Telio Holding ASA Annual Report 2014

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Board of Directors' Report 2014
Telio Holding ASA

Summary

The Telio Group's activities, as stated in the articles of association, are to develop and sell IP based services and communications solutions, operate consultancy activities and participate in other enterprises. The parent company, Telio Holding ASA, is listed on the Oslo Stock Exchange and is traded under the ticker 'telio'.

The Telio Group has operations in Norway, Denmark, Switzerland and the Netherlands. The largest entity in the Group is NextGenTel AS, which was acquired with effect from 1 February 2013. In 2014, Telio sold services under both the Telio and NextGenTel brand to end users in Norway and through the Telio brand in Denmark and Switzerland. In the Netherlands, distribution is arranged through 'white label' agreements under local brands.

The Group achieved its main financial target for 2014 with an EBITDA of NOK 308 million (target was NOK 300 million).

Telio

Market share VoIP services

According to the report from the Norwegian Communications Authority for the first half of 2014, Telio is the largest operator in the consumer and business VoIP market in Norway measured by traffic minutes with 31.4% market share (Telenor 24.6%). For VoIP revenues, Telio had a market share of 21.2% (Telenor 26.5%).

Products and services

Telio Mobile was re-introduced in the Norwegian market in January 2012 following the MVNO agreement with Netcom. This gives Telio the possibility to take the position as a low cost mobile provider in the consumer market with focus on the immigrant segment and offering low price mobile subscriptions combined with cloud based switchboard to the business market.

Telio Mobile for consumers was introduced in the market to primarily target customers who call frequently, particularly to international destinations. The product allows the customer to call from the same mobile fixed price package regardless if the customers call to national or international destinations. This offering has been successful and Telio has increased its customer base on mobile subscriptions to 22,000 at the end of 2014.

Telio Mobile for businesses was introduced in the market to target SMEs with a complete product line expanding the company's reach to the business segment. The mobile solution offers attractive low cost subscription and cloud based functionalities that increase the efficiency for the customer. The subscription base was 8,800 at the end of 2014.

Telio Bedriftsnett is an intelligent cloud based switchboard for companies. This solution can easily be integrated with both IP and mobile subscriptions and gives the customers an intelligent way of handling their incoming calls. The customer base counted approximately 1,400 subscriptions at the end of 2014.

Telio Broadband expands Telio's attractive product portfolio. Telio sees the broadband product as a great cross sale opportunity that will increase ARPU (average revenue per user) on existing customers and attract new customers. This service is provided as a wholesale service from NextGenTel. At the end of 2014, the company had a customer base of 4,300 subscriptions.

Teliophone and TelioOne are apps for iPhone and Android phones enabling unrestricted, high quality voice calling. Teliophone features unique set of standards based capabilities and user friendly provisioning. Through wifi or 3G, with Teliophone and TelioOne it is possible to call any other number on the traditional fixed and mobile network. Teliophone and TelioOne are available through Apple's (Norwegian) App store for Telio's existing subscribers (both residential and SME).

Distribution

The consumer market, particularly in Norway, has become more mature, causing a decline in the subscriber base. The total subscriber base in Norway declined by 5,500 during 2014. As a result, Telio has focused on establishing more efficient and cost effective sales channels to attract new customers in the Norwegian market. Profitable customer growth at affordable acquisition costs has been an important target for several years.
The company still sees growth opportunities in the business market for both VoIP and mobile services.

International markets

The markets outside Norway have also seen a decline in the customer base during 2014. The focus for the Danish and Swiss operations is to maintain customer base and profitability.

In January 2014, the company announced a new wholesale agreement in the Netherlands with the Luxembourg-based company M7. These customers were migrated to Telio during the 4th quarter. In July 2014, the company announced that its largest distributor in the Netherlands had decided to terminate the distribution agreement and to migrate their customers to their in-house platform. The migration of these customers commenced in 4th quarter 2014 and is expected to be completed in 2nd quarter 2015. Altogether, the net negative financial impact of these changes is estimated at NOK 12 million in reduced EBITDA for 2015. Telio had a customer base of 159,000 subscribers in the Netherlands at the end of 2014.

NextGenTel

NextGenTel provides broadband and broadband services adapted to the customer's needs, from high-speed broadband in the consumer market to integrated data communications solutions in the business market. The company had at year-end 2014 installed more than 160,000 broadband connections across Norway. The company has 220 employees at its headquarters in Bergen and branch office in Oslo.

NextGenTel's vision is to provide the best broadband experience in Norway. Its mission is to be a low-price vendor of broadband services to the consumer market and to selected segments of the business market and the public sector. NextGenTel operates in a mature market with price competition and significant migration from xDSL to new access technologies.

The company is realizing the digital home with services like internet access, mobile, VoIP, TV, security and storage, based on access over xDSL, fiber and mobile network through partners.

In the business market, NextGenTel provides complete solutions, independent of access technology, to large and small enterprises, directly or through partners.

Markets and customers

According to statistics from the Norwegian Communications Authority for the first half of 2014, NextGenTel had a market share of 7.7% of the total number of fixed broadband subscribers in the consumer market across all technologies. The market share of revenues was 8.8%. This makes NextGenTel the third largest provider in the market. The revenue market share in the business segment was 12.3% (third largest provider). For the xDSL technology, NextGenTel had a revenue market share of 21.5% for the total market (consumer and business). This makes NextGenTel the second largest provider of xDSL in the Norwegian market.

According to the Norwegian Communications Authority, Norway had 1.94 million broadband subscribers in the first half of 2014. This represents an increase of 3.2% compared to first half of 2013. Consumers represent 92% of total subscriptions.

xDSL was launched at the end of year 2000 and is the broadband access technology with the largest market share. 37% of broadband subscriptions in the consumer segment was over xDSL and has seen a reduction during the last years. The number of subscribers over cable TV has increased over several years and represents the second largest access technology with 33% of consumer subscriptions. However, broadband over fiber is the access technology with the largest increase during first half 2014. 27.9% of consumer subscriptions are based on fiber at the end of first half 2014.

NextPhone is NextGenTel's VoIP services. The company had 20,200 customers at the end of 2014.

NextTV is the company's digital TV offering. The company had 10,700 digital TV customers at the end of 2014.

Mobile services ware launched as a new service in the second half of 2013 as a wholesale service from Telio Telecom AS. The company had 10,700 customers at the end of 2014.

Group

Financial performance (2013 figures in brackets)

The Group has prepared its accounts in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

Net revenues in 2014 ended at NOK 1,272 million (NOK 1,247 million). 2013 figures include NextGenTel from 1 February 2013.

EBITDA for the Group was NOK 308.0 million (NOK 270.3 million), while operating profit (EBIT) was NOK 148.2 million (NOK 95.4 million). Profit before tax was NOK 93.6 million (NOK 60.3 million) and profit after tax was NOK 78.3 million (NOK 57.5 million). Earnings per share were NOK 3.41 (NOK 2.53).

The Group has in-house research and development resources developing new products and services. The Group also engages external consultants for specific development projects. Development costs are capitalized in compliance with IFRS and NOK 40.5 million was capitalized in 2014 (see note 9 to the financial statements).
The Group had a net negative cash flow of NOK 156.0 million in 2014 due to debt refinancing (positive NOK 169.8 million). Cash flow from operating activities was NOK 202.4 million compared to an operating profit of NOK 148.2 million. Depreciation and amortization reduces operating profit by NOK 159.8 million while net interest paid of NOK 41.9 million and taxes paid of NOK 21.6 million reduces cash flow from operating activities. A major part of the negative change in net working capital is a result of termination of a factoring agreement in connection with replacement of invoicing partner. Total cash balance was NOK 68.0 million at the end of the year.

The Group's equity at the end of the financial year was NOK 161.8 million (NOK 160.3 million), which implies an equity ratio of 20.3 % (15.1 %). At the end of 2014, the company owned 304,201 treasury shares.

The parent company had a profit before tax of NOK 111.7 million (NOK 56.7 million). The profit for the year after tax was NOK 112.0 million (NOK 57.3 million).

In 2014, the Group paid an ordinary dividend of NOK 2 per share in May and an additional dividend of NOK 1.25 per share in December.

Investments

The Group has invested NOK 78.1 million (NOK 62.2 million) in IT and customer equipment and hardware infrastructure. Furthermore, total investments in intangible assets were NOK 45.8 million (NOK 24.9 million). Intangible assets include in-house developed technology platform and software applications.

Financing

In a bondholders' meeting on 5 February 2014, an early redemption of the bond was approved. The NOK 300 million bond was repaid at 109.50% of par value plus accrued interest on 7 March 2014. The new financing with Nordea comprises a five year term loan of NOK 250 million with semi-annual instalments of NOK 25 million and a NOK 75 million overdraft facility, replacing the previous bank loan of NOK 175 million. The loan balance was NOK 225 million as of 31 December 2014 and net interest-bearing debt was NOK 165 million.

Financial market conditions

During 2014 we have seen reduced interest rate levels across Europe. The refinancing of the company's debt, at better terms and conditions, in addition to reduced interest rates in general will have a positive impact on the company's financial situation.

Shareholder information

At the end of the year, the company had in total 23,283,180 shares outstanding of nominal value NOK 0.10. The company owned 304,201 treasury shares at year-end. The company had 488 shareholders and 35.5% of total shares were registered outside Norway. Total outstanding options at the end of the year were 508,100 with an average exercise price of NOK 16.01. For details regarding share options, see note 11 to the financial statements.

The Group has a policy of continuously keeping shareholders, analysts, employees and others updated on the Group's operations. This is achieved via open quarterly presentations and continuously updating the investor relations website on www.telioholding.no.

Corporate governance

The company's Board of Directors recognizes the importance of good corporate governance. This is ensured through interaction between shareholders, the Board of Directors and the administration. Telio's goal is that all interested parties are confident that the Group's activities are being operated in an acceptable way and that governing bodies have sufficient insight and influence to carry out their functions.

Guidelines on corporate governance are approved annually by the Board of Directors in connection with the approval of the annual accounts or when deemed necessary. The guidelines are based on the Norwegian Code of Practice for Corporate Governance, last revised on 30 October 2014, and using the 'follow or explain principle'. The guidelines are presented in a separate section of the annual report and are also presented on the company's investor relations website.

Corporate social responsibility

As a leading provider of communications services, Telio has a responsibility to act as a good corporate citizen in all the markets in which we operate. At Telio we recognize and perform the obligations we have towards our people, investors, customers, suppliers, competitors and the community as a whole. We believe our reputation, together with the trust and confidence of those with whom we deal, to be one of our most valuable assets. In order to keep this reputation and trust, we demand and maintain the highest ethical standards in carrying out our business activities. The complete corporate social responsibility statement can be read on the company's investor relations website: www.telioholding.no.

Risks

The Group, via its activities, is exposed to credit risk due to the outstanding accounts of customers and co-operative partners. The company operates in a high volume business and no single customer constitutes a major part of accounts receivable. The procedures for credit rating, monitoring and collection are being continuously monitored and improved. The Group believes that the provisions for bad debt are adequate.

The Group is furthermore exposed to currency risks as a result of activities in several countries where different currencies are used. Implicit hedging is arranged by subsidiaries carrying out their business in local currencies. Net currency exposure is therefore limited; however, subsidiaries are exposed to currency risk from inter-company borrowings denominated in NOK. The Group is subject to interest rate risk on its long term borrowings. This risk is partly being mitigated by interest rate hedging where up to 50% of net interest-bearing debt is being hedged.

The Group's liquidity risk is considered low based on a business model of recurring revenues and predictable cash flow. Management of liquidity risk has become more challenging after the acquisition of NextGenTel and the changed financial structure; however, the company still have relatively low debt ratios.

The Group operates in mature markets where market development is rather predictable. The market for VoIP services has been in a declining phase for several years. The Group has introduced new services to offset this decline, however, new services represent lower gross margins putting pressure on the Group's gross profit. The Dutch wholesale business increases the company's risk since the majority of the customers are represented by a few distributors.

Risk management and internal control

The administrative risk management relating to the Group's financial performance (liquidity, currency and credit) is controlled by the Group CFO. Operational risk relating to the Group's fixed assets including the operating platform is controlled by the CTO.

The Board of Directors receives monthly financial reports from the administration. The company approves and presents quarterly financial reports to the market in accordance with IAS 34. Financial reporting is prepared and issued by the company's finance function and quality assurance lies with the group controller and the CFO. The Board of Directors receives a monthly overview of important key performance indicators of a financial and operational nature.

The Group has set up procedures to secure the best possible division of duties and to measure exposure areas to secure the Group's assets in the best way possible. For further description of the company's risk management and internal control procedures, see the corporate governance section of the annual report.

Environment and employees

Companies in the Group do not generate higher levels of direct pollution or releases than those that are normal for a company in the industry.

The working environment is considered to be good and general well being in the work place is good. Sickness absence was 5,233 days in 2014 (4,552 days in 2013). This is equivalent to 7.4 % (6.3 % in 2013) of available working hours. There were no events which resulted in injury to employees or damage to material assets in the Group.

Of the Group's 308 full-time employees, 70 are women (22.7 %). In addition, the Group had 154 temporary full-time equivalents of which 47 were women. One woman has a management position at Group level. The Board of Directors consists of 3 men and 2 women. Salaries, positions and duties are determined on the basis of qualifications and experience. There is to be no discrimination between women and men with respect to pay, promotion or employment. There is to be no discrimination based on race or religion. The Group recognizes the benefit of a more even distribution between men and women, both on the Board of Directors, in management and in total. This is being taken into consideration in the recruitment process. No actions are deemed to be necessary and therefore no actions are planned related to discrimination.

Legal matters

There are currently no legal proceedings which involve any company in the Telio Group.

Going concern

In accordance with the Accounting Act paragraph 3-3, the board confirms that the 2014 financial statements are prepared based on the going concern assumption. This assumption is founded on good financial results for 2014 and satisfactory liquidity and plans for 2015.

The Board of Directors' opinion is that the statement of financial position, the income statement, the statement of changes in equity, the statement of cash flows and notes present a true and fair view of the Group's financial position at the end of the financial year. The Board of Directors is not aware of significant uncertainties in the annual financial statements or extraordinary circumstances which have influenced the annual financial statements beyond what is stated in the annual financial statements and the Board of Directors' report.

Dividend

Telio paid an ordinary dividend of NOK 2 per share in May 2014 based on the financial statements for 2013. The company aims to distribute quarterly dividends and an extraordinary general meeting on 21 November 2014 approved an additional dividend of NOK 1.25 per share based on the financial statements for 2013. The dividend was paid on 4 December 2014. The extraordinary general meeting also authorized the board to distribute quarterly dividends based on the latest approved annual accounts within the regulations in the Norwegian Public Limited Liability Company Act (considering that the company will have a sound equity and liquidity also after the distribution of dividend, taking into consideration the risk and the extent of the company's activities). The authorization is valid until the next ordinary general meeting.

The board has on 23 March 2015 approved a quarterly dividend of NOK 1.25 per share. The share will be traded ex dividend from 27 March 2015 and the dividend will be settled on 9 April 2015.

Subsequent events

To secure an efficient and competitive operation in the Norwegian market, the boards of directors of NextGenTel AS and its sister company Telio Telecom AS have decided to merge the two companies with NextGenTel AS as the acquirer with effect from 1 January 2015. The merged company will keep Telio as a separate brand. The merger was formally completed on 22 January 2015.

The board has in a meeting 23 March 2015 approved distribution of a quarterly dividend of NOK 1.25 per share.

Future market developments

Telio will continue to capitalize on its strong market position in the Norwegian market by providing competitive services to both the consumer and business segments. The merger of Telio Telecom AS and NextGenTel AS will create a stronger and more focused organization in the Norwegian market. The consumer market is challenging by means of keeping and even growing the customer base in a market where fixed telephony is declining and being replaced by mobile. Going forward, non-VoIP services at lower gross margin will represent an increasing share of total revenues. NextGenTel has a strong position in the market for broadband services as the second largest xDSL provider in Norway. The overall aim is to maintain the company's strong position in the consumer segment and to grow in the business segment. As normal, there is high uncertainty tied to forward-looking statements and expectations about future market developments.

