

TELIO HOLDING ASA

QUARTERLY REPORT

Q3 - 2006

Subscriber growth rate increases. 13,000 new additions in Q3, bring the total subscriber base to almost 115,000.

Readies launch of innovative Mobile VoIP offering and assumes leadership position in Fixed Mobile Convergence

Telio Holding ASA, Quarterly report - Third quarter 2006

The Telio Group continues to grow. Revenues for the quarter were NOK 76.1 million, compared to NOK 45.6 million in the third quarter of 2005 (+67%) and compared to NOK 69.6 million in the previous quarter (+9%).

Highlights during the quarter

- Growth increases: Almost 13,000 subscribers added, bringing the total to 114,783 subscribers
- Gross margin improved: Continued strong improvement in gross margin from Q2
- EBIT jumps (NOK million):
 - EBIT Q3 06 of NOK 3.5 millions, up from NOK -1.0 million Q3 05. NOK 8.0 million improvement from EBIT Q2 06
 - EBITDA Q3 06 of NOK 12.5 million, up from NOK 2.5 million Q3 05
- Continued market concentration; Telio and Telenor in the driver seat of the VoIP market in Norway
- Mobile VoIP comes of age; Telio takes a leadership position in Fixed Mobile Convergence with the readying of its mobile VoIP offering by extending its flexible, scalable technology with Nokia software

Subscription growth

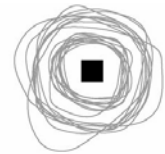
In Q3 the customer growth rate increased. The Telio Group added 12,987 subscribers during the quarter bringing the total subscriber base to 114,783 at the end of Q3. The subscriber base is distributed as follows:

- Norway: 86,982 – an addition of 7,982 VoIP subscribers
- Denmark: 16,276 (13,100 Musimi accounts plus 3,176 Tellio subscribers) – an addition of 1,476 Tellio VoIP subscribers
- Netherlands: 4,579 – an addition of 779 VoIP subscribers
- Telio Mobil; 6,946 – growth of 2,750 mobile subscribers

Financials

Total revenues in Q3 06 of NOK 76.1 million were up 67% compared to NOK 45.6 million in Q3 05. Revenue growth was driven by a continuous increase in the 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 9% compared to the previous quarter.

Gross margin for Norwegian VoIP customer increased to NOK 166.1 from NOK 163.1 during the quarter while revenue per customer decreased from NOK 312 to NOK 294 reflecting lower originating and terminating traffic revenues during the holiday season. Average revenue per customer increased to NOK 300 in October (based on preliminary results). Costs of connection and traffic charges were NOK 33.1 million in Q3 06 (44% of revenues) compared to NOK 24.1 million in Q3 05 (53% 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 Q3 05 were NOK 18.4 million (40% 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 10.1 million in Q3 06 (13% of revenues) compared to NOK 8.4 million (18% of revenues) in Q3 05. Total salaries and personnel costs include a credit of NOK 0.9 million in share based payment due to a reduction in the share price to NOK 18.6 per September 30 compared to NOK 25 as per June 30. Share based payment is accounted for in accordance with IFRS 2. Engineering compensation amounting to NOK 0.4 million has been capitalised as intangible assets (NOK 0.8 million in Q3 05) in accordance with IAS 38. The total headcount (FTE equivalent) was reduced by five during the quarter (all in Salgssenteret Lillehammer AS).

Selling and marketing costs were NOK 7.8 million in Q3 06 (10% of revenues) compared to NOK 0.9 million in Q3 05 (2% of revenues). Sales and marketing costs have increased compared to last year due to more extensive marketing activities and increased CAC (customer acquisition costs per new customer). The company capitalised customer acquisition costs of NOK 7.5 million during the quarter.

Other operating expenses were NOK 12.6 million in Q3 06 (17% of revenues) compared to NOK 9.8 million (21% of revenues) in Q3 05. Other operating expenses have primarily increased due to increased use of temporary support staff as the customer base has grown.

Total operating profits in Q3 06 were NOK 3.5 million (operating losses of NOK 1.0 million in Q3 05).

