

TELIO HOLDING ASA

QUARTERLY REPORT

Q2 - 2006

Key goal reached for the Telio Group – above 100,000 subscriptions

Telio Holding ASA, Quarterly report - Second quarter 2006

The Telio Group continues to grow. Revenues for the quarter were NOK 69.6 million, compared to NOK 36.7 million in the second quarter of 2005 (+90%) and compared to NOK 66.2 million in the previous quarter (+5%).

Highlights during the quarter

- *Subscription growth:* More than 11,500 subscribers added, bringing the total to 101,800 subscribers incl. Telio Mobil
- *New offer:* Launch of Telio Mobil offering on May 15. Strong take-up with more than 4,200 subscribers by end of Q2
- *Structural events:* In-sourced part of telemarketing operation resulted in 20% increase in customer acquisition effectiveness
- *Stock market listing:* Listed on Oslo Stock Exchange on June 2

Subscription growth

In Q2 the strong customer growth continued. The Telio Group added 7,300 VoIP subscribers during the quarter bringing the VoIP subscriber base to approximately 97,600 at the end of Q2. The subscriber base is distributed as follows:

- Norway: 79,000 – growth of 6,000 VoIP subscribers
- Denmark: 14,800 (13,100 Musimi accounts plus 1,700 Tellio subscribers) – growth of 700 subscribers
- Netherlands: 3,800 – growth of 600 subscribers

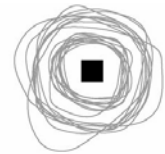
Q2 was a good quarter in Norway with 6,000 net new VoIP subscribers. Telio SA is continuously testing new distribution channels, and during the quarter the supermarket chains Ica Maxi and Rema 1000 were tested with some success. Telemarketing was held somewhat back in order to co-ordinate these activities as a result of the in-sourcing of Telemarketing at Lillehammer (Salgssenteret Lillehammer AS).

In Denmark, Telio SA through its subsidiary Tellio Aps, has two platforms – Musimi and Tellio. Musimi is more of a self service platform for technically literate subscribers. The subscribers of Musimi are defined as accounts and some of the accounts may not be active. Tellio in Denmark has had good progress and has now attracted approx. 1,700 subscribers with very limited marketing. In Q2, distribution through 7-eleven was launched with 55 stores in total. Additional new distribution channels will be launched in Q3.

In Netherlands, Telio Telecom AS through its subsidiary Telio Netherlands BV, has two white label agreements; InterNLnet (branded Optibel) and XMS. At the end of Q2, InterNLnet had approx 1,600 subscribers and XMS had 2,200 subscribers. As the XMS fibre to the home project is rolled out, more subscribers are expected to join Telio. XMS intends to install fibre end point equipment in 100% of homes passed (61,000) by the end of 2007, however we expect less than 100% VoIP take up.

New offer

On May 15, Telio Mobil was launched. The objective is to establish the Telio Group as a provider of mobile telephony, in the first phase through reselling access to Telenor's network. The mobile offering is built upon the existing organization, integration of billing/support, etc. The service is available to all Telio SA subscribers and priced so that it should have a neutral contribution to gross profit.



From May 15 to June 30, Telio Mobil experienced strong take-up of the new service with more than 4,200 subscribers. Including the Telio Mobil subscribers, the Telio Group had a total of 101,800 subscribers by the end of the quarter.

Structural events

On May 1, Telio SA in-sourced its telemarketing operation through a company called Salgssenteret Lillehammer AS that is now wholly owned. The in-sourcing has been done to reduce marketing cost. In May and June, the call centre delivered solid results, and the in-sourcing has resulted in more than 20% increase in sales efficiency. Telio SA still uses other external telemarketing companies as needed.

Stock market listing

Telio Holding ASA was listed on the Oslo Stock Exchange on June 2. The timing of the planned IPO coincided with a sharp decline in share prices at the Oslo Stock Exchange, making it difficult to execute the IPO at an acceptable price. As the proposed share price was outside of the indicated price range, and since the Telio Group has sufficient cash reserves and operating leverage to fund its growth plans, the company decided to not carry through with its planned share offering.

Financials

Total revenues in Q2 06 of NOK 69.6 million were up 90% compared to NOK 36.7 million in Q2 05. Revenue growth was driven by an increased customer base, partly offset by a change in call buckets to four major destinations and reduced average subscriptions fees. Further, the installation of an SS7 (interconnection equipment) in the beginning of 2006 had positive impact on overall termination revenues. Revenues increased by 5% compared to the previous quarter, or 8% if adjusting the previous quarter with NOK 2.0 million related to the termination of the Glocalnet agreement.

