



# This is Telenor

Telenor is the leading telecom, IT and media company in Norway. From its position as a national telecom operator, Telenor has expanded its area of activities to a broad range of products and services that build on and are related to electronic communication. Today, Telenor is the only company in Norway that offers a full range of services within telephony and data communication, mobile communication, internet, IT and satellite communication.

Through a continuous product development process, in combination with measures designed to reduce costs and increase efficiency, Telenor has positioned itself as a leading company within its sector in Europe. Its prices are among the lowest offered, with high quality and service.

Using this as a basis, Telenor has

pursued international opportunities in areas where the company has particular expertise. An aggressive international strategy has made the company visible and the ambitions in the European market are to position Telenor amongst;

- the three largest within satellite communication
- the five largest within directory services
- the five largest within internet operations
- the ten largest within mobile telephony
- the ten largest within international telephony

Technological and market developments create a platform for development of new products and services across traditional boundaries. Through clear customer focus, Telenor intends to defend and develop its role as the leading innovative power in the Norwegian market and to pursue further opportunities abroad.

# Organisation and management



*Torstein Moland  
SVP and C.F.O.*



*Heidi Kvernevik  
SVP (Corporate  
Communication)*



*Ole Petter Håkonsen  
EVP and C.T.O.*



*Jon Fredrik Baksaas  
EVP (Operations in Norway)*     *Terje Thon  
EVP (International Operations)*



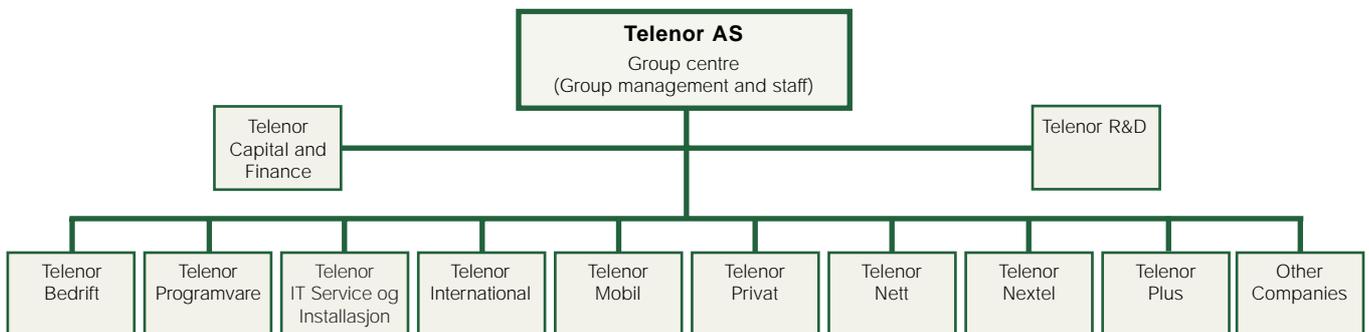
*Arve Johansen  
EVP (International Operations)*



*Peter Pay  
SVP (Business Development  
and New Services)*



*Tormod Hermansen  
President and C.E.O.*



# Highlights

## **The deregulation of the telecommunications market**

effective 1 January 1998 means that Telenor faces competition in all of its activities. During the year, a number of companies entered the Norwegian market offering telephony and data communication services.

**The NOK 2 billion equity** granted by Stortinget (the Norwegian Parliament) in April gave the Group increased flexibility to consider further investments abroad.

**The Thor III satellite, which was launched** from Cape Canaveral in Florida, is now operating from the strategic position 1 degree west. The satellite supplements Telenor's capacity and increases the distribution of TV signals substantially.

**The GSM 1800 network was opened in** Oslo, Bergen, Trondheim and Stavanger during the summer of 1998. GSM 1800 networks are now under construction in other parts of the country.

**A letter of intent to acquire 25 per cent** of the Russian mobile telephone company Vimpel Communications (VimpelCom) was signed in December. The agreement was subsequently approved by the General Meeting of VimpelCom, while approval by the Russian authorities is still outstanding.

**Internet traffic increased sharply** throughout the year, as well as the number of subscribers in both the private and business market segments. Sale of ISDN subscriptions is a significant driving force in this market.

**International expansion** took another step forward with the establishment of internet activities abroad. Telenor Nextel set up business in the Czech Republic, Slovakia and Austria.

**Price reductions of another NOK 800 million** were put into effect, adding to a series of price cuts and other improvements over the last years. Telenor offers some of the lowest prices in Europe, both for mobile and fixed telecommunication.

## **Agreement to merge with Telia**

On 20 January 1999, the owners of Telenor AS and Telia AB, represented by the Ministers Odd Einar Dørum and Björn Rosengren, announced a declaration of intent to merge Telenor AS with Telia AB into a new company.

The final agreement to merge the two companies was signed in Stockholm 30 March 1999.

The agreement is subject to approval by the Parliaments in Norway and Sweden, and also requires approval by the EU Commission before the merger can be accomplished. The parliamentary discussions will probably be concluded by the end of June.

The agreement implies the establishment of a new company that will be registered in Sweden. In exchange for its shares in Telenor AS, the Norwegian State will receive 40 per cent of the shares in the new company. Correspondingly, the Swedish State will receive 60 per cent of the shares in the new company in exchange for its shares in Telia AB.

Furthermore, the agreement stipulates that the new company be listed as soon as possible, and no later than the year 2000. The owners will first offer 33.2 per cent of the shares in the new company to the public, reducing their ownership to 33.4 per cent each. The offering shall be concluded no later than 18 months after the sale of the first shares, if the market conditions allow this. The agreement opens for further sale of shares from the two owners at a later stage.

Upon approval of the agreement, Jan Stenberg (currently the Chairman of the Board of Telia AB) will become the Chairman of the new company, while Tormod Hermansen (currently President and CEO of Telenor AS) will become the President and CEO and Jan-Åke Kark (currently President and CEO of Telia) and Stig-Arne Larsson (currently Vice-President of Telia) will become Vice-Presidents.







The leading commun

# ication company in Norway

Telenor has a long history and a strong position in Norway. In a time where size and strength are important prerequisites for growth and progress, we have expanded and strengthened our position in our home market. In Norway, Telenor aims to continue to be the leading supplier of telecom,

IT and media services – a total supplier that, through a broad range of services, a high service level and efficient distribution will be the preferred supplier both in the private and business market segments.

# Report of the Board of Directors



Arnfinn Hofstad  
(Chairman)

Finn A. Hvistendahl  
(Deputy Chairman)

Terje Moe Gustavsen



Åshild Bendiktsen

## 1. MAIN DEVELOPMENTS

Effective 1 January 1998, Telenor's remaining monopoly rights were dismantled and full competition became a reality for the entire telecommunication market. Telenor has been preparing to meet the challenges of open competition since the beginning of the decade, through introducing a number of initiatives. These have included substantial price reductions, a rebalancing of traffic versus subscription prices and comprehensive measures to improve efficiency, as well as continuous restructuring and modernisation of the organisation to meet the challenges posed by the rapid changes in technology and market conditions. Telenor has also invested substantial amounts abroad during the last three to four years, to secure Telenor's long-term potential. This effort has been undertaken partly in alliance with other players and in part independently, in areas where the company has competitive advantages or particular expertise. These investments offer potentially significant long-term financial returns, with the objective being to position Telenor as a major European company within the mobile and satellite communication, directory publishing, TV distribution and the rapidly growing internet sector.

The Group's profit before taxes in 1998 amounted to NOK 2,507 million, an increase of NOK 592 million compared to 1997. In the opinion of the Board of Directors, the result for 1998 was satisfactory. The result reflects a strong growth in network-based services, which include satellite operations and mobile telephony. Telenor has retained a high market share in its central business areas, despite intense competition from newcomers.

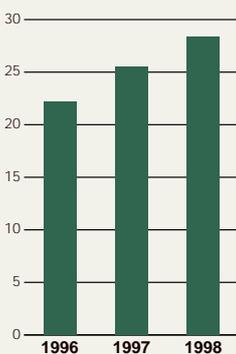
Turnover and profit before taxes for international activities amounted to NOK 5.6 billion and NOK -1.4 billion, respectively. The corresponding 1997 figures were NOK 4.6 billion and NOK -0.4 billion. The figures include the satellite area, international traffic and other subsidiaries outside Norway. The

profit before tax figure also includes Telenor's share of profits in associated companies outside Norway. The negative results from activities abroad had been anticipated. This is due to the fact that new network-based activities often require substantial investments and incur start up costs the first years. As a whole, the activities abroad have developed positively and the Board anticipates that its long-term profitability objectives will be met.

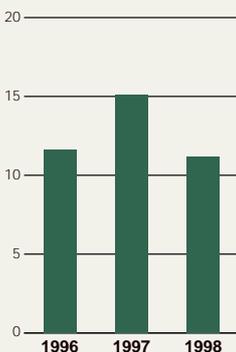
During 1998, competition in the home market from Norwegian and international companies increased. At the same time, the Group has continued its substantial investments in both Norway and abroad. The investments require considerable financial resources, including access to sufficient equity to take advantage of profitable expansion opportunities and retain sufficient solidity. To date this has been achieved without compromising Telenor's capital strength targets. The State, as the company's owner, has supported the investment programmes and has supplied further capital, most recently in May 1998 by NOK 2 billion. The Ministry of Transport and Communications in Parliamentary Bill no. 33 (1997-98), stated that the Government would consider the issue of partially privatising Telenor prior to any additional capital raise. As part of the state budget agreement in the autumn of 1998 between the Government, Høyre and Fremskrittspartiet, the Parliament has decided that the Government shall put forward a proposal of a partially privatisation and a listing of the Group in 1999.

On 20 January 1999, the owners of Telenor AS and Telia AB issued a joint declaration of intent to merge the two companies and subsequently partially privatise and list the new company. The Board has advised the Ministry of Transport and Communication that this would be an appropriate way to meet the Parliament's decision for a proposal of a partially privatisation of Telenor AS. The declaration of intent has been replaced by a final agreement to merge the two

**Turnover**  
Telenor Group  
(NOK 000 mill.)



**Growth in Turnover**  
Telenor Group  
(per cent)





Anne Sørli  
*(Elected by the employees)*

Synnøve Lohne-Knudsen  
*(Elected by the employees)*

Svein Eivind Solheim  
*(Elected by the employees)*



Oddbjørn Nordset    Marianne Damhaug



Tormod Hermansen  
*(President and C.E.O.)*

companies, as well as a shareholders' agreement. These agreements have been negotiated between the owners and have been signed, after the recommendation by the Board of Directors. The agreements will be subject to approval by the Norwegian parliament and the EU Commission before the merger can be accomplished. The current plan is that the merged company will be operative in the autumn 1999.

In the Board's opinion, a merger will create a more powerful and robust company able to compete more effectively with the large international telecom companies. In the new company, the Norwegian and Swedish authorities will together have majority ownership, which will secure the national ownership in a good way.

**2. MARKET AND SERVICES**  
**Modernisation and expansion of the telecommunication networks**

Telenor's fixed and mobile networks represent a substantial proportion of the Group's business and profitability in Norway. With a rising demand for network based services, it is essential that these network platforms are upgraded and developed further. This ongoing process has continued in 1998. The deployment of a nation-wide high-speed network (electronic highway) based mainly on modern fibre optic cables is nearly complete, and will only require limited additional investments to meet the traffic requirements in the years to come. An extensive process has been started to update and restructure the subscriber network. This network, which connects the individual customers to the high-speed network, will facilitate new high-speed services – e.g. via the internet – to be offered to all parts of the country. At the end of 1998, there were 2.4 million active connections in the fixed network, including more than 300,000 ISDN connections.

The GSM network has been expanded considerably to absorb the growth in traffic and the number of

subscribers. At the end of 1998, Telenor had approximately 1,260,000 GSM subscribers in addition to 310,000 NMT customers. The GSM network is being prepared for new high-speed data communication service, including improved internet access and the next generation high capacity multimedia mobile system, UMTS. UMTS is planned to be in operation around year 2002. In addition, new services based on a combination of GSM and fixed network services are being developed.

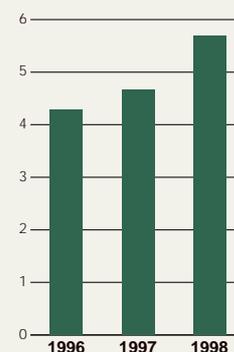
Within a few years, the development of internet traffic is expected to lead to a technological shift from today's telephony based networks to new, so-called packet-based network structures that are better suited for data and multimedia communication. During 1998, Telenor carried out substantial work to secure the Company's ability to undertake this change in a competitive manner.

The elimination of the remaining monopoly rights effective 1 January 1998 and the emergence of a free market with a number of new operators, has led to a substantial increase and a significant change in traffic pattern, from and to the fixed network. Telenor has signed 14 interconnection agreements in 1998 and further agreements are expected in 1999. Interconnection is an important and growing business area for Telenor, and further growth is expected following the introduction of fixed prefixes from 1 June 1999. The significant rise in the number of mobile telephones has also contributed to substantial growth in interconnection traffic between the fixed and mobile networks.

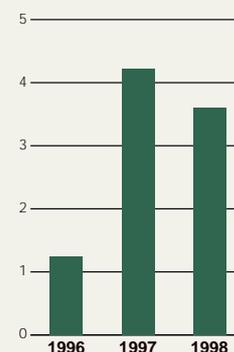
**More efficient production of services**

During 1998, the production of services for the end user market in Norway was further integrated under a common management team for Norway that was established in 1997. Important measures to improve efficiency included in particular the restructuring of Telenor Bedrift, whereby the IT service division with

**Investments in Norway**  
*Telenor Group*  
*(NOK 000 mill.)*



**Investments outside Norway**  
*Telenor Group*  
*(NOK 000 mill.)*

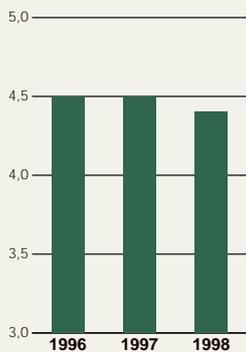


its 1,300 employees was transferred to Telenor IT Service og Installasjon (effective 1 March 1998), and the software activities were organised into a separate business area, Telenor Programvare (effective 1 June 1998). The positive effects from these activities are already becoming evident. Telenor Bedrift achieved positive results at the end of 1998 after losses the previous year, and the company is currently in the process of regaining profitability in its running operations. Customer satisfaction continues to improve. For Telenor IT Service og Installasjon, the inclusion of a large portion of the service and delivery organisation has yielded positive results in the form of better control and co-ordination of resources and customer services. Within the software area, the establishment of one company and one management has resulted in improved market focus and increased possibilities for synergy and co-operation with other players. In this context, the Board would like to draw the attention to the proposal to merge Telenor Programvare AS and the listed company EDB ASA. The proposal has not yet been approved by the general meetings of the companies.

**Absenteeism**

**Telenor**

*Absenteeism as a percentage of possible person days*



Through the above-mentioned and other improvement initiatives, Telenor aims to maintain its leading position in the Norwegian telecommunication and IT market. However, competition is increasing, predominantly within international and mobile terminated traffic, as well as for integrated solutions in the business sector. Telenor must therefore be prepared to lose further market share as a result of the market development. At the end of 1998, Telenor had a market share of approximately 70 per cent of the GSM market. So far, the private fixed market has been subject to less competition, but as regulations and commercial agreements gradually allow competitors to obtain access to Telenor's subscriber network and customer base, part of the traffic in this segment will be taken over by competitors. Telenor will be subject to competitors who will target the most profitable market areas and customer groups through marginal pricing strategies to obtain a competitive advantage. Telenor will have to meet this competition with proactive initiatives which satisfy the customers' increased demands for service, customer proximity, service quality and security, as well as reduced prices.

In 1998, Telenor has started the building of new office facilities in Bergen and Trondheim with the objective of relocating resources to obtain more efficient operations. The plans for a new main office at the previous Oslo airport Fornebu exists, but are not yet fully approved by the relevant municipal bodies. The construction work is planned to commence during the summer of 1999.

**Media related activities and value added services are becoming more important.**

Telenor Plus, which focuses on media/directory activities, TV distribution and services within the electronic market, continued its strong growth in 1998. Services that Telenor had previously developed for its home market for several years have developed attractive business opportunities outside of Norway. As an example, Telenor holds a leading position within the directory market in Europe and has subsidiaries in 11 European countries.

Within the area of TV distribution, Telenor is building a leading position in the Nordic region. In 1998, together with its partner Canal Plus, Telenor has introduced digital TV in the Nordic DTH-market, for the benefit of 1.3 million subscribers. Furthermore, the planned digitalisation of the cable-TV and ground-based broadcasting networks will be the basis for further strengthening of Telenor's position in this market, through deployment of digital decoders and the introduction of interactive services supported by new billing solutions.

Electronic trading is still in the development phase in Norway. Based on Telenor's central role as a supplier of communication solutions and telecommunication services for the business and private market sectors, the Group is, however, well positioned to meet the new challenges in this area, working in co-operation with leading suppliers of goods, services, information and entertainment. Internationally standardised payment solutions based on smart card technology are emerging and form an important prerequisite for increased growth within the electronic market.

**Internet – strong growth and significant opportunities**

1998 has been characterised by a continued rapid development within the internet area. Approximately 20 per cent of local traffic in the fixed network is now generated by internet users. One year ago, the corresponding figure was 8 per cent. In the next two to three years, more than 50 per cent of the local traffic is expected to come from the internet. Telenor Nextel has maintained its strong position in the Norwegian internet market and had 260,000 private subscribers at the end of the year, an increase of 95,000 compared to 1997. The growth within the business market has also been significant. Around 1.2 million people in Norway currently use internet on a monthly basis. The internet industry is global by nature, and Norway and the other Nordic countries are in the forefront of developments. With this background, Telenor has viewed active involvement in the international internet market both as a strategic imperative and an attractive business

opportunity. During 1998, Telenor acquired three internet companies abroad and further acquisitions are planned.

### Strong international growth

Until 1998, the majority of Telenor's international activities were organised under Telenor International. Gradually, several other business areas (Plus, Nextel and IT Service og Installasjon) have expanded their activities beyond the Norwegian market, and a need for stronger international co-ordination has become evident, whilst the responsibility for product and expertise development is still retained in Norway. To ensure optimal management of the international activities, Telenor has divided its international market area in to regions and national market units. The regional and national managers work together and co-ordinate their activities with the business area managers in Norway, to ensure maximum increased value and growth for all of Telenor's activities.

In 1998, Telenor carried out an extensive investment programme in a number of countries, and the company has also made substantial investment decisions that will become visible in the accounts for 1999 and the years to follow. The Board would like to highlight the following activities and projects in particular:

- Telenor has entered an agreement to acquire an ownership share of 25 per cent in the largest mobile company in Russia, VimpelCommunications (VimpelCom), through a private placement. VimpelCom is listed on the New York Stock Exchange. The company has major operations in the Moscow region and holds mobile licences that cover 100 million people in the most central areas of Russia. The acquisition has been approved by the General Meeting of VimpelCom, and now requires approval by Russian authorities. Telenor holds several other interests in Russia and sees great potential in the Russian mobile markets. However, Telenor also recognises that there are risks associated with these investments.
- By the opening of mobile services in Germany, Austria, Greece and Ukraine Telenor now has ownership interests in 12 operative mobile companies abroad. The market potential in these countries amounts to 250 million people (excluding Bangladesh with a population of 120 million). The penetration ratio in these countries varies between 1 and 25 per cent, compared to 47.6 per cent in Norway at the end of 1998. The market shares of Telenor's companies in the mobile markets of these countries are modest today. This clearly demonstrates the growth potential given

successful business strategies and the absence of too serious setbacks in international economies.

- In June 1998, Telenor's third satellite, Thor III, was launched and put into operation from its position 1 degree west, covering all of Europe. This reaffirms Telenor's position as one of the three largest suppliers of satellite-based services within broadcasting, mobile and business communication.

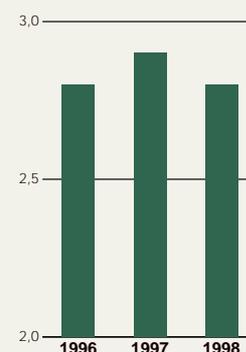
At year-end 1997, HSBC Investment Bank performed a valuation of Telenor International AS. The total value of the company's investments was estimated to be between NOK 12 and 18 billion, compared to total invested capital (invested share capital and net interest-bearing debt) at the end of 1997 of NOK 6.4 billion. HSBC has recently performed a new valuation, which stipulates the value at year-end 1998 to be between NOK 22 and 35 billion, compared to a total invested capital of NOK 9 billion as at 31 December 1998. The increased value reflects the fact that all mobile operations are now in commercial operation and that their performance has exceeded expectations. In addition, the price of listed mobile companies has increased during the period. The Board is of the opinion that Telenor's international business activities have developed positively in 1998, and that a sale of the business would have given a substantial return on the capital.

### 3. FINANCIAL MATTERS

The Telenor Group's profit before taxes in 1998 amounted to NOK 2,507 million, an increase of NOK 592 million compared to 1997. This result reflects the strong growth in the market for network-based services, including satellite operations and mobile telephony. Associated companies, principally outside Norway, are included in the result with total losses of NOK 1,391 million compared to total losses of NOK 685 million in 1997. Net gains, adjusted for the write-down of shares and property, amounted to around NOK 450 million compared to around NOK 140 million in 1997.

The Telenor Group's turnover in 1998 was NOK 28,380 million, an increase of more than 11 per cent compared to 1997. This increase came mainly from network-based services, including satellite and mobile telephony. In all, the prices for leased connections, mobile network-generated traffic and fixed network-generated traffic were reduced by around NOK 575 million compared to 1997, based on the same volume. Calculated on the basis of volume in 1998, these price reductions amounted to around NOK 800 million. Adjusted for the effect of companies acquired and sold, there was an increase in turnover from 1997 to 1998 of 9 per cent.

