

TELIO HOLDING ASA

QUARTERLY REPORT

Q1 – 2007

Q1 Revenues NOK 88.4 million up 34% vs Q1 06, EBITDA of 18% of revenues, and operating profits of NOK 4.1 million, best ever. Strong customer growth in Denmark and the Netherlands, and satisfactory underlying customer growth in Norway

Telio Holding ASA, Quarterly report - First quarter 2007

The Telio Group continued its strong underlying growth in Q1, despite of a number of cancellations due to overly aggressive sales in Q4 06. Revenues for the quarter were NOK 88.4 million, 34% above Q1 06 and 6% above the previous quarter.

Operating profit before tax of NOK 4,1 million resulting from focus on profitable growth. Otherwise, the financial results were in line with expectations. Gross margin remains stable, OPEX continues to scale, EBITDA for the quarter was 18% of revenues, and the Company maintains a healthy cash position of approx. NOK 109 million.

During Q1 07, Telio successfully adjusted the TM activity in Norway in order to achieve profitable growth. In Denmark and the Netherlands Telio achieved a strong customer intake during the quarter. The launch of IP-services to the SMB market is on target, and we plan to soft launch SMB services in June, whilst the main launch of the new service will take place in mid August this year

Telio has reorganized the sales department during March and April. We are very pleased that Pål Andre Fredriksen will join Telio as the new Sales and Marketing Director from May 16. Pål Andre has extensive experience from the telecom industry, with proven product and sales management track record from Telenor Tele2, and Ventelo.

Subscription growth

In Q1 the underlying customer growth was satisfactory with 12,300 new net subscribers. Due to overly aggressive sales in Q4 06 with a large number of cancellations the Telio Group added net 5,000 subscribers during the quarter, bringing the total subscriber base to 132,100 at the end of Q1. A new price plan for Telio Mobil was implemented in order to achieve positive gross profit. As a consequence, the mobile customer base decreased during the quarter with 500 subscriptions, and now remains stable. The subscriber base is distributed as follows:

- Norway: 95,800 – an addition of 1,600 VoIP subscribers
- Denmark: 20,300 (13,100 Musimi accounts plus 7,200 Tellio subscribers) – an addition of 1,900 Tellio VoIP subscribers
- Netherlands; 7,800 – an addition of 2,000 VoIP subscribers
- Telio Mobil; 8,200 – decrease of 500 mobile subscribers

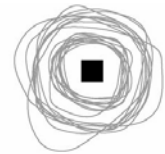
Financials

Total revenues in Q1 07 of NOK 88.4 million were up 34% compared to NOK 66.2 million in Q1 06, and 6% above the previous quarter.

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

Total gross profits in Q1 07 were NOK 51.0 million (58%) compared to NOK 36.3 million (55%) in Q1 06.

Gross margin for Norwegian VoIP customer remained fairly stable at NOK 166.4 compared to NOK 166.8 during the previous quarter. Average revenue per customer (VoIP Norway) during the quarter was NOK 283 compared to NOK 296 during the previous quarter (reflecting reduced international tariffs and 10% less days in February).



Costs of connection and traffic charges were NOK 37.4 million in Q1 07 (42% of revenues) compared to NOK 29.9 million in Q1 06 (45% of revenues). Improved interconnect agreements were partially offset by reduced customer traffic fees, hence the decrease in connection and traffic charges as percent of revenues.

Salaries and personnel costs were NOK 10.2 million in Q1 07 (11% of revenues) compared to NOK 9.0 million (14% of revenues) in Q1 06. Total salaries and personnel costs include credits of NOK 0.8 million related to the stock option plan (decreased share price during the quarter and change in number of options), which were more than offset by costs relating to changing the Company's CEO. Of this, change in contingent liabilities related to social security accounted for a credit of NOK 0.7 million. Share based payment is accounted for in accordance with IFRS 2. Engineering compensation amounting to NOK 0.5 million has been capitalised as intangible assets (NOK 0.9 million in Q1 06) in accordance with IAS 38. As a result of the sale of Salgssenteret Lillehammer AS as per February 1st, the number of part time employees were reduced by 32 (approximately 32 full time equivalents).