In the international markets, focus is to maintain customer base and profitability in Denmark and Switzerland. The white label business in the Netherlands will experience a significant reduction in revenues and profitability in 2015 from the loss of the largest distributor.

Telio will continue to seek opportunities for continued growth in a consolidating telecommunications industry with the aim of creating increased shareholder value. In the short term, financial performance will be impacted with increased market related costs to secure revenues for 2016 and beyond.

Oslo, 23 March 2015
Board of Directors of Telio Holding ASA

Erik Osmundsen Chairman of the Board (sign.)	Aril Resen Board member (sign.)	Silje Veen Board member (sign.)
Ellen Hanetho Board member (sign.)	Snorre Kjesbu Board member (sign.)	Eirik Lunde CEO (sign.)

Consolidated statement of financial position

As at 31 December
(In thousands of NOK)

	Note	2014	2013
Assets			
Non-current assets			
Property, plant and equipment	7	174 386	180 819
Intangible assets	8	203 333	232 887
Goodwill	8	67 100	67 100
Deferred tax assets	14	31 362	23 103
Non-current assets		**476 181**	**503 909**
Current assets			
Inventories	5	-	672
Trade and other receivables	9, 25	251 829	317 782
Cash and cash equivalents	10, 25	68 005	221 831
Current assets		**319 834**	**540 286**
Total assets		**796 015**	**1 044 194**
Equity			
Share capital reduced for treasury shares	11	2 297	2 305
Premium paid in capital	11	117 283	121 325
Other reserves	11	-1 481	-3 405
Retained earnings	11	43 722	40 103
Total equity		**161 821**	**160 328**
Liabilities			
Long-term interest bearing debt	13	177 425	410 568
Deferred tax liabilities	14	37 518	47 626
Non current liabilities		**214 943**	**458 194**
Trade and other payables	12	191 103	193 934
Current tax liabilities	14	27 728	14 935
Short-term interest bearing debt	13	55 111	60 159
Deferred income/revenue	15	145 309	156 645
Current liabilities		**419 251**	**425 672**
Total liabilities		**634 194**	**883 866**
Total equity and liabilities		**796 015**	**1 044 194**

Oslo, 23 March 2015
Board of Directors of Telio Holding ASA

Erik Osmundsen Chairman of the Board (sign.)	Aril Resen Board member (sign.)	Silje Veen Board member (sign.)
Ellen Hanetho Board member (sign.)	Snorre Kjesbu Board member (sign.)	Eirik Lunde CEO (sign.)

Consolidated statement of comprehensive income

For the year ended 31 December

(In thousands of NOK)

	Note	2014	2013
Continuing operations			
Sales revenue		1 234 770	1 220 320
Other revenues	16	37 065	26 704
Total revenues		**1 271 835**	**1 247 024**
Connection costs and traffic charges		-597 557	-579 739
Payroll expenses	17	-227 081	-245 464
Marketing expenses	18	-42 768	-54 828
Other expenses	18	-96 425	-96 658
Depreciation and amortization	7, 8	-159 782	-174 943
Result from operating activities		**148 222**	**95 392**
Finance income	19	4 853	6 579
Finance cost	19	-59 478	-41 664
Net finance cost		-54 625	-35 085
Profit before income tax		**93 597**	**60 307**
Income tax expense	14	-15 347	-2 787
Profit		**78 250**	**57 520**
Profit attributable to:			
Equity holders of the parent company		78 250	57 520
Other comprehensive income that may be reclassified to profit or loss in subsequent periods			
Foreign currency translation differences		2 116	-1 402
Other comprehensive income for the year		2 116	-1 402
Total comprehensive income for the year		**80 366**	**56 118**
Total comprehensive income attributable to:			
Equity holders of the parent company		80 366	56 118
Earnings per share			
Earnings per share	20	3.41	2.53
Diluted earnings per share	20	3.36	2.50

The notes on the following pages are an integral part of the consolidated accounts.

Consolidated statement of changes in equity

Year ended 31 December 2014

(In thousands of NOK)

	Share capital	Treasury shares	Premium paid-in capital	Other reserves	Retained earnings	Total equity
Balance at 1 January 2013	**1 939**	**-27**	**21 231**	**-2 003**	**-17 885**	**3 255**
Total comprehensive income for the year						
Profit for the year	-	-	-	-	57 520	57 520
Translation differences	-	-	-	-1 402	-	-1 402
Total comprehensive income for the year		-	-	-1 402	57 520	56 118
Transactions with owners of the company, recognized directly in equity						
Contributions by and distributions to owners of the Company						
Share-based payment transactions	-	-	483	-	-	483
Share issue	389	-	99 611	-	-	100 000
Share options exercised	-	4	-	-	468	472
Total contributions by and distributions to owners of the Company	389	4	100 094	-	468	100 955
Balance at 31 December 2013	**2 328**	**-23**	**121 325**	**-3 405**	**40 103**	**160 328**
Balance at 1 January 2014	**2 328**	**-23**	**121 325**	**-3 405**	**40 103**	**160 328**
Transactions with owners of the company, recognized directly in equity						
Contributions by and distributions to owners of the Company						
Purchase of treasury shares	-	-10	-	-	-4 797	-4 807
Dividends paid in May 2014					-45 907	-45 907
Dividends paid in December 2014	-	-	-	-	-28 724	-28 724
Share-based payment transactions	-	-	-	-	194	194
Share issue		-	-	-	-	-
Share options exercised	-	3	-	-	561	563
Total contributions by and distributions to owners of the Company	-	-7	-	-	-78 674	-78 681
Balance at 31 December 2014	**2 328**	**-30**	**121 325**	**-1 481**	**39 680**	**161 821**

Consolidated statement of cash flows

For the year ended 31 December

(In thousands of NOK)

	Note	2014	2013
Cash flows from operations			
Profit for the year before taxes		93 595	60 307
Adjustment for:			
- Net financial costs		54 625	35 085
- Interest paid		-45 469	-31 370
- Interest received		3 561	4 092
-Realized forex exchange (gain/loss)		-1 123	-2 077
- Taxes paid		-22 230	-27 767
- Depreciation	7	84 494	89 642
- Amortization of intangible assets	8	75 288	85 301
- Non-cash transactions related to option costs		194	483
Changes in:			
- Inventories		672	1 152
- Trade and other payables	12	-27 729	-299
- Trade and other receivables	9	-2 856	-94 885
- Deferred income/revenue	15	-11 336	12 564
Cash generated from operating activities		**201 686**	**132 228**
Cash flows from investing activities			
Acquisition of property, plant and equipment	7	-69 268	-62 248
Acquisition of intangible assets	8	-45 854	-24 867
Proceeds / (Acquisition) in subsidiaries - net of cash*)		93 708	-434 600
Net cash used in investing activities		**-21 414**	**-521 715**
Cash flows from financing activities			
Proceeds from share issue	11	-	100 000
Proceeds from exercise of share options	11	564	472
Payment of purchase of own shares	11	-4 797	-
Repayment of borrowings		-300 000	-
Proceeds from borrowings		47 552	466 279
Payment of finance lease liabilities	13	-5 700	-7 490
Dividends paid		-74 632	-
Net cash used in financing activities		**-337 013**	**559 261**
Net change in cash and cash equivalents		**-156 741**	**169 774**
Cash and cash equivalents at 1 January	10	221 831	52 469
Effect of exchange rate fluctuations on cash held		2 915	-412
Cash and cash equivalents at 31 December		**68 005**	**221 831**

*) TNOK 93 708 relates to the sale of Sandslimarka 31 AS in 2013, however the payment was received in 2014.

Notes to the financial statements

Note 1. Reporting entity

Telio Holding ASA (the company) and its subsidiaries (collectively the Group) provide fixed and mobile broadband and mobile services in the Norwegian markets. In addition broadband telephony services (voice over IP) and pure Internet services are provided to end customers under the Telio brand both in Norway and in other countries where Telio is established. The Group also offers its own proprietary technology platform to partners who sell broadband telephony services under their own name *(ASP).*

The company is a public limited company (ASA) registered and domiciled in Norway. The company's registered business address is Harbitzalleen 2, N-0275 Oslo. In addition, the Group has companies in Denmark, Switzerland and the Netherlands.

The consolidated accounts for the 2014 financial year, ending on 31 December 2014, include the company and its subsidiaries as specified in Section 2.2.below. The consolidated accounts were adopted by the Board of Directors and CEO on 23 March 2015. The consolidated accounts are to be reviewed and adopted by the Annual General Meeting on 24 April 2015.

Note 2. Basis of preparation

The most important accounting principles applied by the Group in the preparation of the consolidated accounts are described below. These policies have been applied identically to all the periods that are presented unless otherwise stated in the description. All amounts are in NOK 1000

2.1 Basic principles, declaration of conformity

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as approved by the EU, and in accordance with the interpretations adopted by the International Accounting Standards Board (IASB) that are to be applied as at 31 December 2014, as well as additional Norwegian information requirements pursuant to the Norwegian Accounting Act as at 31 December 2014. The accounts are presented in Norwegian kroner (NOK) and rounded off to the nearest thousand. The accounts have been prepared based on the historical cost principle. The preparation of accounts in accordance with IFRS requires the use of estimates. In addition, the application of the company's accounting principles requires that the management exercise judgment. Areas that contain a high degree of such discretionary assessments, or a high degree of complexity, or areas where the assumptions and estimates are of significance to the consolidated accounts are described in Note 4.

Change in the accounting principles

The group has consistently applied the accounting principles set out in note 2.2 to all periods presented in these consolidated financial statements.

Change in accounting policy and disclosures

New and amended standards adopted by the Group

There are no new standards or amendments adopted by the Group for the first time for the financial year beginning on or after 1 January 2014 that have a material impact on the Group.

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

IFRS '15 Revenue from Contracts with customers', Establishes comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017. The company is in process to identify the impact of this standard and the consequences for the financial reporting.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

2.2 Consolidation principles

Subsidiaries are entities controlled by the Group. The Group controls the entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.
The acquisition method of accounting is used for the acquisition of subsidiaries that are considered to be business combinations. Goodwill is allocated to cash-generating units and is tested annually for impairment. Negative goodwill arising on an acquisition is recognized directly in the profit and loss account in accordance with IFRS 3, non-controlling interests can be measured at the net value of identifiable assets and liabilities in the acquired or at fair-value, including a goodwill element. Method of measurement is decided upon on each acquisition

Goodwill after IFRS 3 is measured as a residual at the acquisition date and constitutes the sum of:

- Total consideration transferred in relation to the business combination
- The carrying amount of the non-controlling interests
- Fair value of previous interest in the acquired at the time of acquisition, less the net recognized amount (normally fair value) of the identifiable assets acquired and liabilities assumed.

All inter-company transactions, outstanding accounts and unrealized earnings between Group companies are eliminated. Unrealized losses are eliminated, but they are considered as an indicator of impairment in value in relation to the write-down of the asset transferred. The accounting policies in subsidiaries are changed as required achieving compliance with the Group's accounting policies.

Consolidated subsidiaries:

Subsidiaries	**Business address**	**Ownership interest and voting rights**
Telio Telecom AS	Oslo	100%
Gojitek AS	Oslo	100%
NextGenTel AS	Bergen	100%
Broadpark AS	Bergen	100%
Telio SA	Zürich	100%
Telio Telecom (Schweiz) AG	Zürich	100%
Tellio ApS	Copenhagen	100%
Telio Netherlands BV	Amsterdam	100%
Telio IP Services BV	Amsterdam	100%

Note 2.3 Operating segments

The group has defined and presented operating segments based on information that is provided to the Board of Directors and CEO, who collectively represent the group's highest decision-making body. The Board of Directors consider the business from both a geographic and product perspective. Geographically, the following four operating segments have been defined: Norway, Denmark, Switzerland and the Netherlands. From a product perspective, management separately considers broadband, VOIP, mobile and wholesale as segments however this only include the revenues and no other financial figures. Wholesale segment derive the revenue from VoIP services, however Average Revenue Per User and Gross Margin are different from regular VoIP services. Norway has all product categories represented while the other countries only have VOIP activities. All products are sold to both residentials and businesses. Due to acquisition of NextGenTel the 'Norway' segment is split in Telio and the acquired company NextGenTel AS for information purposes. Transactions between the segments are eliminated.

Although the countries outside Norway do not meet the quantitative thresholds required by IFRS 8 for reportable segments, management has concluded that these should be presented as they have been included in previous years and also to continue showing the operations in foreign markets.

The Board of Directors assesses the performance of the operating segments from product perspective based on operating revenues and gross profit. Balance sheet items are included in reporting to Board.

2.4 Foreign currency translation

(a) Functional and presentation currencies

The accounts of the individual units in the Group are measured in the currency that is used primarily in the economic area where the unit operates (functional currency). The consolidated accounts are presented in Norwegian kroner (NOK), which is both the functional currency for the parent company and presentation currency for the Group.

(b) Transactions and balance sheet items

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency gains and losses that arise from the payment of such transactions and the translation of monetary items (assets and liabilities) in foreign currencies at the rates in effect on the date of the balance sheet are recognized in the income statement.

(c) Group companies

The income statements and balance sheets of Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) balance sheet is translated at the closing rate on the date of the balance sheet

ii) income statement is translated at the average rate (if the average rate does not provide a reasonable estimate of the accumulated effects of using the transaction rate, then the transaction date rate is used; and

iii) translation differences are entered directly against equity and specified separately.

When consolidating differences from the translation of net investments in foreign business operations, these are included in other comprehensive income. Exchange rate differences from intra-Group receivables/debt are recognized in the income statement as a transaction effect.

Goodwill and the fair value adjustments for assets and liabilities associated with the acquisition of a foreign unit are treated as assets and liabilities in the acquired unit and translated at the rate in effect on the date of the balance sheet.

2.5 Property, plant and equipment

Property, plant and equipment are recorded in the accounts at historical cost less depreciation. The historical cost includes the costs directly linked to the acquisition of the asset.

Subsequent expenses are added to the value of the asset on the balance sheet or recorded separately on the balance sheet, when it is probable that the future economic benefits associated with the expense will accrue to the Group and the expense can be measured reliably.

Other repair and maintenance expenses are recognized in the income statement for the period when the expenses were incurred.

Tangible assets are depreciated based on the straight-line method, so that the historical cost of the fixed asset is depreciated to the residual value over the expected useful life of the asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

When the book value of the asset is higher than the estimated recoverable amount, the value is written down to the recoverable amount (Section 2.8). Gains and losses on disposals are determined by comparing the proceeds with the carrying amount. Accounts related to replace parts will be recognized in the income statement.

2.6 Recognized customer acquisition and connection costs

External costs that can be linked directly to customer acquisition and connection are expensed when incurred.

2.7 Development

Direct expenses related to the development of identifiable and unique software products controlled by the Group are recognized as intangible assets on the balance sheet if it is probable that they will generate economic benefits exceeding the expected future expenses. Direct expenses included payroll expenses for software development personnel and a share of the associated overhead costs. Subsequent to initial recognition development expenditure is measured at cost less accumulated amortization and any accumulate impairment losses. Other expenses associated with developing or maintaining software are recognized as they are incurred.

2.8 Impairment in the value of non-financial assets

Intangible assets that have an indefinite useful life are not depreciated and the value is tested annually for impairment. Tangible and intangible assets that are depreciated are assessed for impairment in value when there are indicators that the future earnings cannot justify the book value.

An impairment loss is recognized in the profit and loss account if the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Value in use is based on the estimated future cash flows, discounts to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU.

In assessing the impairment the assets are Grouped at the lowest level at which it is possible to identify independent cash flows (cash-generating units). On each reporting date the reversal of earlier write-downs on non-financial assets are assessed.

2.9 Trade and other receivables

Trade receivables from customers are recognized initially at fair value on the transaction date. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method. Objective evidence that financial assets are impaired includes; significant financial problems facing the customer, probability that the customer will enter into bankruptcy or undergo financial restructuring, postponements and non-payments are regarded as indicators that the receivables from customers must be written down. Provisions for losses are recognized when there are indicators that the Group will not receive settlement in accordance with the original terms.

2.10 Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits, other short-term, readily negotiable investments with an original maturity of less than three months and drawdowns on bank overdraft facilities.

The Group has established a cash pool for all Norwegian companies. Subsidiaries' cash balances are presented as inter-company balances in their separate financial statements and eliminated in the Group accounts.