Costs of connection and traffic charges were NOK 33.1 million in Q2 06 (48% of revenues) compared to NOK 10.2 million in Q2 05 (28% of revenues). However, in 2005 a total of NOK 5.7 million in connection and traffic charges relating to Q2 05 were booked and reported in Q3 05. Adjusting for this, total connection and traffic charges in Q2 05 were NOK 15.9 million (43% of revenues). Improved interconnect agreements were more than offset by reduced average subscription fees and reduced customer traffic fees, hence the increase in connection and traffic charges as percent of revenues.

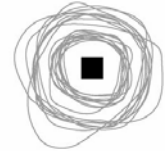
Salaries and personnel costs were NOK 8.3 million in Q2 06 (12% of revenues) compared to NOK 7.3 million (20% of revenues) in Q2 05. Total salaries and personnel costs include a credit of NOK 0.6 million in share based payment due to a reduction in the share price to NOK 25 per June 30 compared to NOK 31 as per March 31 (cost of NOK 3.2 million in Q2 05). Share based payment is accounted for in accordance with IFRS 2. Engineering compensation amounting to NOK 0.8 million has been capitalised as intangible assets (NOK 1.1 million in Q2 05) in accordance with IAS 38. The total headcount remained stable with the exception of an increase of 22 full time equivalents due to in-sourcing of telemarketing through Salgssenteret Lillehammer AS.

Selling and marketing costs were NOK 10.7 million in Q2 06 (15% of revenues) compared to NOK 6.2 million in Q2 05 (17% of revenues). Sales and marketing costs have increased compared to last year due to advertising campaigns on TV and other media, and more extensive marketing activities. During the quarter the Telio Group spent NOK 2.7 million on various media campaigns relating to the listing of the company. Telio SA spent NOK 0.8 million to "buy out" the rest payment from subscribers acquired via Narvesen (the original agreement was to pay Narvesen a monthly fixed fee per customer over 2 years).

Other operating expenses were NOK 14.6 million in Q2 06 (21% of revenues) compared to NOK 8.7 million (24% of revenues) in Q2 05. Other operating expenses include professional fees relating to the listing process of approx. NOK 3.2 million. Excluding these costs, total other operating expenses were NOK 11.4 million (16% of revenues). Other operating expenses have primarily increased due to increased use of temporary support staff as the customer base has grown.

Total operating losses in Q2 06 were NOK 4.4 million (operating profits of NOK 1.7 million in Q2 05).

Excluding professional fees and media advertising related to the listing process total operating profits were NOK 1.5 million in Q2 06 compared to losses of NOK 4.0 million in Q2 05 when adjusting for incorrect booking of connection fees and traffic charges.



Losses before income tax in Q2 06 were NOK 4.9 million (profits of NOK 1.7 million in Q2 05). The tax expense was NOK -1.0 million in Q2 06 and the losses for the period were NOK 3.9 million (profits of NOK 2.0 million in 2005). Basic and diluted earnings per share in Q2 06 were NOK -0.21 (NOK 0.12 and 0.09 respectively in Q2 05).

Cash and cash equivalents increased by NOK 29.5 million during the quarter to NOK 65.4 at the end of Q2 06 (NOK 36.0 million at the end of Q1 06). Deferred income (current liability) increased by NOK 5.0 million during the quarter mainly due to growth in the customer base. Deferred income at the end of Q2 06 was NOK 52.0 million of which NOK 35.6 has been collected and is non-refundable. Total financial lease debt was NOK 29.7 million at the end of Q2 06 which is NOK 0.8 million below the end of the previous quarter (NOK 30.5 million). Of the total financial lease debt, NOK 15.4 million (NOK 14.4 million at the end of Q1 06) was classified as current liabilities (payable within one year from the balance sheet day).

Net cash generated from operating activities during Q2 06 of NOK 22.2 million (NOK 11.8 million during Q2 05) and from financing activities of NOK 15.5 million (NOK 16.6 million during Q2 05) were partially offset by capital expenditures and investments in intangible assets of NOK 8.2 million (NOK 10.4 million during Q2 05).

Consolidated equity was NOK 55.1 million at the end of Q2 06 (equity ratio of 26%) compared to NOK 41.2 million at the end of Q2 05 (equity ratio of 42%) and NOK 41.4 million (equity ratio of 23%) in the previous quarter.