Selling and marketing costs were NOK 12.2 million in Q1 07 (14% of revenues) compared to NOK 7.8 million in Q1 06 (12% 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 5.8 million during the quarter.

Other operating expenses were NOK 13.2 million in Q1 07 (15% of revenues) compared to NOK 15.2 million (23% of revenues) in Q1 06. Other operating expenses have primarily decreased as the first quarter last year included professional fees relating to the listing of the company and conversion to IFRS. These costs were partially offset by higher use of temporary support personnel due to higher average number of customers.

Depreciation and amortisation were NOK 11.4 million in Q1 07 (13% of revenues) compared to NOK 6.4 million (10% of revenues) in Q1 06. The increase is due to increased number of customers, and that customers with 12 months subscription period were introduced during Q3 06 (acquisition costs amortised over 12 months). Depreciation and amortisation increases with number customer (out of which some is capitalised), increased number of adapters due to customer growth, and investments in hardware to handle the additional traffic.

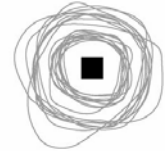
Operating profits were NOK 4.1 million in Q1 07 compared to operating losses of NOK 2.2 million in Q1 06. The goal of management during the quarter was to rebalance the telemarketing efforts, thus the reduced net increase of customers (underlying growth for the quarter isolated has been satisfactory) and significant improvement in operating results compared to the previous quarter.

Profits before income tax in Q1 07 were NOK 3.6 million (losses of NOK 3.0 million in Q1 06).

Cash and cash equivalents decreased by NOK 1.6 million during the quarter to NOK 108.6 million at the end of Q1 07 (NOK 110.2 million at the end of Q4 06). Net cash from operating activities of NOK 7.4 million and financing activities of NOK -5.3 million were more than offset by net cash flow from investing activities of NOK -3.7 million.

Deferred revenues (current liabilities) decreased by NOK 1.0 million during the quarter. Deferred income at the end of Q1 07 was NOK 52.1 million of which NOK 33.7 million has been collected and is non-refundable. Total financial lease debt was NOK 29.6 million at the end of Q1 07 which is NOK 2.8 million above the end of the previous quarter (NOK 26.8 million). Of the total financial lease debt, NOK 20.6 million (NOK 17.9 million at the end of Q4 06) was classified as current liabilities (payable within one year from the balance sheet day).

Net cash generated from operating activities during Q1 07 of NOK 7.4 million (NOK 14.9 million during Q1 06) and from financing activities of NOK -5.3 million (NOK -2.6 million during Q1 06) was more than offset by capital expenditures and investments in intangible assets of NOK -3.7 million (NOK 8.7 million during Q1 06).



Consolidated equity was NOK 50.7 million at the end of Q1 07 (equity ratio of 19%) compared to NOK 41.4 million at the end of Q1 06 (equity ratio of 23%) and NOK 49.3 million (equity ratio of 19%) in the previous quarter.

Interim reporting summary

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

* After reporting of 4th quarter 2006 a year end adjustment was made. The adjustment was an accrual of NOK 4,3 million related to the legal dispute with Labs2 concerning termination income of the period December 2004 and January 2005 which Telio partially lost in Oslo tingrett. The verdict, which was made public after the Q4 06 presentation, but before the board approved the 2006 results, has been appealed.

Norway

Q1 was a solid quarter in Norway with a satisfactory underlying growth. The contracts with the Telemarketing companies was revised in order to ensure better quality of customer intake and to make profitable growth. During the quarter Telio has renegotiated the main telemarketing agreement, and the expected result is a somewhat lower customer intake with higher quality and lower costs during the following quarters. In the telemarketing channel the main focus is to sell price plans with 12 months subscription period.

During the quarter Telio continue the development of the new and important retail channels, Expert and Elkjøp. These retail channels are dominant telecom distributors in Norway, and Telio will work continuously and long term with these channels to optimise sales.