**Industrial accidents in Telenor**  
H value  
(frequency of accident)



Throughout the year, there has been a strong increase in the number of traffic minutes generated in the fixed network in both business and private markets. Compared to 1997, this growth was just over 16 per cent. The strongest growth related to local traffic and traffic to mobile operators. The growth in the local traffic was to a large extent initiated by internet-based operations, which at the end of the year represented around 20 per cent of the local traffic. The mobile-generated traffic also continued to develop positively during 1998, as a result of both an increase in the number of subscribers and the increase in air time for each subscriber. Furthermore, the increase in turnover has been aided by the greater capacity of the Thor II and III satellites, and an increase in the sale of mobile satellite services.

The Group's operating profit amounted to NOK 3,847 million, an increase of NOK 1,081 million compared to 1997. This positive development was mainly due to network-based turnover. Approximately NOK 210 million in net gains is included in the operating profit. This is NOK 70 million more than in 1997. In 1998, Telenor received compensation for deficits on certain telecommunications services imposed by the authorities amounting to NOK 100 million.

Salary increases and a rise in the number of employees increased personnel costs in the Group. Increased depreciation is a result of increase in investments, including IT investments with a short depreciation period, and satellites. The increase in other costs can largely be put down to new companies and greater activity within the areas of satellite and international traffic.

#### **Associated companies**

Associated companies had accounting losses in 1998 of NOK 1,391 million, compared to losses of NOK 685 million in 1997. This reflects the fact that Telenor now has several major international operations, principally linked to mobile operations that are in an early stage of operation. With the launch of mobile networks in Germany, Austria, Greece and the Ukraine in 1998 all mobile operations outside of Norway are in operation. Digital TV via Canal Digital, Telenordia in Sweden and the SOL internet companies have also contributed negatively to the 1998 result.

#### **Financing and investments**

Net income from financial items was NOK 51 million in 1998, which is an improvement of NOK 217 million compared to 1997. During 1998, Telenor realised gains on sales, less write downs on shareholdings, of about NOK 240 million. In 1997, gains were not included in the financial income. Furthermore, there has been an increase in dividends from satellite

organisations and interest on financial investments. In 1998, accounting losses of NOK 60 million related to foreign currency debt have been recorded.

Net interest-bearing debts increased during the course of 1998 by NOK 2.2 billion to NOK 11.5 billion. In spite of a higher level of investment, a positive cash flow from operations, including the sale of property and securities and new shareholders' equity from the State, have limited the need for new debt.

The Group's investments in fixed assets, long-term shares and satellite organisations in 1998 amounted to NOK 9.3 billion, which is NOK 0.4 billion more than in 1997. Investments in expanding/upgrading the telecommunications network nation-wide amounted to NOK 3.8 billion. Other nation-wide investments amounted to NOK 1.9 billion. Investments outside of Norway, which in 1998 amounted to NOK 3.6 billion, have to a large extent been used to purchase shareholdings in and make contributions to mobile-related operations abroad, and for investment in a satellite (Thor III).

In addition to this, Telenor entered into an agreement at the end of 1998 to purchase 25 per cent of the Russian mobile telephone company Vimpel Communications (VimpelCom). This agreement was approved at VimpelCom's Annual General Meeting, but has still not been processed by Russian authorities. The amount that is to be paid for the shares, approximately NOK 1.2 billion, was at year end included in an escrow account in a Norwegian bank, and is accounted for as a long term asset.

Turnover, including intercompany turnover, and profit before taxes from operations outside of Norway amounted to NOK 5.6 billion and NOK -1.4 billion respectively in 1998. Corresponding figures for 1997 were NOK 4.6 billion and NOK -0.4 billion. This includes the satellite area, international traffic and other subsidiaries outside Norway, and as part of profit before taxes, results from associated companies outside of Norway.

Return on average capital employed amounted to 11.6 per cent in 1998 compared to 10.6 per cent in 1997.

#### **US GAAP**

To satisfy international capital markets Telenor disclose this year a reconciliation of net income and shareholders equity after United States Generally Accepted Accounting Principles (US GAAP). The US GAAP reconciliation is disclosed in note 29.

#### 4. REGULATORY MATTERS

Available statistics for telecommunication traffic after liberalisation shows that competition has developed faster in Norway as compared to many other countries. Within the private telephony market in 1998, competitors built customer bases comprising approximately 15 per cent of the total market. In accordance with the regulatory requirements, Telenor will prepare for the availability of carrier pre-selection from 1 June 1999, so that the customers can choose the services of other operators without having to dial a prefix. In addition, number portability will be introduced, so that customers can keep their telephone number when transferring to the network of another operator. Telenor will also develop the "fixed access" product, which will give other operators the chance to offer their customers the same services as Telenor, thus taking over the customer relationship entirely.

The establishment of efficient competition requires that new players add value and contribute to the development of the market through investments and innovative services and solutions. However, it takes time to build this type of competition based on innovation, and it is important that short-term regulations are not introduced that may have a negative effect in the long term, thereby reducing the chance of realising political objectives in the telecommunications arena. A predictable regulatory environment is vital to ensure a continued high level of investments and further development of services to the benefit of the user and development of Norway as an information society.

#### 5. YEAR 2000

Telenor has given full priority to the preparatory work for the millennium. All business areas and other units in the Group have been involved for a long time, systematically surveying and renovating all IT systems and programs. The work is co-ordinated centrally at the Group level, and the Board is given status reports at regular intervals. At the end of 1998, progression was according to plan within most areas, and the Board expect the work to be finalised in due time. The costs related to this comprehensive task are significant, and Telenor expect to have spent about NOK 1 billion when the work is completed in the year 2000. As part of the overall process, a separate customer project has been established, whereby customers since April 1998 have had the opportunity to seek assistance via a dedicated year 2000 helpdesk (telephone, fax and e-mail), in addition to special internet pages regarding the products and services provided by Telenor.

#### 6. ORGANISATION AND PERSONNEL

At the end of 1998, the Telenor Group had 21,452 employees. Of these, 18,721 were employed in Norway and 2,731 abroad. The number of employees at the end of 1997 was 20,898. Of the 21,452 employees, 864 employees held positions in the parent company and 20,588 in the subsidiaries. The corresponding figures for 1997 were 1,372 and 19,476 respectively. The reduction in the parent company was predominantly the result of the spin off of development activities, manifested in the new wholly owned subsidiary Telenor 4tel AS.

In 1998, changes in technology and the market also led to a need to adjust the company's personnel accordingly. This has been undertaken within the framework of the flexible and well-functioning internal job market in the Group. The affected employees, who wish to stay on at Telenor, have been offered new jobs in other parts of the Group, often in combination with training programmes.

Co-operation between the management and the employees' organisations is good. This relationship is regulated within the framework of the Basic Agreement between NAVO (the Norwegian Association of Publicly Owned Companies) and the main trade union organisations. In connection with the national wages settlement, a conflict occurred between NAVO and Tele- og dataforbundet (the main trade union for Telenor employees). The conflict was resolved by the Government's decision to use a compulsory wages board. The co-operation has also been formalised through bodies such as the Group Committee, the Joint Consultative Committee, and regular management forums.

The Board would like to thank all employees for their efforts in 1998. Everyone deserves thanks and recognition for their positive attitude and active involvement in the restructuring process that is taking place within the Group.

#### 7. THE INTERNAL AND EXTERNAL ENVIRONMENT

##### Internal environment

A continued and systematic effort has been made to maintain and improve the total working environment within the Group. For a number of years, result-oriented Health, Environment and Safety (HES) audits have been carried out within all business areas, where the areas of focus have been HES systematics, sick-leave follow-up, external environment, fire protection and other relevant issues. In addition, a systematic training of managers and other employees has been carried out to empower individuals to take responsi-

bility and carry out tasks related to this important work. 3,940 managers and employees participated in internal HES training programmes in 1998.

Sick leave figures showed a positive development in 1998. Sick leaves amounted to 4.4 per cent of the total available man-hours, compared to 4.5 per cent in both 1997 and 1996. 1.9 per cent are short-term leaves and 2.5 per cent of the leaves are long-term leaves. The costs related to sick leave for 1998 are estimated at NOK 460 million. The reduction of 0.1 per cent corresponds to NOK 10,5 million, illustrating the importance of preventive work in this field. The injury frequency, the so-called H-value, measured as the number of injuries per one million hours worked, ended at 2.8 in 1998, compared to 2.9 in 1997. Sick leave due to occupational injuries amounted to 0.6 per cent of the total sick leave figure in 1998, the same as in 1997.

#### External environment

Telenor's objective is to be a competitive and future-oriented company and has set ambitious goals when it comes to reducing the impact of the Group's activities on the environment.

The Group has established environmental goals and an environmental vision, which states that Telenor shall contribute actively to a sustainable development in society. Telenor's environmental plan, "Telenor Agenda 21 – overall environmental plan 1999-2001", which was completed in 1998, is an efficient tool to help translate goals and ambitions into practical actions.

Telenor has developed an environmental management system that includes, for example, rolling environmental plans and annual environmental reports. As an additional measure in 1998, Telenor has developed a first generation environmental account, which contains information on energy consumption, waste, travel, etc. Environmental accounts facilitate better monitoring and management of the Group's environmental impact. A separate environmental report for 1998 will be published.

#### 8. BASIC VALUES AND ETHICS

During 1997 and 1998, Telenor worked to strengthen and communicate a common set of basic values which form a basis for Telenor's ethical platform. In practice, this platform demands that Telenor's employees are trustworthy, committed to reaching the goals of the Group and actively encourage each other as part of the efforts to achieve new goals.

To further underline the importance of the basic values, the Board has introduced a separate set of rules

in 1998 regarding ethics and legal competence. These rules are included in the employment contracts for each individual employee, and are binding for everyone.

#### 9. ALLOCATION OF THE PROFIT FOR THE YEAR

The parent company Telenor AS, which consists of administrative units, real estate activities, research and development and the Group Treasury, recorded a loss of NOK 670 million after taxes. After received group contribution of NOK 1,435 million, the amount available for allocation is NOK 765 million. The Board of Directors proposes to the General Meeting that a dividend of NOK 675 million is paid for 1998, in accordance with the decision in Parliament in connection with the ratification of the national budget for 1999. The Board proposes that the following allocation be made:

To dividend	NOK	675 million
To retained earnings	NOK	90 million
<b>Total</b>	<b>NOK</b>	<b>765 million</b>

#### 10. PROSPECTS

1998 has been a turbulent year in the global economy. In Norway, interest rates have increased, and the prospects for the Norwegian economy are somewhat uncertain. However, this has not changed the underlying trend of a strong growth in the national and international telecommunication and IT markets.

The de-regulation of the telecom sector has resulted in increased competition in Norway and abroad, as well as new co-operation models between companies, both within Europe and between Europe and the USA. The current restructuring of the telecommunication arena entails to a large extent a change from alliances and co-operation agreements to mergers and strategic ownership across national boundaries and continents.

In its home market, Telenor has made substantial investments in new infrastructure and modern technology solutions, which makes it possible to offer the Norwegian market new and more efficient products and services at prices that are among the lowest in Europe. Outside Norway, Telenor has established itself as an attractive partner with particular expertise within, for example, satellite and mobile communications. In addition, the value of Telenor's investments abroad has developed positively and there is a substantial future potential related to these investments.

Although Telenor is well positioned, the Company is a small player compared to the global and multinational telecommunication giants that are active all over the world, including Norway. The agreement that

now has been signed by the owners of Telenor AS and Telia AB to merge the two companies into a new company must be seen against this background. In Telenor's view the merger will result in substantial synergy opportunities and contribute to continued price reductions in the Norwegian and Swedish markets.

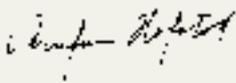
#### 11. SALARY, REMUNERATION AND FEES

Remuneration to the parent company's Board of Directors amounted to NOK 820,000 in 1998. In the same period, the Corporate Assembly received a

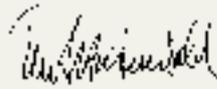
remuneration totalling NOK 302,500. The salary and remuneration to the President and Chief Executive Officer amounted to NOK 1,722,731 in 1998. The President and C.E.O.'s other agreements are referred to in Note 6 to the Accounts.

The proposed auditor's fee for the parent Company in 1998 is NOK 830,000. In addition, the Group's auditors and its sister companies have invoiced NOK 5,718,500 for other services.

Oslo, 23 March 1999



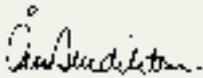
Arnfinn Hofstad  
(Chairman)



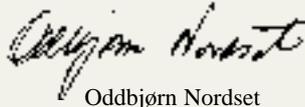
Finn A. Hvistendahl  
(Deputy Chairman)



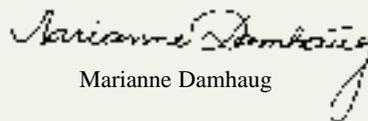
Terje Moe Gustavsen



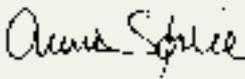
Åshild Bendiktsen



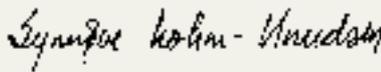
Oddbjørn Nordset



Marianne Damhaug



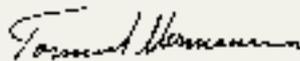
Anne Sørli  
(elected by the employees)



Synnøve Lohne-Knudsen  
(elected by the employees)



Svein Eivind Solheim  
(elected by the employees)



Tormod Hermansen  
(President and C.E.O.)

# Profit and loss account

The Telenor Group 1 January–31 December

<i>Amounts in NOK million</i>	<b>Note</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>Turnover</b>	2	<b>28,380</b>	<b>25,518</b>	<b>22,170</b>
Cost of goods sold and traffic charges	4	<b>6,727</b>	6,243	5,052
Salaries and personnel costs	5, 6	<b>7,336</b>	6,767	5,940
Other operating expenses	7	<b>5,955</b>	5,672	4,678
Depreciation and write-down	18	<b>4,515</b>	4,070	3,887
<b>Total operating expenses</b>		<b>24,533</b>	<b>22,752</b>	<b>19,557</b>
<b>Operating profit</b>		<b>3,847</b>	<b>2,766</b>	<b>2,613</b>
<b>Result associated companies</b>	16	<b>(1,391)</b>	<b>(685)</b>	-
Financial income	10	<b>830</b>	320	252
Financial expenses	10	<b>(779)</b>	(486)	(511)
<b>Net financial items</b>		<b>51</b>	<b>(166)</b>	<b>(259)</b>
<b>Profit before taxes</b>		<b>2,507</b>	<b>1,915</b>	<b>2,354</b>
Taxes	11	<b>(1,265)</b>	(779)	(441)
Minority interests	28	<b>44</b>	64	(3)
<b>Profit for the year</b>		<b>1,286</b>	<b>1,200</b>	<b>1,910</b>
Earnings per share in NOK		<b>1,621</b>	1,667	2,894

# Balance sheet

The Telenor Group as at 31 December

<i>Amounts in NOK million</i>	<b>Note</b>	<b>1998</b>	<b>1997</b>
<b>Assets</b>			
Cash and cash equivalents	12	<b>1,043</b>	385
Accounts receivable	13	<b>5,662</b>	4,772
Other current assets	14	<b>1,514</b>	1,713
Inventories		<b>748</b>	663
<b>Total current assets</b>		<b>8,967</b>	<b>7,533</b>
<hr/>			
Shares and other investments	15	<b>1,004</b>	922
Associated companies	16	<b>3,222</b>	1,974
Other long-term receivables	17	<b>1,999</b>	629
Fixed assets	18,19	<b>24,588</b>	22,570
<b>Total long-term assets</b>		<b>30,813</b>	<b>26,095</b>
<hr/>			
<b>Total assets</b>		<b>39,780</b>	<b>33,628</b>
<hr/>			
<b>Liabilities and equity</b>			
Short-term interest-bearing liabilities	20	<b>153</b>	189
Short-term non-interest-bearing liabilities	22	<b>9,533</b>	8,259
<b>Total short-term liabilities</b>		<b>9,686</b>	<b>8,448</b>
<hr/>			
Long-term interest-bearing liabilities	20	<b>11,300</b>	9,035
Long-term non interest-bearing liabilities	22	<b>904</b>	877
<b>Total long-term liabilities</b>		<b>12,204</b>	<b>9,912</b>
<hr/>			
Minority interests	28	<b>239</b>	242
Equity	23	<b>17,651</b>	15,026
<b>Total liabilities and equity</b>		<b>39,780</b>	<b>33,628</b>
<hr/>			
Mortgages	24	<b>1,857</b>	209
Guarantees	24	<b>2,830</b>	2,352

# Cash flow statement

The Telenor Group 1 January–31 December

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Proceeds from sale of goods and services	<b>33,168</b>	29,448
Payments to suppliers of goods and traffic	<b>(7,154)</b>	(7,265)
Payments to employees, pensions, social security tax, tax deductions	<b>(7,495)</b>	(7,257)
Payments of other operating expenses	<b>(6,750)</b>	(5,926)
Interest etc. received	<b>504</b>	327
Interest etc. paid	<b>(643)</b>	(420)
Other payments related to operating activities	<b>74</b>	119
Payments of taxes and public duties	<b>(4,499)</b>	(3,530)
<b>Net cash flow from operating activities <sup>1)</sup></b>	<b>7,205</b>	<b>5,496</b>
Proceeds on sale of fixed assets	<b>470</b>	476
Payments on purchase of fixed assets	<b>(6,555)</b>	(6,120)
Net cash receipts on sale of shares and investments	<b>446</b>	210
Net cash payments on purchase of shares and investments	<b>(3,099)</b>	(2,833)
Proceeds on sale of other investments *)	<b>4,088</b>	981
Payments on purchase of other investments *)	<b>(5,532)</b>	(958)
<b>Net cash flow from investing activities</b>	<b>(10,182)</b>	<b>(8,242)</b>
Proceeds of long-term liabilities	<b>9,624</b>	10,366
Proceeds of short-term liabilities	<b>10,975</b>	10,298
Payments of long-term liabilities	<b>(7,458)</b>	(6,858)
Payments of short-term liabilities	<b>(11,011)</b>	(10,449)
Paid in equity from minority in subsidiary	<b>68</b>	163
Paid in equity from the State	<b>2,000</b>	-
Payment of dividend	<b>(570)</b>	(950)
<b>Net cash flow from financing activities</b>	<b>3,628</b>	<b>2,570</b>
<b>Effect on cash and cash equivalents of changes in foreign exchange rates</b>	<b>7</b>	<b>4</b>
<b>Net change in cash and cash equivalents</b>	<b>658</b>	<b>(172)</b>
Cash and cash equivalents at 1 January	<b>385</b>	557
<b>Cash and cash equivalents at 31 December</b>	<b>1,043</b>	<b>385</b>
<b>1) Reconciliation :</b>		
Profit before taxes	<b>2,507</b>	1,915
Taxes paid	<b>(898)</b>	(574)
Gain/loss on sale	<b>(480)</b>	(116)
Depreciation, write-down and result associated companies	<b>5,905</b>	4,755
Changes in inventories	<b>(85)</b>	(56)
Changes in accounts receivable and pre-payment	<b>(674)</b>	(526)
Changes in accounts payable	<b>181</b>	539
Diff. between expensed and paid for pensions and restructuring provisions	<b>(244)</b>	(435)
Change in other accruals etc.	<b>778</b>	(209)
Net VAT and investment tax unrelated to operating activities	<b>215</b>	203
<b>Net cash flow from operating activities</b>	<b>7,205</b>	<b>5,496</b>

\*) Includes purchase and sale of commercial papers etc.

# Summary of Significant Accounting Principles

## The Telenor Group

### General

When Telenor was established as a limited company 31 October 1994, assets and liabilities were mainly transferred at book values.

The consolidated financial statements for Telenor AS and its subsidiaries are prepared in accordance with Norwegian generally accepted accounting principles. The Group's accounting principles differ, in certain respects, from United States generally accepted accounting principles (US GAAP). The differences and the approximate related effects on the Group's result and equity are set forth in note 29.

### Consolidation principles

The Group consolidated accounts include Telenor AS and subsidiaries in which Telenor AS has more than 50 per cent ownership or effective control.

All significant intercompany transactions and balances have been eliminated.

Minority interests in the profit for the year and equity are shown as separate items in the profit and loss account and balance sheet.

Investments in joint ventures and entities in which Telenor has an equity ownership interest of 20 to 50 per cent and exercises significant influence are accounted for using the equity method.

Investments considered to be of a temporary nature are accounted for at cost.

### Goodwill and license costs

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations accounted for under the purchase method. Goodwill is amortised on a straight-line basis over the useful life, but not exceeding 20 years.

License cost and goodwill relating to a license is amortised over the term of the license, but maximum 10 years.

### Foreign currency transactions

Transactions involving foreign currencies are translated into Norwegian Kroner using the exchange rates which are in effect at the time of the transactions. At the balance sheet dates, monetary assets and liabilities which are denominated in foreign currencies are adjusted to reflect the year end exchange rates. Gains or losses resulting from foreign currency remeasurements are reflected in the accompanying profit and loss account, under financial income and expenses.

### Foreign currency translation

Assets and liabilities in foreign entities are translated into Norwegian Kroner using year end exchange rates. Results are translated using the average exchange rates for the reporting period. Translation adjustments,

and the effects of exchange rate changes on transactions designated as hedges of net foreign investments, are reported as a component of shareholders' equity.

For entities located in countries defined as high-inflationary, fixed assets and related depreciation are translated using the exchange rate at the date of acquisition. Other balance sheet items are translated at the year-end exchange rate. Results are translated using the average exchange rates for the reporting period. Gains or losses resulting from foreign currency remeasurements are reflected in the accompanying profit and loss account.

### Turnover

Turnover is generally recognised when services are rendered or products delivered to customers. Subscription fees are recognised as turnover over the subscription period.

Turnover from directory advertising is recognised when the directories are published.

### Pensions

Pension plans defined as benefit plans are valued at the present value of accrued future pension benefits at the balance sheet date. Pension plan assets are valued at their fair value. Changes in the pension obligations due to changes in pension plans are recognised over the estimated average remaining service period. When the accumulated effect of changes in estimates, changes in assumptions and deviations from actuarial assumptions exceed 10 percent of the higher of pension benefit obligations and pension plan assets, the excess amount is recognised over the estimated average remaining service period. The net pension cost for the period is classified as salaries and social expenses. The companies' legal obligations are not affected by the manner in which they are dealt with in the accounts.