Shareholder information

The total number of registered shares outstanding at the end of Q2 06 was 18,442,500 (17,957,500 at the end of Q1 06) out of which 30,000 shares were owned by Telio Holding ASA (16,750 shares at the end of Q1 06). The total number of shareholders was 303 at the end of Q2 06 (205 at the end of Q1 06) and 29% of the shares were registered abroad at the end of Q2 06 (20% at the end of Q1 06).

Reitangruppen exercised 700,000 share options in June, increasing the total number of outstanding shares to 19,142,500. The share issue was formally registered in July.

Total outstanding options at the end of Q2 06 were 1.7 million (2.9 million at the end of Q1 06) with an average strike price of NOK 12.50 (vs. NOK 15.65 at the end of Q1 06). The stock price moved from NOK 31 to NOK 25 during the quarter (comparing with the OtC published price at the beginning of the quarter).

Legal matters

In Norway, services delivered from abroad to individuals are VAT exempt. The only exception to this rule is ECS (EKOM) services. According to Telios SA's legal advisors, Telio SA's location server based services is not an ECS service, as such services are defined in the current Norwegian ECS regime (EKOM-loven).

In the quarter, Post og Teletilsynet sent an assessment to Oslo Fylkesskattekontor claiming that Telio SA and Telio Telecom AS in effect market one joint broadband telephony service, and because Telio Telecom AS deliver ECS services, the services delivered by Telio SA should also be considered to be ECS. In August Oslo Fylkesskattekontor initiated an ordinary audit of Telio Holding ASA and Telio Telecom AS.

Telio SA and its advisors are of the opinion that the PT assessment does not have any support under current ECS laws, and will therefore continue to deliver location server services to individuals in Norway exclusive of VAT. However, Telio SA will initiate discussions with Norwegian authorities to explain the exact nature of its services. If Telio SA's location server service should be deemed an ECS service, Telio SA's results per month would be adversely affected by approximately NOK 2.0 million, assuming the current customer base and no adjustments of Telio SA's price plans.

Telio SA is comfortable with its interpretation of what constitutes an ECS service, and no VAT accruals have thus been made in Q2.

Outlook

In the third quarter, the Telio Group expects to increase its investments in customer growth, including reduced establishment fees, and increased sales efforts. Following the relatively low telemarketing activity during the second quarter, the next quarter will include increased investments in this distribution channel, both in-house and external.

The Group will launch an offer to the SMB part of the market during the next half year. It is also expected that the first phase of the fixed mobile conversion product will be launched before the end of the year. Telio Group does not expect significant revenues on these new business areas until well into 2007.

Oslo 23. August 2006

Espen Fjogstad

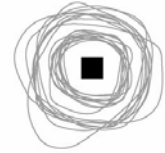
Erik Osmundsen
(Chairman of the board)

Richard Kosowsky

Christian Rynning-Tønnesen

Aril Resen

Arild Nilsen
(CEO)



Consolidated balance sheet (unaudited)

(in thousands of NOK)

	30.06.2006	30.06.2005	31.12.2005
ASSETS			
Non-current assets			
Property, plant and equipment	40,967	20,543	32,768
Intangible assets	38,223	19,652	28,731
Deferred income tax assets	13,265	4,248	5,015
	<u>92,455</u>	<u>44,443</u>	<u>66,514</u>
Current assets			
Trade and other receivables	52,239	29,320	55,695
Cash and cash equivalents	65,389	25,112	32,124
	<u>117,628</u>	<u>54,432</u>	<u>87,819</u>
Total assets	210,083	98,875	154,333
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	1,912	179	179
Other reserves	65,683	47,561	48,835
Retained earnings	(12,515)	(6,502)	(7,559)
	<u>55,080</u>	<u>41,238</u>	<u>41,455</u>
Total equity before minority interest	55,080	41,238	41,455
Minority interest	-	-	21
Total equity	55,080	41,238	41,476
LIABILITIES			
Non-current liabilities			
Borrowings	14,341	3,369	8,474
Deferred income tax liabilities	52	190	52
	<u>14,393</u>	<u>3,559</u>	<u>8,526</u>
Current liabilities			
Trade and other payables	64,940	16,671	48,403
Current income tax liabilities	8,258	1,807	2,960
Borrowings	15,378	2,429	8,349
Deferred income	52,034	33,171	44,619
	<u>140,610</u>	<u>54,078</u>	<u>104,331</u>
Total liabilities	155,003	57,637	112,857
Total equity and liabilities	210,083	98,875	154,333