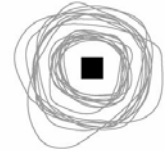
According to Norwegian Post and Telecommunications Authority statistics for 2006, published April 26, Telio strengthen their position as the leading provider of broadband telephony to the residential market. See figure below:

Market share broadband telephony residential:

	Telenor	Telio	NextGentel	Lyse Tele	Tele2	Get	Øvrigt	Totalt
Abonnent 31/12-06	27,6 %	26,1 %	8,0 %	5,0 %	4,4 %	3,5 %	25 %	100 %
Abonnent 30/6-06	28,5 %	26,6 %	8,7 %	5,8 %	3,5 %	3,0 %	24 %	100 %
Minutter 31/12-06	16,7 %	52,1 %	3,9 %	4,3 %	3,9 %	3,1 %	16 %	100 %
Minutter 30/6-06	13,8 %	54,1 %	6,0 %	4,6 %	2,5 %	2,5 %	17 %	100 %

Mobile VoIP product

Telio continued the improvements to service as a result of constructive feedback from beta test. From a technology point of view, Telio FMC is nearly ready for larger deployment. However there are some remaining issues when it comes to price of the terminals and availability of the simpler low end handset. In addition final product packaging needs to be defined and supported by the back-office systems. Both of the issues are being addressed and we believe second half of the year will bring larger deployment.

**Good results from Danish and Dutch subsidiaries**

In Denmark, Telio SA through its subsidiary Tellio Aps, has two platforms – Musimi and Tellio. Musimi is 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 in Q1 and has attracted 1,900 new subscribers. In order to ensure better customer satisfaction, we will during May establish customer service located in the Danish subsidiary.

In Netherlands, Telio Telecom AS through its subsidiary Telio Netherlands BV, has two white label agreements; InterNLnet (branded Optibel) and XMS. During Q1, Telio added 2,000 new net customers a total of 7,800 subscribers. XMS has intensified the roll out of end point equipment at houses passed by fibre and XMS expects a strong increase in take up of triple play services going forward.

Total revenues from International operations were 5% of total revenues which is in line with previous quarter.

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 Q1 07 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”. There are no further developments in this matter during Q1 07. Telio has thus not included any VAT effects in the Q1 07 accounts. For each new quarter a new assessment will be made based upon an updated legal evaluation. With the customers as per June 2006 the effect would be approximately nok 2.0 million per month.

Telio partly lost the legal dispute with Labs2 in Oslo tingrett concerning termination income in the period December 2004 to January 2005. The total claim amounted to nok 7.3 million. Telio has appealed the verdict to Borgarting lagmannsrett, but have accrued the contingent costs in the annual accounts for 2006.

Telio Telecom AS has received a letter from the Norwegian Post and Telecommunications authority (NPT) regarding termination prices on its fixed telephony interconnect agreement. According to NPT the documentation presented by Telio does not justify a higher termination rate than Telenor on fixed telephony, and NPT made a decision on February 28, 2007 that Telio should lower terminating process to Telenor level from May 1st, 2007. Telio telecom AS has appealed the decision to the Ministry of Transports and Communications (SD). SD has decided that Telio does not have to lower the termination prices before the appeal has been handled.

Shareholder information

The total number of registered shares outstanding at the end of Q1 07 was 19,392,700 (19,292,700 at the end of Q4 06) out of which 77,500 shares were owned by Telio Holding ASA (0 shares at the end of Q4 06). The total number of shareholders was 467 at the end of Q1 07 (426 at the end of Q4 06) and 27% of the shares were registered abroad at the end of Q1 07 (09% at the end of Q4 06).

Total outstanding options at the end of Q1 07 were 1.6 million (1.5 million at the end of Q4 06) with an average strike price of nok 15.88 (vs. nok 13.64 at the end of Q4 06). The stock price moved from NOK 22.10 to NOK 19.50 (-12%) during the quarter.

Going forward

The marked growth outlook for new broadband phone subscribers looks very healthy. According to NPT they believe this market will grow 100% in 2007/2008. Telio will increase their investments into sales and branding in order to achieve our aggressive targets and profitable growth. In addition Telio see great opportunities in launching IP phone services in the SMB market. Further, strengthening of the sales organisation and continuous development of all the sales channels are among ongoing initiatives.