Profits before income tax in Q3 06 were NOK 2.8 million (losses of NOK 0.5 million in Q3 05). The tax expense was NOK 2.0 million in Q3 06. The tax expense in Q3 06 is affected by a change in the internal transfer pricing that was implemented in this quarter. The effect in Q3 reflects the changes for the period from January to September 2006. The profits for the period were NOK 0.8 million (losses of NOK 0.7 million in 2005). Basic and diluted earnings per share in Q3 06 were NOK 0.04 (NOK -0.04 in Q3 05).

Cash and cash equivalents decreased by NOK 12.5 million during the quarter to NOK 52.8 at the end of Q3 06 (NOK 65.3 million at the end of Q2 06). Deferred income (current liability) decreased by NOK 0.5 million during the quarter. Deferred income at the end of Q3 06 was NOK 51.5 million of which NOK 35.7 million has been collected and is non-refundable. Total financial lease debt was NOK 29.5 million at the end of Q3 06 which is NOK 0.2 million below the end of the previous quarter (NOK 29.7 million). Of the total financial lease debt, NOK 17.9 million (NOK 15.4 million at the end of Q2 06) was classified as current liabilities (payable within one year from the balance sheet day).

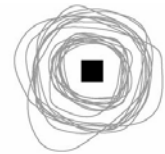
Net cash generated from operating activities during Q3 06 of NOK 0.3 million (NOK 8.5 million during Q3 05) and from financing activities of NOK -0.4 million (NOK 8.6 million during Q3 05) were more than offset by capital expenditures and investments in intangible assets of NOK 12.4 million (NOK 12.8 million during Q3 05).

Consolidated equity was NOK 56.6 million at the end of Q3 06 (equity ratio of 30%) compared to NOK 41.1 million at the end of Q3 05 (equity ratio of 34%) and NOK 55.1 million (equity ratio of 26%) in the previous quarter.

As per July 1 the company has entered into a pension scheme for its employees in Norway with a contribution equal to 2% of the salary above 1G (NOK 60,699 per July 2006).

Developments in Norway

Q3 was a good quarter in Norway with almost 8,000 net new VoIP subscribers despite typically slow sales in the summer months. Telemarketing was a dominant channel in Q3, but the other distribution channels also performed well outside of the typical summer period. Telio expects telemarketing to remain an important channel in Q4. In Q3, Telio started selling the Mini and Medium products with a 12 month contract. Most sales from telemarketing are now dominated by 12 months contracts and the customer acquisition costs for these customers are spread over a period of 12 months.



The VoIP market is now highly consolidated in Norway. Although there are more than 60 operators selling VoIP services, Telio and Telenor dominate the VoIP market with a combined market share of 55-60%. A second tier consisting of NextGenTel, Ventelo and Tele2 jointly have fewer customers than either Telio or Telenor. Third tier operators such as Briiz, Phonzo and Bellit, are struggling with low subscriber growth, poor financial results, and a need for further financing of their operations. Telio expects that the market consolidation will continue and that the future growth mainly will be captured by the market leaders.

In Q3, Telio launched international virtual numbers which give Telio customers the opportunity to pass cost savings on to relations living outside of Norway. International virtual numbers also give our subscribers the opportunity to have a virtual presence, a local phone number, in another country (e.g. Copenhagen). For Telio, international virtual numbers would increase incoming termination income. Telio plans to expand the offering by continuously adding new countries from which international virtual numbers are offered.

In less than three years, Telio has become a reliable, scalable and gigantic telephony traffic machine. Based on figures from the Norwegian Post and Telecommunication authorities, Telio had a 44% market share of all international calling from residential fixed line service in the first half year 2006. In the same period, Telio had a market share of 7.2% of all residential fixed line traffic in Norway with a corresponding 2.8% of the same revenues. This demonstrates how Telio gives back value to its customers. For the full year of 2006, Telio expects a total of 1 billion minutes to be carried by our network (both incoming and outgoing traffic), increasing our market share in the residential fixed line market up to approximately 9% of all traffic.