### Research and development costs

Research and development costs are expensed as incurred.

### Leases

Capital leases, which provide the Group with substantially all the rights and obligations of ownership, are classified under fixed assets. Liabilities are valued at the present value of minimum lease payments.

### Financial instruments

Telenor uses various financial instruments primarily to manage its exposure to fluctuations in foreign exchange rates and interest rates. To qualify as a hedge a financial instrument must be identified to have a high degree of correlation in fair value with the hedge item due to changes in market prices.

Foreign exchange contracts that do not meet the criteria for hedge accounting are recorded on the balance

sheet at the lower of cost or fair value. Losses are recorded under financial items, unrealised gains are deferred. Unrealised gains and losses on forward exchange contracts that are designated and effective as a hedge of foreign currency liabilities, are included in the value of the hedged item. Gains and losses on foreign exchange contracts that are designated and effective as a hedge of firmly committed transactions are deferred and recognised at the same time as the transactions. The forward contract's premium or discount is accrued over the term of the contract, and classified as interest.

Interest rate derivative instruments that do not meet the criteria for hedge accounting are recorded on the balance sheet at the lower of cost or fair value. Resulting losses are recorded under financial income and expenses, unrealised gains are deferred. Amounts to be paid or received under interest rate swaps that are designated and effective as a hedge of an interest-bearing asset or liability are accrued as interest income or expense respectively. Gains or losses from hedge instruments which are terminated prior to their maturity are deferred and recognised together with the hedged transaction.

#### **Taxes**

Deferred taxes/tax assets are calculated with full allocation for all temporary differences between the carrying amount of assets and liabilities in the financial statements and for tax purposes, including tax losses carried forward. The tax rates at the balance sheet date and nominal amounts are used. Deferred tax assets are recorded in the balance sheet to the extent it is highly probable that the tax assets will be utilised. A net deferred tax asset is not recorded in the balance sheet.

#### **Cash and cash equivalents**

Cash and cash equivalents include cash, bank deposits, bonds and commercial papers with original maturity of three months or less.

#### **Investments**

Bonds and commercial papers are managed as a whole, and an adjustment in the value is only made if the aggregated holdings have a lower market value than the original cost (the portfolio principle). Net unrealised losses are recorded as expense under financial items. Unrealised gains are only recorded as income to the extent they reverse previously expensed unrealised losses.

Shares classified as current assets are valued in accordance with the portfolio principle. When it is probable that the carrying amount of a single share will not be recoverable, a write down to fair value is recorded.

Long term shares and other investments, excluding shares in associated companies and jointly controlled activities, are valued at historical cost, or possibly fair value if the fall in value is not temporary.

Dividends are recorded as financial income when they are approved.

#### **Inventories**

Inventories are valued at the lower of cost or market. Cost is determined using the FIFO method.

#### **Advertising costs, marketing support and sales provisions**

Advertising costs, marketing support and sales provisions are expensed as incurred.

#### **Fixed assets and depreciation**

Fixed assets are carried at historical cost less accumulated depreciation and write-down. When it is probable that the carrying amount of an asset will not be recoverable, a write-down (impairment) to fair value is recorded. Properties for sale are valued as a portfolio, and an adjustment in the value is only made if the sales portfolio has a lower market value than the total book value. Internal costs for developing administrative support systems for internal use are expensed as incurred. Interest has not been capitalised on assets under construction.

Fixed assets are, for the most part, depreciated on a straight-line basis over their expected economic useful lives using the following rates:

Office machinery and equipment, software:	20–33%
Satellites, computer equipment, software at switches and other equipment:	10–20%
Transmission and equipment related to switches:	10–20%
Cable and power supply installations:	6–8%
Buildings:	3–4%
Goodwill:	10–33%

#### **Year 2000 expenses**

Expenses related to modifications that do not produce improvements through increased functionality or which do not extend the expected life are expensed.

#### **Changes in accounting principles**

The following changes in accounting principles have been made:

1998

No material changes in accounting principles.

1997

In 1997 The Group implemented the equity method of accounting for associated companies and joint ventures. The implementation effect has been recorded directly in shareholders equity.

The Group changed the accounting for recording expenses related to sales of advertisement in directories. The cumulative effect was recorded in the income statement.

1996

No material changes in accounting principles.

# Notes to the consolidated financial statements

## 1. ACQUISITIONS AND DISPOSALS

During the three years ended 31 December 1998, Telenor entered into the following significant acquisitions. Each acquisition was recorded following the purchase method of accounting. The summary does

not include capital increases or other types of financing by Telenor. Sales of subsidiaries and associated companies have been insignificant during the three years.

### 1998

Telenor acquired the following significant subsidiaries or significant interest in associated companies for an aggregated purchase price of NOK 960 million:

Company	Country	Interest in %	Business
Kyivstar J.S.C.	Ukraine	35	Wireless telecommunication
Pannon GSM RT	Hungary	20.3–25.8	Wireless telecommunication
Telehuset AS	Norway	70–100	Wholesales
SF Vision AB	Sweden	100	TV distribution
Telenor Magnet GmbH	Austria	100	Internet
Soleil Publicite SA	France	75	Directory services

### 1997

Telenor acquired the following significant subsidiaries or significant interest in associated companies for an aggregated purchase price of NOK 1,230 million:

Company	Country	Interest in %	Business
Viag Interkom GmbH & Co.	Germany	10	Wired and wireless telecommunication
Cosmote S.A.	Greece	30	Wireless telecommunication
Polskie Dsiakie Telefoniczne sp.z.o.o	Poland	50	Directory services
Canal Digital AS	Nordic countries	50	TV distribution
Lokaldelen AB	Sweden	92.6	Directory services
Pannon GSM RT	Hungary	16.6–20.3	Wireless telecommunication

### 1996

Telenor acquired the following significant subsidiaries or significant interest in associated companies for an aggregated purchase price of NOK 620 million:

Company	Country	Interest in %	Business
Allianse AS	Norway	91	Software
Novit AS	Norway	100	Software
Pannon GSM RT	Hungary	16.6	Wireless telecommunication
Schibsted Nett AS	Norway	100	Internet

## 2. TURNOVER

Amounts in NOK million

	1998	1997	1996
Telephony/ISDN	12,318	11,551	10,951
Mobile telephony	3,946	3,201	2,686
Leased lines	866	820	786
TV-distribution	714	495	415
Satellite	1,525	1,090	875
Other network based activities	1,291	1,253	778
Customer equipment, consultancy and services etc.	2,266	2,360	1,873
Installations, IT service and software	2,487	2,282	1,743
Advertising etc.	1,456	1,082	895
Gain on sale of fixed assets and operations	248	177	-
Other	1,263	1,207	1,168
<b>Total turnover</b>	<b>28,380</b>	<b>25,518</b>	<b>22,170</b>

**Telephony/ISDN** refers to turnover from traffic, subscription, establishment/connection for telephone and ISDN. Further, it includes turnover from incoming traffic from other telephone operators.

**Mobile telephony** refers to turnover from traffic, subscription, establishment/connection for mobile telephones and paging.

**Leased lines** refers to turnover from establishment/connection and subscription for digital and analog circuits.

**TV-distribution** refers to turnover from establishment/connection and subscription of distribution of TV channels through cable and satellite, and sale of program cards.

**Satellite** refers to turnover from satellite broadcasting,

distribution of TV channels, satellite-based network, and income from maritime satellite communication.

**Other network-based activities** includes telex, datapak, datex, Internet subscriptions etc.

**Customer equipment consultancy and services etc.** includes sale of customer equipment (telephone sets, mobile phones, computers, PABXs etc.), consultancy and services rendered etc.

**Installations, IT service and software** includes installations, sales and running of IT-systems, together with consultancy, services and sale of software.

**Advertising etc.** includes sale of advertising related to directory activities and sales of directories etc.

**Other** includes turnover from contracting, rent etc.

#### Geographic distribution of turnover based on customer location

*Amounts in NOK million*

	1998	1997
Norway	24,197	22,662
Other Nordic	1,841	1,259
Western Europe	1,170	901
Central Europe	191	134
Eastern Europe	189	201
USA	344	128
Asia	240	152
Other countries	208	81
<b>Total turnover</b>	<b>28,380</b>	<b>25,518</b>

#### Geographic distribution of turnover based on company location \*)

*Amounts in NOK million*

	1998	1997
Norway	26,412	24,320
Other Nordic	763	567
Western Europe	803	476
Central Europe	49	97
Eastern Europe	112	18
USA	153	1
Asia	88	39
<b>Total turnover</b>	<b>28,380</b>	<b>25,518</b>

\*) If all Telenor International activities are included, turnover from outside Norway is NOK 5.6 billion. Corresponding figure for 1997 is NOK 4.6 billion.

### 3. BUSINESS AREAS

Deliveries of network-based regulated services within the Group are priced based on cost prices in negotiations between the units. For contract-based services, product development etc, prices are negotiated between the parties based on market prices. All other deliveries between the business areas are to be based on market prices.

Figures for 1997 are restated in accordance with the organisational structure in 1998. These figures will deviate from the figures presented in the previous year for some business areas. Changes in the internal pricing structures are not reflected in the comparable figures for 1997. Transfer of activities to/from external parties are not reflected in the comparable figures.

**Result 1998**

<i>Amounts in NOK million</i>	Turnover	Of which external	Costs of goods sold and traffic charges	Salaries and personnel costs	Other operating expenses	Depreciation and write-down	Operating profit	Associated companies	Net financial items	Profit before taxes
Telenor Bedrift	8,020	5,538	6,158	880	778	131	73	(6)	36	103
Telenor International	4,270	2,932	2,529	517	699	464	61	(1,093)	(34)	(1,066)
Telenor Plus	3,360	2,391	1,171	932	680	224	353	(156)	10	207
Telenor Mobil	5,843	4,660	1,529	633	1,907	727	1,047	2	(73)	976
Telenor Privat	7,643	7,585	5,489	421	958	93	682	-	72	754
Telenor Programvare	1,392	835	382	422	336	176	76	2	(8)	70
Telenor Nextel	470	342	48	169	375	64	(186)	(59)	(4)	(249)
Telenor Nett	9,808	802	1,992	991	2,575	2,154	2,096	-	(172)	1,924
IT Service og Installasjon	3,794	1,430	754	1,803	1,006	82	149	-	3	152
Other	3,919	1,865	1,084	1,061	1,755	468	(449)	(81)	221	(309)
Elimination	(20,139)	-	(14,409)	(493)	(5,114)	(68)	(55)	-	-	(55)
<b>Total</b>	<b>28,380</b>	<b>28,380</b>	<b>6,727</b>	<b>7,336</b>	<b>5,955</b>	<b>4,515</b>	<b>3,847</b>	<b>(1,391)</b>	<b>51</b>	<b>2,507</b>

**Result 1997 – restated \***

<i>Amounts in NOK million</i>	Turnover	Of which external	Costs of goods sold and traffic charges	Salaries and personnel costs	Other operating expenses	Depreciation and write-down	Operating profit	Associated companies	Net financial items	Profit before taxes
Telenor Bedrift	7,265	5,572	5,855	847	638	81	(156)	(2)	-	(158)
Telenor International	3,587	2,133	1,994	326	715	379	173	(456)	72	(211)
Telenor Plus	2,816	2,481	986	759	518	196	357	(109)	(4)	244
Telenor Mobil	5,137	3,890	1,513	512	1,845	514	753	(1)	(67)	685
Telenor Privat	7,183	7,003	5,391	457	893	106	336	-	25	361
Telenor Programvare	1,363	903	424	420	383	161	(25)	-	(2)	(27)
Telenor Nextel	309	194	35	70	373	52	(221)	(49)	(10)	(280)
Telenor Nett	9,196	601	1,751	963	2,497	2,100	1,885	-	(231)	1,654
IT Service og Installasjon	3,242	1,446	572	1,687	827	72	84	-	1	85
Other	3,392	1,295	802	975	1,524	460	(369)	(68)	50	(387)
Elimination	(17,972)	-	(13,080)	(249)	(4,541)	(51)	(51)	-	-	(51)
<b>Total</b>	<b>25,518</b>	<b>25,518</b>	<b>6,243</b>	<b>6,767</b>	<b>5,672</b>	<b>4,070</b>	<b>2,766</b>	<b>(685)</b>	<b>(166)</b>	<b>1,915</b>

\* Unaudited

**Balance 1998**

<i>Amounts in NOK million</i>	Current assets	Long-term assets	Short-term liabilities	Long-term liabilities	Minority interests	Equity
Telenor Bedrift	3,966	521	2,107	302	-	2,078
Telenor International	2,305	8,714	1,772	6,869	115	2,263
Telenor Plus	1,494	1,074	1,303	944	11	310
Telenor Mobil	1,506	3,265	2,121	1,390	-	1,260
Telenor Privat	2,664	391	2,306	64	-	685
Telenor Programvare	588	556	405	543	-	196
Telenor Nextel	426	193	333	18	-	268
Telenor Nett	2,554	11,379	2,727	5,198	-	6,008
IT Service og Installasjon	1,116	250	997	169	-	200
Other	819	28,527	4,295	9,446	113	15,492
Elimination	(8,471)	(24,057)	(8,680)	(12,739)	-	(11,109)
<b>Total</b>	<b>8,967</b>	<b>30,813</b>	<b>9,686</b>	<b>12,204</b>	<b>239</b>	<b>17,651</b>

**Cash flow 1998**

<i>Amounts in NOK million</i>	<b>Operating activities</b>	<b>Investing activities</b>	<b>Financing activities</b>	<b>Effect on cash and cash equivalents of changes in foreign exchange rates</b>	<b>Net change in cash and cash equivalents</b>	<b>Cash and cash equivalents at 1 Jan</b>	<b>Cash and cash equivalents at 31 Dec</b>
Telenor Bedrift	391	260	395	-	1,046	547	1,593
Telenor International	483	(4,054)	3,069	5	(497)	1,008	511
Telenor Plus	534	(196)	(355)	-	(17)	285	268
Telenor Mobil	1,804	(1,371)	(276)	-	157	(86)	71
Telenor Privat	972	(200)	(186)	-	586	1,002	1,588
Telenor Programvare	111	(628)	635	-	118	58	176
Telenor Nextel	(202)	(185)	375	-	(12)	71	59
Telenor Nett	4,054	(2,613)	(1,157)	-	284	263	547
IT Service og Installasjon	220	(171)	(62)	1	(12)	208	196
Other	(632)	(4,006)	4,660	1	23	(2,601)	(2,578)
Elimination	(530)	2,982	(3,470)	-	(1,018)	(370)	(1,388)
<b>Total</b>	<b>7,205</b>	<b>(10,182)</b>	<b>3,628</b>	<b>7</b>	<b>658</b>	<b>385</b>	<b>1,043</b>

**4. COSTS OF GOODS SOLD AND TRAFFIC CHARGES**

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Lease of network capacity	<b>2,077</b>	1,534
Lease of satellite capacity	<b>722</b>	528
Cost of goods sold etc.	<b>3,865</b>	4,123
Energy	<b>63</b>	58
<b>Total</b>	<b>6,727</b>	<b>6,243</b>

**5. PENSION OBLIGATIONS**

Telenor provides defined benefit pension plans for substantially all employees in Norway. Benefits are determined based on the employee's length of service and compensation. The costs of pension benefits plans are expensed over the period which the employee renders services and becomes eligible to receive benefits.

Up until 31 August 1995 most of Telenor's employees were covered through the Norwegian Public Service Pension Fund. This was a defined contribution plan. 17,865 of the Group's employees (1,326 in Telenor AS) are now covered through Telenor Pensjonskasse. In addition, the Group has a few group pension schemes with independent insurance companies, and a separate pension plan for executive employees. These pensions plans are funded by plan assets consisting primarily of bonds and shares.

For employees abroad, defined contribution plans are dominant.

In addition Telenor has two early retirement pensions plans. The agreement-based early retirement plan (AFP) was established in 1997. Under this scheme employees may retire on reaching the age of 62 years or later with a pension equivalent to up to 60 per cent of ordinary compensation.

Early retirement was offered to the employees within established criteria until the end of 1996. The cost of early retirement is covered by Telenor AS. The present value of the estimated early retirement pension obligations is included in the calculation of the pension obligations presented below.

Amounts in NOK million	1998	1997
<b>Change in benefit obligations</b>		
Benefit obligations at the beginning of the year	2,162	1,751
Service Cost	278	246
Interest Cost	151	138
Changes in schemes	27	321
Deviation estimated vs actual obligation	(141)	(84)
Acquisitions and sale	-	3
Benefits paid	(217)	(213)
<b>Benefit obligations at the end of the year</b>	<b>2,260</b>	<b>2,162</b>
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	990	729
Actual return on plan assets	20	63
Acquisitions and sale	1	2
Pension premium	294	234
Benefits paid and paid-up policies	(74)	(38)
<b>Fair value of plan assets at the end of the year</b>	<b>1,231</b>	<b>990</b>
<b>Funded status</b>	<b>1,029</b>	<b>1,172</b>
Unrecognised prior service costs	(294)	(298)
Unrecognised net actuarial loss	(56)	(69)
Accrued social security tax	29	24
<b>Prepaid benefit cost</b>	<b>708</b>	<b>829</b>
<b>Assumptions as of 31 December</b>		
Discount rate	7.0%	7.0%
Expected return on plan assets	8.0%	8.0%
Expected rate of compensation increase	3.5%	3.5%
Annual adjustments to pensions	2.5%	2.5%
Expected turnover pr year	2.5%	2.5%
<b>Components of net periodic benefits cost</b>		
Service Cost	278	246
Interest Cost	151	138
Expected return on plan assets	(89)	(69)
Amortisation of prior service costs	32	21
Social security tax	43	36
<b>Net periodic benefit costs</b>	<b>415</b>	<b>372</b>
Contribution schemes	19	8
<b>Total pension costs charged to this year's result</b>	<b>434</b>	<b>380</b>

In 1998 Telenor has updated its pension calculations so that actual value of pension obligations and pension funds are disclosed. Early retirement pensions,

which previously were disclosed separately, are included the benefit obligation from 1998. Comparable 1997 figures have been restated.

## 6. SALARIES AND PERSONNEL COSTS

In addition to salaries and personnel costs recorded in the Profit and Loss Account, pay-related costs resulting from internal investment projects amounted to NOK 544 million in 1998 (NOK 328 million in 1997 and NOK 295 million in 1996).

An agreement is signed with the President and C.E.O. to which Telenor AS is obliged, under certain condi-

tions, to pay to the President and C.E.O. salary for 6 months beyond the ordinary period of notice. Any remuneration in arrears shall be co-ordinated with other earned income. In addition, under this agreement, the President and C.E.O.'s pension age is 65 years, with a right to retire at the age of 60 with a supplementary pension, making his pension 66 per cent of his salary at the retirement date.

## 7. OTHER OPERATING EXPENSES

*Amounts in NOK million*

	1998	1997
Cost of premises, vehicles, office equipment etc.	1,076	1,005
Travel and travel allowances	607	573
Sales, advertising etc.	1,401	1,503
Bad debt	231	195
Loss on sale of fixed assets and operations	9	40
Other	2,631	2,356
<b>Total other operating expenses</b>	<b>5,955</b>	<b>5,672</b>

## 8. BAD DEBTS

*Amounts in NOK million*

	1998	1997
Realised losses for the year	163	210
Recovered amounts previously written off	(32)	(32)
Change in provision for bad debt	100	17
<b>Total bad debts</b>	<b>231</b>	<b>195</b>

Due to the large volume and diversity of the Company's customer base, concentrations of credit

risk with respect to trade accounts receivable are limited.

## 9. BUSINESS RESTRUCTURING

In connection with the establishment of Telenor as a limited company in 1994, Telenor recorded a restructuring provision of NOK 1,100 million ("The resource pool"). This provision was made to cover the costs of staff reductions and elimination of other operating redundancies. The provision has been utilised during the subsequent periods and has a nil balance at 31 December 1998.

In 1996 a restructuring provision of NOK 39 million was recorded to cover certain costs to restructure Telenor Telehuset. The provision was utilised by NOK 32 million in 1997 and NOK 7 million in 1998.

In 1997 a restructuring provision of NOK 95 million was recorded mainly relating to workforce reductions in Telenor Bedrift and Telenor Privat and NOK 87 million in Telenor International was recorded to withdraw from paging activities abroad. In 1998 the provisions were utilised by NOK 150 million.

In 1998 a restructuring provision of NOK 14 million was recorded relating to workforce reductions. The following table displays rollforward of the provisions for business restructuring from 31 December 1996:

**Type of cost**

	31 Dec 1996 balance	1997 additions	1997 amounts utilised*	31 Dec 1997 Balance	1998 additions	1998 amounts utilised*	31 Dec 1998 balance
<i>Amounts in NOK million</i>							
Redundancy provision	341	-	296	45	-	45	-
Restructure							
Telenor Telehuset	39	-	32	7	-	7	-
Workforce reduction	-	95	-	95	14	85	24
Withdraw paging	-	87	-	87	-	65	22
<b>Total</b>	<b>380</b>	<b>182</b>	<b>328</b>	<b>234</b>	<b>14</b>	<b>202</b>	<b>46</b>

\* NOK 88 million and NOK 50 million for 1998 and 1997 respectively are adjustments to the liability without corresponding expenses.