Oslo, May 3rd, 2007

Espen Fjogstad

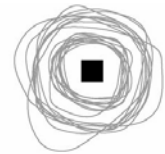
Erik Osmundsen
(Chairman of the board)

Richard Kosowsky

Christian Rynning-Tønnesen

Aril Resen

Eirik Lunde
(CEO)



Consolidated balance sheet (unaudited)

(in thousands of NOK)

	31.03.2007	31.03.2006	31.12.2006
ASSETS			
Non-current assets			
Property, plant and equipment	37,569	43,004	34,233
Intangible assets	45,633	35,135	48,079
Deferred income tax assets	9,982	9,449	9,989
	<u>93,184</u>	<u>87,588</u>	<u>92,301</u>
Current assets			
Trade and other receivables	66,160	55,842	54,594
Cash and cash equivalents	108,607	36,017	110,195
	<u>174,767</u>	<u>91,859</u>	<u>164,789</u>
Total assets	267,951	179,447	257,090
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	1,931	179	1,929
Other reserves	68,759	49,891	69,512
Retained earnings	(19,954)	(8,665)	(22,141)
Total equity before minority interest	<u>50,736</u>	<u>41,405</u>	<u>49,300</u>
Minority interest	-	16	-
Total equity	50,736	41,421	49,300
LIABILITIES			
Non-current liabilities			
Borrowings	68,569	16,108	67,916
Deferred income tax liabilities	-	52	48
	<u>68,569</u>	<u>16,160</u>	<u>67,964</u>
Current liabilities			
Trade and other payables	67,541	51,160	61,053
Current income tax liabilities	2,252	5,427	884
Borrowings	20,553	14,448	17,894
Deferred revenues	52,106	47,023	53,115
Contingent liabilities	6,194	3,808	6,880
	<u>148,646</u>	<u>121,866</u>	<u>139,826</u>
Total liabilities	217,215	138,026	207,790
Total equity and liabilities	267,951	179,447	257,090

Oslo, May 3rd, 2007

Espen Fjogstad

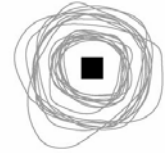
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Aril Resen

Eirik Lunde (CEO)



Consolidated income statement (unaudited)

(in thousands of NOK)

	1 st quarter		Year
	2007	2006	2006
Sales	87,163	66,121	289,691
Other revenues	1,215	77	1,140
Total revenue	88,378	66,198	290,831
Cost of connections and traffic charges	(37,408)	(29,930)	(134,398)
Salaries and personnel costs	(10,155)	(9,003)	(38,698)
Selling and marketing costs	(12,191)	(7,754)	(41,144)
Other expenses	(13,155)	(15,232)	(56,998)
Depreciation and amortisation	(11,394)	(6,440)	(36,311)
Operating profit (loss)	4,075	(2,161)	(16,718)
Finance costs	(432)	(816)	(2,005)
Profit (loss) before income tax	3,643	(2,977)	(18,723)
Income tax (expense) income	(1,456)	1,866	4,120
Profit (loss)	2,187	(1,111)	(14,603)
Attributable to :			
Equity holders of the Company	2,187	(1,106)	(14,582)
Minority interest	-	(5)	(21)
Earnings per share for profit attributable to the equity holders of the Company during the period (expressed in NOK per share)			
- basic	0.11	(0.06)	(0.78)
- diluted	0.11	(0.06)	(0.78)

Consolidated cash flow statement (unaudited)

(in thousands of NOK)