Just after Q3, Telio re-launched its web site, www.telio.no. The improved web site had an immediate positive effect as click to order rates doubled overnight. It remains to be seen if click-to-order rates will remain at such high levels. Furthermore, Telio plans to launch a new product aimed at the medium volume caller segment who predominantly calls within Norway. The product will be competitively priced, and will give new subscribers access to unlimited free minute tariffs in Norway (call start up fee applies), for a fixed monthly fee of NOK 59. Based on calling pattern from www.telepriser.no, the new product will give monthly average revenue per customer of NOK 177 and a gross margin of NOK 100. A product offering to the SME market is being developed, but a launch date has not yet been determined.

Future growth track – FMC and Mobile VoIP

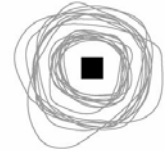
A total of 2,750 new mobile (GSM) subscribers were added in Q3. All of these subscribers are existing Telio fixed line VoIP subscribers in Norway, and therefore negligible acquisition costs have been incurred. Telio ended the quarter with a total of 6,946 mobile subscribers.

Telio is now in the final stage of bringing VoIP services to the mobile phone. The mobile VoIP offering is aimed at reducing mobile calling tariffs for Telio subscribers by diverting calls off the expensive GSM network over to an inexpensive (or free) WLAN (Wifi) network when available. To achieve this, Telio purchased a software platform from Nokia and then worked closely with Nokia to adapt it for consumer roll-out. Telio is the first service provider to offer a consumer service based on the Nokia software platform, thus creating a first-mover advantage in this market and reinforcing Telio's role as a leader in VoIP.

With the introduction of the mobile VoIP product, Telio will assume a clear leadership position in Fixed Mobile Convergence, an area that promises consumers new and exciting services and further cost savings. Initially, the service will be available only on certain Nokia mobile phones (the N80 and E61). Other phones will be added later. Since the mobile phones need WLAN connectivity for this service, and WLAN is only available on high end phones. Telio expects the service to have a slow adoption rate initially. However, Telio is confident that WLAN connectivity will soon be incorporated into mid-range mobile phones and the total addressable market will become significant. A full scale beta test will be performed in Q4-06 and Telio expects the mobile VoIP product to be commercially available early 2007.

International expansion

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. Telio in Denmark has had good progress in Q3 and has attracted more than 1,476 subscribers in Q3. Musimi accounts have remained stable at 13,100 as Telio is no longer marketing the service.

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 Q3, InterNLnet had 2,163 subscribers and XMS had 2,416 subscribers, in total 4,579 subscribers. In Q3, the contract with XMS was renegotiated to support a more aggressive roll out of fibre to the home connections. XMS intends to install fibre end point equipment in 100% of homes passed (61,000). The project will most likely be finished late 2008. Although XMS plans for 100% of households to be connected to the service, Telio Netherlands BV expects less than 100% VoIP take up. As the XMS fibre to the home project is rolled out, more subscribers are expected to join.

So far Telio has decided to hold back further expansion into new countries. Telio is currently revisiting the international expansion strategy to fully understand how we can use mobile VoIP to gain a competitive advantage also outside of Norway. We expect to inform the market about the new international expansion strategy at the latest on Q1 07 results presentation.

Legal matters

On a quarterly basis from Q2 06 on, Telio will provide updates to the legal situation involving the VAT payment for services sold from our Swiss subsidiary Telio SA to the subscribers of Telio SA in Norway. The legal assessment is performed by the law firm Schjødt. The legal assessment in Q3 concluded that “we still consider Telio SA (nor Telio Holding ASA/Telio Telecom AS for that matter) not to be liable for VAT for its cross border IP –IP communication services rendered in Norway. The chances of winning an appeal in a VAT case are in our opinion 50% or better at this stage. This position needs to be reassessed at latest once the results of the public hearing on the amendments of the ecom law are presented”. Telio has thus not included any VAT effects in Q3 accounts. For each new quarter a new assessment will be made based upon an updated legal evaluation.

The legal dispute with Labs2 AS concerning termination income in the period December 2004 January 2005 will be heard in Oslo Tingrett in January, 2007. The total claim amounts to NOK 7.5 millions. Telio has previously concluded that the likelihood of its claim being realised is not high, and therefore no provisions have been recognised in our accounts either in Q3 or earlier.