**10. FINANCIAL INCOME AND EXPENSES**

<i>Amounts in NOK million</i>	1998	1997	1996
Dividend from satellite organisations	253	171	119
Interest income	236	104	93
Other financial income *)	38	45	40
Gain on sale of shares	303	-	-
<b>Total financial income</b>	<b>830</b>	<b>320</b>	<b>252</b>
Interest on Government loans	-	-	92
Interest on other liabilities	594	462	384
Other financial expenses *)	102	24	35
Loss and write-down of shares	83	-	-
<b>Total financial expenses</b>	<b>779</b>	<b>486</b>	<b>511</b>
<b>Net financial items</b>	<b>51</b>	<b>(166)</b>	<b>(259)</b>

\*) In 1998 other financial expenses include a net currency loss of NOK 73 million (disagio of NOK 146 million and agio of NOK 73 million). In 1997 a net currency gain of NOK 26 million was included in other financial income (disagio of NOK 65 million and agio of NOK 91 million)

**11. TAXES****INCOME TAX EXPENSE**

<i>Amounts in NOK million</i>	1998	1997	1996
<b>Profit before taxes</b>			
Norway	4,222	2,940	2,465
Outside Norway *)	(1,715)	(1,025)	(111)
<b>Total</b>	<b>2,507</b>	<b>1,915</b>	<b>2,354</b>
<b>Current taxes</b>			
Norway	1,129	857	573
Outside Norway	25	18	-
<b>Total current taxes</b>	<b>1,154</b>	<b>875</b>	<b>573</b>
<b>Deferred taxes</b>			
Norway	105	(96)	(132)
Outside Norway	6	-	-
<b>Total deferred taxes</b>	<b>111</b>	<b>(96)</b>	<b>(132)</b>
<b>Total income tax expense</b>	<b>1,265</b>	<b>779</b>	<b>441</b>

\*) Includes associated companies and subsidiaries

**EFFECTIVE TAX RATE***Amounts in NOK million*

	1998	1997	1996
Expected income taxes according to Statutory tax rate (28%)	702	536	659
Net losses from associated companies and subsidiaries abroad	506	284	31
Non-deductible expenses/ Non-taxable income	22	11	10
Amortization of goodwill etc.	41	29	21
Previous not recognised deferred tax assets	(76)	(140)	(406)
Tax assets not recognised in current year	-	53	10
Realisation of tax assets from business combinations	56	-	105
Other	14	6	11
<b>Income tax expense</b>	<b>1,265</b>	<b>779</b>	<b>441</b>
<b>Effective tax rate</b>	<b>50.5%</b>	<b>40.7%</b>	<b>18.7%</b>

In 1996 it was realised tax assets, recorded as goodwill related to business combination. The same year tax losses carried forward previously not recognised were also utilised.

In 1997 rest of previously unrecognised tax losses in aquired Norwegian companies were utilised. In connection with the decision to withdraw from paging activities abroad previously unrecognised tax assets in these companies were recorded as deferred tax asset.

In 1998 tax losses carried forward in Telehuset were utilised, and goodwill relating to purchase of Telehuset was correspondingly reduced.

At year end 1998, Telenor had tax losses carried forward of NOK 1,600 million, primarily in Germany, UK, Bangladesh and the US. The tax loss carried forward in Germany relates to Telenor Interkom Verwaltung, the holding company of Viag Interkom. Amounts carried forward expire as follows:

**TAX LOSSES CARRIED FORWARD***Amounts in NOK million*

1999	22
2000	9
2001	2
2002	7
2003	100
After 2003	491
Not time-limited	969
<b>Total tax losses carried forward</b>	<b>1,600</b>

**DEFERRED TAXES***Amounts in NOK million*

	Assets 1998	Liabilities 1998	Assets 1997	Liabilities 1997
<b>Short term:</b>				
Short term assets and liabilities	295	(60)	198	(4)
<b>Long term:</b>				
Fixed assets	347	(670)	278	(591)
Other long term assets and liabilities	623	(32)	455	(24)
<b>Tax losses carried forward:</b>	<b>493</b>		<b>207</b>	
Deferred taxes/tax assets	1,758	(762)	1,138	(619)
<b>Valuation allowances</b>	<b>(1,046)</b>		<b>(519)</b>	
<b>Net deferred taxes/tax assets</b>	<b>712</b>	<b>(762)</b>	<b>619</b>	<b>(619)</b>

From 1998 The Group disclosed gross deferred tax assets and liabilities. The comparative figures for 1997 have been restated. No deferred taxes have been recognised on undistributed earnings from domestic entities which can be remitted tax-free as dividends.

Valuation allowances relates mainly to associated companies and subsidiaries outside Norway and not recognised deferred tax assets from acquisition of companies.

## 12. CASH AND CASH EQUIVALENTS

With the exception of certain companies, the Group has established guarantees for payment of the employees' tax deductions. Those companies that are not included under the guarantee have restricted bank deposits of NOK 20 million. The Telenor Group has established Group bank accounts with two banks. Under these

agreements, Telenor AS is the Group account-holder, whereas the other companies in the Group are sub-account holders or participants. The banks can set off balances in their favour against deposits, so that the net position represents the net balance between the bank and the Group account holder.

## 13. ACCOUNTS RECEIVABLE

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Accounts receivable	<b>4,722</b>	3,635
Accrued, not yet invoiced income	<b>1,267</b>	1,408
Provision for bad debt	<b>(327)</b>	(271)
<b>Total accounts receivable</b>	<b>5,662</b>	<b>4,772</b>

## 14. OTHER CURRENT ASSETS AND SHARES

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Bonds/Commercial papers	<b>241</b>	295
Prepaid expenses	<b>287</b>	436
Shares *)	<b>356</b>	419
Receivables associated companies	<b>92</b>	65
Other receivables	<b>538</b>	498
<b>Total other current assets and shares</b>	<b>1,514</b>	<b>1,713</b>

\*) Specification of shares classified as current assets:

<i>Amounts in NOK 000s (unless otherwise stated)</i>	<b>No. of shares held by Telenor</b>	<b>The Group's holding in %</b>	<b>Book value</b>
Elkj�p ASA	824,450	11.5	150,585
Cetric AS	537,500	16.0	8,787
ClustRa AS	42,614	72.2	8,034
Computer House ASA	1,095,222	20.6	7,294
Data Respons AS	4,171	34.0	11,540
ECT AB	515,926	15.1	14,454
Eltek ASA	618,500	4.5	14,108
Gran-Jansen AS	299,200	21.6	7,611
Hegel AS	24,591	26.9	3,000
Idonex AB	11,500	25.3	1,393
Incatel AS	45,382	43.0	600
InCom AS	778,296	29.7	4,171
Indicom AS	21,024	81.0	-
Internett Kanal 1 AS	324,473	81.2	-
Intra Media AS	360,482	26.7	-
IT Industri Kapital AS	500	100.0	50
Linne Data Management AB	1,474,206	20.9	15,201
Maritech Systems AS	36,500	26.1	6,625
MODE BV/AS	282	49.8	5,250
MRT Micro ASA	5,498,667	13.8	20,398
Multi Media Studio AS	1,230,000	90.0	-
Open World Distribution AS	90,680	22.7	-
PolyDisplay ASA	2,954,515	23.4	11,073
Q-Free ASA	194,817	13.4	9,315
SCM Microsystems Inc.	50,000	0.4	6,002

<i>Contd.</i>	No. of shares held by Telenor	The Group's holding in %	Book value
Seven Mountains Software AS	90,405	14.8	5,500
Teamcom AS	161,685	4.5	1,000
Techno Venture AS	1,500	100.0	18,175
TeleNostra AS	34,615	32.1	2,300
Telepost Holding S.A	667,650	23.2	19,004
Trade AS	307,100	34.5	3,305
Utel AS	82,532	22.2	1,009
Televenture Management AS	500	100.0	50
Televenture AS	500	100.0	50
Yellow Line Directories h.f.	50	100.0	394
<b>Total shares classified as current assets</b>			<b>356,278</b>

With the exception of Elkjøp ASA and Yellow Line Directories, these shares are owned by Telenor Venture.

## 15. SHARES AND OTHER INVESTMENTS

<i>Amounts in NOK 000s</i>	Book value	
	1998	1997
Capital contributions to satellite organisations	<b>799,601</b>	893,748
Other shares	<b>204,000</b>	28,681
<b>Total shares and capital contributions</b>	<b>1,003,601</b>	<b>922,429</b>

### Specification of capital contributions to satellite organisations:

<i>Amounts in NOK 000*</i>	Share Owned in %	Total max. capital (mill)	Share of actual max capital (guarantee liability)	Book Value
Immarsat	6.8	USD 1,900	977,372	310,472
Eutelsat	1.2	ECU 1,900	202,124	36,018
Intelsat	4.6	USD 3,700	1,287,529	453,111
<b>Total</b>			<b>2,467,025</b>	<b>799,601</b>

Telenor is a member of the satellite organisations Inmarsat, Eutelsat og Intelsat. These satellite organisations are financed in part by capital contributed by the members and in part by external loans. Telenor is liable for its portion of the individual satellite organisation's obligations, which primarily comprise contracts/

orders for new satellites. The obligations are reflected in the satellite organisations' actual maximum capital, which is the upper limit for the satellite organisations' commitments. In 1998 satellites were transferred from Intelsat to a new company, New Skies BV.

### Specification of other shares:

		The company's share capital *)	No. of Shares	Shares owned in %	Book value **)
New Skies BV	NLG	40,223	1	4.2	179,905
Tele Danmark AS	DKK	1,310,000	30,100	-	10,926
Trøndelag Vekst AS	NOK	41,025	19,335	2.9	3,000
Marinor AS	NOK	12,526	66,005	12.0	6,390
Canal Digital Norge AS	NOK	2,680	383	14.3	1,224
Other					2,555
<b>Total other shares</b>					<b>204,000</b>

\*) Amounts in local currency 000s

\*\*) Amounts in NOK 000s

**16. ASSOCIATED COMPANIES AND JOINT VENTURES**

Amounts in NOK 000s (unless otherwise stated)	Share owned (%)	Investments/ disposals		Share of profit after tax	Amortis- ation of excess values	Translation/ equity adjust- ments	Book value 31 Dec 1998	Recorded excess values 31 Dec 1998
		Book value 1 Jan 1998	during the year					
Internordia Communications AB	50.0	(10,154)	13,088	(7,103)	-	114	(4,055)	-
Telenordia AB	33.0	207,886	88,907	(72,374)	-	1,604	226,023	-
Kola Telekom	50.0	(2,326)	-	-	-	1,629	(697)	-
Extel Kaliningrad J.S.C.	49.0	5,448	-	(10,344)	-	(505)	(5,401)	5,848
StavTeleSot J.S.C.	49.0	42,932	-	(42,932)	-	-	-	-
North West GSM J.S.C.	13.0	21,143	-	17 424	-	240	38,807	-
ESAT Digifone Ltd	45.0	60,140	138,556	(123,039)	(4,939)	7 956	78,674	48,846
Pannon GSM RT	25.8	197,289	405,676	(6,700)	(26,587)	(68,153)	501,525	426,396
European Telekom, (ProMonte) S.A.	44.0	29,329	-	44,300	-	5,708	79,337	-
Cosmote S.A.	30.0	646,166	-	(118,779)	(27,814)	14,358	513,931	242,184
Connect Austria GmbH	17.0	246,387	249,929	(173,299)	-	31,586	354,603	-
Starlight Communication LLC Ltd.	43.0	7,992	-	(2,564)	-	220	5,648	-
Wahlberg & Selin AB	34.0	7,402	-	(2,673)	(1,534)	80	3,275	5,242
Viag Interkom GmbH & Co	10.0	337,029	1,102,902	(561,069)	(21,690)	64,434	921,606	194,634
Kyivstar J.S.C.	35.0	-	295,951	(27,708)	(12,048)	8,270	264,465	230,855
Canal Digital (Group)	50.0	(21,647)	147,000	(129,529)	-	-	(4,176)	-
InformKatalog	50.0	3,924	2,264	(2,531)	(5,068)	901	(510)	-
Interinfo OY	40.5	-	-	(2,567)	-	-	(2,567)	-
Nordic Shopping Channel Ltd	36.8	1,858	8,436	(10,294)	-	-	-	-
Nord Trans Biuro Reklam Sp. z.o.o	50.0	(5,547)	-	3,857	-	-	(1,690)	-
Polskie Dsiaski Telefoniczne Sp. z.o.o	50.0	48,328	-	(1,039)	(10,634)	-	36,655	39,127
SBS Interactive AB	49.0	-	-	2,932	-	-	2,932	-
DM-Huset AS	34.0	5,592	-	2,696	(123)	-	8,165	246
Games AS	33.3	1,076	-	(2,000)	-	-	(924)	-
Broadcast Text AS	75.0	4,863	14,750	(6,515)	(1,224)	-	11,874	3,639
TVNorge Interaktiv AS	24.0	182	-	2,832	-	-	3,014	-
TV-Torget AS	24.5	4,159	-	(4,159)	-	-	-	-
Schibsted Interaktiv AB	34.0	(14,654)	15,876	(12,135)	-	(767)	(11,680)	-
Scandinavia Online AB	20.0	-	21,480	(19,662)	-	278	2,096	-
Scandinavia Online AS	34.5	(1,676)	35,258	(27,133)	-	-	6,449	-
Kommunikasjons-Produkter AS	49.0	7,525	-	206	(1,003)	-	6,728	3,008
Zeta Media AS	50.0	-	10,025	(5,696)	-	-	4,329	4,329
Imedia Norge AS	50.0	(795)	5,000	(5,422)	-	-	(1,217)	-
IT Fornebu AS	33.3	-	5,333	(5,736)	-	-	(403)	-
Norkring AS	40.0	155,384	-	11,771	-	-	167,155	-
Allegro AB	33.0	-	4,765	1,895	-	-	6,660	-
Other		(11,246)	5,540	19,347	(2,550)	(219)	10,872	191
<b>Total</b>		<b>1,973,989</b>	<b>2,570,736</b>	<b>(1,275,742)</b>	<b>(115,214)</b>	<b>67,734</b>	<b>3,221,503</b>	<b>1,204,545</b>

Shares and investments are carried at negative values where Telenor has a corresponding liability above the capital contributed.

Com Enterprise Ltd the opportunity to participate in share issue in Telenor B-Invest AS, so that WR Com Enterprise Ltd gets an ownership of 26,67% of Telenor B-Invest. The price is Telenor's cost price plus interest.

In connection with a dispute, an agreement has been signed to transfer Telenor's shares in Cosmote (30%) to a new company, Telenor B-Invest AS, and give WR

**17. OTHER LONG-TERM RECEIVABLES**

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Net pension fund	-	9
Loan to associated companies	<b>498</b>	409
Prepaid expenses	<b>112</b>	29
Other *	<b>1,389</b>	182
<b>Total other long-term receivables</b>	<b>1,999</b>	<b>629</b>

\* Other includes an escrow account of NOK 1,215 million related to the investment in VimpelCom in 1998

**18. FIXED ASSETS**

<i>Amounts in NOK million</i>	<b>Accumul. cost 1 Jan 1998</b>	<b>Additions 1998</b>	<b>Foreign exchange adjustm. 1998</b>	<b>Disposals 1998</b>	<b>Depr. and write-down 1998</b>	<b>Acc. depr. and write-down 31 Dec 1998</b>	<b>Book value 31 Dec 1998</b>
Local, regional & trunk networks	24,748	1,556	1	(28)	(1,298)	(19,600)	6,677
Mobile telephone network and switches	4,326	998	(8)	(99)	(546)	(2,521)	2,696
Subscriber equipment	1,235	34	1	(8)	(60)	(1,127)	135
Switches/-equipment	11,782	985	-	(160)	(936)	(8,488)	4,119
Radio installations	1,180	200	-	(9)	(17)	(588)	783
Cable TV equipment	571	59	-	-	(49)	(309)	321
Land	196	424	-	(8)	-	-	612
Buildings	6,880	168	-	(330)	(302)	(3,382)	3,336
Adm. support systems	3,568	1,233	4	(360)	(912)	(3,363)	1,082
Satellites	1,074	972	-	-	(78)	(406)	1,640
Goodwill	1,316	496	-	(5)	(267)	(680)	1,127
Other intangible assets	231	124	-	(10)	(50)	(128)	217
<b>Total *)</b>	<b>57,107</b>	<b>7,249</b>	<b>(2)</b>	<b>(1,017)</b>	<b>(4,515)</b>	<b>(40,592)</b>	<b>22,745</b>
Work in progress **)	2,164	(321)	-	-	-	-	1,843
<b>Total</b>	<b>59,271</b>	<b>6,928</b>	<b>(2)</b>	<b>(1,017)</b>	<b>(4,515)</b>	<b>(40,592)</b>	<b>24,588</b>

\*) Includes NOK 2,600 million in capital leases, mainly switches and satellites

\*\*) Net additions

The group entered into a "lease out and lease in" agreement for digital telephony switches with a book value at 31 December 1998 of approximately NOK 1,000 million. The agreement called for the prepayment of all amounts due by both parties under the lease to a financial institution. The financial institution then releases the payments over the life of the lease in accordance with its contractual terms. During the course of the lease, Telenor maintains the rights and benefits of ownership of the equipment. Telenor has

received a benefit of NOK 102 mill since both parties can depreciate the equipment for tax purposes. The amount is deferred and is taken to income over the expected lease period.

There is a current discussion with Jernbaneverket regarding the ownership of the cable ducts along the railroad. Telenors book value as at 31 December 1998 amounts to NOK 130 million.

## 19. INVESTMENTS IN AND SALE OF FIXED ASSETS OVER THE LAST 5 YEARS:

<i>Amounts in NOK million</i>	1998		1997		1996		1995		1994	
	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale
Local, regional & trunk networks	1,556	7	1,219	33	1,122	10	899	6	706	-
Mobile telephone network and switches	998	-	699	-	634	-	1,176	-	644	2
Subscriber equipment	34	-	69	-	59	-	58	6	52	-
Switches/-equipment	985	4	1,156	12	789	-	539	3	685	-
Radio installations	200	-	4	-	41	166	110	1	62	-
Cable TV equipment	59	-	51	-	74	5	82	-	38	-
Land and buildings	592	338	168	281	461	288	263	143	204	13
Satellites	972	72	1,093	43	861	53	1,118	49	600	61
Adm. support systems	1,233	-	782	-	-	-	-	-	-	-
Goodwill and intangible assets	620	10	434	10	738	-	407	-	96	-
<b>Total</b>	<b>7,249</b>	<b>431</b>	<b>5,675</b>	<b>379</b>	<b>4,779</b>	<b>522</b>	<b>4,652</b>	<b>208</b>	<b>3,087</b>	<b>76</b>

Investments and sales for the year 1994 include Televerket and subsidiaries.

## 20. INTEREST BEARING LIABILITIES

<i>Amounts in NOK million</i>	1998	1997
Commercial paper loans	1,559	748
EMTN loans	5,902	3,997
Loans from Japanese investors	1,304	1,450
Subordinated loan	609	2,199
Satellite leasing	1,611	496
Other	315	145
<b>Total long-term interest-bearing liabilities</b>	<b>11,300</b>	<b>9,035</b>
<b>Total short-term interest-bearing liabilities</b>	<b>153</b>	<b>189</b>
<b>Total interest-bearing liabilities</b>	<b>11,453</b>	<b>9,224</b>

A short-term Euro Commercial Paper programme (ECP) was established in 1996, with a USD 500 million limit. As of 31 December 1998, commercial papers outstanding under this programme totalled NOK 1,559 million, with an average maturity of 0.21 years. In addition, Telenor has the option to issue Commercial Papers in the Norwegian market, but had no outstanding debt at 31 December 1998. The commercial papers are linked to an underlying long-term credit facility with a USD 500 million limit, established in 1995. The credit facility is maturing in 2002, and is treated as long-term, irrespective of the actual maturity date.

In 1996, Telenor established its Euro Medium Term Note programme (EMTN) with a USD 1,000 million limit. The programme was increased to USD 2,000 million in July 1997. At 31 December 1998, ordinary debt drawn under this facility had a book value of NOK 5,902 million, with terms between 1 and 8 years. In addition, NOK 2,199 million in subordinated loans were raised under the EMTN programme in August

1997, maturing in 5 years. At 11 August 1998, Telenor used options to redeem NOK 1,590 million of the subordinated loans. At year-end 1998, Telenor has an option to redeem the remaining NOK 609 million of subordinated loans in May 1999.

Telenor Satellite Services AS established lease financing agreements for the two satellites, Thor II and Thor III, in 1997 and 1998. The Thor II leasing was signed in March 1998, and has a nominal amount of NOK 600 million at 31 December 1998. The Thor III leasing was signed in December 1997, and has a nominal amount of NOK 1,011 million at 31 December 1998. Both leasing agreements are amortised over 12 years, with a final maturity in 2010.

Telenor Nett AS entered into a "lease out and lease in" agreement for digital telephony switches. The agreement called for the prepayment of all amounts due by both parties under the lease to a financial institution. The leasing obligation and the unused prepayment are

netted in the balance sheet, and are not reflected in the table of maturities of long term interest-bearing debt below.

The average weighted term (maturity) of the Group's outstanding debt was 3.7 years at 31 December 1998 with a corresponding average interest duration, including interest rate swaps, of 0.9 years.

#### Maturities of the Group's long term interest-bearing liabilities:

Year	Installment
<i>Amounts in NOK million</i>	
1999	1,797
2000	706
2001	2,194
2002	2,073
2003	1,542
After 2003	2,988
<b>Total</b>	<b>11,300</b>

#### Distribution of funding in originated currencies

<i>Amounts in local currency million</i>	FRF	JPY	USD	CHF	DEM	ECU	AUD	GBP	NOK	Total NOK
Commercial Paper loan	138		129			38		5		1,559
EMTN loan		12,500	210	450	280		28			5,902
Loans from Japanese investors		19,000								1,304
Subordinated loan						70				609
Satellite leasing								128		1,611
Other									315	315
<b>Total foreign currency</b>	<b>138</b>	<b>31,500</b>	<b>339</b>	<b>450</b>	<b>280</b>	<b>108</b>	<b>28</b>	<b>133</b>		
<b>Total NOK</b>	<b>186</b>	<b>1,991</b>	<b>2,344</b>	<b>2,499</b>	<b>1,174</b>	<b>936</b>	<b>186</b>	<b>1,669</b>	<b>315</b>	<b>11,300</b>

#### Long term liabilities portfolio after interest- and currency swap agreements

<i>Amounts in local currency million</i>	Currency	Currency amount	Interest rate incl. effect of interest swaps (%)	NOK
Commercial Paper loans	NOK	-	4.78	656
Commercial Paper loans	USD	120	5.31	903
EMTN loan	DEM	230	3.72	952
EMTN loan	ATS	697	3.67	412
EMTN loan	SEK	769	4.22	732
EMTN loan	NOK	-	5.41	3,806
Loans from Japanese investors	NOK	-	6.48	1,304
Subordinated loan	NOK	-	4.67	609
Satellite leasing	NOK	-	5.75	1,611
Other	NOK	-	3 to 8	315
<b>Total NOK</b>				<b>11,300</b>

## 21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Telenor operates in several countries, giving rise to significant exposure to market risks from changes in exchange rates and interest rates. Derivative financial instruments are used to reduce such risk.