2.11 Capital and reserves

Ordinary shares are classified as equity. The paid-up capital is presented as share capital and premiums, the first of which represents ordinary shares at par value. Expenses that are directly attributable to the issuance of new shares are entered as a reduction in the proceeds received above par. When the company's own shares are purchased, the consideration, including any transaction costs less taxes, is entered as a reduction of the equity (attributable to the company's shareholders) until the shares are annulled, reissued or sold. If the company's own shares are subsequently sold or reissued, the proceeds less the direct transaction costs and associated tax- effects, are entered as an increase in the equity attributable to the company's shareholders.

2.12 Deferred tax assets and liabilities

Deferred tax has been calculated for all the temporary differences between the financial and tax values of assets and liabilities. Deferred tax is not recognized in connection with the initial recognition of a liability or asset on the balance sheet in a transaction that is not business combination, and it does not affect the financial or tax profit/loss at the time of the transaction. Deferred tax is determined by means of the tax rates and tax laws that have been enacted or substantially enacted on the date of the balance sheet. Deferred tax assets are recognized on the balance sheet provided future taxable income is probable and the temporary differences can be offset against this income. Deferred tax is calculated based on temporary differences from investments in subsidiaries and associated companies except when the Group controls the timing for the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

2.13 Pension obligations, bonus schemes and other compensation schemes for employees

(a) Pension contribution

The companies in Norway and Switzerland have established a defined contribution pension plan for employees. A defined contribution plan is a pension scheme in which the Group pays fixed contributions to a separate legal entity. The Group does not have any legal or other obligation to pay additional contributions.
The contributions are recorded as a payroll cost in the accounts as they fall due. Contributions paid in advance are recognized as an asset in the accounts if the contribution can be refunded or reduce future payments.

(b) Share-based reward system

The Group has equity share-based settlement payment plan. The total amount that is to be charged as an expense over the contribution period will be based on the fair value of the options granted at the time of the grant, less the effect of any contribution terms that are not market-based (such as profitability or sales growth goals).
The National Insurance contributions related to share-based compensation schemes will be recognized as liabilities. Adjustments to the National Insurance obligation will be recognized as a cost or as a reduced cost in subsequent periods, based on changes in the intrinsic value over the vesting period.

2.14 Recognition of revenue

Revenue from the sale of services is valued at fair value, net of value-added tax and discounts. The sale of services is recognized in the income statement in the period in which the service was performed. Intra-Group sales are eliminated. Revenue consists primarily of revenue from connection fees, subscriptions and traffic charges. Revenue is recognized in the income statement as follows:

(a) Connection fees

Revenue from connection fees is recognized at the time of establishment of a new customer.
Revenue generated by porting services (transfer of a telephone number from Telio to another telecom operator) is recognized when the service has been delivered.

(b) Subscriptions

Revenue from subscriptions is recognized when it is earned during the subscription period in accordance with the actual content of the subscription agreement, starting on the subscription's activation date.

(c) Traffic (origination and termination)

Revenue from traffic from subscribers is recognized in accordance with the actual traffic during the period multiplied by the contractual rates per traffic unit and type (origination).
Revenue from traffic to subscribers from external sources is recognized in accordance with the same principle (termination).

(d) Hardware

Revenues from sales of hardware are recognized at the time of sale. Hardware is usually sold stand-alone to existing customers who already have a subscription.

(e) Deferred revenues are related to prepaid subscriptions. They are classified as current since they are related to the group's ordinary activities.

2.15 Other revenues

Other revenues consist of invoicing fees, invoicing of adapters that are not returned, invoicing of agreement period violations and other fees. These revenues are recognized when they are earned and collectible.

2.16 Connection costs and traffic charges

Costs associated with leased connection capacity consist primarily of costs associated with the termination of calls, bandwidth, hosting, etc. Such costs are accounted for when they are incurred in accordance with the actual content of the lease agreements. Traffic charge costs are recognized during the same period as when the traffic activity is registered, which corresponds to the associated traffic revenue.

2.17 Lease agreements

Lease agreements where a significant portion of the risk and return associated with ownership still lies with the lessor are classified as operating lease agreements. Payments for operating lease agreements (less any financial incentives from the lessor) are recorded in equal amounts over the term of the lease agreement.

The Group leases certain operating assets. Leases for property, plant and equipment, where all of the risk and return rests actually with the Group are classified as financial lease agreements. Financial lease agreements are recognized on the balance sheet when the lease agreement is entered into at the lowest of fair value of the leased asset or the present value of the minimum lease payments. The corresponding lease commitments, excluding the financial expenses, are recognized as finance lease obligations. Equipment acquired through financial lease agreements are depreciated over the shorter of the expected life of the asset or term of the lease agreement.

2.18 Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventory is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, and other cost incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2.19 Government grants

Government grants are recognized at fair value in the accounts when it is reasonably certain that the grants will be received and the Group will meet the criteria for the grants. Grants are recognized according to the actual terms of the scheme; either as a reduction in the cost price of the asset (investment grants) or as a cost reduction.

The company has utilized a tax scheme that is available to all businesses registered in Norway. In accordance with this scheme, the company qualifies for a direct tax reduction by qualifying for and subsequently documenting certain qualifying research and development expenses (SkatteFunn scheme).

The government grant, which consists of a reduction in the tax charge, is recognized as a reduction in the capitalized development expenses and is credited to the income statement over the expected useful life of the associated intangible asset from the point in time when the intangible asset is used as intended.

2.20 Borrowings

Loans are initially recognized at their fair value, less any transaction costs. In subsequent periods, loans are recognized at their amortized cost, using the effective interest rate. The difference between the loan amount (less transaction costs) and the redemption or fair value is recognized in the income statement over the term of the loan. Loans are classified as current liabilities unless there is an unconditional right to postpone payment of the debt by more than 12 months from the date of the balance sheet.

2.21 Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except for deferred tax assets and liabilities, share-based payment arrangements and held-for-sale assets or disposal Groups. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquiree's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Note 3. Financial risk management

The Group's activities are exposed to certain financial risks: a market risk, credit risk, interest risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The CFO is responsible for risk in the company. Financial risk is monitored by the CFO and operating risk is monitored by the CTO.

(a) Market risk

Foreign exchange risk

The Group operates internationally, but it has a limited foreign exchange risk since most of the revenues (approximately 92%) and expenses are in Norwegian kroner (NOK). The Group is exposed to foreign exchange risk as a result of operations in multiple countries with different currencies, although there is a degree of implicit hedging due to the fact that subsidiaries are doing business in the local currency. The net exposure to foreign currency is thus limited. Subsidiaries are exposed to foreign currency risk through intra-Group loans in Norwegian kroner (NOK).

Interest rate risk

Interest rates de¬pending on the economy and political actions, which will influence the Group's funding cost over time. However, the overall exposure of its business to interest rate fluctuations is considered low. The interest rate risk is managed on an assessment of the financial markets and macro¬economic development, in relation to the expected impact an interest change will have on the Group's financial performance. The Group is subject to interest rate risk on its long term borrowings. This risk is partly being mitigated by interest rate hedging where up to 50% of net interest-bearing debt is being hedged.

(b) Credit risk

The Group has no significant concentrations of credit risk, since the customer base consists of many customers with relatively small balances. The foreign subsidiaries have factoring agreements. The credit rating, monitoring and collection routines are subject to continuous evaluation and improvements. Telio do not perform credit checks on private broadband telephony customers, because the broadband provider has already performed a credit check on most of the customers. A credit check is performed on all other services and customer segments. The Group has appropriate procedures to monitor high consumption, watch out for fraud and disconnect customers who do not settle their accounts with the company.

(c) Liquidity risk

The Group's liquidity risk is considered low based on a business model of recurring revenues and predictable cash flow. Management of liquidity risk has become more challenging after the acquisition of NextGenTel and the changed financial structure; however, the company still has relatively low debt ratios. The Group must secure and maintain sufficient equity capital to support such borrowing facilities. The company's management of liquidity risk requires maintenance of adequate liquid reserves in accordance with the development of the operations. Cash reserves are monitored regularly.

Note 4. Important accounting estimates and discretionary assessments

Estimates and discretionary assessments are evaluated continuously and based on historical experience and other factors, including expectations of future events that are regarded as probable under the current circumstances.

4.1 Important accounting estimates and assumptions

The Group prepares estimates and makes assumptions concerning the future. The accounting estimates that are made as a result of this will rarely coincide in full with the final outcome. Estimates and assumptions/prerequisites that represent a significant risk of major changes in the book value of assets and liabilities during the next financial year are discussed below.

(a) Income tax

The Group is taxed for income in several different jurisdictions. The use of discretion is required to determine the income tax in all the countries combined in the consolidated accounts. For many transactions and calculations there will be uncertainty related to the ultimate tax liability. The Group accounts for tax obligations related to future decisions in tax/dispute cases, based on estimates of whether additional income tax will accrue. If the final outcome of the cases deviates from the original provisions set aside, the deviation will affect the recorded taxes and provisions for deferred taxes during the period when the deviation is established.

(b) Deferred tax

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit and are accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are generally recognized for all deductible temporary differences, carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent these can be utilized against probable taxable profits. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

(c) Evaluation of impairment in the value of non-financial assets

The impairment exists when carrying value of an asset or cash-generating unit (CGU) exceeds its recoverable amount, which is higher of its fair value less costs to sell and value in use. Fair value less costs to sell calculation is based on available data for similar assets or observable market prices less costs to sell. The value in use calculation is based on DCF model. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected cash flows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group.
Annual tests are performed to assess whether the value of non-financial assets is impaired. The management has defined each subsidiary as an individual cash-generating unit (CGU).

(d) Development expenses, amortization and depreciation

Development expenses can either be capitalized or recognized as an expense when they are incurred based on an evaluation of the cost category. Expenses directly related to the development of identifiable and unique software products that are owned by the Group are recognized as intangible assets on the balance sheet if it is probable that they will generate economic benefits exceeding the expected future expenses. Direct expenses included payroll expenses for software development personnel and a share of the associated fixed costs. Capitalized proprietary software is depreciated on a straight-line basis over the software's expected economic life (three to five years). Other expenses associated with developing or maintaining software are recognized as they are incurred.

The corporate management evaluated the expected economic life and related depreciation for capitalized development expenses. The management reviews the capitalized assets' expected economic life and the depreciation method used at least annually. The effect of any changes to the depreciation method will be amortized over the remaining economic life of the assets. Capitalized internally developed software will be tested annually for impairment in accordance with IAS 36, or more often if there are indications of impairment in value.

(e) Provisions for losses on receivables

Trade accounts receivable consist typically of a large number of balances with relatively small amounts. The Group has standardized reminder and collection routines for all the claims that are not paid when they fall due. The Group sets aside provisions for losses on receivables monthly based on the age distribution of the outstanding receivables taking into account the expected payment ratio. The provisions are reviewed regularly. Provisions for non-consumer-related receivables are evaluated individually.

Measurement of fair values

The group has to a small extent accounting policies and disclosures that require the measurement of fair values. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Inputs other than Quoted prices included in level 1 that is observable for the asset or liability, either directly or indirectly

Level 3: Inputs for the asset or liability that is not based on observable market data.

Note 5. Inventories

(In thousands of NOK)	**2014**	**2013**
Opening balance	672	1 824
Consumption	-672	-1 152
Finished goods	0	672

Note 6. Operating segments

Segment reporting

The group has defined and presented operating segments based on information that is provided to the Board of Directors and CEO, who collectively represent the group's highest decision-making body. The Board of Directors consider the business from both a geographic and product perspective. Geographically, the following four operating segments have been defined: Norway, Denmark, Switzerland and the Netherlands. From a product perspective, management separately considers broadband, VOIP, mobile and wholesale as segments however this only include the revenues and no other financial figures. Wholesale segment derive the revenue from VoIP services, however Average Revenue Per User and Gross Margin are different from regular VoIP services. Norway has all product categories represented while the other countries only have VOIP activities. All products are sold to both residentials and businesses. Due to acquisition of NextGenTel the 'Norway' segment is split in Telio and the acquired company NextGenTel AS for information purposes. Transactions between the segments are eliminated.

Although the countries outside Norway do not meet the quantitative thresholds required by IFRS 8 for reportable segments, management has concluded that these should be presented as they have been included in previous years and also to continue showing the operations in foreign markets.

The Board of Directors assesses the performance of the operating segments from a product perspective based on operating revenues and gross profit.

2014

(In thousands of NOK)

Profit and loss by segment	Norway-Total	Telio Norway	NextGenTel Norway	Denmark	Nether-lands	Switzer-land	Others *)	Group
Total revenues	1 256 010	365 669	890 341	32 421	43 525	19 930	11 167	1 363 052
Intra-group revenues	-45 033	-45 033	0	0	0	0	-46 184	-91 217
Net revenues	1 210 977	320 636	890 341	32 421	43 525	19 930	-35 017	1 271 835
Total costs of sales	-609 501	-156 463	-453 038	-12 015	-31 214	-11 804	0	-664 533
Intra-group cost of sales	18 697	18 697	0	-687	13 262	687	35 017	66 976
Net cost of sales	-590 804	-137 766	-453 038	-12 702	-17 952	-11 116	35 017	-597 557
Gross profit/loss	620 173	182 870	437 303	19 719	25 572	8 813	-	674 278
Gross margin	51 %	57 %	49 %	61 %	59 %	44 %	0 %	53 %
Depreciation and amortization	-121 515	-21 424	-100 091	-28	0	-	-38 239	-159 782
Other operating expenses	-356 105	-112 707	-243 398	-10 610	-1 043	-5 857		-373 615
Intra-group operating expenses	16 676	9 114	7 562	3 458	0	1 457	-14 249	7 343
Net operating expenses	-460 944	-125 017	-335 927	-7 179	-1 043	-4 400	-52 488	-526 056
Operating profit/loss	**159 229**	**57 853**	**101 376**	**12 539**	**24 529**	**4 414**	**-52 488**	**148 222**
Finance income	178 445	175 677	2 768	370	1 173	13	-175 148	4 853
Finance cost	-59 597	-58 052	-1 545	-401	-365	-136	1 021	-59 478
Income tax expense	-42 989	-17 297	-25 692	5 478	-2 774	-914	25 852	-15 347
Net finance / tax	75 859	100 328	-24 469	5 447	-1 966	-1 037	-148 275	-69 972
Profit	**235 088**	**158 181**	**76 907**	**17 986**	**22 563**	**3 377**	**-200 763**	**78 250**

2013

Profit and loss by segment	Norway-Total	Telio Norway	NextGenTel Norway	Denmark	Netherlands	Switzerland	Others *)	Group
Total revenues	1 203 831	384 608	819 223	37 385	46 626	21 206	9 892	1 318 940
Intra-group revenues	-62 024	-46 274	-15 750	0	0	-	-9 892	-71 916
Net revenues	1 141 807	338 334	803 473	37 385	46 626	21 206	-	**1 247 024**
Total costs of sales	-564 947	-159 878	-405 069	-14 148	-35 491	-11 774	-	-626 360
Intra-group cost of sales	34 415	18 665	15 750	0	12 205	-	-	46 620
Net cost of sales	-530 532	-141 213	-389 319	-14 148	-23 285	-11 774	-	**-579 739**
Gross profit/loss	611 275	197 121	414 154	23 237	23 341	9 432	-	667 285
Gross margin	54 %	58 %	52 %	62 %	50 %	44 %	0 %	54 %
Depreciation and amortization	-174 487	-19 193	-155 294	-115	-341	-	-	-174 943
Other operating expenses	-339 662	-131 593	-208 069	-13 218	-901	-6 800	-57 062	-417 643
Intra-group operating expenses	14 813	14 813	-	4 161	-	1 719	-	20 693
Net operating expenses	-499 336	-135 973	-363 363	-9 172	-1 242	-5 081	-57 062	-571 893
Operating profit/loss	**111 939**	**61 148**	**50 791**	**14 065**	**22 099**	**4 351**	**-57 062**	**95 392**
Finance income	4 061	432	3 629	164	-	2 251	103	6 579
Finance cost	-14 400	-10 470	-3 930	-556	-724	-64	-25 920	-41 664
Income tax expense	-19 070	-8 685	-1 700	-	-1 918	-744	10 261	-2 787
Net finance / tax	-29 409	-18 723	-2 001	-392	-2 642	1 443	-15 557	-37 872
Profit	**91 215**	**42 425**	**48 790**	**13 673**	**19 456**	**5 794**	**-72 619**	**57 520**

2014

Balance sheet	Telio - Norway	NGT - Norway	Denmark	Netherlands	Switzerland	Others *)	Eliminations	Group
Assets	189 706	593 108	29 324	16 013	3 095	10 524	-45 755	796 015
Liabilities	152 498	368 192	6 490	542	14 072	271 318	-178 919	634 194
Equity capital	37 208	224 916	22 834	15 470	-10 977	-223 527	95 896	161 821
Investments	23 693	100 090	-	-	-	-	-	123 783

2013

Balance sheet	Telio - Norway	NGT - Norway	Denmark	Netherlands	Switzerland	Others *)	Eliminations	Group
Assets	131 245	754 381	16 188	16 877	10 346	243 199	-128 042	1 044 194
Liabilities	103 504	514 046	6 098	5 976	22 135	545 663	-313 556	883 866
Equity capital	36 425	240 335	10 089	10 901	-11 789	-302 465	176 832	160 328
Investments	16 741	70 374	-	-	-	-	-	87 115

*) Other items include the parent company Telio Holding ASA and Group adjustments (2014 figures include amortization of NOK 38,2 million related to the acquisition of NextGenTel AS).