Shareholder information

The total number of registered shares outstanding at the end of Q3 06 was 19,142,500 (18,442,500 at the end of Q2 06) out of which 22,100 shares were owned by Telio Holding ASA (30,000 shares at the end of Q2 06). The total number of shareholders was 345 at the end of Q3 06 (303 at the end of Q2 06) and 29% of the shares were registered abroad at the end of Q3 06 (29% at the end of Q2 06).

Total outstanding options at the end of Q3 06 were 1.7 million (1.7 million at the end of Q2-06) with an average strike price of NOK 12.62 (vs. NOK 12.50 at the end of Q2 06). The stock price moved from NOK 25.0 to NOK 18.6 during the quarter.

Outlook

In the fourth quarter, the Telio Group expects to further increase its investments in customer growth by increasing sales efforts. The Telio Group will perform a large telemarketing campaign in the fourth quarter as well as selected activities in other relevant channels.

Oslo, November 14 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)

	30.09.2006	30.09.2005	31.12.2005
ASSETS			
Non-current assets			
Property, plant and equipment	39,473	26,394	32,768
Intangible assets	43,395	23,162	28,731
Deferred income tax assets	6,106	4,697	5,015
	88,974	54,253	66,514
Current assets			
Trade and other receivables	47,612	37,852	55,695
Cash and cash equivalents	52,758	29,437	32,124
	100,370	67,289	87,819
Total assets	189,344	121,542	154,333
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	1,913	179	179
Other reserves	66,366	48,100	48,835
Retained earnings	(11,675)	(7,207)	(7,559)
Total equity before minority interest	56,604	41,072	41,455
Minority interest	-	10	21
Total equity	56,604	41,082	41,476
LIABILITIES			
Non-current liabilities			
Borrowings	11,644	6,485	8,474
Deferred income tax liabilities	52	242	52
	11,696	6,727	8,526
Current liabilities			
Trade and other payables	51,452	25,574	48,403
Current income tax liabilities	211	2,383	2,960
Borrowings	17,861	7,927	8,349
Deferred income	51,520	37,849	44,619
	121,044	73,733	104,331
Total liabilities	132,740	80,460	112,857
Total equity and liabilities	189,344	121,542	154,333

Oslo 14. November 2006

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(Chairman of the board)

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Arild Nilsen (CEO)

Consolidated income statement (unaudited)

(in thousands of NOK)

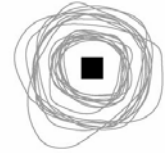
	3 rd quarter		Accumulated 30 September		Year
	2006	2005	2006	2005	2005
Sales	74,704	42,707	210,309	102,851	152,067
Other revenues	1,377	2,869	1,589	7,270	10,059
Total revenue	76,081	45,576	211,898	110,121	162,126
Cost of connections and traffic charges	(33,110)	(24,069)	(96,185)	(45,887)	(70,242)
Salaries and personnel costs	(10,103)	(8,352)	(27,411)	(21,361)	(27,896)
Selling and marketing costs	(7,775)	(900)	(26,206)	(8,631)	(15,215)
Other expenses	(12,571)	(9,784)	(42,373)	(23,062)	(33,125)
Depreciation and amortisation	(8,977)	(3,456)	(22,788)	(8,092)	(11,791)
Operating profit (loss)	3,545	(985)	(3,065)	3,088	3,857
Finance costs	(738)	484	(2,004)	459	(456)
Profit (loss) before income tax	2,807	(501)	(5,069)	3,547	3,401
Income tax (expense) income	(1,967)	(194)	932	(29)	(224)
Profit (loss)	840	(695)	(4,137)	3,518	3,177

Attributable to :

Equity holders of the Company	840	(705)	(4,116)	3,508	3,156
Minority interest	-	10	(21)	10	21

Earnings per share for profit attributable to the equity holders of the Company during the period
(expressed in NOK per share)

- basic	0.04	(0.04)	(0.21)	0.21	0.18
- diluted	0.04	(0.04)	(0.21)	0.18	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	-	227	-	-	227
Profit for the period	-	-	(4,116)	(21)	(4,137)
Total recognised income (loss) for the period ended September 30, 2006	-	227	(4,116)	(21)	(3,910)
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	-	2,406	-	-	2,406
– proceeds from shares issued/sale treasury shares	25	4,003	-	-	4,028
Purchase of treasury shares	(4)	(1,017)	-	-	(1,021)
	1,734	17,304	-	-	19,038
Balance at 30 September 2006	1,913	66,366	(11,675)	-	56,604