### Foreign exchange risk management

In order to take advantage of favourable nominal interest rates of certain foreign debt markets, Telenor incurs debt denominated in foreign currencies. To manage the related exposure to unfavourable currency fluctuations, Telenor uses various financial instruments, principally foreign currency swaps and foreign currency forward contracts. The foreign currency debt is generally altered to Norwegian Kroner. However, Telenor maintains some foreign currency debt for

hedging purposes up to an amount corresponding to the original investments in the relevant currency.

### Interest rate risk management

Telenor is exposed to interest rate fluctuations on all debt based on a floating interest rate, mainly LIBOR (London Interbank Offered Rate) and NIBOR (Norwegian Interbank Offered Rate). To manage the exposure to changes in interest rates and to lower the overall costs of financing Telenor utilises interest rate swaps, interest rate caps and forward rate agreements (FRA). Interest rate swaps are used to exchange the real interest rate exposure on the underlying assets or liabilities from a fixed interest rate to a floating interest rate in the same currency or vice versa.

### The notional amounts of foreign currency swaps and foreign currency forward contracts:

<i>Amounts in local currency million</i>	Foreign currency		Norwegian Kroner	
	Buy	Sell	Buy	Sell
ATS	-	(185)	-	(120)
DEM	-	(166)	-	(726)
IEP	-	(34)	-	(386)
SEK	-	(104)	-	(99)
USD	106	(151)	822	(1,146)
ECU	71	-	621	-
FRF	140	-	187	-
GBP	5	-	63	-

### Interest rate instruments outstanding as at 31 December 1998:

Amounts	Telenor pays	Telenor receives	Instrument	Average years to maturity
NOK 2,942 mill.	6.27 %	NIBOR	Interest Rate Swap	3.26
NOK 300 mill.	Strike 6.25%	NIBOR	Interest Rate Cap	3.59
DEM 180 mill.	LIBOR	4.35%	Interest Rate Swap	3.64
USD 210 mill.	LIBOR	5.78%	Interest Rate Swap	2.17
JPY 5,000 mill.	LIBOR	3.70%	Interest Rate Swap	6.67
CHF 181 mill.	LIBOR	2.00%	Interest Rate Swap	4.33

### Cross currency and interest rate instruments outstanding as at 31 December 1998:

Amounts	Telenor pays		Telenor receives		Instrument	Average years to maturity
	Currency	Interest	Currency	Interest		
NOK 839 mill.	NOK	NIBOR	JPY	4.45%	Cross currency IR- Swap	5.84
NOK 330 mill.	NOK	NIBOR	JPY	LIBOR	Cross currency IR- Swap	6.67
NOK 883 mill.	USD	LIBOR	JPY	4.42%	Cross currency IR- Swap	6.49
NOK 3,943 mill.	NOK	NIBOR	USD	LIBOR	Cross currency IR- Swap	3.61
NOK 126 mill.	USD	LIBOR	AUD	3.00%	Cross currency IR- Swap	7.42
NOK 1,578 mill.	USD	LIBOR	CHF	2.84%	Cross currency IR- Swap	3.08
NOK 412 mill.	ATS	LIBOR	CHF	LIBOR	Cross currency IR- Swap	4.33
NOK 515 mill.	SEK	STIBOR	CHF	LIBOR	Cross currency IR- Swap	4.33
NOK 222 mill.	SEK	STIBOR	DEM	LIBOR	Cross currency IR- Swap	3.67

All floating interest rates (NIBOR, LIBOR, STIBOR) are 6 months.

Five interest rate swap contracts with total amounts of NOK 400 million and DEM 100 million which were used as hedging were sold in 1998. The net realised loss of NOK 12 million is amortised through the original lifetime of the contracts. Accrued losses at 31 December 1998 were NOK 9 million.

#### Forward rate agreements (FRA)

FRA contracts are generally used as hedging instruments for interest rate risk management. Telenor had a long position in FRA contracts outstanding at 31 December 1998 with a total notional amount of NOK 1.4 billion. The contacts had an average remaining lifetime of 0.32 years and average interest of 6.46%. Telenor occasionally uses FRA contracts which do not meet the established hedging criteria. At 31 December 1998 there were three such contracts with a net notional amount of NOK 500 million.

#### Commodity price risk management

Telenor uses electricity futures and forward contracts to manage price risk related to the expected use of

electricity. The contracts are traded through the Nordic electricity exchange, Nor Pool ASA. The contracts are fulfilling the criteria of hedge accounting, and profit and loss from the contracts are not recognised in the profit and loss accounts. The nominal amount of the contracts are NOK 19 million for 1999 and NOK 6 million for 2000.

#### Fair value of financial instruments

The estimated fair value of the company's financial instruments are determined based on market prices and the valuation methodologies described below. However, prudence is recommended in interpreting market data to arrive at an estimated fair value. Accordingly, the estimates presented herein may not necessarily be indicative of the amounts the company could realise.

#### Estimated fair value of financial instruments as at 31 December 1998:

<i>Amounts in NOK million</i>	<b>Book Value</b>	<b>Fair Value</b>
<b>Financial assets:</b>		
Cash and cash equivalents	1,043	1,043
Money market investments	241	241
Listed shares	182	306
<b>Financial liabilities</b>		
Long term liabilities	(11,300)	(12,127)
<b>Instruments used to manage interest exposure:</b>		
Gain on interest rate swaps		109
Loss on interest rate swaps		(105)
Gain on FRA contracts		1
<b>Instruments used to manage foreign exchange exposure:</b>		
Gain on cross currency IR-swaps		1,279
Loss on cross currency IR-swaps		(503)
Gain on forward currency contracts		22
Loss on forward currency contracts		(56)
<b>Instruments used to manage commodity price risk:</b>		
Loss on electricity future and forward contracts		(2)

The following methods and assumptions were used to estimate the fair value of financial instruments.

#### Cash and cash equivalents

The carrying amounts presented in the balance sheet approximate the fair values due to the relatively short time to maturity of these investments.

#### Money market investments

The fair values of investments are based on quoted interest rates at the end of the year.

#### Listed shares

The fair values of investments are based on quoted prices at the end of the year.

#### Long-term liabilities

The fair value of long term liabilities is based on discounted cash flows. Interest rate and currency financial instrument contracts have not been taken into account in determining the fair values of these instruments. The cash flows have been discounted using current interest rates at which similar debt could be obtained for the remaining maturities and converted to NOK using quoted exchange rates.

#### Instruments used to manage interest and foreign exchange exposure

The fair value is based on discounted future cash flows using quoted exchange rates and interest rates.

#### Instruments used to manage commodity price risk

The fair value is based on quoted electricity prices at the end of the year.

## 22. NON-INTEREST BEARING LIABILITIES

<i>Amounts in NOK million</i>	1998	1997
Accounts payable	3,042	2,861
Government taxes, tax deductions, holiday taxes etc.	1,867	1,478
Dividend payable	675	570
Current taxes	1,132	875
Advances from customers	1,211	995
Provision for restructuring	46	234
Other current debt	1,560	1,246
<b>Total current non-interest bearing liabilities</b>	<b>9,533</b>	<b>8,259</b>
Pension obligations	708	838
Other long-term liabilities	196	39
<b>Total long-term non-interest bearing liabilities</b>	<b>904</b>	<b>877</b>
<b>Total non-interest bearing liabilities</b>	<b>10,437</b>	<b>9,136</b>

## 23. EQUITY

<i>Amounts in NOK million</i>	1998	1997	1996
Equity as at 1 January	15,026	14,671	11,721
Profit for the Group 1 January–31 December	1,286	1,200	1,910
Implementation of accounting standard, associated companies	-	(328)	-
Allocated to dividend	(675)	(570)	(950)
Increase in equity	2,000	-	1,994
Translation adjustments	27	12	-
Other	(13)	41	(4)
<b>Equity as at 31 December</b>	<b>17,651</b>	<b>15,026</b>	<b>14,671</b>
Number of shares at 31 December	840,000	720,000	720,000
Time-weighted average number of shares	793,300	720,000	660,000

The share capital as at 31 December 1998 comprises 840,000 shares with a nominal value of NOK 10,000 each. The Norwegian State paid at 20 May 1998 NOK 2,000 million, and share capital increased with 120,000 shares. The Norwegian State converted at

27 June 1996 interest-bearing debt of NOK 2,000 million to 120,000 shares with a nominal value of NOK 10,000 each and share capital increased from 600,000 shares to 720,000 shares. All shares are owned by the Norwegian State.

## 24. MORTGAGES AND GUARANTEES

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
<b>Mortgages</b>		
Inventories, receivables, operating assets etc.	<b>1,857</b>	209
<b>Total mortgages</b>	<b>1,857</b>	<b>209</b>
<b>Guarantees</b>		
Satellite organisations	<b>2,467</b>	2,083
Other guarantees	<b>363</b>	269
<b>Total guarantees</b>	<b>2,830</b>	<b>2,352</b>

When long-term loans were raised without collateral, negative pledges were issued.

## 25. DISPUTES

In March 1998, NetCom GSM ASA (NetCom) sued Telenor Nett AS. In the writ it is claimed that Telenor Nett AS shall repay NOK 92 million to NetCom (with the addition of interest in arrears). The claim is subsequently increased by NOK 5 million. NetCom claims that the company paid excess fees of approximately NOK 97 million to Telenor in the years 1993 through 1996 in connection with leased networks. Telenor refuses the claim and has made no provision for the claim.

In December 1997, Teletopia AS sued Telenor with a claim that the agreement from 1995 between the companies shall still be valid, that Telenor shall supply Teletopia with a large number of telecommunications connections, and that Telenor shall be ordered to pay damages to be set at the discretion of the court, maximum NOK 45 million. The plaintiff has reserved the right to increase the claim for damages. Telenor refuses the claim and has not made any provisions for possible costs.

In March 1998, ITS LLC, a company from the US sued Telenor International AS claiming a compensation with an upper limit of USD 18 million, whereof USD 800,000 relating to argued missing fulfilment of contract and USD 10 million is demanded for loss of income etc. At present Telenor has not received information about the remaining claim. Negotiations are appointed at June 1999 in Oslo city court. Telenor refuses the claim.

Five Telenor companies, including three private persons with connection to Telenor, are in a common writ of 16 February 1999 sued by three American citizens, one Russian citizen, one American company and one company from the Cayman Island for a total amount of USD 34 million, claiming breach of contract and negligent behaviour associated with the paging project in Russia. The case will be recommended rejected by the US court of justice. Telenor refuses the claim.

## 26. CONTRACTUAL OBLIGATIONS

The group has entered into agreements with fixed future payments on the following areas:

<i>Amounts in NOK million</i>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>After 2003</b>
Rent of premises	400	334	284	255	132	5
Rent of cars, office equipment etc.	174	127	91	52	21	-
Energy	65	53	-	-	-	-
Rent satellite capacity etc.	389	332	225	191	170	631
IT-related agreements	173	104	57	12	12	4
Committed investments						
- Associated companies	3,072	896	-	-	-	-
- Properties and equipment	867	427	71	17	11	-
Other contractual obligations	516	345	241	196	180	-
<b>Total</b>	<b>5,656</b>	<b>2,618</b>	<b>969</b>	<b>723</b>	<b>526</b>	<b>640</b>

## 27. RELATED PARTIES

Telenor AS is 100% owned by the Norwegian State. The Company provides mobile and fixed Telephony services, leased lines, customer equipment, internet connections, TV distributions and Installation and other operations/services to the public sector in the normal course of business.

In connection with the liberation of services in the telecommunication market, it is agreed that the State will compensate Telenor for deficits on certain telecommunications services imposed by the authorities, such as emergency and security services, assignment relating to Spitsbergen, and services for the overall defence. In 1998 the Company received NOK 100 million under this agreement.

Telenor pays an annual fee to "Post and Teletilsynet" for delivering services under the granted concession. The fee was NOK 55 million in 1998.

Canal Digital, a joint venture owned 50% by Telenor, has agreements to purchase products and services from Telenor, mainly satellite broadcasting and cards for TV-decoders. The total amount invoiced for these products and services was NOK 145 million in 1998.

Associated companies abroad hire personnel from Telenor Consult. A total amount of NOK 78 million was invoiced for these services in 1998.

Telenor Nett conduct a number of services for Norkring AS, an associated company owned 40 per cent by the group. In 1998 Telenor Nett invoiced Norkring AS for NOK 37 million for leased lines, rent of equipment and maintenance.

According to an agreement Telenor will increase its ownership in Norkring AS to 90.1 per cent in 1999.

## 28. MINORITY INTERESTS

<i>Amounts in NOK million</i>	Minority share in % 31 Dec 1997	Minority share in % 31 Dec 1998	Balance 31 Dec 1997	Result 1998	Balance 31 Dec 1998
Telenor Venture AS	30.0	30.0	73	33	106
Norcom Network Communications Inc.	12.2	12.2	13	(8)	3
Grameen Phone Ltd.	49.0	49.0	100	(50)	89
Storm Communications Ltd.	47.1	47.1	36	(22)	23
Clarion Inc.	21.9	35.4	-	(11)	5
Lokaldelen AB	7.4	7.4	6	4	11
Miscellaneous			14	10	2
<b>Total</b>			<b>242</b>	<b>(44)</b>	<b>239</b>

## 29. UNITED STATES GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

The Group consolidated financial statements have been prepared under Norwegian generally accepted accounting principles (N GAAP), which differs in certain respects from United States generally accepted

accounting principles (US GAAP). The principal differences between the group's accounting principles under N GAAP and US GAAP are set out below:

**Reconciliation of net income from N GAAP to US GAAP**

<i>Amounts in NOK million</i>	<b>Note</b>	<b>1998</b>	<b>1997</b>
Net income in accordance with N GAAP		<b>1,286</b>	1,200
Adjustments for US GAAP:			
Capitalised interest	1	<b>197</b>	105
Depreciation on previous capitalised interest	1	<b>(40)</b>	(25)
Restructuring costs and employee termination benefits	2	<b>(234)</b>	(146)
Pensions	3	<b>(18)</b>	(18)
Depreciation of license costs and related goodwill	4	<b>30</b>	24
Temporary investments	5	<b>(14)</b>	(21)
Change in accounting principle	6	-	(63)
Impairment	7	-	(11)
Deferred taxes	9	<b>341</b>	195
Tax effect of US GAAP adjustments	9	<b>22</b>	43
<b>Approximate net income in accordance with US GAAP</b>		<b>1,570</b>	<b>1,283</b>
<b>Approximate earnings per share in accordance with US GAAP (in NOK)</b>		<b>1,979</b>	<b>1,782</b>

**Reconciliation of shareholders equity from N GAAP to US GAAP**

<i>Amounts in NOK million</i>	<b>Note</b>	<b>1998</b>	<b>1997</b>
Shareholders equity in accordance with N GAAP		<b>17,651</b>	15,026
Adjustments for US GAAP:			
Dividends	10	<b>675</b>	570
Capitalised interest	1	<b>495</b>	298
Depreciation on previous capitalised interest	1	<b>(89)</b>	(49)
Restructuring costs and employee termination benefits	2	-	234
Pensions	3	<b>208</b>	226
Depreciation of license costs and related goodwill	4	<b>55</b>	25
Temporary investments in entities	5	<b>(44)</b>	(30)
Impairment	7	<b>(22)</b>	(22)
Equity and debt securities	8	<b>85</b>	121
Deferred taxes	9	<b>652</b>	311
Tax effect of US GAAP adjustments	9	<b>(169)</b>	(191)
<b>Approximate shareholders' equity in accordance with US GAAP</b>		<b>19,497</b>	<b>16,519</b>

**(1) Capitalised interest**

The Group has expensed interest costs as incurred.

Under US GAAP, interest costs are capitalised as part of the cost of an asset that is constructed. The capitalisation period begins when activities to get an asset ready for use commence and ends when the asset is ready for its intended use. The capitalised interest is expensed over the estimated useful life of the asset as part of the depreciation charge.

**(2) Restructuring costs and employee termination benefits**

Under US GAAP, a liability for the cost of employee termination benefits can only be recognised if, before the date of the financial statements, management has authorised and committed to a plan, the arrangement has been communicated to employees and the number and type of employees to be terminated have been identified. A provision for restructuring costs can not be made if this costs is not incremental to other costs the Group incur to exit an activity.

The Group has up until 1998 recorded provisions for restructuring, employee termination and terminations of operations which do not fully comply with US GAAP requirements for such provisions.

### **(3) Pensions**

In 1995 the Group began to account for pensions according to the accounting standard which is substantially consistent with US GAAP. The change in accounting principle was offset directly against shareholders equity.

Under US GAAP the effect of change in accounting principle would be amortised over the remaining average service period.

### **(4) Depreciation of license costs and related goodwill.**

The Group amortise license costs and goodwill related to acquired licenses over a maximum period of 10 years.

Under US GAAP both license costs and the related goodwill are amortised over the license period, which is between 10 –18 years for Telenor's investments.

### **(5) Temporary investment in entities**

Investments in entities in which the Group has an ownership that are considered to be temporary in nature are recorded at cost or written down to fair value.

Under US GAAP, all investments with an ownership beyond 20% are accounted for under the equity method or consolidated.

### **(6) Change in accounting principles**

In 1997 the Group changed the accounting for recording expenses related to sales of advertisement in directories. The cumulative effect was recorded in the income statement. The new principle complies with US GAAP.

### **(7) Impairment**

The Group apply the portfolio principle for properties for sale to determine whether an impairment provision is necessary. Under US GAAP, each property must be assessed for impairment on an individual basis.

### **(8) Marketable equity securities**

Shares classified as current assets are valued as a portfolio at the lower of the historical cost and the fair value on the balance sheet date. Long term shares are valued at historical cost, or possibly fair value if the fall in value is not temporary.

Under US GAAP, marketable equity securities are valued at their fair value. For marketable equity securities available for sale, unrealised gains and losses after tax are recorded directly to shareholders equity.

### **(9) Deferred taxes**

In general, the principles of accounting for deferred taxes are the same under both N GAAP and US GAAP. N GAAP have, however, stricter terms for recognising deferred tax assets. Under N GAAP, a net deferred tax asset cannot be recognised.

Under US GAAP, deferred tax assets are recognised to the extent that it is more likely than not that the benefit will be realised. The probability of future taxable income as well as tax planning strategies should be considered in determining the realisability of deferred tax assets.

The income tax effects of other US GAAP adjustments are recorded as deferred tax expense.

### **(10) Dividends**

Under N GAAP, dividends payable reduce shareholders' equity for the year in which they relate.

Under US GAAP, dividends payable are recorded as a reduction of shareholders' equity when approved.

### **Assets and liabilities under US GAAP**

The abovementioned differences will affect to the Group's total assets and liabilities.

The Group has also offset the future lease obligations under the digital switch "lease out and lease in" transaction against the unused prepayments on deposit at a financial institution.

Under US GAAP, assets and liabilities can not be offset except when there exists the legal right to offset the asset and liability. The legal right to offset the pre-paid lease amount against the future lease obligations do not legally exist. Therefore, under US GAAP, the prepaid lease amounts and the Group's future obligations under the sales-leaseback transaction are recorded gross on the consolidated balance sheet in amount of approximately NOK 1,700 million. This does not affect the profit and loss statement or shareholders equity.