	Revenues	
Product	2014	2013
VoIP	212 013	254 594
Mobile	104 257	105 434
Broadband	885 903	821 623
Wholesale	43 631	46 555
Other	26 032	18 818
Total	1 271 835	1 247 024

Note 7. Property , plant and equipment

(In thousands of NOK)	Adapters	Fixtures, furnishings and IT equipment	Total
2014 financial year			
Book value as at 1 January 2014	**4 742**	**176 077**	**180 819**
Additions	6 785	71 276	**78 061**
Depreciation	-5 408	-79 086	**-84 494**
Book value as at 31 December 2014	**6 119**	**168 267**	**174 386**
As at 31 December 2014			
Historical cost	146 653	1 045 620	**1 192 273**
Accumulated depreciation and write-downs	-140 534	-877 353	**-1 017 887**
Book value as at 31 December 2014	**6 119**	**168 267**	**174 386**
2013 financial year			
Book value as at 1 January 2013	**5 481**	**4 711**	**10 192**
Acquisition - new companies	-	198 533	**198 533**
Additions	4 321	57 927	**62 248**
Depreciation	-5 060	-81 604	**-86 664**
Book value as at 31 December 2013	**4 742**	**179 568**	**184 310**
As at 31 December 2013			
Historical cost	139 868	977 835	1 117 703
Disposal	-	-3 491	-3 491
Accumulated depreciation and write-downs	-135 126	-798 267	-933 393
Book value as at 31 December 2013	**4 742**	**176 077**	**180 819**

The book value of assets recognized as financial lease agreements is TNOK 8 661 for adapters (2013: TNOK 4 448).
Telio has no obligation to buy out these financial lease agreements for adapters.

Note 8. Intangible assets

(In thousands of NOK)	Internally developed IT systems	Others rights	Total	Goodwill
2014 financial year				
Book value as at 1 January 2014	90 621	142 266	232 887	67 100
Additions *)	40 404	5 330	45 734	
Depreciation	-32 735	-42 176	-74 911	
Impairment loss	-377	-	-377	
Book value as at 31 December 2014	**97 913**	**105 420**	**203 333**	**-**
As at 31 December 2014				
Historical cost	320 501	444 784	765 285	67 100
Accumulated depreciation and write-downs	-222 588	-339 364	-561 952	-
Disposal				
Book value as at 31 December 2014	**97 913**	**105 420**	**203 333**	**67 100**
2013 financial year				
Book value as at 1 January 2013	18 894	2 027	**20 922**	
Acquisition - new companies	79 654	192 745	**272 399**	
Additions	24 867	-	24 867	67 100
Depreciation	-32 795	-52 506	-85 301	
Book value as at 31 December 2013	90 620	142 266	232 887	67 100
As at 31 December 2012				
Historical cost	280 097	439 454	719 551	67 100
Accumulated depreciation and write-downs	-189 476	-297 188	-486 664	
Book value as at 31 December 2013	**90 621**	**142 266**	**232 887**	**67 100**

*) Includes capitalized expenses related to the development of a proprietary technical platform

The depreciation of development expenses is found under "depreciation and amortization" in the income statement. The recognized value of the SkatteFunn program is TNOK 1 100 (2013:T NOK 1 233). SkatteFunn has been recognized as a reduction in the capitalized development expenses.

Goodwill - Impairment test

The goodwill arises from the acquisition of NextGenTel AS with effect from 1 February 2013 and is tested for impairment losses yearly. It has been concluded that future cash flows are sufficient to support the carrying value of recognized goodwill. Goodwill acquired through business combinations have been allocated for impairment testing to only one cash-generating unit (CGUs):

(In thousands of NOK)	2014	2013
NextGenTel AS	67 100	67 100

There has been no movements in goodwill since acquisition of NextGenTel AS in 2013.

<u>Determination of recoverable amount</u>

The company has used "value in use" to determine the recoverable amount of the cash generating unit. These calculations use pre-tax cash flow projections based on financial budgets approved by management for the next year. Cash flows for other years are extrapolated using the estimated growth rates stated below.

Key assumptions used in the calculation of value in use are:

- EBITDA
- Growth rate
- Capital expenditures
- Discount rate

EBITDA

EBITDA represents the operating profit before depreciation and amortization and is estimated based on the most recent business plan for the CGU and the estimated future development in the market.

Growth rate

The CGU is operating in a mature market and the company has applied a growth rate of 0% in its estimates.

Capital expenditure

Capital expenditure is estimated based on the most recent business plan for the CGU.

Discount rate

Discount rate reflects the current market assessment of the risks specific to the cash generating unit. Discount rate (WACC) used in calculations is 8% for 2014 (9,5% for 2013).

Sensitivity to changes in assumptions

There is significant headroom between recoverable amounts of goodwill and the carrying amounts. As a basis for sensitivity evaluation, the company has used the following changed assumptions for the CGU:

- Increase of discount rate of 1%
- Negative growth rate at 1%
- Reduction of EBITDA of 10%

Combined change of all assumptions would reduce recoverable amount by NOK 204 million, but would still not require an impairment. The CGU operates a recurring revenue business in a mature market. The ability to achieve EBITDA estimates is dependent on a successful completion of the restructuring of the CGU and that no major unforeseen negative market events occur.

Note 9. Trade and other receivables

(In thousands of NOK)	**2014**	**2013**
Trade accounts receivable	167 622	152 466
Provisions for expected losses on trade receivables	-13 323	-11 366
Net trade accounts receivable	154 299	141 100
Prepaid expenses	78 776	163 900
Accrued, not yet invoiced income	7 985	10 782
Other receivables	10 769	2 000
Total trade receivables and other receivables	**251 829**	**317 782**

Tellio ApS has an agreement to sell receivables to Svea Finans. This agreement entails that Svea will purchase receivables related to traffic and subscriptions at the nominal value. This agreement also entails that Svea has recourse against Telio in accordance with the detailed criteria agreed on. A similar agreement is signed with Curabill AG for the Swiss market. Included in these agreements is also dunning and collection services.

The movement in the provision for bad debt during the year was as follows:

	2014	2013
Balance at 1 January *)	11 357	12 593
Change in provision	1 966	-1 227
Balance at 31 December	13 323	11 366

*) Balance 01.01.2013 include - NOK 7.200 from NextGenTel AS

The creation and release of provision for impaired receivables have been included in Other expenses in the income statement. Realized o9sses in 2014 were TNOK 9 297 (2013: TNOK 10 750). Payments received for earlier written off receivables are TNOK 1 774.

10. Cash and cash equivalents

(In thousands of NOK)	2014	2013
Cash and bank deposits*	65 791	219 571
Restricted tax withholdings	2 214	2 260
Total cash and bank deposits	**68 005**	**221 831**

* Cash and bank deposits include a restricted amount of TNOK 1 820 as at 31 December 2014 in separate bank accounts in connection with guarantees furnished to TDC and other supplier contracts.

The Group has established a cash pool with Nordea for all Norwegian companies. Subsidiaries' cash balances are presented as inter-company balances in their separate financial statements and eliminated in the Group accounts. Participating subsidiaries are jointly responsible for the bank facilities.

Note 11. Capital and reserves

Share capital

Total number of shares issued is 23,283,180 ordinary shares (2013: 23,283,180 shares) with a nominal value of NOK 0.1 per share (2013: NOK 0.1 per share). All the shares issued are fully paid-up. All shares have equal voting rights. The company held 304,201 treasury shares as at 31 December 2014.

List of all the largest shareholders as at 31 December 2014

Shareholder's name	Number of shares	**Percentage**
VEEN A/S	2 419 704	10,4 %
XFILE AS	1 500 000	6,4 %
TALIR HOLDING AS	1 410 000	6,1 %
J.P. MORGAN CHASE BANK N.A. LONDON	1 282 894	5,5 %
STOREBRAND VEKST	950 143	4,1 %
STATE STREET BANK AND TRUST CO.	899 113	3,9 %
SYNESI AS	750 000	3,2 %

SILJAN INDUSTRIER AS	715 000	3,1 %
UBS AG, LONDON BRANCH	643 280	2,8 %
DNB NOR MARKETS, AKSJEHAND/ANALYSE	643 013	2,8 %
MORGAN STANLEY & CO. INTERNATIONAL	602 841	2,6 %
MIDELFART INVEST AS	572 000	2,5 %
AKER PENSJONSKASSE	553 387	2,4 %
ZICO AS	521 500	2,2 %
VERDIPAPIRFONDET ALFRED BERG NORGE	521 171	2,2 %
CREO FOUNDATION AS	515 502	2,2 %
SEB PRIVATE BANK S.A. (EXTENDED)	450 325	1,9 %
VERDIPAPIRFONDET ALFRED BERG GAMBA	445 771	1,9 %
OP-EUROPE EQUITY FUND	350 000	1,5 %
VERDIPAPIRFONDET STOREBRAND OPTIMA	322 233	1,4 %
OTHERS	7 215 303	31,0 %
Total number of shares	**23 283 180**	**100,0 %**

Movements in the number of outstanding share options and the associated weighted average exercise prices are as follows:

	2014		**2013**	
	Average exercise price in NOK per share	**Options (in thousands)**	**Average exercise price in NOK per share**	**Options (in thousands)**
As of 1 January	16,35	533	14,87	519
Granted	-	-	25,00	75
Forfeited	-	-	14,00	-8
Exercised	22,50	25	9,13	-38
Expired	-	-	28,00	-15
As at 31 December	**16,01**	**508**	**16,35**	**533**

Of the 508,100 outstanding options (2013: 533,100 options) there were 458,100 (2013: 449,766 options) that were exercisable.

The outstanding share options (in 1000s) at the end of the year have the following expiration dates and exercise prices:

Expiration year	Exercise price in NOK per share	Number of options	
		2014	**2013**
2015	3	-	180
2015	16-25	-	218
2015	26-39	38	120
2017	16-25	75	-
Infinite	6-15	189	9
Infinite	16-25	104	6
Infinite	26-39	102	-
Total		**508**	**533**

Share options are allotted to management and selected employees. The company does not have a standardised option program. The exercise price for the options corresponds to the market price on the date of grants. The vesting of the options is normally contingent on the employees working for the company for one to three years after the options are granted (vesting period). Some options have an indefinite exercise period. Others must be exercised within a year after the options have been vested, or within other dates that have been negotiated individually. Some options will have to be exercised within six months after a voluntary resignation or within one year after an employee has been terminated. For further details, see the expiration dates for the options below.

The fair value of the options allotted is calculated by the Black-Scholes option pricing model. The most important input data is weighted average share price on the date of allotment, the exercise prices listed above, standard deviation of the expected return on the shares, dividends, term of the option from a set of assumptions and an average risk-free interest rate. The duration of the risk-free interest rate is the same as the allotted options. The volatility has been measured by the standard deviation of the expected return on the shares. After the stock exchange introduction in June 2006, the company has access to its own data for the volatility of shares in Telio, and these numbers have, therefore, been used. It has been assumed that holders of more than 30,000 options exercise on average their options within three months after the vesting date. Holders of less than 30,000 options exercise on average their options nine months after the vesting date.

Note 12. Trade and other payables

(In thousands of NOK)	**2014**	**2013**
Trade accounts payable	96 636	89 579
Accrued expenses (payroll)	6 970	20 431
Provision related to stock options *)	1 897	1 991
Accrued expenses (traffic)	2 916	14 331
Public dues other than income tax	27 961	28 614
Accrued interest on loan	2 951	7 797
Other current liabilities	51 772	31 190
Total trade payables and other current liabilities	**191 103**	**193 934**

*)The provisions are related to employer's National Insurance contributions for allotted options.

Note 13. Loans and borrowings

The company refinanced its debt in 2014 by an early redemption of the NOK 300 million bond. The new financing with Nordea comprises a five year term loan of 250 million and a NOK 75 million overdraft facility. The NOK 250 million term loan has semi-annual installments of NOK 25 million.

(In thousands of NOK)	**2014**	**2013**
Long-term loan Nordea	175 000	115 000
Bond	-	300 000
Loan expenses	(1 933)	(5 361)
Total long-term loan/ bond	173 067	415 000

	2014	**2013**
Short-term loan Nordea	50 000	60 000
Loan expenses	(594)	(3 360)
Total-short term loan	49 406	60 000

Interest rate on the NOK 250 million bank loan is 3 months NIBOR + 2.75%.

The companies Telio Telecom AS, Telio SA, Gojitek AS and NextGenTel AS are guarantors in the Senior Facilities Agreement (SFA) with Nordea Bank Norge ASA. Furthermore, the SFA is secured by share pledges of the shares in all subsidiaries and bank account pledges.

There are financial covenants related to the loan facilities and the company's performance is in compliance with the financial covenants as of 31 December 2014. The bank loan is subject to the following main financial covenants:

Period ending	Equity ratio	Minimum cash balance (incl NOK 75 mill overdraft facility)	Leverage (net debt/EBITDA)
31 Dec 2014	15.0%	NOK 125 mill	<1.5
31 Mar 2015	15.0%	NOK 125 mill	<1.5
30 Jun 2015	15.0%	NOK 125 mill	<1.5
30 Sept 2015	15.0%	NOK 125 mill	<1.5
31 Dec 2015	15.0%	NOK 125 mill	<1.5
31 Mar 2016 and beyond	17.5%	NOK 125 mill	<1.5

Year	Maximum capital expenditure NOK million
31 December 2014	136
31 December 2015	134

See Note 20 for information regarding interest expense.

Leasing:

(In thousands of NOK)	**2014**	**2013**
Long-term financial lease-agreements:		
Obligations related to financial lease agreements	2 425	929
Total long-term loans (Later than 1 year, but not later than 5 years)	2 425	929
Short-term financial lease agreements:		
Obligations related to financial lease agreements	5 111	3 519
Total short-term loans (Less than 1 year)	5 111	3 519
Total financial lease agreements	7 536	4 448

	2014	**2013**
Obligations from lease agreements – minimum lease payments:		
Less than 1 year	5 430	3 738
Later than 1 year, but not later than 5 years	2 576	987
Minimum lease payments	8 006	4 725
Future financing costs related to financial lease agreements	-500	-295
Obligations from financial lease agreements	**7 507**	**4 430**

Security has been furnished for obligations associated with lease agreements by returning the leased asset to the lessor in the event of a breach. A total of NOK 7.5 million has been paid in installments in 2014 (for 2013 NOK 7.5 million). The average annual interest paid to IBM in 2014 is 6,24%

Payments that mature within one year are classified as current. Equipment from IBM is leased in accordance with a Fair Market Value (FMV) agreement. This agreement is based on Telio returning the equipment at the end of the term of the lease. Telio has an option to purchase the assets at the market price three months prior to the expiration of the agreement. Equipment from suppliers other than IBM are leased in accordance with a Standard Pay-Out (SPO) agreement.