Oslo 23. August 2006

Espen Fjogstad

Erik Osmundsen
(Chairman of the board)

Richard Kosowsky

Christian Rynning-Tønnesen

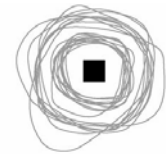
Aril Resen

Arild Nilsen (CEO)

Consolidated income statement (unaudited)

(in thousands of NOK)

	2 nd quarter		Accumulated 30 June		Year
	2006	2005	2006	2005	2005
Sales	69,484	33,580	135,605	60,144	152,067
Other revenues	135	3,122	212	4,401	10,059
Total revenue	69,619	36,702	135,817	64,545	162,126
Cost of connections and traffic charges	(33,145)	(10,219)	(63,075)	(21,818)	(70,242)
Salaries and personnel costs	(8,305)	(7,277)	(17,308)	(13,009)	(27,896)
Selling and marketing costs	(10,677)	(6,212)	(18,431)	(7,731)	(15,215)
Other expenses	(14,570)	(8,677)	(29,802)	(13,278)	(33,125)
Depreciation and amortisation	(7,371)	(2,649)	(13,811)	(4,636)	(11,791)
Operating profit (loss)	(4,449)	1,668	(6,610)	4,073	3,857
Finance costs	(450)	28	(1,266)	(25)	(456)
Profit (loss) before income tax	(4,899)	1,696	(7,876)	4,048	3,401
Income tax (expense) income	1,033	298	2,899	165	(224)
Profit (loss)	(3,866)	1,994	(4,977)	4,213	3,177
Attributable to :					
Equity holders of the Company	(3,850)	1,994	(4,956)	4,213	3,156
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	(0.21)	0.12	(0.27)	0.25	0.18
- diluted	(0.21)	0.09	(0.27)	0.20	0.16



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 31 December 2004	170	31,206	(10,715)	-	20,661
Currency translation differences	-	82	-	-	82
Profit for the year	-	-	3,156	21	3,177
Total recognised income for 2005	-	82	3,156	21	3,259
Share issue after the transaction cost	7	14,505	-	-	14,512
Employee share option scheme:					
– value of employee services	-	2,762	-	-	2,762
– proceeds from shares issued	2	1,220	-	-	1,222
Purchase of treasury shares	-	(940)	-	-	(940)
	9	17,547	-	-	17,556
Balance at 31 December 2005	179	48,835	(7,559)	21	41,476
Currency translation differences	-	52	-	-	52
Profit for the period	-	-	(4,956)	(21)	(4,977)
Total recognised income (loss) for the 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

	Attributable to equity holders of the Company			Minority interest	Total equity
	Share capital	Other reserves	Retained earnings		
Balance at 31 December 2004	170	31,206	(10,715)	-	20,661
Currency translation differences	-	(62)	-	-	(62)
Profit for the period	-	-	4,213	-	4,213
Total recognised income (loss) for the period ended June 30, 2005	-	(62)	4,213	-	4,151
Share issue after the transaction cost	7	14,505	-	-	14,512
Employee share option scheme:					
– value of employee services	-	1,191	-	-	1,191
– proceeds from shares issued	2	721	-	-	723
	-	16,417	-	-	15,882
Balance at 30 June 2005	179	47,561	(6,502)	-	41,238

Consolidated cash flow statement (unaudited)

(in thousands of NOK)