# Profit and loss account

Telenor AS 1 January–31 December

<i>Amounts in NOK million</i>	<b>Note</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
<b>Turnover</b>	1	<b>1,691</b>	<b>1,972</b>	<b>12,634</b>
Cost of goods sold and traffic charges		<b>31</b>	37	2,852
Salaries and personnel costs	2	<b>551</b>	655	2,848
Other operating expenses	3	<b>1,196</b>	1,281	2,597
Depreciation and write-down	8	<b>334</b>	372	2,621
<b>Total operating expenses</b>		<b>2,112</b>	<b>2,345</b>	<b>10,918</b>
<b>Operating profit</b>		<b>(421)</b>	<b>(373)</b>	<b>1,716</b>
Interest income, inter company		<b>524</b>	498	132
Financial income		<b>190</b>	61	68
Interest expenses, inter company		<b>(187)</b>	(85)	(57)
Financial expenses		<b>(507)</b>	(420)	(464)
<b>Net financial items</b>		<b>20</b>	<b>54</b>	<b>(321)</b>
<b>Profit before taxes</b>		<b>(401)</b>	<b>(319)</b>	<b>1,395</b>
Taxes	4	<b>(269)</b>	(331)	(276)
<b>Profit for the year</b>		<b>(670)</b>	<b>(650)</b>	<b>1,119</b>
Transfers and allocations				
Group contribution		<b>1,435</b>	1,264	(450)
Allocated to dividend		<b>(675)</b>	(570)	(950)
Transferred to/(from) Retained earnings		<b>(90)</b>	(44)	281
<b>Total transfers and allocations</b>		<b>670</b>	<b>650</b>	<b>(1,119)</b>

# Balance sheet

Telenor AS as at 31 December

<i>Amounts in NOK million</i>	<b>Note</b>	<b>1998</b>	<b>1997</b>
<b>ASSETS</b>			
Cash and cash equivalents		<b>32</b>	71
Accounts receivable	5	<b>361</b>	275
Other current assets	6	<b>2,178</b>	2,170
Inventories		<b>1</b>	3
<b>Total current assets</b>		<b>2,572</b>	<b>2,519</b>
Associated companies	15	<b>11,717</b>	10,281
Shares and other investments		<b>734</b>	156
Other long-term receivables	7	<b>12,844</b>	10,857
Fixed assets	8,9	<b>3,805</b>	3,713
<b>Total long-term assets</b>		<b>29,100</b>	<b>25,007</b>
<b>Total assets</b>		<b>31,672</b>	<b>27,526</b>
<b>LIABILITIES AND EQUITY</b>			
Short-term interest-bearing liabilities	10	<b>4,811</b>	3,781
Short-term non-interest-bearing liabilities	11	<b>1,798</b>	1,537
<b>Total short-term liabilities</b>		<b>6,609</b>	<b>5,318</b>
Long-term interest-bearing liabilities	10	<b>9,374</b>	8,394
Long-term non interest-bearing liabilities	11	<b>694</b>	909
<b>Total long-term liabilities</b>		<b>10,068</b>	<b>9,303</b>
Equity	12	<b>14,995</b>	12,905
<b>Total liabilities and equity</b>		<b>31,672</b>	<b>27,526</b>
Mortgages		-	-
Guarantees	13	<b>3,300</b>	12

# Cash flow statement

Telenor AS 1 January–31 December

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Proceeds from sale of goods and services	<b>1,299</b>	1,900
Payments to suppliers og goods and traffic	<b>(140)</b>	(255)
Payments to employeess, pensions, social security tax, PAYE deductions	<b>(687)</b>	(1,419)
Payment of other operating expenses	<b>(1,026)</b>	(1,463)
Interest etc. received	<b>652</b>	572
Interest etc. paid	<b>(678)</b>	(465)
Other payments in/out related to operating activities	<b>123</b>	100
Payment of taxes and public duties	<b>(247)</b>	(317)
<b>Net cash flow from operating activities 1)</b>	<b>(704)</b>	<b>(1,347)</b>
Proceeds on sale of fixed assets	<b>401</b>	298
Payments on purchase of fixed assets	<b>(644)</b>	(199)
Net cash receipts on sale of shares and investments	<b>114</b>	-
Net cash payments on purchase of shares and investments	<b>(564)</b>	(2,566)
Proceeds on sale of other investments *)	<b>12,417</b>	887
Payments on purchase of other investments *)	<b>(15,739)</b>	(819)
<b>Net cash flow from investing activities</b>	<b>(4,015)</b>	<b>(2,399)</b>
Proceeds of long-term liabilities issued	<b>8,266</b>	10,078
Proceeds of short-term liabilities	<b>19,298</b>	11,360
Payments on long-term liabilities	<b>(7,286)</b>	(6,847)
Payments on short-term liabilities	<b>(18,192)</b>	(11,240)
Net change other short-term liabilities	<b>(100)</b>	1,866
Paid in equity from the State	<b>2,000</b>	-
Payment of dividend	<b>(570)</b>	(950)
Received group contribution	<b>1,264</b>	-
Payment of group contibution	<b>-</b>	(450)
<b>Net cash flow from financing activities</b>	<b>4,680</b>	<b>3,817</b>
<b>Net change in cash and cash equivalents</b>	<b>(39)</b>	<b>71</b>
Cash and cash equivalents at 1 January	<b>71</b>	-
<b>Cash and cash equivalents at 31 December</b>	<b>32</b>	<b>71</b>
<b>1) Reconciliation :</b>		
Profit before taxes	<b>(401)</b>	(319)
Taxes paid	<b>(287)</b>	(397)
Gain/loss on sale of fixed assets and activities	<b>(253)</b>	(54)
Depreciation and write-down	<b>334</b>	372
Changes in other accruals	<b>94</b>	(456)
Diff. between expenced and paid for pensions and restructuring provisions	<b>(174)</b>	(477)
Net VAT and investment tax unrelated to operating activities	<b>(17)</b>	(16)
<b>Cash flow from operating activities</b>	<b>(704)</b>	<b>(1,347)</b>

The 1997 figures are based on the opening balance at 1 January 1997 for Telenor AS after spin-offs.

\*) Includes loans to Group companies, purchase and sale of commercial papers etc.

# Notes to the accounts

## Telenor AS

### 1. GENERAL

The parent company's accounting principles are the same as the Group's, which are described above. In those cases where the Notes to the parent company are significantly different from the Group's, they are shown below. Reference is also made to the Notes to the Group's accounts.

In 1998, the parent company's activities mainly comprise the administrative units, Real Estate, Research & Development, and Group Treasury. In 1998, activities in development and operation of IT-applications were

spun off to establish a separate company, Telenor 4tel AS.

Internal income and expenses within the Group amounted to NOK 1,142 million and NOK 221 million respectively in 1998. Internal sales comprise mainly property rentals, consultancy services, management fees, royalty etc. Internal purchases comprise mainly a share of costs related to joint projects, business development, communication services etc.

### 2. PENSION OBLIGATIONS

Amounts in NOK million

	1998	1997
<b>Change in benefit obligations</b>		
Benefit obligations at the beginning of the year	860	1,168
Service Cost	30	40
Interest Cost	56	65
Changes in schemes	7	41
Deviation estimated vs actual obligation	(4)	(17)
Acquisition, sale, spin-off	(53)	(229)
Benefits paid	(208)	(208)
<b>Benefit obligations at the end of the year</b>	<b>688</b>	<b>860</b>
<b>Change in plan assets</b>		
Fair value of plan assets at the beginning of the year	174	206
Actual return on plan assets	2	17
Acquisition, sale, spin-off	(36)	(90)
Pension premium	63	47
Benefits paid and paid-up policies	(8)	(6)
<b>Fair value of plan assets at the end of the year</b>	<b>195</b>	<b>174</b>
<b>Funded status</b>	<b>493</b>	<b>686</b>
Unrecognized prior service costs	(35)	(39)
Unrecognized net actuarial loss	(8)	28
Accrued social security tax	3	9
<b>Prepaid (accrued) benefit cost</b>	<b>469</b>	<b>684</b>
<b>Assumptions as of 31 December</b>		
Discount rate	7.0%	7.0%
Expected return on plan assets	8.0%	8.0%
Rate of compensation increase	3.5%	3.5%
Annual adjustments to pensions	2.5%	2.5%
Expected turnover per year	2.5%	2.5%

<i>contd.</i>	1998	1997
<b>Components of net periodic benefits cost</b>		
Service Cost	30	40
Interest Cost	56	65
Expected return on plan assets	(13)	(9)
Recognised net actuarial loss	29	21
Social security tax	7	6
<b>Net periodic benefit costs</b>	<b>109</b>	<b>123</b>
Contribution schemes	3	-
<b>Total pension costs charged to this year's result</b>	<b>112</b>	<b>123</b>

In 1998 Telenor has updated its pension calculations so that actual value of pension obligations and pension funds are disclosed. Comparable 1997 figures have been restated. Early retirement pensions, which were previously disclosed separately, are included the benefit obligation from 1998.

tion effect at 1 January 1997 of the AFP scheme for wholly owned subsidiaries. This effect is expensed over the estimated average remaining service period which is estimated to be 15 years. Pension plans that are not expensed as at 31 December 1998 amount to NOK 273 mill. This amount is entered as part of long-term receivables (see note 7).

Telenor AS is also committed to cover the implementa-

### 3. OTHER OPERATING EXPENSES

<i>Amounts in NOK million</i>	1998	1997
Cost of premises, vehicles, office equipment etc.	639	641
Travel and travel allowances	51	86
Sales, advertising etc.	42	49
Bad debt	8	2
Loss on sale of fixed assets and operations	7	33
Other	449	470
<b>Total other operating expenses</b>	<b>1,196</b>	<b>1,281</b>

### 4. TAXES

<i>Amounts in NOK million</i>	1998	1997	1996
Profit before taxes	(401)	(319)	1,395
Current taxes	269	290	397
Deferred taxes	-	41	(121)
<b>Total income tax expense</b>	<b>269</b>	<b>331</b>	<b>276</b>

**EFFECTIVE TAX RATE**

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Expected income taxes according to Statutory tax rate (28%)	<b>(112)</b>	(89)	391
Non-deductible expenses/ Non-taxable income	<b>1</b>	1	-
Previous not recognised deferred tax assets	<b>(21)</b>	-	-
Tax assets not recognised in current year	-	57	-
Group contribution	<b>402</b>	354	(126)
Other	<b>(1)</b>	8	11
<b>Income tax expense</b>	<b>269</b>	<b>331</b>	<b>276</b>
<b>Effective tax rate</b>	-	-	<b>71%</b>

**DEFERRED TAXES**

<i>Amounts in NOK million</i>	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
	<b>1998</b>	<b>1998</b>	<b>1997</b>	<b>1997</b>
<b>Short term:</b>				
Short term assets and liabilities	<b>10</b>	<b>(1)</b>	7	-
<b>Long term:</b>				
Fixed assets	<b>57</b>	<b>(37)</b>	33	(15)
Other long term assets and liabilities	<b>74</b>	<b>(76)</b>	31	-
<b>Tax losses carried forward:</b>	-	-	-	-
Deferred taxes/tax assets	<b>141</b>	<b>(114)</b>	71	(15)
<b>Valuation allowances</b>	<b>(27)</b>		<b>(56)</b>	
<b>Net deferred taxes/tax assets</b>	<b>114</b>	<b>(114)</b>	<b>15</b>	<b>(15)</b>

The change in valuation allowances is influenced by the spin-off of Telenor 4tel AS.

**5. ACCOUNTS RECEIVABLE**

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Accounts receivable	<b>361</b>	223
Accrued, not yet invoiced income	-	52
Provision for bad debts	-	-
<b>Total accounts receivable</b>	<b>361</b>	<b>275</b>

**6. OTHER CURRENT ASSETS AND SHARES**

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Inter company receivables	<b>1,616</b>	1,450
Commercial papers	<b>240</b>	295
Shares	<b>151</b>	210
Other receivables	<b>171</b>	215
<b>Total other current assets and shares</b>	<b>2,178</b>	<b>2,170</b>

**7. OTHER LONG-TERM RECEIVABLES**

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Subordinated loan associated companies	<b>343</b>	168
Interest-bearing liabilities inter company receivables	<b>11,848</b>	10,166
Change in pension plan	<b>273</b>	292
Other receivables	<b>380</b>	231
<b>Total other long-term receivables</b>	<b>12,844</b>	<b>10,857</b>

**8. FIXED ASSETS**

<i>Amounts in NOK million</i>	Accumul. cost 1 Jan 1998	Additions 1998	Disposals 1998	Depr. and write-down 1998	Acc. depr. and write-down 31 Dec 1998	Book value 31 Dec 1998
Land	194	424	(8)	-	-	610
Buildings	6,217	52	(325)	(259)	(2,983)	2,961
Adm. support systems	1,280	63	(6)	(54)	(1,289)	48
Goodwill and other intangible assets	105	-	-	(21)	(63)	42
<b>Total</b>	<b>7,796</b>	<b>539</b>	<b>(339)</b>	<b>(334)</b>	<b>(4,335)</b>	<b>3,661</b>
Work in progress *)	54	90	-	-	-	144
<b>Total</b>	<b>7,850</b>	<b>629</b>	<b>(339)</b>	<b>(334)</b>	<b>(4,335)</b>	<b>3,805</b>

\*) Net additions

**9. INVESTMENTS IN AND DISPOSALS OF FIXED ASSETS OVER THE LAST 5 YEARS:**

<i>Amounts in NOK million</i>	1998		1997		1996		1995		1994	
	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale
Local, regional & trunk networks	-	-	2	-	1,087	9	899	163	706	-
Subscriber equipment	-	-	-	-	59	-	58	6	52	-
Exchange equipment	-	-	-	-	607	-	539	3	685	-
Radio installations	-	-	-	-	41	166	110	713	62	-
Land and buildings	<b>424</b>	<b>296</b>	85	281	382	285	168	123	202	13
Adm. support systems	<b>115</b>	<b>92</b>	66	14	178	47	384	42	439	34
Goodwill and other intangible assets	-	-	-	-	1	-	105	-	-	-
<b>Total</b>	<b>539</b>	<b>388</b>	<b>153</b>	<b>295</b>	<b>2,355</b>	<b>507</b>	<b>2,263</b>	<b>1,050</b>	<b>2,146</b>	<b>47</b>

Investments and sales for the year 1994 comprise Televerket and subsidiaries.

## 10. INTEREST BEARING LIABILITIES

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Group account bank	<b>3,012</b>	2,923
Group intermediate	<b>1,799</b>	758
Other short-term liabilities	-	100
<b>Total short-term interest bearing liabilities</b>	<b>4,811</b>	<b>3,781</b>
Group intermediate	-	-
Other long-term liabilities	<b>9,374</b>	8,394
<b>Total long-term interest bearing liabilities</b>	<b>9,374</b>	<b>8,394</b>
<b>Total interest bearing liabilities</b>	<b>14,185</b>	<b>12,175</b>

Liabilities appointed as hedge of net investments i foreign currency is recorded at the exchange rate at the date the loan was raised.

## 11. NON-INTEREST BEARING LIABILITIES

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Accounts payable	<b>177</b>	141
Government taxes, tax deductions, holiday pay etc.	<b>14</b>	79
Dividend payable	<b>675</b>	570
Group intermediate	<b>361</b>	103
Current taxes	<b>270</b>	288
Advances from customers	<b>10</b>	-
Other current liabilities	<b>291</b>	356
<b>Total current non-interest bearing liabilities</b>	<b>1,798</b>	<b>1,537</b>
Pension obligations	<b>469</b>	684
Group intermediate	<b>224</b>	225
Other long-term liabilities	<b>1</b>	-
<b>Total long-term non-interest bearing liabilities</b>	<b>694</b>	<b>909</b>
<b>Total non-interest bearing liabilities</b>	<b>2,492</b>	<b>2,446</b>

## 12. EQUITY

<i>Amounts in NOK millin</i>	<b>Share capital</b>	<b>Legal reserve</b>	<b>Retained earnings</b>	<b>Total</b>
Equity as at 1 January 1998	7,200	4,900	805	12,905
Share capital increase	1,200	800	-	2,000
Profit for the year	-	-	(670)	(670)
Allocated for dividend	-	-	(675)	(675)
Group contribution received	-	-	1,435	1,435
<b>Equity as at 31 December 1998</b>	<b>8,400</b>	<b>5,700</b>	<b>895</b>	<b>14,995</b>

The share capital as at 31 December 1998 comprises 840,000 shares with a nominal value of NOK 10,000 each.

### 13. MORTGAGES AND GUARANTEES

<i>Amounts in NOK million</i>	<b>1998</b>	<b>1997</b>
Guarantees provided	<b>3,300</b>	12
<b>Total guarantees</b>	<b>3,300</b>	<b>12</b>

When long-term loans were raised without collateral, negative pledges were issued.

Telenor AS has provided guarantees for all leasing obligations regarding leasing agreements for Telenor Satellite Services AS (Thor II and Thor III) and Telenor

Nett AS (switches). Total remaining leasing obligations for these agreements amount to NOK 3.3 billion.

### 14. CONTRACTUAL OBLIGATIONS

Telenor AS has entered into agreements with fixed future payments on the following areas:

<i>Amounts in NOK million</i>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>After 2003</b>
Rent of premises etc.	328	271	230	209	87	-
Rent of cars, office equipment etc.	122	100	75	50	20	-
Energy	19	7	-	-	-	-
Committed investments in properties and equipment	394	97	19	7	1	-
Other contractual obligations	2	2	-	-	-	-
<b>Total</b>	<b>865</b>	<b>477</b>	<b>324</b>	<b>266</b>	<b>108</b>	<b>-</b>

## 15. SHARES IN SUBSIDIARIES

<i>Amounts in NOK 000s</i>		Company's share capital	No. of shares	The Group's share (%)	Book value
Norsk Data Ltd.	GBP	3,804	3,804,000	100.0	80,000
Telenor Bedrift AS	NOK	350,000	350,000	100.0	350,000
Telenor Installasjon AS	NOK	40,000	40,000	100.0	100,000
Telenor International AS	NOK	2,100,000	2,100,000	100.0	3,800,000
Telenor Nextel AS	NOK	160,625	32,125	100.0	522,866
Telenor Mobil AS	NOK	300,000	300,000	100.0	595,000
Telenor Nett AS	NOK	2,800,000	4,600,050	100.0	4,600,050
Telenor Privat AS	NOK	250,000	250,000	100.0	250,000
Telenor Plus AS	NOK	109,000	109,000	100.0	129,314
Telenor Innovasjon AS	NOK	10,000	10,000	100.0	10,000
Telenor Multicom AS	NOK	1,000	1,000	100.0	27,715
Finansnett AS	NOK	20	2	100.0	-
Telenor 4Tel AS	NOK	50	100	100.0	60,000
Telenor Research and development Ireland Ltd.	IEP	1,070	100	100.0	-
Telenor Finans AS	NOK	3,500	3,500	100.0	81,968
Telenor Forsikring AS	NOK	50,000	500	100.0	50,000
Telenor Instrument AS	NOK	500	500	100.0	500
Telenor Inkasso AS	NOK	2,000	2,000	100.0	2,000
Telenor Renhold & Kantine AS	NOK	1,000	510	51.0	510
Telenor Miljø AS	NOK	2,000	2,000	100.0	2,000
Telenor Svalbard AS	NOK	5,700	5,700	100.0	5,700
Telenor Venture AS	NOK	100,000	700,000	70.0	86,000
Telenor AB	SEK	100,000	1	100.0	95
Telenor Programvare AS	NOK	75,000	750,000	100.0	189,950
Telenor Företaksinfo AB	SEK	50	100	100.0	86,661
Lokaldelen AB	SEK	203	18,774	92.6	514,550
AB Svensk Programagentur	SEK	214	2,180	51.1	663
Annonssbolaget AB	SEK	100	1,000	100.0	84,737
Telenor Vision AB	SEK	1,000	10,000	100.0	-
Telenor Vision AS	NOK	100	1,000	100.0	-
Telenor Vision Swedish Film AB	SEK	100	1,000	100.0	-
Telenor Vision Teleport AS	SEK	100	1,000	100.0	-
Telenor Eiendom Vest AS	NOK	50	50	100.0	50
Games AB	SEK	100	1,000	100.0	128
Telenor Comma AB	SEK	1,434	14,360	100.0	60,000
Telenor Satellite Services AB	SEK	800	8,000	100.0	2,652
Internationale Private Networks AS	NOK	50	50	100.0	50
DCAM Holding AB	SEK	500	255	51.0	24,404
<b>Total</b>					<b>11,717,563</b>

### SHARES IN SUBSIDIARIES THROUGH SUBSIDIARIES

#### Telenor Bedrift

Telenor Dolphin AS	NOK	500	100,000	100.0
SCS Consultance AS	NOK	50	50	100.0
Computer Telephony AS	NOK	50	50	100.0
Nordpartner AS	DKK	1,800	4	100.0
Norsk Data AS	NOK	600	6,000	100.0
Richard Norton & Co	GBP	15	15,534	100.0
Wordplex Information Systems Ltd.	GBP	5,175	5,175,000	100.0
Wordplex Systems Ltd.	GBP	3,000	3,000,000	100.0

<i>Contd.</i>		<b>Company's</b>	<b>No. of</b>	<b>The Group's</b>
<i>Amounts in NOK 000s</i>		<b>share capital</b>	<b>shares</b>	<b>share (%)</b>
Wordplex Holdings Ltd.	GBP	100	100,000	100.0
4P Datalab AS	NOK	600	6,000	100.0
TelePost Communication AS	NOK	50	50	100.0
Comma Data Services AS	NOK	50	50	100.0
Telefonselskapet AS	NOK	1,000	1,360	68.0
Telenor Dataconsult AS	NOK	500	5,000	100.0
Teleteknikk AS	NOK	50	100	100.0
<b>Telenor International</b>				
Telenor Infonet Telecom AS	NOK	1 000	800	80.0
Second Opinion Solutions AS	NOK	296	2,025	68.5
Clarion Inc.	USD	7 300	7,812,500	64.6
Telenor Global Services AS	NOK	125,000	125,000	100.0
Storm Communications Ltd.	GBP	8,795	4,654,314	52.9
Telenor Marlink Pte. Ltd.	NOK	-	2	100.0
Telenor Marlink Ltd.	NOK	-	50,000	100.0
Telenor Consult AS	NOK	1,500	15,000	100.0
Telenor Satellite Services AS	NOK	800,000	800,000	100.0
Telenor Technology Sevices Ltd.	IEP	650	650,000	100.0
Norcom Network Communications Inc.	USD	34,131	1,895,808	87.8
Telenor Hungary Tavkolesi Kft.	HUF	1,000	1	100.0
Telenor Ireland Ltd.	IEP	250	250,000	100.0
Telenor Interkom Verwaltung GmbH	DEM	50	1	100.0
Telenor Polska s. z.o.o.	PLM	75	1	100.0
Telenor Slovakia spol. s.r.o.	SKK	30,000	1	100.0
Telenor Czech Republic s.r.o.	CZK	4,100	1	100.0
Telenor UK Ltd.	GBP	10	10,000	100.0
Telenor Comm. Sevices BV	NLG	576	138,032	100.0
Air Page GmbH	ATS	1,440	1,400	100.0
Grameen Phone Ltd.	BDT	2,211,618	26,231	51.0
Neva Nor Telekom AS	USD	20	13,467	67.0
Comet Holding AS	NOK	19,000	19,000	100.0
Liljekonvallen AB	SEK	100	1,000	100.0
Taide Network	NOK	1,000	2	100.0
Telenor Satellite Serv. GmbH	ATS	500	1	100.0
DCIT s.r.o.	CZK	2,000	1	62.0
<b>Telenor Plus</b>				
Telenor Avidi AS	NOK	30,000	300,000	100.0
Telenor Conax AS	NOK	1,000	10,000	100.0
Telenor CTV AS	NOK	11,655	11,655	100.0
Telenor Link AS	NOK	8,000	8,000	100.0
Lokalveviseren - Informasjonsforlaget AS	NOK	7,288	7,288	100.0
Telenor Media Direct. AS	NOK	2,000	2,000	100.0
NordTrans Handelsh. AB	SEK	50	500	100.0
Tu Distrito SA	ESP	155,000	15,500	100.0
Publishing AS	NOK	5,000	5	100.0
ScanCall AS	NOK	1,000	100	100.0
Soleil Publicite SA	FRF			75.0
Telenor Media Espana SA	ESP	30,000	30,000	100.0
Telenor Media AS	NOK	50,000	50,000	100.0
Telenor Pos AS	NOK	4,500	128,793	100.0
Telenor Marktech AS	NOK	480	48,000	100.0
Telecom Scandinavia AS	NOK	50	50	100.0
Tele Media Service AS	NOK	50	50	100.0
Telemarkedet AB	SEK	100	100	100.0
Golf-guiden AS	NOK	50	50	100.0