Note 14. Income tax expense, deferred tax assets and liabilities

Cost of tax for the period (tax payable)		
(In thousands of NOK)	**2014**	**2013**
Tax payable	-33 724	-14 858
Total tax payable	**-33 724**	**-14 858**

Deferred tax expense		
	2014	2013
Change in temporary differences	18 389	12 914
Change in tax law	-	-843
Total deferred tax expense	**18 179**	**12 071**
Income tax expense	**-15 340**	**-2 787**
	27 %	28 %

	2014	**2013**
Profit before tax	93 596	60 307
Taxes calculated at the rate in Norway (27%)	-19 306	-14 148
Different tax rates (mainly Swiss tax rate of 18,8%)	-5 965	-2 705
Non-taxable income or expenses	2 182	14 909
Unrecognized increase or reduction in deferred tax assets	7 749	-
Other	-	-843
Tax expense	**-15 340**	**-2 787**
Effective tax rate	**16 %**	**5 %**

Deferred tax and deferred tax assets:	**Consolidated income statement**	
	2014	**2013**
Deferred tax assets		
Receivables	1 838	1 732
Financial lease agreements	-	-
Tangible and intangible fixed assets	18 964	15 587
Deferred income	4 554	5 063
Provisions	522	-
Losses carried forward, etc.	5 484	6 752
Deferred tax assets	31 362	29 134
Of which are unrecognized deferred tax assets		-6 031
Deferred tax assets – gross	31 356	23 103
Deferred tax		
Tangible and intangible fixed assets	37 518	47 626
Other	-	-
Deferred tax – gross	37 518	47 626
Net recognized assets related to deferred tax	**-6 162**	**-24 523**

	2014	2013
Tax payment in the profit and loss account	-33 724	14 935
Previous years tax	5 995	-
Other	-	-
Tax payable on the balance sheet	-27 729	14 935

Assets related to deferred tax have been recognized since it is probable that there will be future taxable income in the companies with deferred tax assets, and that the temporary differences can be offset against this income.

Note 15. Deferred income/revenue

(In thousands of NOK)	2014	2013
Specification of deferred revenues:		
Subscriptions	145 309	156 645
Total deferred revenues	**145 309**	**156 645**

Deferred revenues are related to prepaid subscriptions. They are classified as current since they are related to the group's ordinary activities.

Note 16. Other revenues

(In thousands of NOK)	2014	2013
Hardware sales	565	974
Fees	31 549	17 922
Porting	1 381	1 230
Other revenues	3 571	6 578
Total other revenues	**37 065**	**26 704**

Fees include invoicing fees, reminder fees, invoicing of adapters that are not returned, invoicing of agreement period violations.

Note 17. Employee benefits

(In thousands of NOK)	2014	2013
Wages	166 926	171 394
Social security tax	24 503	28 013
Share options allotted to the management and employees*	194	1 644
Pension costs – defined contribution pension schemes	8 156	8 322
Capitalized personnel expenses**	-22 947	-14 219
Other personnel expenses	5 523	7 702
Temporary employees	44 727	42 609
Total personnel expenses	**227 081**	**245 464**
Average number of full-time employees	324	342

The temporary employees expenses have been reclassified from other cost to personnel expenses as reported previous to give a more fair view on the expenses related to employees.

* Including social security tax

** See Note 8 for intangible assets and Note 9 for development expenses.

Telio has a defined contribution pension plan for the employees in the Norwegian and Swiss companies. The agreement entails 2% savings for wages between 1-12 G (G = National Insurance basic amount) in Norway. Telio recognizes the payments on an ongoing basis. The company pays the monthly amount and the employees themselves choose their risk profile. The scheme includes a contribution or premium waiver in the event of disability and is in compliance with the Act on Occupational Pensions. The company covers the administrative costs for the scheme. NextGenTel AS has the same defined contribution pension plan for its employees as Telio, but their agreement entitles for 5% for wages between 1-6G, and 8% between 6-12G.

Note 18. Other expenses

(In thousands of NOK)	**2014**	**2013**
Fees for professional services (attorneys, auditors, etc.)	13 683	21 228
Travel and car expenses	2 070	2 063
Office supplies, equipment and communication	52 618	48 458
Office space	16 413	12 291
Losses on receivables	9 297	10 750
Other	2 344	1 868
Total other expenses	**96 425**	**96 658**

	2014	**2013**
Customer acquisition costs	21 987	28 377
Other sales and marketing costs	20 781	26 451
Total sales and marketing expenses	**42 768**	**54 828**

Audit fees	**2014**	**2013**
Statutory auditing	848	1 367
Other certification services	-	224
Tax consulting	38	110
Other services	25	590
Total auditing services	**910**	**2 291**

The services above include services provided by the auditor's partner law firm and advisors. Statutory auditing includes audit-related services (assistance).

Note 19. Finance income and finance cost

(In thousands of NOK)	**2014**	**2013**
Interest income – bank deposits	3 133	4 092
Other finance income	-	57
Foreign exchange gains	1 720	2 430
Total finance income	**4 853**	**6 579**
Interest expenses	24 698	-1 644
Interest cost of lease agreements	607	375
Other finance expenses	31 609	7 898
Foreign exchange losses	2 564	2 498
Total finance expenses	**59 478**	**9 127**
Net finance cost	**54 625**	**-2 548**

As a result of the debt refinancing in 2014 there is a call premium of NOK 28,5 mill related to early redemption of bond, recognized as other finance expense. As a consequence of the refinancing, NOK 8,1 mill in capitalized arrangement fees / borrowing cost related to previous financing has been expensed. An establishment fee for the new loan of NOK 3 mill has been capitalized and will be expensed over the loan term of 5 years.

Telio Holding AS has entered into an interest-swap with Nordea on the amount of NOK 50 million for the period February 2016 - February 2019. The agreed swap rate is 3.13%. The Group has accounted for this as a financial liability measured at fair value through profit and loss. Based on this swap the Group has recognized TNOK 1 071 as interest expense for 2014.

Note 20. Earnings per share

(In thousands of NOK)	**2014**	**2013**
Net profit for the year attributable to the company's shareholders	78 250	57 520
Weighted average of number of outstanding shares ('000s)	22 966	22 710
Dilution effect of outstanding options to employees and employee representatives	322	450
Average number of shares including dilution ('000s)	23 288	23 160
Basic earnings per share (NOK per share)	3,41	2,53
Diluted earnings per share (NOK per share)	3,36	2,50

Telio Holding ASA has a total of 508,100 options to employees and employee representatives outstanding as at 31 December 2014, 355,000 of these are to employees in the parent company. The exercise price for options varies from NOK 3 to NOK 39,00. The term of the options varied from a period of 3 years to infinite. Only the outstanding options that have a diluting effect have been included when the diluted number of shares has been calculated. The options that have a diluting effect are those that have an exercise price that is lower than the average market price. The average market price was NOK 43,7 in 2014. The share price at 31 December 2014 was NOK 42,5.

Note 21. Operating leases

The group leases office space for its head office and a shop in Oslo and offices in Bergen.

(In thousands of NOK)	**2014**	**2013**
Less than one year	9 658	9 813
Between one and five years	37 784	29 579
More than five years	43 209	48 447
Total	**90 651**	**87 839**

Current rental agreement with I/S Klaveness for premises at Skøyen expires in 2015 and is signed for next 5 years. The minimum annual lease payment is TNOK 2 758. The lease payment can be adjusted annually in accordance with Statistics Norway's consumer price index. In Denmark and Switzerland office space is leased on short term contracts. In addition Telio has entered into a lease contract for a shop in Brugata 1 in Oslo valid until 31.05.2015. The minimum annual lease payment is TNOK 133. NextGenTel AS has signed a lease-contract for the premises in Sandslimarka 31 in Bergen from 01.01.2014 - 31.12.2025. Minimum annual payment for the premises is TNOK 6 921

Note 22. Related parties

Telio Holding ASA has agreements with the companies Synesi AS (Espen Fjogstad, shareholder), Creo Advisors AS (owned by Erik Osmundsen, Chairman of the Board in Telio Holding ASA and Arne Reinemo), and Siljan Industrier AS (owned by Arne Reienmo) relating to the delivery of consulting services as required. Arne Reinemo also owns shares in Telio Holding ASA through Siljan Industrier AS. Arne Reinemo was Chairman of the Board of Directors at NextGenTel AS until December 2014. All services provided by these companies are priced on an arm's length basis and outstanding balances are to be settled in cash within 30 days.

The following transactions were carried out:

	2014	**2013**
Purchase of services		
Synesi AS	79	77
Creo Advisors AS	201	447
Total purchase of services	**280**	**524**
Of which reimbursement of expenses		
Creo Advisors AS	12	8
Synesi AS	22	14
Total reimbursement of expenses	**34**	**22**

Note 23. Remuneration of key executives, Board of Directors, etc.

Statement on executive remuneration

This executive remuneration statement applies to remuneration for work performed by key executives in the Telio Group. Telio shall strive to have a management that can safeguard the interests of the shareholders at any given time in the best possible manner. In order to achieve this, the company must offer competitive terms to the individual managers.

The Board of Directors reviews the guidelines annually, and the statement is presented to the General Meeting for review in accordance with Section 5-6 of the Norwegian Public Limited Companies Act.

1. Principles for base salary

Key employees shall have a competitive base salary that is based on the performance and responsibilities of the individual employee.

2. Principles for variable benefits, incentive schemes, etc.

Key employees can receive a variable salary. A variable salary is based on the achievement of targets for the group or the department or company where the individual is employed. The variable salary is based on the achievement of key performance indicators or various improvement measures. Such criteria can be stipulated by the Board of Directors for the CEO and by the CEO for other key executives. Performance related benefits should be directly linked to the performance of the company and the creation of shareholder value. Performance criteria should be measurable and the employee should be able to influence the outcome. There is a limit on the amount of variable performance related benefits that an employee can receive.

The CEO has a bonus agreement where the actual bonus payment is based on the achievement of guided targets or budgets for the following metrics: revenues, EBITDA and capital expenditures. A portion of the bonus is linked to specific criteria that must be fulfilled over a three year period.

Bonus to key executives is based on achievement of the same metrics as the CEO.

It is seen as positive for the long-term creation of value in the company that key executives own shares or options in the company. The Board of Directors can offer options to key executives if the General Meeting has granted the authority to do so. The exercise price for the option shall be the market value or higher when the employment contract was signed. The vesting period should typically be a total of three years.

As for all payroll items, the company has the right to rectify erroneous payments of variable salary based on pure error, wrong premises or misleading information from the employee.

3. Principles for benefits without any cash payment

Key executives may be offered various benefits such as a company car, insurance, pensions, etc. Benefits in kind shall primarily be offered in the form of free broadband access, broadband telephony and mobile telephony so that the key employees are available to the company.

Key employees are entitled to participate in the defined contribution pension scheme in the same manner as other employees. At present the pension scheme terms are the same for all employees.

4. Severance pay schemes

The CEO has an agreement that entitles him to severance pay of 18 months for termination by the employer. The company's policy is that key executives shall have a notice period of from three to six months. The notice period is six months for the CEO and the CFO.

The CEO has a severance pay scheme, but not the other key executives. If severance pay is agreed on with an employee who does not have this documented in his employment contract, then it shall be approved by the Chairman of the Board. The CFO will be paid 3 months' severance pay in addition to the ordinary notice period of 6 months in the event of a "Change of Control".

5. Processes for remuneration agreements

The Board of Directors review the CEO's salary terms annually at a meeting.

These guidelines have been in effect for 2014 and will also apply to 2015. No new remuneration agreements were established nor existing agreements amended in 2014 that could have had significant consequences for the company and its shareholders.

Remuneration to key executives in 2014
(In thousands of NOK)

Position	Fixed salary	Share options exercised	Variable salary	Other remuneration	Mandatory Occupational Pension	Total remu-neration in 2014
CEO	2 994	-	*) 2 375	301	18	5 688
CFO	1 361	-	498	135	18	2 012
Sales & Marketing Director	978	-	449	15	18	1 460
CTO	1 032	-	496	123	18	1 669
Director Customer Services	337		106	10	18	471
Product Manager **				2 397		2 397
	6 702	**-**	**3 924**	**2 981**	**90**	**13 697**

*) Of which TNOK 875 is accrued (not paid) and contingent upon future events.

Remuneration to key executives in 2013

Position	Fixed salary	Share options exercised	Variable salary	Other remuneration	Mandatory Occupational Pension	Total remu-neration in 2013
CEO	2 929	-	1 339	300	18	4 586
CFO	1 284	-	500	132	18	1 934
CTO	1 014	-	500	17	18	1 549
Sales & Marketing Director	964	-	454	14	18	1 450
Director Customer Services*	785	-	348	14	18	1 164
Product Manager**		-		1 584	-	1 584
	6 976	**-**	**3 141**	**2 061**	**90**	**12 267**

*) She has been on maternity leave since April 2014
**) Product manager is an externally hired consultant

Directors' fees		Total remuneration in 2014	Total remuneration in 2013
Erik Osmundsen	Board Member	300	250
Aril Resen	Board Member	150	100
Ellen Merethe Hanetho	Board Member	88	-
Silje Veen	Board Member	88	-
Snorre Kjesbu	Board Member	88	-
Odd Johnny Winge	Board Member	-	25
Liv Bergtorsdottir	Board Member	-	100
Haakon Dyrnes	Board Member	42	75
Arnhild Schia	Board Member	42	75
Harald James Otterhaug	Nomination Committee	15	-
Geir Moe	Nomination Committee	15	15
Hans Petter Tusvik	Nomination Committee	15	15
Nils A Foldal	Nomination Committee	-	15
		843	**670**

Shares and options in the company owned by board members and key executives as at 31 December 2014

Name	Position	Number of shares	Number of options	Average exercise price
Erik Osmundsen*	Board Chairman	515 502	-	-
Aril Resen***	Board Member	1 500 000	-	-
Espen Fjogstad**	Board Observer	750 000	-	-
Silje Veen ****	Board Member	2 419 704	-	-
Eirik Lunde	CEO	144 881	280 000	10,7
Tom Nøttveit******	CFO	57 500	75 000	16,0
Sven Ole Skrivervik	CTO	22 500	75 000	25,0
Jens Hetland *****	Sales & Marketing Director	69 400	25 000	24,0
		5 479 487	455 000	

* Erik Osmundsen - indirectly through ownership interest in Creo Foundation AS
** Espen Fjogstad -indirectly through ownership interest in Synesi AS
*** Aril Resen - indirectly through ownership interest in Xfile AS
**** Silje Veen - indirectly through ownership interest in T.D. Veen AS
***** Jens Hetland - Indirectly through Avita AS
******Tom Nøttveit - indirectly through Prosperis Invest AS

Note 24. Guarantees

Telio Holding has on behalf of Telio Telecom AS and Gojitek AS issued a guarantee to IBM Global Finance AS relating to the financing of adapters and hardware amounting to NOK 7,5 mill.

Telio Telecom has a bank guarantee of NOK 6 mill in relating to interconnect agreement of NOK 12 mill.

Telio Holding ASA has issued a guarantee to KPN in the Netherlands for the interconnect agreement entered into with the subsidiary Telio Netherlands BV. This guarantee entails that the company must redeem obligations that Telio Netherlands BV is not able to service itself.

Telio Holding ASA has issued a guarantee to Curabill in Switzerland for an invoicing and factoring agreement entered into with the subsidiary Telio Telecom AG. This guarantee entails that the company must redeem obligations that Telio Telecom AG is not able to service itself.

Telio Telecom AS has issued a guarantee to Tele2 Nederland BV for the interconnect agreement entered into with the subsidiary Telio Netherlands BV. This guarantee entails that the company must redeem obligations that Telio Netherlands BV is not able to service itself.

Telio Telecom AS has issued a guarantee to Verizon Switzerland AG concerning the agreement entered into with the sub-subsidiary Telio Telecom AG. This guarantee entails that the company must redeem obligations that Telio Telecom AG is not able to service itself.

Telio Holding ASA has on behalf of Tellio ApS given a guarantee to Post Danmark AS and Post Danmark AS Logistik limited to DKK 100,000.