	2 nd quarter		Accumulated 30 June		Year
	2006	2005	2006	2005	2005
Cash flows from operating activities					
Profit (loss) for the period	(3,866)	1,994	(4,977)	4,213	3,177
Adjustments for:					
– Tax	(1,033)	(298)	(2,899)	(165)	224
– Depreciation	4,859	1,342	9,047	2,680	7,814
– Amortisation	2,513	1,307	4,765	1,956	4,338
– Non cash transaction related to cost of share options	1,048	711	1,695	1,191	2,762
Changes in working capital (excluding the effects of exchange differences on consolidation):					
– Trade and other receivables	3,603	(6,432)	3,456	(15,297)	(41,680)
– Trade and other payables	10,515	4,073	23,379	7,153	44,679
– Deferred revenue	5,011	9,133	7,415	20,697	32,145
Cash generated from operations	22,650	11,830	41,881	22,428	53,459
Interest paid	(495)	(60)	(924)	(110)	(355)
Net cash generated from operating activities	22,155	11,770	40,957	22,318	53,104
Cash flows from investing activities					
Purchases of property, plant and equipment (PPE)	(2,822)	(2,997)	(17,246)	(6,826)	(24,204)
Purchases of intangible assets	(5,600)	(7,376)	(14,257)	(12,662)	(24,124)
Interest received	204	-	302	10	211
Net cash flow from investing activities	(8,218)	(10,373)	(31,201)	(19,478)	(48,117)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares	17,227	15,135	17,400	15,235	15,735
Purchase of treasury shares	(566)	-	(566)	-	(940)
Proceeds from borrowings	2,193	1,904	12,597	1,904	9,604
Repayments of borrowings	(3,307)	(405)	(6,077)	(830)	(3,425)
Net cash flow from financing activities	15,547	16,634	23,354	16,309	20,974
Net (decrease)/increase in cash, cash equivalents	29,484	18,031	33,110	19,149	25,961
Cash and cash equivalents at beginning of the period	36,017	7,133	32,124	5,987	5,987
Translation adjustments cash, cash equivalents and bank overdraft	(112)	(52)	155	(24)	176
Cash and cash equivalents at end of the year	65,389	25,112	65,389	25,112	32,124

1. Statement of compliance

The quarterly report, including comments and financial statements, compares the company's reported figures for the corresponding period in 2005 (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, 2005 as they provide an update of previously reported information. They were approved by the Board of Directors on August 23, 2006.

The financial statements are prepared in consistency with the accounting policies used in the annual financial statements for the year ending December 31, 2005.

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 effect 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	2 nd quarter 2006	2 nd quarter 2005	Accumulated 30 June 2006	Accumulated 30 June 2005	Year 2005*
<i>(in thousands of NOK)</i>					
Norway	65,425	32,652	128,261	58,517	146,540
Europe outside Norway	4,059	928	7,344	1,627	5,527
Total	69,484	33,580	135,605	60,144	152,067

* Restated compared to Annual Report for 2005, note 5. Adjusted revenues for 2004 per Norway and Europe outside Norway are TNOK 27,627 (98%) and TNOK 493 (2%) respectively.

Capital expenditure	2 nd quarter 2006	2 nd quarter 2005	Accumulated 30 June 2006	Accumulated 30 June 2005	Year 2005
<i>(in thousands of NOK)</i>					
Norway	8,066	10,217	31,047	19,012	46,760
Europe outside Norway	356	156	456	476	1,568
Total	8,422	10,373	31,503	19,488	48,328

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

Total assets	30.06.2006	30.06.2005	31.12.2005*
<i>(in thousands of NOK)</i>			
Norway	204,588	95,803	149,025
Europe outside Norway	5,495	3,072	5,308
Total	210,083	98,875	154,333

* Restated compared to Annual Report for 2005, note 5. Adjusted total assets as of December 31, 2004 per Norway and Europe outside Norway are TNOK 44,189 (92%) and TNOK 3,717 (8%) respectively.

Analysis of sales by category	2 nd quarter 2006	2 nd quarter 2005	Accumulated 30 June 2006	Accumulated 30 June 2005	Year 2005
<i>(in thousands of NOK)</i>					
Connection fees	2,365	1,954	4,548	2,871	5,415
Subscriptions	33,123	17,768	63,936	30,545	77,429
Traffic	32,972	13,727	62,799	26,476	67,345
ASP	1,024	131	4,322	252	1,878
Total	69,484	33,580	135,605	60,144	152,067

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 2005):

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.

(in thousands of NOK)	30.06.2006	30.06.2005	31.12.2005
Deferred revenues connection fee	35,503	23,229	30,081
Deferred revenues subscriptions	16,394	6,792	11,740
Deferred revenues ASP revenues	137	3,150	2,798
Total deferred revenues	52,034	33,171	44,619

4. Transition to IFRS

Introduction

Telio's consolidated accounts for 2005 complies with International Financial Reporting Standards (IFRS) as adopted by the EU. Previously presented consolidated quarterly financial statements for 2005 in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (NGAAP) have been restated to comply with IFRS. Identified differences between NGAAP and IFRS applicable to 2nd quarter 2005 are disclosed in the tables below. The bases for the adjustments are presented in further detail in note 27 to the consolidated financial statements for 2005.