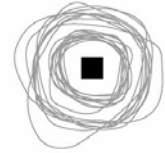
	Attributable to equity holders of the Company			Minority interest	Total equity
	Share capital	Other reserves	Retained earnings		
Balance at 31 December 2004	170	31,206	(10,715)	-	20,661
Currency translation differences	-	(320)	-	-	(320)
Profit for the period	-	-	3,508	10	3,518
Total recognised income (loss) for the period ended September 30, 2005	-	(320)	3,508	10	3,198
Share issue after the transaction cost	7	14,505	-	-	14,512
Employee share option scheme:					
– value of employee services	-	1,988	-	-	1,988
– proceeds from shares issued	2	721	-	-	723
	9	17,214	-	-	17,223
Balance at 30 September 2005	179	48,100	(7,207)	10	41,082

Consolidated cash flow statement (unaudited)

(in thousands of NOK)

	3 rd quarter		Accumulated 30 September		Year
	2006	2005	2006	2005	2005
Cash flows from operating activities					
Profit (loss) for the period	840	(695)	(4,137)	3,518	3,177
Adjustments for:					
– Tax	1,967	194	(932)	29	224
– Depreciation	5,327	2,395	14,374	5,075	7,814
– Amortisation	3,650	1,061	8,415	3,017	4,338
– Non cash transaction related to cost of share options	711	797	2,406	1,988	2,762
Changes in working capital (excluding the effects of exchange differences on consolidation):					
– Trade and other receivables	4,327	(8,532)	7,783	(23,829)	(41,680)
– Trade and other payables*	(15,540)	8,733	1,433	14,710	37,583
– Deferred revenue	(514)	4,678	6,901	25,375	32,145
Cash generated from operations	768	8,631	36,243	29,883	46,363
Interest paid	(503)	(129)	(1,427)	(239)	(355)
Net cash generated from operating activities	265	8,502	34,816	29,644	46,008
Cash flows from investing activities					
Purchases of property, plant and equipment (PPE)	(3,833)	(8,246)	(21,079)	(15,072)	(24,204)
Purchases of intangible assets	(8,822)	(4,571)	(23,079)	(17,233)	(24,124)
Interest received	298	62	600	72	211
Net cash flow from investing activities	(12,357)	(12,755)	(43,558)	(32,233)	(48,117)
Cash flows from financing activities					
Proceeds from shares issued/sale treasury shares	253	-	17,653	15,235	15,735
Purchase of treasury shares	(455)	-	(1,021)	-	(940)
Proceeds from borrowings*	3,587	9,960	22,590	13,040	16,700
Repayments of borrowings	(3,801)	(1,346)	(9,878)	(2,176)	(3,425)
Net cash flow from financing activities	(416)	8,614	29,344	26,099	28,070
Net (decrease)/increase in cash and cash equivalents	(12,508)	4,361	20,602	23,510	25,961
Cash and cash equivalents at beginning of the period	65,389	25,112	32,124	5,987	5,987
Translation adjustments cash and cash equivalents	(123)	(36)	32	(60)	176
Cash and cash equivalents at end of the year	52,758	29,437	52,758	29,437	32,124

* Restated compared to quarterly reports for 2006 and the Annual Report for 2005. Proceeds from borrowings in financing activities include both the short and long term part of the liability. In prior reports, the short term part of the liability (payable within one year) was included in trade and other payables from operating activities. The reclassifications amount to NOK 6,1 million in Q1 06, NOK 0,3 million in Q2 2006 and NOK 7,1 million for 2005 (total year).