Telio Telecom AS has issued a guarantee on NOK 2.2 million to Sameiet I/S Klaveness Kontor until 1.10.2010 as a guarantee for the office rent for the head office in Oslo

NextGenTel AS has issued a guarantee related to employee withholding tax of NOK 9 million and other guarantees of NOK 1.5 million.

Note 25. Financial instruments

(In thousands of NOK)

Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and liabilities, including their levels in fair value hierarchy. For the presented assets and liabilities the carrying amounts are equal to fair values.

	31.12.14			31.12.13		
	Loans and receivables	**Financial liabilities at fair value**	**Other financial liabilities**	**Loans and receivables**	**Financial liabilities at fair value**	**Other financial liabilities**
	Level 1	Level 2	Level 1	Level 1	Level 2	Level 1
Financial assets not measured at fair value						
Trade and other receivables	154 397			141 100		
Cash and cash equivalents	68 005			221 831		
Financial liabilities measured at fair value						
Interest rate swap		1 741			-	
Financial liabilities not measured at fair value						
Trade and other payables			-96 636		-89 578	-
Financial leases			-7 536		-4 448	-
Interest-bearing debt			-225 000		-175 000	-
Bond			-		-300 000	

Valuation techniques

"Interest rate swap - valuation is based on market comparison technique from broker.
Other financial liability - the value is based on discounted cash flows. "

Financial Risk Management

The companies Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The CFO is responsible for risk on the company level. Financial risk is monitored by the CFO and operating risk is monitored by the CTO. The Group's activities are exposed to certain financial risks: a market risk, credit risk, interest risk and liquidity risk.

i) Credit risk:

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Summary of maximum credit risk exposure at 31 December:

	2014	**2013**
Gross receivables before provisions for losses	167 622	152 466
Provision for bad debt	-13 225	-11 366
Net receivables after provision for bad debt	154 397	141 100
Cash and cash equivalents	68 005	221 831

Maximum credit exposure for trade accounts receivable by geographic origin at 31 December:

	2014	2013
Norway - Telio	22 357	7 299
Norway - NextGenTel	118 202	122 967
Denmark	3 157	3 753
Switzerland	2 096	2 124
Netherlands	8 585	4 958
	154 397	141 100

Maximum credit exposure for trade accounts receivable by type of customer at 31 December:

	2014	2013
Residential customers	148 677	135 756
Business customers	5 720	5 344
	154 397	141 100

The aging of trade receivables at 31 December

	2014		2013	
	Gross	Net (after provisions)	Gross	Net (after provisions)
Not past due	133 650	133 198	110 341	110 341
Past due 0-30 days	17 321	16 894	21 424	21 424
Past due 31-60 days	4 239	2 883	5 760	4 919
Past due 61-90 days	2 068	846	2 862	1 337
More than 91 days	10 343	576	12 079	3 079
	167 622	154 396	152 466	141 100

The movement in the provision for bad debt during the year was as follows

	2014	2013
Balance at 1 January *)	-11 357	-12 593
Amounts written off during the year as uncollectable	8 997	-10 750
Provision for receivables impairment	-10 865	11 986
Balance at 31 December	-13 225	-11 357

*) balance 01.01.2013 include - NOK 7.200 from NextGenTel AS

The creation and release of provision for impaired receivables have been included in Other expenses in the income statement. Payments received for earlier written off receivables are TNOK 1 774.

ii) Liquidity risk:

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet the liabilities when they are due.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

31.12.14	**Book value**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial commitments							
Trade payables	96 636	96 636	96 636	-	-	-	-
Other current liabilities	51 747	51 747	51 747	-	-	-	-
Financial leases	7 536	8 006	2 715	2 715	2 576	-	-
Interest-bearing debt	225 000	248 906	29 250	28 719	56 375	134 563	-
Interest rate swap	50 000	121 819	-	-	31 434	90 385	-

31.12.13	**Book value**	**Contractual cash flows**	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**
Non-derivative financial commitments							
Trade payables	91 621	91 621	91 621	-	-	-	-
Other current liabilities	102 543	102 543	102 543	-	-	-	-
Financial leases	4 448	4 602	3 618	984	-	-	-
Interest-bearing debt	475 000	596 210	41 043	50 212	102 818	402 136	-

iii) Currency risk:

Exposure to foreign exchange risk

The group’s exposure to foreign currency risks was as follows:

31.12.14

	NOK	EUR	DKK	USD	CHF
Trades receivables	140 559	950	2 562	-	279
Bank deposits	39 811	100	9 948	-	253
Trade payable	28 588	319	903	577	20
Other current liabilities	112 530	187	4 254	-	626
Gross exposure:	**321 488**	**1 556**	**17 667**	**577**	**1 178**

31.12.13

	NOK	EUR	DKK	USD	SEK	CHF
Trades receivables	312 214	8 937	5 047	-	24	2 332
Bank deposits	191 621	11 497	10 662	-	54	7 998
Trade payable	79 626	5 291	1 408	4 633	477	186
Other current liabilities	99 359	668	1 224	-	7	1 286
Gross exposure:	**682 820**	**26 393**	**18 341**	**4 633**	**561**	**11 802**

Key exchange rates throughout the year:

	Average rate		Rate on the date of the balance sheet	
	2014	**2013**	**31.12.14**	**31.12.13**
SEK	91,84	90,22	95,97	94,72
DKK	112,07	104,70	112,37	112,37
CHF	6,87	6,34	7,51	6,84
EUR	8,35	7,81	9,04	8,38

Sensitivity analysis

The sensitivity analysis applies to a change in the exchange rate with a view to the translation of subsidiaries (monetary items in Norwegian companies are not included). A 10% stronger NOK against the following currencies would have entailed an increase (reduction) in the equity and profit/loss as illustrated in table below. The analysis requires that the other variables, and the interests rates in particular, remain constant.

10% - stronger NOK	**2014**		**2013**	
31.12.14	**Equity**	**Profit/Loss**	**Equity**	**Profit/Loss**
SEK	-	-	10	12
DKK	-2 273	-683	-872	-998
CHF	11	-2	12	-2
EUR	-16	-9	-7	-1

iv) Interest rate risk:

Profile
At the end of the year the group had the following interest-bearing financial instruments.

	31.12.14	**31.12.13**
Fixed rate instruments:		
Financial liabilities (leasing)	8 006	4 448
	8 006	4 448
Variable rate instruments:		
Financial assets	68 005	221 831
Financial liabilities	-	-
	68 005	221 831
Variable rate instruments:		
Bond	-	300 000
Loan	225 000	175 000
	225 000	475 000

Sensitivity analysis – fixed rate instruments

	Profit/Equity			
31.12.14	2% increase	1% increase	1% decrease	2% decrease
Financial liabilities (leasing)	160	80	-80	-160

Sensitivity analysis – variable rate instruments

A 1%/100 basis points change in the interest rate on the date of the balance sheet would have increased/reduced the equity and profit or loss as illustrated in the table below. The analysis requires that the other variables, and the foreign exchange rates in particular, remain constant.

		Profit/Equity		
31.12.14	2% increase	1% increase	1% decrease	2% decrease
Financial assets	1 360	680	-680	-1 360
			525	-525

		Profit/Equity		
31.12.14	2% increase	1% increase	1% decrease	2% decrease
Interest bearing debt	4 500	2 250	-2 250	-4 500

Note 26. Business combination

There has been no business combination in 2014.

Telio Holding ASA acquired NextGenTel AS at 31 January 2013. The primary reasons for the business combination was to strengthen the product portfolio and to restructure NextGenTel and the way the company has been operated. Considerations transferred as part of the transaction was MNOK 601 and a goodwill of MNOK 67,1 was recognized in 2013.

Value adjustments	**NextGenTel**
Consideration transferred	601,0
Less: Fair value of net identifiable assets acquired	533,9
Goodwill arising on acquisition	67,1

Telio Holding ASA
Annual Accounts
2014

Telio Holding ASA
INCOME STATEMENT

	Note	2014	2013
Other operating revenues	1	11 166	9 892
Total operating revenues		**11 166**	**9 892**
Payroll expenses	2	9 856	9 433
Depreciation and amortization expenses	5	94	50
Transaction cost expensed in 2012	3	-	4 985
Other operating expenses	3	3 508	(5 696)
Total operating expenses		**13 458**	**8 772**
Operating profit/loss		**(2 292)**	**1 121**
Financial income	4	170 217	90 741
Financial expenses	4	56 232	35 195
Ordinary result before tax		**111 693**	**56 666**
Tax on ordinary result	6	299	693
Profit for the year		**111 992**	**57 359**
Allocations			
Dividend provision		-	45 908
Transferred to other reserves		111 992	11 451
Total allocations		111 992	57 359
Group contribution to subsidiaries		-	20 197

Telio Holding ASA

Balance Sheet as at 31 December

ASSETS	Note	2014	2013
Non-current assets			
Intangible assets	5	43	138
Deferred tax asset	6	885	585
Investments in subsidiaries	7	432 357	432 357
Total non-current assets		**433 285**	**433 080**
Current assets			
Inter-company receivables	12	163 723	277 311
Other receivables		-	34
Bank deposits, cash and cash equivalents	7,12	39 553	14 454
Total current assets		**203 276**	**291 798**
TOTAL ASSETS		**636 561**	**724 878**

Telio Holding ASA
Balance Sheet as at 31 December

EQUITY AND LIABILITIES	Note	2014	2013
EQUITY			
Share capital reduced for treasury stocks	9,1	2 298	2 305
Premium paid in capital	9	110 976	110 976
Total paid in capital		**113 275**	**113 281**
Retained earnings	**9**	**162 122**	**83 052**
Total equity		**275 396**	**196 333**
LIABILITIES			
Non-current liabilities			
Provisions	16	1 515	-
Financial liability	4	1 742	-
Long term interest bearing debt	13	173 039	409 639
Total non current liabilities		176 296	409 639
Current liabilities			
Dividend payable	9	-	45 908
Trade accounts payable		52	15
Inter-company liabilities	**12**	**127 220**	**1 600**
Short term interest bearing debt	13	49 406	56 640
Other current liabilities	11	8 191	14 743
Total current liabilities		**184 869**	**118 906**
Total liabilities		**361 165**	**528 545**
TOTAL EQUITY AND LIABILITIES		**636 561**	**724 878**

Oslo, 23 March 2015
Board of Directors of Telio Holding ASA

Erik Osmundsen
Chairman of the Board
(sign.)

Aril Resen
Board member
(sign.)

Silje Veen
Board member
(sign.)

Ellen Hanetho
Board member
(sign.)

Snorre Kjesbu
Board member
(sign.)

Eirik Lunde
CEO
(sign.)

Telio Holding ASA

CASH FLOW STATEMENT

	Note	2014	2013
Cash flows from operating activities			
Profit after tax		111 992	57 360
Paid taxes	5	-	(11 810)
Change in trade accounts payables		37	(20)
Amortization	4	94	50
Non-cash transactions related to option costs		39	167
Changes in inter-company receivables and payables		239 208	(2 173)
Changes in other accruals		(3 561)	4 163
Net cash flow from operating activities		**347 809**	**47 737**
Cash flows from investment activities			
Purchase of intangible assets		-	(187)
Payments for the purchase of other investments / share capital increases in subsidiaries	7	-	(601 000)
Net cash flow from investment activities		**-**	**(601 187)**
Cash flows from financing activities			
Proceed from share issue	12	-	100 000
Payment for purchase of own shares		(4 807)	-
Proceeds from exercise of share options	9	563	472
Proceeds from borrowings	15	56 166	466 279
Payment of long-term debt	13	(300 000)	-
Dividends paid		(74 632)	-
Payments group contributions		-	-
Net cash flow from financing activities		**(322 710)**	**566 750**
Net change in cash and cash equivalents		25 099	13 300
Cash and cash equivalents at the start of the period		14 454	1 154
Cash and cash equivalents at the end of the period		**39 553**	**14 454**

Notes to the financial statements

Accounting Principles
Financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Foreign currency translation
Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into NOK using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognised in the income statement as they occur during the accounting period.

Revenue
As Telio Holding ASA is a holding company the company's revenues come from the invoicing of intra-group services performed on behalf of subsidiaries.

Balance sheet classification
Current assets and short term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets / long term liabilities.
Current assets are valued at the lower of cost and fair value. Short term liabilities are recognized at nominal value.
Fixed assets are valued at cost, less depreciation and impairment losses. Long term liabilities are recognized at nominal value.

Income tax
The tax expense consists of the tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as 27 percent of temporary differences and the tax effect of tax losses carried forward..Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognised directly in equity to the extent that they relate to equity transactions.

Intangibles
Intangibles are capitalized and depreciated linearly over the estimated useful life. Depreciation of each component is based on the economic life of the component. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net realisable value and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are discounted are used.

Subsidiaries and investment in associates
Subsidiaries and investments in associates are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a lather period. Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends / group contribution exceed withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the parent company.

Accounts receivable and other receivables
Accounts receivable and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables. For the remaining receivables, a general provision is estimated based on expected loss.

Options - Share-based reward system
The company has equity share-based settlement payment plan. The total amount that is to be charged as an expense over the contribution period will be based on the fair value of the options granted at the time of the grant, less the effect of any contribution terms that are not market-based (such as profitability or sales growth goals).
The National Insurance contributions related to share-based compensation schemes will be recognized as liabilities. Adjustments to the National Insurance obligation will be recognized as a cost or as a reduced cost in subsequent periods, based on changes in the intrinsic value over the vesting period.

Provisions

Provisions are measured as the net present value of the expected payments to redeem the liability. A pre-tax discount rate is used that reflects the current market situation and risk specific to the liability. An increase in the liability as the result of a change in the time value is recognised as an interest cost.

Borrowings

Loans are recognised at their fair value when they are disbursed, less any transaction costs. In subsequent periods, loans are recognised at their amortised cost, as calculated by means of the effective interest rate. The difference between the loan amount disbursed (less transaction costs) and the redemption value are recognized in the income statement over the term of the loan. Loans are classified as current liabilities unless there is an unconditional right to postpone payment of the debt by more than 12 months from the date of the balance sheet.

Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents includes cash, bank deposits and other short term, highly liquid investments with maturities of three months or less.

Note 1. Operating revenues

	2014	2013
Denmark	274	987
Switzerland	154	450
Netherlands	370	820
Norway	10 368	7 635
Total intra-group sale of services	**11 166**	**9 892**

Note 2. Payroll expenses, number of employees, other remunerations, loans to employees, etc.

	2014	2013
Wages and salaries	7 576	6 769
Directors' fees	1 098	625
Social security tax	1 072	1 808
Pension costs	43	43
Option costs	39	167
Other benefits	28	20
Total	9 856	9 433
Number of man-years during financial year	2	2

The option costs also include provisions for social security tax related to Telio Holding's option agreements.

Telio entered into a pension agreement for its employees as at 1 July 2006. This agreement entails 2% savings for wages between 1-12 G (G = National Insurance basic amount). Telio recognizes payments on an ongoing basis. The company pays a monthly amount, and the employees themselves choose their risk profile. The scheme includes a contribution or premium waiver in the event of disability, and is in compliance with the Act on Occupational Pensions. The company covers the administrative costs for the scheme.

Benefits to key executives

2014

Name/Function	Salary	Share options and bonus booked in 2014	Other remuneration	Mandatory occupational pension	Total remuneration
CEO	2 994	2 375	301	18	5 688
CFO	1 361	498	135	18	2 012
Total	4 355	2 873	436	36	7 700

2013

Name/Function	Salary	Share options and bonus booked in 2013	Other remuneration	Mandatory occupational pension	Total remuneration
CEO	2 929	1 339	300	18	4 586
CFO	1 284	500	132	18	1 934
Total	4 213	1 839	432	36	6 520

The CEO will be paid his fixed salary for 18 months if he is requested to resign from his position. The CFO will be paid 3 months' severance pay in addition to the ordinary notice period of 6 months in the event of a "Change of Control".

There are no loan/guarantees to the CEO, Chairman or other related parties.

Auditor		**2014**	**2013**
Statutory audit		250	367
Other certification services		-	204
Tax consulting		10	40
Other services		-	326
Total auditing fees	-	260	937

Auditing fees are exclusive of VAT.