Explanation of IFRS adjustments to the financial statements for 2nd quarter 2005

A) ASP agreements

Non-refundable set-up fees under ASP contracts were recognized as revenue upon customer acceptance under NGAAP. Under IFRS, such revenues are deferred over a period equal to the contract length, including optional prolongation.

B) Revenues recognition - connection fees

Telio has recognized connection fees as revenue upon billing of customer under NGAAP. The Company's interpretation of IAS 18 Revenue, implies that connection fees are recognized as revenue linearly over the average expected duration of a customer relationship, which is estimated to be a 5 year period.

C) Intangible assets

While telephone numbers ported from other operator were capitalized and remaining costs related to customer acquisitions were expensed as incurred under NGAAP, Telio is capitalizing directly attributable external costs related to customer acquisition and connection when defined criteria are fulfilled under IFRS. Telio has decided to capitalize customer acquisition cost only to the extent that such expenses are covered by deferred connection fees in the balance sheet. Capitalized customer acquisition cost is amortized over the estimated duration of the customer relationship, ref. B) above.

D) Share based payment

Vested options to employees are expensed according to IFRS 2. The market values of options granted to employees are assessed based on a Black-Scholes calculation. Equivalent, Telio has provided for social security tax on options and takes into account the effect employees' payment of social security tax.

E) Reclassification

The following reclassifications have been made due to the IFRS transition:

Costs regarding outsourcing of the billing and collection process is reclassified from traffic cost to other operating expenses (TNOK 758)

Loss from FY 2003 is reclassified from other reserves to retained earnings (TNOK 1,279). Accumulated translation difference is reclassified from retained earnings to other reserves (TNOK -62).

First year installment of borrowings (leasing debt) is reclassified from non-current to current liability (TNOK 2,429).

Consolidated balance sheet 30 June 2005

(in thousands of NOK)

Impact of conversion to IFRS	NGAAP	Transition to IFRS					IFRS
		A	B	C	D	E	
ASSETS							
Non-current assets							
Property, plant and equipment	20,543	-	-	-	-	-	20,543
Intangible assets	8,748	-	-	10,904	-	-	19,652
Deferred income tax	544	153	5,858	(3,470)	1,163	-	4,248
	29,835	153	5,858	7,434	1,163	-	44,443
Current assets							
Trade and other receivables	30,237	-	(1,265)	-	348	-	29,320
Cash and cash equivalents	25,112	-	-	-	-	-	25,112
	55,349	-	(1,265)	-	348	-	54,432
Total assets	85,184	153	4,593	7,434	1,511	-	98,875
EQUITY							
Share capital	179	-	-	-	-	-	179
Other reserves	43,518	-	-	-	2,702	1,341	47,561
Retained earnings	12,676	(1,244)	(18,635)	7,636	(5,594)	(1,341)	(6,502)
Total equity	56,373	(1,244)	(18,635)	7,636	(2,892)	-	41,238
Minority interest	-	-	-	-	-	-	-
Total equity	56,373	(1,244)	(18,635)	7,636	(2,892)	-	41,238
LIABILITIES							
Non-current liabilities							
Borrowings	5,798	-	-	-	-	(2,429)	3,369
Deferred income tax liabilities	392	-	-	(202)	-	-	190
	6,190	-	-	(202)	-	(2,429)	3,559
Current liabilities							
Trade and other payables	14,021	(1,753)	-	-	4,403	-	16,671
Current income tax liabilities	1,807	-	-	-	-	-	1,807
Borrowings	-	-	-	-	-	2,429	2,429
Deferred income	6,793	3,150	23,228	-	-	-	33,171
	22,621	1,397	23,228	-	4,403	2,429	54,078
Total liabilities	28,811	1,397	23,228	(202)	4,403	-	57,637
Total equity and liabilities	85,184	153	4,593	7,434	1,511	-	98,875

Consolidated equity statement 30 June 2005

(in thousands of NOK)

Impact of conversion to IFRS	Ordinary share	Other reserves	Retained earnings	Equity
NGAAP	179	43,518	12,676	56,373
A) ASP deals	-	-	(1,244)	(1,244)
B) Revenue from connection fees	-	-	(18,635)	(18,635)
C) Intangible assets	-	-	7,636	7,636
D) Share based payment	-	2,702	(5,594)	(2,892)
E) Reclassification	-	1,341	(1,341)	-
IFRS	179	47,561	(6,502)	41,238