees, subscriptions and software lease agreements (ASP). These are recognized 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)

	31.12.2008	31.12.2007
Deferred revenues connection fee	20,563	28,557
Deferred revenues subscriptions	17,478	18,832
Total deferred revenues in balance sheet	38,041	47,389

Note 9: Finance

Net finance income of NOK 6.288 million in Q4 08 and NOK 7.491 million YTD includes net unrealized foreign exchange gains of NOK 5.286 million and NOK 6.850 million respectively.



Financial information Q4 08

Telio reports revenues of NOK 100.4 million in the 4th quarter. EBITDA was NOK 31.8 million (EBITDA margin of 32%) and EBIT was NOK 21.7 million.

EBIT was NOK 21.7 million compared to NOK 5.3 million in Q4 07. Profit before tax was NOK 28 million compared to NOK 4.8 million in Q4 07.

At the end of 2008, Telio had 108,000 VoIP customers in Norway, 21,000 in Denmark (ex. Musimi) and 12,000 in the Netherlands. Sale to the business market is developing as planned and currently Telio has 4,800 lines in this segment in Norway. 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 Q4 08 was NOK 61.2 million (61% margin) compared to NOK 58.1 million (62% margin) in Q4 07.

Average monthly revenue per customer (VoIP Norway) during Q4 08 was NOK 248 compared to NOK 244 in the previous quarter. Average monthly gross profit per customer for Norwegian VoIP customers was NOK 160 during the quarter compared to NOK 164 in the previous quarter.

Salaries and personnel costs were NOK 12.8 million in Q4 08 (12.7% of revenues) including NOK 0.5 million related to the stock option plans. Salaries and personnel costs are affected by capitalization of NOK 3.2 million in development costs during the quarter (including a reassessment of total development costs for 2008). Selling and marketing costs were NOK 5.6 million in Q4 08 (5.6% of revenues). The company capitalized customer acquisition costs of NOK 2.8 million during the quarter.

Cash flow from operations was NOK 21.8 million in the quarter. Cash and cash equivalents were NOK 123.9 million at 31 December. Consolidated equity was NOK 115 million (equity ratio of 44%) compared to NOK 93.2 million (36.9%) at the end of Q3 08.

Deferred revenues (current liabilities) decreased by NOK 3.1 million during the quarter. Deferred income at the end of Q4 08 was NOK 38 million of which NOK 20.6 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 3.4 million below the end of the previous quarter (NOK 21.4 million). Of the total financial lease debt, NOK 14.3 million was classified as current liabilities (payable within one year from the balance sheet date).

The Telio Group had 113 employees (FTE) at 31 December 2008.

<i>(Figures in NOK '000)</i>	4th quarter 2008	3rd quarter 2008	2nd quarter 2008	1st quarter 2008	4th quarter 2007	3rd quarter 2007	2nd quarter 2007	1st quarter 2007
Total revenue	100,441	92,969	96,692	94,267	94,282	89,180	90,462	88,378
Revenue growth (year-on-year) (%)	7%	4%	7%	7%	20%	17%	30%	34%
Gross margin (%)	61%	63%	61%	61%	62%	59%	58%	58%
Operating profit	21,701	14,154	20,192	12,033	5,257	1,862	3,024	4,075
Operating margin (%)	22%	15%	21%	13%	6%	2%	3%	5%
EBITDA	31,824	24,550	30,040	22,717	17,048	14,769	16,369	15,469
EBITDA margin (%)	32%	26%	31%	24%	18%	17%	18%	18%
EPS (NOK)	1.32	0.62	0.80	0.40	0.21	0.02	0.05	0.11
EPS (NOK) fully diluted	1.32	0.62	0.80	0.40	0.21	0.02	0.05	0.11



Company Facts

Telio Holding ASA
Støperigt. 2
Postboks 1203 Vika
0110 Oslo

Telephone: +47 2167 3500
Homepage: www.telioholding.no

Company reg. number: 985 968 098
Founded: 12 August 2003

Board of Directors

Erik Osmundsen (Chairman)
Richard Philip Kosowsky
Aril Resen
Ingrid Simunic
Marit Wetterhus

Group Management

Eirik Lunde, Chief Executive Officer
Tom Nøttveit, Chief Financial Officer
Alan Duric, co-founder and Chief Technology Officer
Jens Hetland, Commercial & Product Director
Nina Forsberg Mathiesen, Director Customer Services

Investor Relations

Tom Nøttveit, Chief Financial Officer
Telephone: +47 4153 9714
Email address: tom.nottveit@telio.no

Financial Calendar

1st quarter 2009: 29 April
2nd quarter 2009: 20 August
3rd quarter 2009: 28 October

Equity Research Coverage

Company	Contact	Phone
Carnegie	Espen Torgersen	+47 22 00 93 00
SEB Enskilda	Ole Petter Kjerkreit	+47 21 00 85 00
SEB Enskilda	Peder Strand	+47 21 00 85 00
Orion Securities	Tomas Skeivys	+370 52 46 19 62