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 November 14, 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	3 rd quarter 2006	3 rd quarter 2005	Accumulated 30 September 2006	Accumulated 30 September 2005	Year 2005*
<i>(in thousands of NOK)</i>					
Norway	72,056	41,553	200,317	100,070	146,540
Europe outside Norway	2,648	1,154	9,992	2,781	5,527
Total	74,704	42,707	210,309	102,851	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	3 rd quarter 2006	3 rd quarter 2005	Accumulated 30 September 2006	Accumulated 30 September 2005	Year 2005
<i>(in thousands of NOK)</i>					
Norway	12,255	12,750	43,302	31,762	46,760
Europe outside Norway	400	67	856	543	1,568
Total	12,655	12,817	44,158	32,305	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	30.09.2006	30.09.2005	31.12.2005*
<i>(in thousands of NOK)</i>			
Norway	182,747	117,958	149,025
Europe outside Norway	6,597	3,584	5,308
Total	189,344	121,542	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	3 rd quarter 2006	3 rd quarter 2005	Accumulated 30 September 2006	Accumulated 30 September 2005	Year 2005
<i>(in thousands of NOK)</i>					
Connection fees	2,535	1,670	7,083	4,541	5,415
Subscriptions	36,717	21,780	100,653	52,325	77,429
Traffic	31,352	18,839	94,151	45,315	67,345
ASP	1,409	418	5,731	670	1,878
Mobile	2,691	-	2,691	-	-
Total	74,704	42,707	210,309	102,851	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. 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.

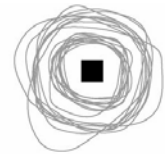
Subscriptions

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>	30.09.2006	30.09.2005	31.12.2005
Deferred revenues connection fee	35,610	26,404	30,081
Deferred revenues subscriptions	15,876	8,544	11,740
Deferred revenues ASP revenues	34	2,901	2,798
Total deferred revenues	51,520	37,849	44,619



6. 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 3rd 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 3rd 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 950). 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 -320). First year installment of borrowings (leasing debt) is reclassified from non-current to current liability (TNOK 7,927).

Consolidated balance sheet 30 September 2005

(in thousands of NOK)

Impact of conversion to IFRS	Transition to IFRS						IFRS
	NGAAP	A	B	C	D	E	
ASSETS							
Non-current assets							
Property, plant and equipment	26,394	-	-	-	-	-	26,394
Intangible assets	9,433	-	-	13,729	-	-	23,162
Deferred income tax	1,088	124	6,893	(4,667)	1,259	-	4,697
	36,915	124	6,893	9,062	1,259	-	54,253
Current assets							
Trade and other receivables	38,753	-	(1,294)	-	393	-	37,852
Cash and cash equivalents	29,437	-	-	-	-	-	29,437
	68,190	-	(1,294)	-	393	-	67,289
Total assets	105,105	124	5,599	9,062	1,652	-	121,542
EQUITY							
Share capital	179	-	-	-	-	-	179
Other reserves	43,002	-	-	-	3,499	1,599	48,100
Retained earnings	12,890	(320)	(20,805)	9,264	(6,637)	(1,599)	(7,207)
Total equity	56,071	(320)	(20,805)	9,264	(3,138)	-	41,072
Minority interest	10	-	-	-	-	-	10
Total equity	56,081	(320)	(20,805)	9,264	(3,138)	-	41,082
LIABILITIES							
Non-current liabilities							
Borrowings	14,412	-	-	-	-	(7,927)	6,485
Deferred income tax liabilities	444	-	-	(202)	-	-	242
	14,856	-	-	(202)	-	(7,927)	6,727
Current liabilities							
Trade and other payables	23,241	(2,457)	-	-	4,790	-	25,574
Current income tax liabilities	2,383	-	-	-	-	-	2,383
Borrowings	-	-	-	-	-	7,927	7,927
Deferred income	8,544	2,901	26,404	-	-	-	37,849
	34,168	444	26,404	-	4,790	7,927	73,733
Total liabilities	49,024	444	26,404	(202)	4,790	-	80,460
Total equity and liabilities	105,105	124	5,599	9,062	1,652	-	121,542

Consolidated equity statement 30 September 2005

(in thousands of NOK)

Impact of conversion to IFRS	Ordinary share	Other reserves	Retained earnings	Equity
NGAAP	179	43,002	12,890	56,071
A) ASP deals	-	-	(320)	(320)
B) Revenues from connection fees	-	-	(20,805)	(20,805)
C) Intangible assets	-	-	9,264	9,264
D) Share based payment	-	3,499	(6,637)	(3,138)
E) Reclassification	-	1,599	(1,599)	-
IFRS	179	48,100	(7,207)	41,072