	1 st quarter		Year
	2007	2006	2006
Cash flows from operating activities			
Profit (loss) for the period	2,187	(1,111)	(14,603)
Adjustments for:			
– Tax	1,456	(1,866)	(4,120)
– Depreciation	5,507	4,188	21,992
– Amortisation	5,887	2,252	14,320
– Non cash transaction related to cost of share options	(121)	647	2,938
Changes in working capital (excluding the effects of exchange differences on consolidation):			
– Trade and other receivables	(11,416)	(147)	801
– Trade and other payables*	6,488	9,010	22,139
– Deferred revenues	(1,009)	2,404	8,496
Cash generated from operations	8,979	15,377	51,963
Interest paid	(1,560)	(429)	(1,764)
Net cash generated from operating activities	7,419	14,948	50,199
Cash flows from investing activities			
Purchases of property, plant and equipment (PPE)*	(614)	(166)	(1,262)
Purchases of intangible assets	(4,937)	(8,657)	(33,668)
Sale of intangible assets	850	-	-
Loans granted to related parties	-	-	92
Interest received	1,004	98	1,138
Net cash flow from investing activities	(3,697)	(8,725)	(33,700)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	1,560	173	17,961
Purchase of treasury shares	(2,280)	-	(1,021)
Proceeds from borrowings*	-	-	59,050
Repayments of borrowings	(4,551)	(2,770)	(14,501)
Net cash flow from financing activities	(5,271)	(2,597)	61,489
Net (decrease)/increase in cash, cash equivalents	(1,549)	3,626	77,988
Cash and cash equivalents at beginning of the year	110,195	32,124	32,124
Translation adjustments cash, cash equivalents and bank overdraft	(39)	267	83
Cash and cash equivalents at end of the year	108,607	36,017	110,195

* Restated compared to quarterly reports for 2006. Proceeds from borrowings in financing activities include both the short and long term part of the liability in the Q1 2006 report. The short term part of the liability (payable within one year) was included in trade and other payables from operating activities. The purchase of PPE that is financed through leasing is changed and presented netto. In the quarterly reports of 2006, this was presented brutto, both as purchase of PPE and proceeds from borrowings.

1. Statement of compliance

The quarterly report, including comments and financial statements, compares the company's reported figures for the corresponding period in 2006 (in brackets), and are prepared according to IAS 34, "Interim Financial Reporting" (IFRS). These Interim Financial Statements should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2006 as they provide an update of previously reported information. They were approved by the Board of Directors on May 3, 2007.

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

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

The preparation of these Interim Financial Statements requires management to make estimates and assumptions that 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	1 st quarter 2007		1 st quarter 2006		Year 2006	
<i>(in thousands of NOK)</i>						
Norway	82,996	95%	62,836	95%	275,162	95%
Europe outside Norway	4,167	5%	3,285	5%	14,529	5%
Total	87,163	100%	66,121	100%	289,691	100%

Total assets	31.03.2007		31.03.2006		31.12.2006	
<i>(in thousands of NOK)</i>						
Norway	258,098	96%	174,296	97%	246,639	96%
Europe outside Norway	9,853	4%	5,151	3%	10,451	4%
Total	267,951	100%	179,447	100%	257,090	100%

Capital expenditure	1 st quarter 2007		1 st quarter 2006		Year 2006	
<i>(in thousands of NOK)</i>						
Norway	5,551	100%	8,723	99%	34,783	100%
Europe outside Norway	-	0%	100	1%	147	0%
Total	5,551	100%	8,823	100%	34,930	100%

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

Analysis of sales by category	1 st quarter 2007		1 st quarter 2006		Year 2006	
<i>(in thousands of NOK)</i>						
Connection fees	2,820	3%	2,183	3%	9,854	3%
Subscriptions	42,528	49%	30,813	47%	140,524	49%
Traffic	36,033	42%	29,827	45%	125,764	43%
ASP	1,893	2%	3,298	5%	7,828	3%
Mobil	3,889	4%	-	0%	5,721	2%
Total	87,163	100%	66,121	100%	289,691	100%

3. Deferred revenues

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

Connection fee

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

Subscriptions

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

Software lease agreements (ASP)

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

<i>(in thousands of NOK)</i>	1st quarter 2007	1st quarter 2006	Year 2006
Deferred revenues connection fee	33,717	34,128	34,825
Deferred revenues subscriptions	18,389	12,655	18,290
Deferred revenues ASP revenues	-	240	-
Total deferred revenues	52,106	47,023	53,115