<i>Contd.</i>		<b>Company's</b>	<b>No. of</b>	<b>The Group's</b>
<i>Amounts in NOK 000s</i>		<b>share capital</b>	<b>shares</b>	<b>share (%)</b>
Gule Sider AS	NOK	50	50	100.0
Telefonkatalogens Gule Sider AS	NOK	50	50	100.0
Maxtel AS	NOK	50	50	100.0
Telenor Media Polska s.p.zo.o	PLN	300	1,000	100.0
Other	NOK	1,050	500	100.0
<b>Telenor Mobil</b>				
Com-gruppen AS	NOK	280	332	51.0
Lyd & Telesystemer Vestfold AS	NOK	50	51	51.0
Mobil Data Kjeden AS	NOK	730	35,040	100.0
Telenor Telehuset AS	NOK	36,666	36,666	100.0
Transport Telematikk AS	NOK	4,050	4,050	100.0
<b>Telenor Privat</b>				
Telenor Direkte	NOK	9,000	9,000	100.0
Telenor Alphashop AS	NOK	50	50	100.0
<b>Telenor Nett</b>				
Telenor SecuriNet AS	NOK	20,000	20	100.0
<b>Telenor Installasjon</b>				
Telenor Security AS	NOK	5,000	5,000	100.0
Telenor Security AB	SEK	4,000	50,000	100.0
Telenor Geomatikk AS	NOK	8,000	8,000	100.0
Dansk Hustlf.selsk. AS	DKK	1,000	602	100.0
Telenor Comma AS	DKK	10,000	64	100.0
Atewa Elektro AS	NOK	50	100	100.0
Holtan Elektriske AS	NOK	100	100	100.0
Elektriker-Service AS	NOK	500	500	100.0
CDI AS	DKK	500	5	100.0
ND Worldplex ApS	DKK	200	200	100.0
<b>Telenor Nextel</b>				
Nextra AS	NOK	50	50	100.0
Telenor Online AS	NOK	50	50	100.0
Nextra AS	DKK	500	100	100.0
Telenor ISV Corp.	USD	285	285	100.0
Nextra AB	SEK	100	1,000	100.0
Telenor Internet s.r.o.	CZK	100	-	100.0
Telenor Magnet GmgH	ATS	500	1	100.0
Telenor Internet	SKK	200	1	100.0
<b>Telenor Programvare</b>				
Telenor Allianse AS	NOK	10,000	10,000	100.0
Telenor Forum AS	NOK	1,530	153,000	100.0
Telenor Info Medica AS	NOK	7,300	7,300	100.0
Telenor Dataservice AS	NOK	35,000	350,000	100.0
Telenor Novit AS	NOK	45,000	4,500,000	100.0
Novit AS	NOK	50	500	100.0
SamData A/S	NOK	100	1,000	100.0
Financial Sys. Konsern	NOK	1,500	60,000	100.0
Telenor Financial Systems Innovasjon AS	NOK	50	50	100.0
Ergosoft AB	SEK	10,100	101,000	100.0

**TRANSLATION FROM NORWEGIAN**

**AUDITORS' REPORT FOR 1998**

**To the Annual General Meeting of  
Telenor AS**

We have audited the annual accounts of Telenor AS for 1998, showing a net result of respectively NOK -670 million for the company and NOK 1,286 million for the group. The annual accounts, which consist of the Board of Directors' report, income statement, balance sheet, cash flow statement, notes and the corresponding consolidated financial statements, are the responsibility of the Board of Directors and the Chief Executive Officer.

Our responsibility is to examine the company's annual accounts, its accounting records and the conduct of its affairs.

We have conducted our audit in accordance with applicable laws, regulations and generally accepted auditing standards. We have performed the auditing procedures we considered necessary to determine that the annual accounts are free of material errors or omissions. We have examined, on a test basis, the accounting material supporting the financial statements, the appropriateness of the accounting principles applied, the accounting estimates made by management and the overall presentation of the annual accounts. To the extent required by generally accepted auditing standards we have also evaluated the company's asset management and internal controls.

The appropriation of net result after received group contribution, as proposed by the Board of Directors, complies with the requirements of corporate law.

In our opinion, the annual accounts have been prepared in conformity with corporate law and present fairly the company's and the group's financial position as of 31 December 1998 and the result of its operations for the fiscal year in accordance with generally accepted accounting principles.

ARTHUR ANDERSEN & CO.

Olve Gravråk (sig.)  
State Authorised Public Accountant (Norway)

Oslo,  
23 March 1999

# Value added accounts

The Telenor Group 1 January–31 December

Amounts in NOK million	1998	1997
Operating income	28,380	25,518
To suppliers of goods and services	(12,475)	(11,704)
Value added in own business – gross	15,905	13,814
Capital use (depreciation)	(4,515)	(4,070)
Share of result of associated companies	(1,391)	(685)
Value added in own business – net	9,999	9,059
Financial income	830	320
<b>Total value added</b>	<b>10,829</b>	<b>9,379</b>

Which is distributed as follows:

## Employees

Salaries and personnel costs	6,516	60.2%	6,062	64.6%
(of which tax deduction)	1,906	17.6%	1,650	17.6%

## Investors of capital

Interest to the State	-	-	-	-
Interest to other lenders	779	7.2%	486	5.2%
Dividend to the State	675	6.2%	570	6.1%

## The State

Taxes and charges *)	2,248	20.8%	1,631	17.4%
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## Telenor

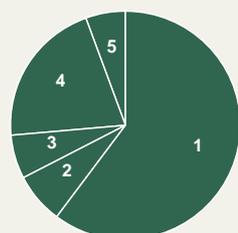
Retained for security and further increases in values	611	5.6%	630	6.7%
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<b>Total value added</b>	<b>10,829</b>	<b>9,379</b>
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\*) Payment of VAT accounted for a further NOK 3,311 million for the Group (NOK 2,804 million in 1997, and NOK 2,605 in 1996)

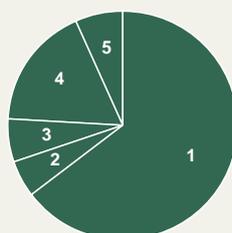
## VALUE ADDED ACCOUNTS

1998



1. Salaries and personnel costs 60.2%
2. Interest to other lenders 7.2%
3. Dividend to the State 6.2%
4. Taxes and charges 20.8%
5. Retained for security and further valued adding 5.6%

1997



1. Salaries and personnel costs 64.6%
2. Interest to other lenders 5.2%
3. Dividend to the State 6.1%
4. Taxes and charges 17.4%
5. Retained for security and further valued adding 6.7%

# Analytical information

## The Telenor Group

<b>Group:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover (in NOK million)	<b>28,380</b>	25,518	22,170
Annual growth in turnover	<b>11.2%</b>	15.1%	11.6%
EBITDA <sup>1)</sup> (in NOK million)	<b>8,362</b>	6,836	6,500
EBITDA-margin <sup>2)</sup>	<b>29.3%</b>	26.8%	29.3%
Operating profit (in NOK million)	<b>3,847</b>	2,766	2,613
Operating margin <sup>2)</sup>	<b>13.6%</b>	10.8%	11.8%
Associated companies (in NOK million)	<b>(1,391)</b>	(685)	-
Profit before taxes (in NOK million)	<b>2,507</b>	1,915	2,354
Profit margin <sup>2)</sup>	<b>8.8%</b>	7.5%	10.6%
Investments (in NOK million)	<b>9,297</b>	8,891	5,528
Interest bearing liabilities (in NOK million)	<b>11,453</b>	9,224	5,860
Equity/Capital ratio	<b>44.2%</b>	44.7%	49.6%
No. of man years	<b>20,226</b>	19,598	18,113
...of which abroad	<b>2,500</b>	2,510	1,425
Subscriptions in Norway and share of subscribers in associated companies (according to share owned) outside Norway (in 000s) :			
- Fixed telephony (lines) <sup>3)</sup>	<b>2,947</b>		
- Mobile telephony	<b>1,925</b>		
- Internet	<b>375</b>		
- Pay-TV	<b>1,241</b>		

<sup>1)</sup> EBITDA – operating profit before depreciation and write-down

<sup>2)</sup> in % of turnover

<sup>3)</sup> PSTN subscribers + ISDN B-channels (UT=30 lines, GT=2 lines)

<b>Fixed telephony:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover (in NOK million)	<b>12,318</b>	11,551	10,951
...of which:			
- subscriptions and establishment	<b>31%</b>	30%	27%
- local traffic	<b>19%</b>	20%	19%
- long-distance traffic	<b>10%</b>	11%	12%
- traffic to mobile net	<b>13%</b>	14%	12%
- traffic abroad	<b>7%</b>	10%	13%
- value added services and other operators	<b>20%</b>	15%	17%
No. of telephone lines (in 000s) <sup>1)</sup>	<b>2,935</b>	2,734	2,550
...of which ISDN-lines	<b>27%</b>	15%	5%
Total market penetration	<b>66%</b>	62%	58%
Traffic generated in fixed networks (million minutes)	<b>16,610</b>	14,299	13,211
Price development:			
- subscription rate (index)	<b>114</b>	101	100
- price per minute – traffic generated in fixed networks (index)	<b>84</b>	92	100
Investments <sup>2)</sup> (in NOK million)	<b>2 500</b>	2 300	1 600

<sup>1)</sup> PSTN subscribers + ISDN B-channels (UT=30 lines, GT=2 lines)

<sup>2)</sup> Investments in Telenor Nett excl. investments in data services and administrative investments

<b>Mobile telephony:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover: (in NOK million)			
– mobile generated traffic	<b>2 539</b>	2 081	1 694
– mobile terminated traffic <sup>1)</sup>	<b>1 133</b>	1 070	1 009
– subscriptions	<b>1 196</b>	1 004	865
No. of mobile subscriptions (in 000s)	<b>1 571</b>	1 259	978
...of which GSM-subscriptions	<b>1 260</b>	872	534
...of which Ring Kontant (prepaid subscriptions)	<b>316</b>	68	-
Increase in subscriptions, gross (in 000s) <sup>2)</sup>	<b>700</b>	564	443
Total market penetration	<b>47%</b>	38%	29%
Market share – GSM	<b>70%</b>	67%	65%
Turnover per GSM-subscription <sup>3)</sup>	<b>364</b>	394	439
Trafficminutes per GSM-subscription	<b>165</b>	148	128
Price development – price per minute GSM primary (index)	<b>61</b>	79	100
Provisions, market support, chain support and other sales and marketing expenses (in NOK million) <sup>4)</sup>	<b>900</b>	1 000	900
Investments in mobile network and exchanges (in NOK million)	<b>850</b>	700	900

<sup>1)</sup> Telenor Mobil's share of fixed to mobile traffic turnover. Also included in the section about fixed telephony

<sup>2)</sup> Includes among others internal transfers of customers between the GSM-system and the NMT-system plus transfers within one of the systems

<sup>3)</sup> Turnover per subscription has decreased, even though no. of minutes called has increased, due to significant price reductions

<sup>4)</sup> Includes provisions/market support given to distributors in the Telenor Mobil Group.

<b>TV-distribution:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover <sup>1)</sup> (in NOK million)	<b>771</b>	540	450
No. of subscribers - cabel-TV (in 000s)	<b>270</b>	244	230
No. of subscribers - SMATV (in 000s) <sup>2)</sup>	<b>686</b>	-	-
No. of subscribers - CTV (in 000s) <sup>3)</sup>	<b>218</b>	198	223
No. of subscribers - Canal Digital (in 000s) <sup>3) 4)</sup>	<b>134</b>	100	-
... of which digital decoders sold (000s)	<b>30</b>	-	-
Market share cabel-TV (Norway)	<b>38%</b>	35%	35%

<sup>1)</sup> Includes Telenor Conax – sale of smart cards

<sup>2)</sup> Includes Telenor Vision og Svensk Program Agentur in Sweden

<sup>3)</sup> Subscribers i Nordic countries

<sup>4)</sup> Total subscribers in Canal Digital. Telenor's share in Canal Digital is 50%

<b>Satellite-services:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover <sup>1)</sup> (in NOK million)	<b>1 907</b>	1 322	1 032
...of which: – networks <sup>2)</sup>	<b>353</b>	238	119
– mobile	<b>740</b>	514	514
– broadcast	<b>814</b>	570	399
No. of transponders:			
– owned	<b>34</b>	20	5
– leased	<b>18</b>	18	19
Share owned in satellite organisations/companies:			
– Inmarsat	<b>6,81%</b>	6,81%	6,82%
– Intelsat	<b>4,61%</b>	4,22%	2,44%
– Eutelsat	<b>1,17%</b>	0,25%	0,26%
– New Skies	<b>4,10%</b>	-	-

<sup>1)</sup> Includes turnover from other companies in the Telenor Group

<sup>2)</sup> Includes Norcom Network Communications - USA

<b>Catalogue and Directory services:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover: (in NOK million)			
– catalogue activities in Norway	<b>1 158</b>	1 051	955
– catalogue activities abroad	<b>432</b>	370	54
– directory services and other value added services - Telenor Media	<b>526</b>	466	427
Telenor Media's share of the advertising market <sup>1)</sup> in Norway	<b>8,9%</b>	8,6%	8,4%

<sup>1)</sup> Total advertising turnover for traditional medias (Source: Norsk Reklamestatistikk)

<b>Internet:</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>
Turnover (in NOK million)	<b>470</b>	309	111
...of which subscription turnover	<b>328</b>	174	53
Total market penetration <sup>1)</sup>	<b>38%</b>	29%	20%
No. of subscriptions in mass market – households (in 000s)	<b>260</b>	165	113
Market share – mass market	<b>70%</b>	70%	70%
No. of business subscriptions – network (in 000s)	<b>3 500</b>	1 500	500
Share of Telenor's local traffic at year end	<b>20%</b>	15%	n/a

<sup>1)</sup> Share of population having access to internet (through work, school, private etc.)

<b>IT/Data and software activities <sup>1)</sup> :</b>	<b>1998</b>	<b>1997</b>
Turnover (in NOK million)		
– consultancy	<b>952</b>	790
– operational services	<b>895</b>	907
– maintenance	<b>116</b>	115
– software	<b>109</b>	63
– other	<b>49</b>	55
...of which:		
– external	<b>856</b>	874
– group internal	<b>1 265</b>	1 057
Operating margin (operating profit/turnover)	<b>6%</b>	-

<sup>1)</sup> Includes Telenor Programvare, Telenor 4tel and Telenor Dolphin

#### Mobile telephony outside Norway:

	<b>Pannon GSM</b>	<b>ESAT Digifone</b>	<b>Cosmote</b>	<b>Viag Intercom</b>	<b>Connect Austria</b>	<b>Kyivstar</b>
Licence for:	Hungary	Ireland	Greece	Germany	Austria	Ukraine
Start of operations (y/mo)	94/4	97/3	98/3	98/10	98/10	97/12
Operational phase	Mature	Early	Start-up	Start-up	Start-up	Start-up
Operator no./total no.	2/2	2/2	3/3	4/4	3/3	4/5
System	GSM900	GSM900	GSM1800	GSM1800	GSM1800	GSM900
Penetration	10,6%	23,1%	18,8%	17,3%	28,7%	0,3%
No. of subscribers (in 000s)	420	239	300	20	1)	10
...growth 1998	155	139	300	20	1)	10
Market share <sup>2)</sup>	38%	29%	15%	-	1)	7%
Telenor's share	25,8%	45,0%	30,0%	10,0%	17,5%	35,0%
Telenor's investments: <sup>3)</sup> (in NOK million)						
– invested so far	670	435	680	1 675	520	330
– additional commitments	195	25	0	1 995	0	150
Telenor's share of turnover (in NOK million)	520	550	150	160	15	10

	<b>Grameen Phone</b>	<b>North West GSM</b>	<b>Extel</b>	<b>ProMonte</b>	<b>StavTeleSot</b>
Licence for:	Bangladesh	St.Petersburg	Kaliningrad	Montenegro	Stavropol
Start of operations (y/mo)	97/3	94/03	97/8	96/7	97/11
Operational phase	Early	Mature	Start-up	Mature	Start-up
Operator no./total no.	2/4	2/3	3/3	1/1	3/3
System	GSM900	GSM900	GSM900	GSM900	GSM900
Penetration	0,0%	2,2%	0,0%	4,6%	0,0%
No. of subscribers (in 000s)	30	92	2	35	2
... growth 1998	13	36	2	20	2
Market share <sup>2)</sup>	40%	63%	50%	100%	50%
Telenor's share	51,0%	12,7%	49,0%	<sup>4)</sup>	49,0%
Telenor's investments: <sup>3)</sup> (in NOK million)					
- invested so far	275	15	85	20	120
- additional commitments	-	-	-	-	-
Telenor's share of turnover (in NOK million)	45	90	3	130	3

<sup>1)</sup> Start-up at the end of 1998, subscription figures not available

<sup>2)</sup> Share of the total market

<sup>3)</sup> Paid in equity capital and long-term loans and guarantees

<sup>4)</sup> European Telecom owns 91.1% in ProMonte. Telenor's share in European Telecom is 44%







# Integrated business

# solutions

Small, medium-sized and large businesses all share one characteristic: The need for efficient telecom and IT solutions that makes communication with the outside world as efficient as possible and the value creation within the company as efficient as possible. With its solid platform

within both telecom and IT technology, Telenor has the best point of departure for supplying integrated solutions where the underlying technologies become invisible. Competitive solutions at all levels, combined with efficient deliveries and an excellent service level, will be the foundation that Telenor will use to strengthen its position in the business segment in the years to come.

# Regulatory matters

**Following the end of all monopoly rights in the telecommunication market on 1 January 1998, competition has developed faster in Norway than in many other countries.**

At the end of the year, Telenor had signed 14 inter-connection agreements for the fixed network. Market surveys in the private market show that around 3–4 per cent of the total traffic volume was purchased via use of prefix. There are no corresponding surveys for the corporate market. International traffic has changed the most, and local traffic has changed the least.

To increase competition further, Telenor will follow the instructions from the authorities and introduce carrier pre-selection and number portability from 1 June 1999. This means that the customer can choose the services of another operator without having to dial a prefix, and keep his telephone number when changing to another supplier's network.

In the Parliamentary Bill no. 24 (1998–99), the Government expresses satisfaction with the development and situation in the telecom market, including the development of the competition, price level and operators' ability to offer sufficient capacity. Furthermore, the Bill states that there is no need to introduce further regulatory measures imposing local loop unbundling on Telenor. This is because the new players have alternative access routes to the end users, and the fact that Telenor intends to offer a new service, fixed access, to competing operators.

In 1998, competitors tried to influence the authorities to get cheaper access to Telenor's network resources, in order to be able to offer more complete telecom services without having to establish their own networks. One example is that the Norwegian Post and Telecommunications Authority (PT) ordered Telenor to give Sense Communications AS a particular form of access to Telenor's mobile network, in such a way that Sense would acquire control of the production of services in Telenor's network. This would have meant that Sense could have offered their own SIM-cards and services to their customers, without having their own mobile network. Telenor has not accepted the order based upon the argument that it would be in breach of the licence and existing regulations, including the authorities' principle that competition should also apply to network infrastructure. It is Telenor's view that a change of regulatory principles would demotivate the further expansion and development of mobile communication in Norway. This would be particularly unfortunate in a phase where there is a need for regulatory predictability and stimulating incentives to invest in the next generation of mobile systems. Telenor has lodged an appeal with the Ministry of Transport and Communications regarding

PTT's decision. The Ministry is currently considering the matter.

As discussed in the 1997 annual report, the authorities have yet to establish satisfactory security standards for new operators. For Telenor, this represents a considerable risk in relation to the obligations imposed on the Company regarding the overall defence of the country, and in relation to network security for users.

The Telecommunication's Act and appurtenant regulations give Telenor's competitors easy access to the market, with only a simple registration required with the Norwegian Post and Telecommunications Authority. Telenor, through its license, is subject to stringent demands, in relation to delivery obligations, interconnection agreements, non-discrimination between its own and other player's businesses, and cost-based pricing. The current regulations are asymmetrical in favour of Telenor's competitors, based on the assumption that this is necessary to create efficient competition in the market. Telenor has accepted this so far, but also feels the obligation to point to the inherent danger of such a situation and the challenges it poses for the regulatory authorities.

Telenor would like to underline that the telecommunications market is in a turbulent phase with rapid developments in technology and market conditions. The establishment of efficient competition requires that new players add value and contribute to the development of the market through investments and innovative services and solutions. However, it takes time to build this type of competition based on innovation, and it is important that short-term regulations are not introduced that may have a negative effect in the long term, thereby reducing the chance of realising political objectives in the telecommunications arena. A predictable regulatory environment is vital to ensure a continued high level of investments and further development of services to the benefit of the users and development of Norway as an information society.

Since a special responsibility has been imposed on Telenor to reach central political objectives in the telecommunications arena, it is important that Telenor is given a regulatory framework wide enough so that the regulations do not unreasonably weaken Telenor's competitive power. The opposite would undermine Telenor's ability to provide an equal service offering across the entire country, and would weaken incentives to further develop the telecommunications sector in Norway.

# The year 2000 issue

The process of safeguarding Telenor's services and products against problems at the turn of the millennium has been ongoing for a number of years. In February 1997, a formal decision was made to establish Year 2000 projects in all companies and business units within the Telenor Group. In the second half of 1998, the combined efforts were incorporated and co-ordinated in a Group-wide Year 2000 Programme. The objectives are to ensure that targets are met, a consistent quality of work is attained, an increased focus on the commercial aspects, and that all common tasks and efforts across the Group are co-ordinated.