Note 3. Other operating expenses

	2014	**2013**
External services *)	1 442	(6 897)
Transaction cost expensed in 2012	-	4 985
Travel costs	300	326
Advertising, agent and sales costs	429	481
Other expenses	1 336	393
Total	**3 508**	**(711)**

Note 4. Finance

Financial income	**2014**	**2013**
Interest income	921	49
Interest income from group companies	1	349
Dividends from subsidiaries (Telio SA/Telio IP Services BV)	112 840	58 470
Change in market value interest swap		831
Foreign exchange gain	31	24
Group contributions from subsidiaries	56 425	31 018
Total financial income	**170 217**	**90 741**

Financial expenses	**2014**	**2013**
Interest on loans	23 218	31 119
Foreign exchange losses	-	2
Change in market value financial assets	1 072	-
Other financial cost	31 942	4 075
Total financial expenses	56 232	35 195

Telio Holding AS has entered into an interest-swap with Nordea on the amount of NOK 50 million for the period February 2016 - February 2019. The agreed swap rate is 3.13%. The Group has accounted for this as a financial liability measured at fair value through profit and loss. Based on this swap the Group has recognized TNOK 1 071 as financial expense for 2014.

Note 5. Intangible assets

	2014	2013
Historical cost 1 January	187	-
Additions	-	187
Historical cost as at 31 December	**187**	**187**
Amortizations as at 1 January	50	-
Amortization	94	50
Accumulated amortization 31 December	**144**	**50**

Note 6. Taxes

	2014	2013
Specification of income tax expense		
Payable tax on profit	-	-
Change in deferred tax	(299)	(715)
Change in tax law	-	22
Total	**(299)**	**(693)**

Reconciliation of change in deferred taxes	**2014**	**2013**
Change in deferred tax in the balance sheet	(299)	(693)
Change in deferred tax on the income statement	**(299)**	**(693)**

Calculation of deferred tax asset

Temporary differences:	**2014**	**2013**
Provisions	(1 515)	(1 510)
Tangible assets	(19)	13
Other differences	(1 742)	(670)
Net temporary profit/loss differences	(3 276)	(2 167)
Basis for deferred tax / tax assets	**(3 276)**	**(2 167)**
27% tax on deferred tax assets/liabilities	(885)	(585)
Deferred tax asset in balance sheet	(885)	(585)

Basis for tax payable	**2014**	**2013**
Profit before tax	111 694	56 666
Permanent differences	(169 227)	(59 219)
Change in temporary profit/loss differences	1 108	2 553
Received (unrecognized) / group contribution	56 425	-
Basis for tax payable	-	-
Utilization of tax-related losses	-	
Taxable income	-	-
Tax payable	**-**	**-**

Explanation of taxes	2014	2013
Profit/loss before tax	111 694	56 666
Nominal tax (27%)	30 157	15 866
Tax effect of permanent differences	(30 457)	(16 581)
Recognized tax charge	(299)	(693)
Effective tax rate (as a percentage of profit/loss before tax)	-0,27 %	1 %

Note 7. Investment in subsidiaries

Investments in subsidiaries are accounted for in accordance with the cost method.

Subsidiaries	Business office	Own-ership interest	Profit/loss for year	Equity capital	Book value
Telio Telecom AS	Oslo	100 %	46 365	9 832	32 697
Telio SA	Zürich	100 %	4 533	10 661	2 316
Telio IP Services BV	Amsterdam	100 %	466	313	156
Gojitek AS	Oslo	100 %	6 465	24 555	11 795
NextGenTel AS	Bergen	100 %	69 346	224 916	385 393
Book value as at 31 December 2014					**432 357**

Note 8. Restricted bank deposits, drawing rights and guarantees

Restricted bank deposits	2014	3013
Tax withholdings	309	336

Note 9. Equity capital

2013	Share capital	Treasury stocks	Premium paid in capital	Retained earnings	Total
Equity as at 1 January	1 939	-27	11 365	71 172	84 449
Options exercised	-	5	-	467	472
Reversal of dividends	-	-	-	(205)	(205)
Option costs	-	-	-	167	167
Share issue	389	-	99 611	-	100 000
Provisions for dividends				(45 908)	(45 908)
Profit for year	-	-	-	57 359	57 359
Equity as at 31 December	**2 328**	**(23)**	**110 976**	**83 052**	**196 334**
2014					
Equity as at 1 January	2 328	-23	110 976	83 052	196 334
Purchase of treasury shares		-10		-4 797	(4 807)
Options exercised		3		560	563
Reversal of dividends				45 908	45 908
Option costs				39	39
Dividends				(74 632)	(74 632)
Profit for year				111 992	111 992
Equity as at 31 December	**2 328**	**(30)**	**110 976**	**162 122**	**275 396**

The company owns 304,201 treasury shares as at 31 December 2014 (31 December 2013: 229,001 shares).

Note 10. Share capital and shareholder information

Telio Holding ASA

Total number of shares issued is 23,283,180 (2013: 23,283,180) with a nominal value of NOK 0.10 per share.

List of all the largest shareholders as at 31 December 2014

Shareholder's name	Number of shares	Percent-age
VEEN A/S	2 419 704	10,4 %
XFILE AS	1 500 000	7,7 %
TALIR HOLDING AS	1 410 000	6,2 %
J.P. MORGAN CHASE BANK N.A. LONDON	1 282 894	4,8 %
STOREBRAND VEKST	950 143	4,2 %
STATE STREET BANK AND TRUST CO.	899 113	3,9 %
SYNESI AS	750 000	3,8 %
SILJAN INDUSTRIER AS	715 000	3,0 %
UBS AG, LONDON BRANCH	643 280	2,8 %
DNB NOR MARKETS, AKSJEHAND/ANALYSE	643 013	2,7 %
MORGAN STANLEY & CO. INTERNATIONAL	602 841	2,7 %
MIDELFART INVEST AS	572 000	2,7 %
AKER PENSJONSKASSE	553 387	2,6 %
ZICO AS	521 500	2,6 %
VERDIPAPIRFONDET ALFRED BERG NORGE	521 171	2,2 %

VERDIPAPIRFONDET ALFRED BERG NORGE	521 171	2,2 %
CREO FOUNDATION AS	515 502	2,1 %
SEB PRIVATE BANK S.A. (EXTENDED)	450 325	1,7 %
VERDIPAPIRFONDET ALFRED BERG GAMBA	445 771	1,5 %
OP-EUROPE EQUITY FUND	350 000	1,2 %
VERDIPAPIRFONDET STOREBRAND OPTIMA	322 233	1,1 %
OTHERS	7 215 303	30,0 %
Total number of shares	23 283 180	100,0 %

In accordance with the authority granted by the General Meeting of Telio Holding ASA, the Board of Directors has granted the following options:

Each option entitles the holder to subscribe for one share.

		Number of options in 1,000	
Expiration year	**Exercise price in NOK per share**	**2014**	**2013**
2015	3	-	180
2015	16-25	-	218
2015	26-39	38	120
2017	16-25	75	9
Infinite	6-15	189	6
Infinite	16-25	104	-
Infinite	26-39	102	-
Total		508	533

Total number of outstanding share options as at 31 December 2014 was 508,100 (2013: 533,100.) The exercise price has been set at the market value of the share when the option was granted.

Key executives and members of the Board of Directors own the following shares and options in the company as at 31 December 2014:

Name	Function	Number of shares	Number of options	Average exercise price
Erik Osmundsen*	Board Chairman	615 502	-	-
Aril Resen***	Board Member	1 500 000	-	-
Espen Fjogstad**	Board Observer	750 000	-	-
Silje Veen ****	Board Member	2 419 704	-	-
Eirik Lunde	CEO	144 881	280 000	10,7
Tom Nøttveit*****	CFO	57 500	75 000	16,0

* Erik Osmundsen - indirectly through ownership interest in Optinvest II AS
** Espen Fjogstad -indirectly through ownership interest in Synesi AS
*** Aril Resen - indirectly through ownership interest in Xfile AS
**** Silje Veen - indirectly through T.D. Veen AS
*****Tom Nøttveit - indirectly through Prosperis Invest AS

Note 11. Other current liabilities

	2013	2014
Holiday pay provisions	**671**	**605**
Withholding tax	307	336
Value added tax	490	999
Provisions for incurred costs	5 295	3 277
Provision for interest	1 209	7 797
Other current liabilities	219	219
Total	**8 191**	**13 232**

Note 12. Inter-company balances

Specification of Intra-group receivables	**2014**	**2013**
Telio Telecom AS	57 079	-
NextGenTel AS	102 229	-
Telio Telecom AG	15	362
Telio Netherlands BV	64	235
Telio SA	4 336	-
Tellio ApS	-	253
	163 723	849

Specification of Intra-group liabilities		
Gojitek AS	-5 073	-
Telio IP Services BV	-987	-1 600
Tellio ApS	-2 827	-
	-8 886	**-1 600**

Specification of cash pool to be presented as inter-company balances		
Telio Holding ASA	-79 089	-
Telio Telecom AS	51 969	-
NextGenTel AS	72 704	-
Gojitek AS	-6 339	-
Cash in total as a part of cash pool	39 244	-

The Group has established a cash pool with Nordea for all Norwegian companies. The cash pool is presented as gross values (bank and inter-company balances in Telio Holding ASA separate financial statements). Subsidiaries' cash balances are presented as inter-company balances in their separate financial statements and eliminated in the Group accounts. Participating subsidiaries are jointly responsible for the bank facilities.

Specification of dividends and group contribution from subsidiaries included in intra-group receivables		
Telio SA	4 365	4 061
NextGenTel AS	100 000	250 000
Telio IP Services BV	-	420
Telio Telecom AS	64 900	21 981
	169 265	**276 461**

There are TNOK 56 425 as Group contribution and TNOK 43 575 as dividends from NextGenTel AS. Group contribution and dividends have been off-set against liabilities on group subsidiaries.

Note 13. Loans & borrowings

The company refinanced its debt in 2014 by an early redemption of the NOK 300 million bond. The new financing with Nordea comprises a five year term loan of 250 million and a NOK 75 million overdraft facility. The NOK 250 million term loan has semi-annual installments of NOK 25 million.

	2014	2013
Long term loan Nordea	175 000	115 000
Bond	-	300 000
Loan expenses	(1 961)	(5 361)
Total long term loan/ bond	**173 039**	**409 639**

	2014	2013
Short term loan Nordea	50 000	60 000
Loan expenses	(594)	(3 360)
Total short term loan	49 406	56 640

Interest rate on the NOK 250 million bank loan is 3 months NIBOR + 2.75%.

The companies Telio Telecom AS, Telio SA, Gojitek AS and NextGenTel AS are guarantors in the Senior Facilities Agreement (SFA) with Nordea Bank Norge ASA. Furthermore, the SFA is secured by share pledges of the shares in all subsidiaries and bank account pledges.

There are financial covenants related to the loan facilities and the company's performance is in compliance with the financial covenants as of 31 December 2013. The bank loan and the bond are both subject to the following main financial covenants:

Period ending	Equity ratio	Minimum cash balance (incl NOK 75 mill overdraft facility	Leverage (net debt/ EBITDA)
31 Dec 2014	15.0%	NOK 125 mill	<1.5
31 Mar 2015	15.0%	NOK 125 mill	<1.5
30 Jun 2015	15.0%	NOK 125 mill	<1.5
30 Sept 2015	15.0%	NOK 125 mill	<1.5
31 Dec 2015	15.0%	NOK 125 mill	<1.5
31 Mar 2016 and beyond	17.5%	NOK 125 mill	<1.5

Year	Maximum expenditure NOK million
31 December 2014	136
31 December 2015	134

Note 14. Transactions with related parties

Telio Holding ASA has agreements with the companies Synesi AS (Espen Fjogstad, shareholder), Creo Advisors AS (owned by Erik Osmundsen, Chairman of the Board in Telio Holding ASA and Arne Reinemo), and Siljan Industrier AS (owned by Arne Reienmo) relating to the delivery of consulting services as required. Arne Reinemo also owns shares in Telio Holding ASA through Siljan Industrier AS. Arne Reinemo was Chairman of the Board of Directors at NextGenTel AS until December 2014. All services provided by these companies are priced on an arm's length basis and outstanding balances are to be settled in cash within 30 days.

The following transactions were carried out:	**2014**	**2013**
Purchase of services		
Synesi AS	79	77
Creo Advisors AS	201	447
Total purchase of services	280	524
Of which reimbursement of expenses		
Creo Advisors AS	12	8
Synesi AS	22	14
Total reimbursement of expenses	**34**	**22**

Note 15. Guarantees

Telio Holding has on behalf of Telio Telecom AS and Gojitek AS issued a guarantee to IBM Global Finance AS relating to the financing of adapters and hardware amounting to NOK 7,5 mill.

Telio Holding ASA has issued a guarantee to KPN in the Netherlands for the interconnect agreement entered into with the subsidiary Telio Netherlands BV. This guarantee entails that the company must redeem obligations that Telio Netherlands BV is not able to service itself.

Telio Holding ASA has issued a guarantee to Curabill in Switzerland for an invoicing and factoring agreement entered into with the subsidiary Telio Telecom AG. This guarantee entails that the company must redeem obligations that Telio Telecom AG is not able to service itself.

Telio Holding ASA has on behalf of Tellio ApS given a guarantee to Post Danmark AS and Post Danmark AS Logistik limited to DKK 100,000.

Note 16. Provisions for contingent liabilities

	2014	**2013**
Provisions as at 1 January 2014	1 510	659
Recognized as an expense during the year	5	851
Provisions as at 31 December 2014	**1 515**	**1 510**

The provisions are related to social security tax for allotted options.

Directors' responsibility statement

Today, the board of directors and the chief executive officer reviewed and approved the board of directors' report and the consolidated and separate annual financial statements for Telio Holding ASA, for the year ended as of 31 December 2014 (annual report 2014). Telio Holding ASA consolidated financial statements have been prepared in accordance with IFRSs and IFRICs as adopted by the EU and additional disclosure requirements in the Norwegian Accounting Act, and that should be applied as of 31 December 2014. The separate financial statements for Telio Holding ASA have been prepared in accordance with the Norwegian Accounting Act and Norwegian accounting standards as of 31 December 2014. The board of directors' report for the group and the parent company is in accordance with the requirements in the Norwegian Accounting Act and Norwegian accounting standard no 16, as of 31 December 2014.

To the best of our knowledge:

- the consolidated and separate annual financial statements for 2014 have been prepared in accordance with applicable financial reporting standards
- the consolidated and separate annual financial statements give a true and fair view of the assets, liabilities, financial position and profit as a whole as of 31 December 2014 for the group and the parent company
- the board of directors' report for the group and the parent company includes a fair review of
    - the development and performance of the business and the position of the group and the parent company
    - the principal risks and uncertainties the group and the parent company face

Oslo, 23 March 2015
Board of Directors of Telio Holding ASA

Erik Osmundsen Chairman of the Board (sign.)	Aril Resen Board member (sign.)	Silje Veen Board member (sign.)
Ellen Hanetho Board member (sign.)	Snorre Kjesbu Board member (sign.)	Eirik Lunde CEO (sign.)

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To the Annual Shareholders' Meeting of Telio Holding ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Telio Holding ASA, which comprise the financial statements of the parent company and the financial statements of the group. The financial statements of the parent company comprise the balance sheet as at December 31, 2014, and the income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements of the group comprise the statement of financial position as at December 31, 2014, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway for the company accounts and in accordance with International Financial Reporting Standards as adopted by EU for the group accounts, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the financial statements for the parent company
In our opinion, the financial statements of the parent company are prepared in accordance with the law and regulations and give a true and fair view of the financial position of Telio Holding ASA as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian accounting act and accounting standards and practices generally accepted in Norway.

Opinion on the financial statements for the group
In our opinion, the financial statements of the group are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the group Telio Holding ASA as at December 31, 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report and the statements on Corporate Governance and Corporate Social Responsibility
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors report concerning the financial statements and in the statements on Corporate Governance and Corporate Social Responsibility, and the going concern assumption and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation
Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

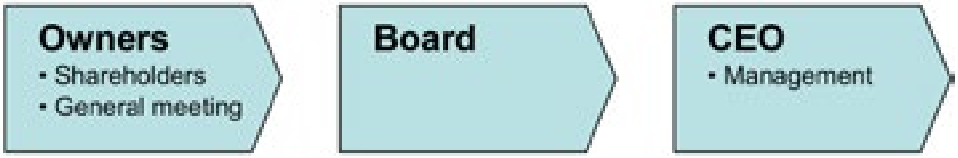
Oslo, March 23, 2015
Deloitte AS

Torgeir Dahle
State Authorised Public Accountant (Norway)

Corporate Governance

Telio Holding ASA - Guidelines on Corporate Governance

Telio is listed on the Oslo Stock Exchange and is subject to Norwegian securities legislation and stock exchange regulations. In this respect, the company complies with the Norwegian Code of Practice for Corporate Governance based on the latest revision as of 30 October 2014 (available at www.nues.no). The topic of corporate governance is discussed and reviewed by the board of directors annually or more often if deemed necessary. This includes all documents related to corporate governance and the following description of the company's corporate governance guidelines which forms an integral part of the company's annual report for 2014. An important aim of these guidelines is to define the roles and responsibilities between the governing bodies of the company:



1. Reporting on corporate governance

The board has decided that the company's guidelines for corporate governance should be based on the Norwegian Code of Practice for Corporate Governance. Telio's guidelines for corporate governance aim to strengthen the confidence in the company and contribute to optimal added value over time, to the benefit of shareholders, employees and other stakeholders. In order to comply with the Code of Practice, the company will apply the "follow or explain principle". It is the company's aim to follow all recommendations in the Code of Practice. Instances where Telio's guidelines depart from the Code of Practice will be followed by an explanation

.

Telio's corporate values and ethical guidelines are an important foundation for these guidelines on corporate governance. Telio's corporate values are:

- Innovative: - In Telio we strive to build a culture that inspires innovation and continuous improvement through all fields of our business
- Respectful: - In Telio we respect our customers, shareholders, colleagues and partners by being accountable and committed to deliver results and quality. We emphasize being honest, showing empathy and always being service minded
- Simplistic: - In Telio we strive for simplicity in our communication, operations, product portfolio and development process
- Courageous: -In Telio we dare to think different, dare to do the impossible, dare to challenge the existing, dare to prioritize
- Fun: - In Telio we celebrate the success, achievements and challenges!

2. Operations

The objective of the company is stated in the Articles of Association to be as follows:
"The company's business is to develop and sell IP based telephony solutions, render consultancy services, and participate in other activities."
It is the board of directors' view that the company's business is clearly stated in the Articles of Association, that the company, within the objectives stated in the Articles of Association, has distinct goals and strategies for its business. The company's goals and principal strategies are discussed in the board of directors' report.

3. Equity and dividend

Equity
Telio will at all times strive to have an equity level adapted to the company's goals, strategies and risk profile.

Dividend policy
Telio's dividend policy is to distribute the maximum possible dividend to its shareholders given the prevailing legal framework, financial covenants and investment plans. The level of dividend may vary over time, determined by the company's evaluation of expected cash flows, acquisition opportunities and satisfactory financial flexibility. Dividends will be distributed annually or quarterly, depending on the circumstances. To support the company's dividend policy, an extraordinary general meeting on 21 November 2014 authorized the board to distribute additional dividends (quarterly). The authorization is valid until the next ordinary shareholders meeting.

Capital increase
At the ordinary general meeting on 8 May 2014 it was resolved to authorize the board of directors to increase the company's share capital as follows:

- The share capital may be increased by up to NOK 1,139,159 for consideration in acquisitions and strategic investments and capital increases done to provide necessary financing for the company's business. The authority remains in force until the next ordinary general meeting, however not longer than for 18 months.

- The share capital may be increased by up to NOK 25,000 in connection with the company's incentive and option programs.

Purchase of treasury shares
The company's articles of association do not govern the ability to purchase treasury shares or issue shares. This is governed through decisions by the general meeting and is governed by the Norwegian Securities Trading Act.. The general meeting on 8 May 2014 also granted the board of directors authority to purchase own shares at an aggregate face value of NOK 232,831 (equal to 10 per cent of total outstanding share capital). This authority remains in force until and including the next ordinary general meeting, however no longer than for 18 months. The shares shall be acquired at an amount per share of between NOK 0.1 and the market price plus 10% of the market price, maximum NOK 100.

4. Equal treatment of shareholders and transactions with close associates

Class of shares
Telio has one class of shares, and each share entitles to one vote at the company's general meeting.

Increase of share capital
If the board, in accordance with proxy given by the AGM, decides to derogate from the shareholders' pre-emption rights pursuant to the public limited liability companies act, then this decision will be justified in a stock exchange notice in connection with the capital increase.

Trading in treasury shares
Transactions in the company's own shares (share buy-back) are carried out through the Oslo Stock Exchange at prevailing stock exchange prices. The company emphasizes equal treatment of shareholders when it comes to price sensitive information. Telio Holding ASA is listed on the Oslo Stock Exchange and is therefore obliged to follow all relevant information requirements. The company publishes all price sensitive information to the stock market through relevant information systems and also on the company's web site at www.telioholding.no.

Transactions with close associates
In the board's opinion, there have been no material transactions between the company and shareholders, members of the board, members of the executive management or close associates of any such parties in 2014. Related party transactions are disclosed in the notes to the financial statements. In transactions with close associates, Telio's ethical guidelines will apply. In the event of a material transaction between the company and a shareholder, the board will ensure that the transaction is based on an independent valuation.

Guidelines for directors and corporate management
Guidelines for directors and corporate management in the event of conflict of interests are covered in the company's ethical guidelines.

5. Freely negotiable shares

All shares in Telio are freely negotiable. All shares are publicly traded and there are no trade barriers. All Telio's shareholders are entitled to the same dividend payments, and have equal rights in the event of share capital increases (unless waived by the general meeting).

6. General meetings

The board of directors and the person chairing the meeting should make appropriate arrangements for the general meeting to vote separately on each candidate nominated for election to the company's corporate bodies. The chairman, the nomination committee and the auditor will be present at the general meeting. The board members are encouraged to attend, however, since the board also has foreign members it is not always practical for everyone to attend. Arrangements are in place to ensure an independent chairman for the general meeting. For shareholders who cannot attend the meeting in person, information is given in the notice to the general meeting on how to be represented through a proxy. The company will nominate a person who will be available to vote on behalf of shareholders as their proxy. A proxy form allows separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election.

Notice of general meetings are distributed to shareholders at least 21 days in advance. At the same time, documents for the general meeting (such as annual report) are published on the company's investor relations website. The extent of the documentation should be sufficient for the shareholder to evaluate the proposal. The deadline for signing up for the general meeting is at 16:00 the day before the meeting takes place. Minutes of general meetings are made available through the stock exchange information system and on the company's IR website.

7. Nomination committee

According to the company's Articles of Association, the company shall have a nomination committee. The nomination committee shall issue an explained proposal to the general meeting regarding the election of shareholder elected board members. The nomination committee shall consist of from two to three members. The members of the committee shall be elected by the company's annual general meeting for two years at a time. The general meeting also appoints the committee's chairman.

The members of the nomination committee should be selected to take into account the interests of shareholders in general. The majority of the committee should be independent of the board of directors and the executive personnel. Currently, no members of the nomination committee are members of the board of directors or executive personnel.

The general meeting determines the remuneration of the committee's members and may also resolve instructions for the nomination committee's work. The nomination committee's costs are covered by the company. The members of the nomination committee are disclosed on the company's IR website.

8. Corporate assembly and board of directors, composition and independence

Telio does not have a corporate assembly. The company aims to ensure a balanced composition of the board of directors taking into account the competence, experience and relevant background of the individuals. The composition of the board of directors complies with the requirements stated in the Norwegian Code of Practice for Corporate Governance with respect to the directors' independence towards the company's management and towards the company's material business contacts. The directors' independence is further demonstrated by the fact that there are few cases of disqualification of members in cases considered by the board of directors. There are no representatives from executive personnel on the board of directors. The board consists of five members: Erik Osmundsen (chairman), Aril Resen, Silje Veen, Ellen Hanetho and Snorre Kjesbu. All board members are considered to be independent of the company's management and material business contacts. The directors are elected for two-year terms. Board members are encouraged to own shares in the company.

Additional information on each of the directors, their experience, qualifications and ownership of options/shares in Telio is available at www.telioholding.no.

9. The work of the board of directors

Responsibilities of the board

The board of directors' duties are laid down by Norwegian law. The board has the ultimate responsibility for managing the Group and supervising the Group's operations which should be conducted in accordance with the Articles of Association and guidelines and framework given by the shareholders through the general meeting. The work of the board of directors includes the following main areas: strategy, organization, control and other tasks. The board defines the objectives for the financial structure and approves the Group's plans and budgets. Issues of significant financial or strategic importance are handled by the board. The board hires the CEO and determines the CEO's work instructions, authority and benefits.

Discussions of any matter in which the chairman is, or has been, actively involved will be chaired by some other member of the board.

Board instructions

The board of directors should produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation. The company has established instructions and guidelines for the work of the board. The board instructions cover the following items: the purpose of the work of the board, notification and content of board meetings, the composition of the board – resources, rights and duties, work plan and the relation to the CEO – his tasks and duties towards the board, framework and main tasks for work of the board, board decisions, the keeping of minutes and notification for general meeting and the secretary function.

Instructions to the CEO

There is a clear division of responsibilities between the board and the executive management. The CEO is responsible for the Group's day-to-day operations. The board has established separate instructions for the CEO.

Financial reporting

The board of directors receives monthly financial reports from the administration and an overview of important key performance indicators of a financial and operational nature.

Board meetings

The board schedules board meetings in an annual plan for the work of the board. Normally, 6-8 board meetings are held during a calendar year. 4 meetings are in connection with the release of quarterly financial results and there is one strategy session mid-year and a follow-up strategy and budget/planning meeting in December. Additional meetings are convened on an ad hoc basis.

All board members receive regular information on the operations of the company and background information related to the scheduled board meetings is sent out well in advance of the meetings. The agenda for the board meetings are agreed upon between the CEO and the Chairman. In addition to the board members, the board meetings are normally attended by an observer to the board, the CEO and the CFO.

In a board meeting in December, the board draws up a plan for the work of the board for the following year.

Board committees

The company has established a nomination committee and an audit committee. The company has evaluated the composition of the audit committee and concluded that the audit committee will comprise of all board members. The company has evaluated the establishment of a compensation committee and concluded that this task will be governed by the full board (the board has five members).

Evaluation of the board's work

The board will perform an annual evaluation of its own work during the last year.

10. Risk management and internal control

The Group has established a risk management process for identifying, evaluating and monitoring/mitigating risks related to Telio's business. Risks are identified and evaluated with respect to probability of occurrence and the impact of the risk. Actions are then defined in order to monitor or mitigate the risk. This process involves all departments and executive management before the outcome is reported to and reviewed by the board at least annually.
In addition, risk management and internal control is performed through various processes within the Group, both on a board

level and in daily management of the company. The board performs risk management and internal control through board meetings. Each month the board receives a board report from management outlining the financial and operational performance of the company. An annual planning and budgeting process which ends with a budget approved by the board sets the framework for the coming year. In this process, the board carries out a review of the company's most important areas of exposure to risk.

Risk management and internal control on a management level is carried out through monthly reviews of financial performance. Financial risk management and internal control procedures are carried out both on a group level and in each subsidiary.
The board presents a review of the Group's financial status in the annual directors' report including a description of the Group's risk management and internal control.

There are currently no internal control routines in place for following up the Group's corporate values and ethical guidelines.

11. Remuneration to the board of directors

Remuneration to the board of directors is proposed by the nomination committee and is decided at the annual general meeting. The board's remuneration is not linked to the financial results. The nomination committee does not plan to use options as incentive for board members. For further information about remuneration, see note 23 to the financial statements.

12. Remuneration to the executive management

Remuneration to the company's Chief Executive Officer is decided by the board of directors once a year. The board of directors is required by law to prepare guidelines for the remuneration of the executive personnel. These guidelines are communicated to the annual general meeting. The guidelines for the remuneration of the executive personnel set out the main principles applied in determining the salary and other remuneration of the executive personnel. The guidelines should help to ensure convergence of the financial interests of the executive personnel and the shareholders.

The remuneration guidelines for executive management and details of remuneration to executive management are disclosed in the notes to the financial statements. See note 23.

13. Information and communication

Telio aims to have a financial reporting in which investors have confidence. The company endeavours to give accurate and sufficiently extensive information each quarter and publish this information as quickly as possible. The company does not give concrete guidance on future revenue and results. The company will ensure that all relevant information is accessible for the market. Information will be given shareholders and other parties in the market simultaneously and with the most efficient methods. All financial information, including various company presentations, may be found at Telio's web site, and the company ensures that all shareholders have equal access to financial information. Responsibility for investor relations and price sensitive information rests with the company's CEO and CFO. In meetings with shareholders, analysts and others, special emphasis is given to not discussing issues that are considered to be price sensitive. The Group's financial calendar is published through the Oslo Stock Exchange and is also available on the corporate website. The board has established guidelines for contact with shareholders outside the general meeting.

14. Take-over

The board of Director's primary objective is to give the best possible long term return on investment for the shareholders. Unless specific conditions apply, the board will not prevent or make obstacles in the event that a bid is made for the company or its shares. In such situations, the board will evaluate the offer(s), where an independent valuation will be included in the board's evaluation, and make a statement which is communicated to the shareholders.

Any agreement with the bidder that acts to limit the company's ability to arrange other bids for the company's shares will only be entered into where it is self-evident that such an agreement is in the common interest of the company and its shareholders. This provision will also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation will be limited to the costs the bidder has incurred in making the bid.
Agreements entered into between the company and the bidder that are material to the market's evaluation of the bid will be publicly disclosed no later than at the same time as the announcement that the bid will be made is published.
In the event of a take-over bid for the company's shares, the company's board of directors will not exercise mandates or pass

any resolutions with the intention of obstructing the take-over bid unless this is approved by the general meeting following announcement of the bid.

If an offer is made for the company's shares, the company's board of directors will issue a statement making a recommendation as to whether shareholders should or should not accept the offer. The board's statement on the offer will make it clear whether the views expressed are unanimous, and if this is not the case it will explain the basis on which specific members of the board have excluded themselves from the board's statement. The board will arrange a valuation from an independent expert. The valuation will include an explanation, and will be made public no later than at the time of the public disclosure of the board's statement. Any transaction that is in effect a disposal of the company's activities will be decided by a general meeting.

15. Auditor

Telio uses the same firm of auditors in the parent company and all subsidiaries of significance. The auditors may be used as advisors in circumstances when services are permissible under independence rules and approved by the audit committee. The board has not found it necessary to outline written guidelines for management's use of the auditors for services other than audit. However, such assignments are normally discussed at board level before the assignment is given to the auditors. The auditors are not used as advisors for strategic issues or in connection with operational tasks for the company. The auditor participates in the board meeting that approves the annual financial statements, and in the same meeting will give its opinions as to the company's accounting principles, risk areas, internal control and accounting routines. The company's internal control is reviewed by the auditor at least once a year. The auditor is annually presenting to the audit committee a plan for the audit. The board ensures that the board and the auditor may discuss relevant issues without the presence of management. The audit fees are approved at the annual general meeting and are described in the notes to the financial statements.

Company Facts

Telio Holding ASA
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Telephone:	+47 2167 3500
Homepage:	www.telioholding.no
Company reg. number:	985 968 098
Founded:	12 August 2003

Board of Directors
Erik Osmundsen (Chairman)
Aril Resen
Ellen Hanetho
Silje Veen
Snorre Kjesbu

Group Management
Eirik Lunde, Chief Executive Officer
Tom Nøttveit, Chief Financial Officer
Jørn Hodne, Chief Technology Officer
Jens Hetland, Products & Projects Director
Roy Børsheim, Director Consumer
Thomas Gunleiksrud, Director Business
Tore Nyhammer, Director Customer Services

Investor Relations
Tom Nøttveit, Chief Financial Officer
Telephone: +47 4153 9714
Email address: tom.nottveit@telio.no
Web: http://www.telioholding.no

Financial Calendar

1st quarter 2015:	7 May at 09:00
2nd quarter 2015:	27 August at 09:00
3rd quarter 2015:	5 November at 09:00
Annual general meeting:	24 April at 15:00

Equity Research Coverage

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