All entities in the Group report to the Year 2000 Programme on a monthly basis, detailing progress, quality and all documentation.

Telenor will complete the year 2000 preparations by mid-1999, as opposed to the previous goal of the end of 1998. Delays were incurred due to:

- reliance on external suppliers;
- entire business processes being tested in addition to the ordinary equipment and system testing; and
- the amount of work involved having grown from that originally anticipated in February 1997.

In spite of the extensive work that has been carried out, Telenor can not give any general guarantees against faults. To reduce the risk and extent of any problems, comprehensive risk analysis has, however, been undertaken and contingency measures are in the process of being developed for the transition to the year 2000.

However, it is crucial that companies and institutions take responsibility for disclosing and correcting potential problems in their own organisations. The probability of faults and disturbances is high if the year 2000 issue is ignored or not dealt with in time.

At the national level, Telenor co-operates with a number of other central public service providers, recognising that the stability of its own services is dependent on factors such as stable water, sewage and power supplies. Telenor also participates in the Action 2000 project instigated by the Government and is in charge of a sub-project to ensure national co-operation regarding basic infrastructure.

To uphold uninterrupted international traffic, Telenor must rely on other telecommunications operators and their efficiency in preparing for the year 2000. The international union of telecom operators, ITU, has therefore established a year 2000 co-operative project for the testing of international traffic. Test areas have been defined and distributed among the operators, and Telenor participates actively in this work.



*Substantial personnel resources back the efforts to ensure adequate progress and quality in the year 2000 preparations.*

Telenor has invested substantial resources to support its year 2000 work and many of its employees will be at work as the year turns. Particular efforts are being made to ensure that important public services, such as the emergency phone numbers (110, 112 and 113), will function without disturbances to national security, life or health.

## SERVICES

### Internet

The functionality of the internet will be dependent to a large degree on network operators and internet service providers worldwide. Telenor's internet products and services are for the most part renovated and year 2000 compatible. The products Telenor internet and Nextel Office will be year 2000-ready when the last system upgrades are complete during the first quarter of 1999.

### **Broadcasting**

Within TV and radio distribution, the mapping and analysis work will be completed during the first quarter of 1999. The services are mainly related to the distribution of television and radio channels for NRK, TV2 and P4. The tests are carried out in co-operation with these companies and are expected to be completed during the first half of 1999.

### **The telecommunications network**

The telecommunications network in Norway is now prepared for the year 2000. It has been tested both by Telenor's own experts and by suppliers. The network surveillance and management systems have been corrected, and testing will be completed during the first quarter of 1999. In the case of mobile communications, 1998 has been a year of investigation, dialogue with suppliers, planning, implementation, testing and verification. At the end of 1998, the NMT and transmission networks were tested and ready. The GSM network will be completed by 1 April 1999.

### **Directory enquiries**

Renovation and testing of the directory enquiry services and catalogue products was almost complete by the end of 1998. Telenor's objective is to provide telephone directories, electronic services, directory enquiries, call-centre and internet services in the same reliable manner in the new millennium.

### **Satellite communication**

No year 2000 problems have been identified on board Telenor's Thor series satellites. The testing of ground equipment for communication with the satellites is being undertaken and will be completed by June 1999. During the summer of 1999, systems for Inmarsat communication, satellite gateways, internet access, VSAT network and satellite broadcasting will be ready for the year 2000. Telenor also participates in the year 2000 projects organised by Intelsat and Inmarsat to secure delivery of services to and from Telenor.

### **Telenor's internal IT systems**

During 1998, a substantial amount of work was carried out to renovate Telenor's internal IT systems. This included work on computer systems, the internal IT network, servers and switchboards.

By August 1998, 135 computer systems comprising more than 20 million lines of program code had been analysed, renovated and tested for year 2000 problems. Further development and modifications to renovated systems are subject to particular procedures that ensure new 2000 errors are not introduced.

The upgrading of all servers and central computers in Telenor has commenced and will continue into 1999. The same applies to the upgrading of network com-

ponents and switchboards. This work will be completed in the summer of 1999.

Telenor's year 2000 projects focus on the most important value chains in Telenor. During the first half of 1998, the most critical value chains were identified, analysed and then prioritised based on their vulnerability. Value chains that support critical functions in society (e.g. emergency numbers) were given the highest priority and have been subject to closer analysis.

Telenor has built a separate test centre to carry out the year 2000 preparations. The testing of value chains is a complex task and requires involvement from a large number of experts from different parts of the organisation. In 1998, testing of 25 value chains was completed and this process will continue during 1999. To date only minor errors have been identified. Provided that the applied methods are sufficient to disclose all types and sources of errors, Telenor's renovation of the various systems has been successful and shows that Telenor has substantially reduced the risk of problems in its own services in connection with the year 2000.

The results from the mapping, preparations and implementation of the value chain tests have also given important input to general contingency planning in Telenor.

### **Year 2000 customer service**

Telenor puts great emphasis on keeping telephony and other communications services unaffected by the year 2000. However, at many customer sites there is a close integration of telecommunication services with computers and telephony equipment in complex system solutions. Telenor itself supplies a broad range of such products. To make it possible to fulfil the Company's responsibility to its customers, an extensive information database has been built and an organisation has been established that responds to enquiries and provides technical assistance in mapping and implementing necessary upgrades of such products. The objective is to provide the best possible support for customers in their year 2000 efforts.

From 1 April 1998, information has been available for our customers via a year 2000 Helpdesk (telephone, fax and e-mail) as well as through specific web pages under [www.telenor.no](http://www.telenor.no).

Telenor IT Service og Installasjon AS has established an extensive contingency programme to be able to support customers in an efficient way. The programme includes:

- Mapping, i.e. registration of all technical elements in the customer's value chain
- Analysis, evaluation of year 2000 dependencies in the various elements
- Upgrading and correction of any errors.

## Economy

For the years 1997 and 1998, Telenor has recorded total year 2000 related costs of approximately NOK 600 million. This includes both expensed and capitalised costs and are to a large extent related to own employees.

The costs pertain to planning, mapping of critical business processes, renovation and testing. The first three activities were for the most part completed at the end of 1998.

Telenor estimates the total costs of all year 2000 activities to be around NOK 1 billion. Budgeted costs for 1999 and 2000 relate to testing, migration of IT infrastructure, the phasing out of systems to be removed and implementation of secured systems. These activities will be completed during the first half of 1999. Subsequent costs will relate to measures to ensure that new errors are not introduced, contingency matters, customer contact and information.

Incurred and budgeted costs include:

- Costs of dedicated year 2000 projects in the companies
- Costs of establishing and operation of the test centre
- Costs of centralised year 2000 customer support (helpdesk)
- Costs of renovation, migration and the phasing out of internal systems
- Costs of line activities in companies and subsidiaries
- Investments in equipment
- Contingency work and information

## The future

The Year 2000 programme is defined as a strategic project in the Telenor organisation in 1999. There will be full focus on completing the year 2000 task according to the plans and principles described above. Once system tests have been completed, routines will be in place to prevent new year 2000 errors from being introduced. At the same time, there will be restrictions on the introduction of new systems. During 1999, a contingency organisation will be established to ensure that any problems that may arise will be handled in a responsible way, so that such errors will not affect Telenor's delivery of critical public services.

Telenor will continue to inform customers as well as the market, and stress the responsibility that rests on all companies and institutions, as well as offering assistance where relevant. During 1999, Telenor will intensify the work of assisting subsidiaries and test the connections between Norway and telecom operators in other countries.



*The cost of year 2000 preparations relate to planning, mapping, renovation and testing.*

# Report from the President

In 1998, Telenor recorded its best operating profit ever. Turnover grew by 11 per cent, while operating profit amounted to approximately NOK 3.8 billion. This is an increase of more than NOK 1 billion compared to 1997. The Group's activities continued to increase in value, both in Norway and abroad. This shows that Telenor has efficiently mastered the transition from a monopoly situation to an open telecommunications market.



*President and C.E.O.: Tormod Hermansen*

Although we have reason to be satisfied with the 1998-results, we cannot afford to reduce the speed in the future. The competition is becoming ever more intense, and the challenges we face call for powerful measures if Telenor shall keep its leading position in the Norwegian telecom/IT market. To achieve our objective of maximum increase in value, all parts of the Group must continue to focus on restructuring and adapting the business to the demands of the market, without losing sight of our profitability targets.

Telenor has used substantial resources in building a modern and efficient telecommunications infrastructure that covers the entire country and provides all citizens and companies access to telecommunications services of a high quality. Technology alone is not enough. To succeed in a competitive market, Telenor must also have a decentralised organisation, with highly qualified and committed employees, working together to find the best solutions for our customers. At the same time, our customer service must be friendly and reassuring if we are to keep our customers satisfied and loyal to Telenor's products and services.

In a high-technology company like Telenor, expertise is a key competitive advantage. In order to attract and retain qualified personnel at home and abroad, Telenor must be viewed as an attractive company for both potential and existing employees. We must offer challenging work and competitive salaries and working conditions. We must focus even more on giving every single employee the best opportunities to develop their expertise and abilities. Telenor's increasing international activity represents an additional challenge in terms of our ability to operate efficiently in an international environment. Our core values and ethical standards must form our guiding principles in this respect.

A key challenge for the future will be to develop further Telenor's organisation and structures for effective co-operation. This will be essential if we are to retain an efficient and unified profile in the market, and at the same time have a strong presence and visibility in local communities around the country. This is demanding and requires that managers and employees

in the different business areas establish methods of co-operation that enable them to focus not only on results in their own business area, but also on the business objectives of the Group as a whole. To achieve our business goals, management systems must be put in place to stimulate creativity and effort, in addition to rewarding co-operation. This applies to both our home-based and international activities.

Telenor is well positioned to meet the challenges posed by rapid structural change in the telecom/IT industry. However, the future will be complex, uncertain and demanding. It is more important than ever to make the right decisions in view of the globalisation and restructuring processes that are taking place. A key objective for us is to remain in a position in which we can determine our own destiny and continue to supply the Norwegian market with modern, advanced quality products at the lowest possible prices. Furthermore, we trust that the authorities will develop a regulatory framework that promotes healthy competition and value creation, not only in the short term, but also in the long term through incentives for innovation and capital investment.

The telecommunication industry's equity and financial solidity requirements have changed fundamentally over recent years. While telecom companies used to be geographic (national) monopolies that operated in a market with limited risk, they now face competition in all their areas of operation. Competition does not only come from other telecom companies, but also from companies in other industries, including energy companies, railway companies, media companies and IT companies. This creates a very different business risk and makes financial strength a key factor in the market-place. This financial strength is important, not only to win a share in attractive international projects and partnerships, but also to make profitable investments when market opportunities arise.

The agreement to merge Telenor and Telia to form one powerful Nordic telecommunications company must be viewed in this perspective. Individually, Telenor and Telia are small companies in a European and global context. Together, however, Telenor and

Telia have the expertise and resources necessary to play a significant role in the European market, as well as in some niches in the global market. The aim of merging the two companies is to create North Europe's leading telecommunications company, in terms of technology, expertise, and commercial standing. I am convinced that the new company will have unique opportunities in a market that will continue to be characterised by strong growth and restructuring.

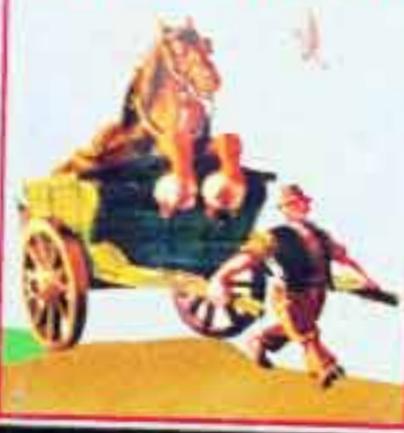
I am particularly pleased that the state owners have decided to partially privatise the merged company. The underlying value will then become more visible than before. It will also give the company the opportunity to use equity instruments when participating in restructuring processes. Just as important will be access to the international markets for equity, combined with the benefits of the financial market's continuous attention, and the analyses and evaluations of brokers and investment banks.



Tormod Hermansen  
President and C.E.O.

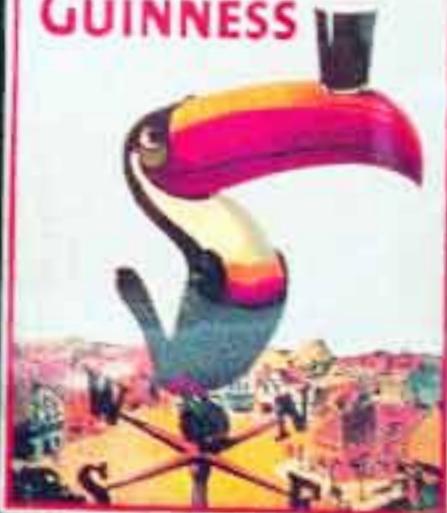
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**GUINNESS**  
**FOR STRENGTH**



Dealy

Lovely day for a  
GUINNESS





# Spearheading inter

# national markets with expertise

Telenor intends to maintain its market share in a global telecommunication market. Within a few years, half of Telenor's income will be generated from international businesses. Activities will be focused on technology, product and expertise areas where Telenor is particularly strong, such

as mobile communications. During the 90's, Telenor has, in co-operation with international and local partners, won licenses and built mobile networks in a number of countries, predominantly in Europe. The ambition is to become one of the 10 largest mobile operators in Europe.



Managing Director of  
Telenor International:  
Morten Karlsen Sørby

# Telenor International

Telenor International's strategy is to identify and develop profitable businesses abroad, which build on Telenor's existing core businesses and areas of competence. In 1998, Telenor International continued its comprehensive activity in pursuance of this strategy.

## Business and strategy

Telenor International's strategy comprises three key areas of expertise: mobile communications, satellite communications and international fixed network services.

Telenor participates as an active investor in mobile companies abroad, and it leverages its investment with business and technical expertise from Telenor's different mobile operations.

The division in Telenor International responsible for the Company's expansion within the mobile communications industry is called Mobility. Its objective is to develop international business, alone or in partnerships where Telenor's expertise and experience is an important element. In 1998, nearly 150 Telenor experts were directly involved at the peak of activity in mobile projects in Germany, Austria, Russia, Bangladesh, Hungary and Ireland.

After the launch of mobile services in Germany, Austria, Greece and Ukraine, Telenor had business activities in 11 operating mobile companies abroad. Based on the GSM 1800 technology, Telenor is engaged in projects in Germany, Austria and Greece, in addition to Norway. Telenor is also engaged in GSM 900 companies in Ireland, Hungary, Montenegro, Bangladesh, Ukraine and Russia (St. Petersburg, Kaliningrad and Stavropol). In addition, Telenor signed an agreement to acquire a part of Vimpel Communications (VimpelCom) in Russia in 1999.

Telenor Satellite Services is responsible for the technical and commercial operation of satellite communication projects within the Telenor Group. Telenor has eight wholly owned subsidiaries abroad within satellite communication, which through the year gradually reinforced their current operations through sales in three different market areas: Satellite Broadcasting, Satellite Mobile and Satellite Network solutions. In line with current technological developments, a fourth market segment, Satellite Multimedia, also emerged during the year. Following the launch of Thor III in June 1998, Telenor's third satellite, the Company's coverage from the satellite position 1 degree west extends to all of Europe.

Telenor Global Services focuses on three market areas: voice and data traffic to and from Norway, international traffic between operators and global communication solutions for the business market.

The demand for increased international communications capacity, due to the increase in internet traffic, has led Telenor to buy shares in new international submarine cables, particularly TAT14 between Europe and the USA.

Together with partners, Telenor established Storm Telecommunication Ltd in 1998, to take a share of the fast growing wholesale carrier to carrier market in Europe, and acquired Clarion Inc to penetrate the wholesale market in the USA.

To strengthen the further development of the Company's international activities, local management has been established in Sweden, Germany, Greece, Ireland, Slovakia, Austria, Russia, Czech Republic, Ukraine, Great Britain, USA and Asia.

## General analysis of results

Operating profit for the year amounted to NOK 61 million, which is NOK 112 million lower than in 1997.

The operating profit for Satellite Services was NOK 31 million, NOK 39 million above last year's result, and was a result of increased demand for mobile satellite services. This figure also includes the results from new business establishments, representing a loss of NOK 26 million.

Global Services recorded an operating profit of NOK 231 million, NOK 278 million less than in 1997, of which NOK 85 million was losses from new businesses. The remaining decrease is attributable to the re-balancing between subscription fees and traffic fees that has been carried out within the Group, as well as lower prices as a result of the new competitive market. As of 1 January, 1998 the volume of traffic, both into and out of the country and transit traffic, was higher than in 1997. Telenor MarLink, which went bankrupt in August 1998, had a negative impact on operating profit due to a loss of NOK 52 million. Some of the activities of Telenor Marlink have been continued as part of Telenor Global Services AS.

Mobility includes all mobile operations, the contracting out of Telenor consultants to the mobile companies abroad and administration. The operating result shows a loss of NOK 201 million, an improvement of NOK 127 million compared to last year. The improvement is due to the termination of the paging activities, which were included in the accounts for 1997. The result is also affected by Grameen Phone in Bangladesh, which had its first full year of operation

### Telenor International AS

Mobility

Satellite Services

Global Services

Regions

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	<b>1997*</b> <i>Restated</i>
<b>Turnover</b>		
• external	2,932	2,133
• intercompany	1,338	1,454
Cost of goods sold and traffic charges		
• external	2,143	1,604
• intercompany	386	390
Salaries and personnel costs	517	326
Other operating expenses		
• external	535	542
• intercompany	164	173
Depreciation and write-down	464	379
<b>Operating profit</b>	<b>61</b>	<b>173</b>
Results associated companies	-1,093	-456
Net financial items	-34	72
<b>Profit before taxes</b>	<b>-1,066</b>	<b>-211</b>
Investments	3,403	4,064
Capital employed at 31.12	7,981	4,803
Operating margin	1.4%	4.8%
Return on capital employed	-	-
No. of man-years at 31.12	1,233	1,244
• of this abroad	601	764

\* The restated figures reflect transfer of activities between the business areas within the Telenor Group, in order to establish relevant figures for comparison. The associated companies Telenordia and Internordia have been transferred from International to "Other".

in 1998. The company recorded an operating loss of NOK 87 million, which is NOK 26 million more than in 1997.

The results from associated companies, mainly mobile operations abroad, showed a loss of NOK 1,093 million. In 1997, losses were NOK 456 million. The mobile operations are characterised by low turnover at an early stage of operation, while expenses for establishing and operating technical infrastructure, build up of the organisation and customer support functions are high.

Net financial expenses for the year ended at NOK 34 million, compared to a net financial income in 1997 of NOK 72 million. Financial expenses have increased as a result of increased investments in satellites and shares in new mobile operations. Foreign exchange losses, resulting from net investments in foreign currencies, amounted to NOK 60 million. Increased dividends from satellite organisations, of NOK 84 million had a positive effect on the financial net figure.

## MOBILITY

### Turnover and market conditions

Turnover for 1998 was NOK 412 million, which is an increase of NOK 56 million compared to 1997. NOK 209 million is turnover from other units in the Telenor International Group. The reduced turnover from the paging activities was more than compensated for by increased turnover from the mobile operation in Bangladesh and from experts on hire to the mobile companies. Total turnover for 1998 in associated companies (Telenor's share not consolidated) abroad

was NOK 1,606 million. 70 per cent, or NOK 736 million, relates to associated companies in Western Europe, NOK 749 million to Southern Europe and NOK 121 million to Eastern Europe. Turnover from associated companies abroad totalled NOK 860 million in 1997. The total number of subscribers in Telenor associated companies abroad was 1,150,000 at the end of the year. Telenor's proportional share was 420,000. The growth in the total number of subscribers in the companies abroad during 1998 has been around 700,000 (150 per cent), which is higher growth than for the EU area, where the average penetration increased from 14.4 per cent in 1997 to 23 per cent at the end of 1998.

### Operating expenses

Operating expenses in Mobility relate to project development, administration, and the hiring of consultants in connection with the mobile investments abroad, as well as Grameen Phone in Bangladesh. The paging activities abroad were terminated according to the plans and provisions made in 1997. Operating expenses in Mobility has therefore declined in 1998 compared to 1997.

### Associated companies

The growth in the number of mobile phone users continued to be strong in 1998. Penetration abroad (measured as the number of subscribers as a percentage of the total population) is low (17 per cent in Germany, 18 per cent in Greece, 23 per cent in Ireland and 28 per cent in Austria) compared to the Scandinavian countries (Finland 58 per cent, Norway 48 per cent, Sweden 46 per cent).



Telenor is actively pursuing business opportunities in Central Europe and has set up business in a number of new countries in 1998.

Telenor's associated companies have managed to grow in line with the market. The highest growth was in Cosmote (Greece), with 300,000 new subscribers after commercial start-up in March 1998.

## **SATELLITE SERVICES**

### **Turnover and market conditions**

Turnover for Satellite Services was NOK 1,907 million in 1998, which is an increase of NOK 584 million compared to 1997. Of this, NOK 38 million was turnover from other units in Telenor International.

During the first part of 1998, the introduction of the new digital platform and the launch of digital services affected the development within satellite broadcasting. The launch of the Thor III satellite in June was successfully completed and provides an additional capacity for Telenor to maintain its position as the third largest satellite operator in Europe, behind Eutelsat and Astra. In addition to strengthening 1 degree West as a key satellite position for the Nordic market, services are now also being provided to countries in Central Europe and Russia. In January 1999, Telenor opened its new satellite uplink in Slovakia, which distributes TV channels to the Central European market.

1998 proved particularly successful for the Satellite Mobile division. Eik Global Communications remains the second largest service provider in the maritime market, but will encounter additional challenges over the next few years as competition from new market entrants increases, resulting in pressure on prices and margins.

The market for satellite network solutions is growing, which is reflected by the increase in turnover and number of systems. Focus on customer tailored solutions and specific segments rather than on product or technical applications only, has been successfully received in the market. The growth potential is significant and Telenor is well positioned to obtain a larger share than the current 6 per cent share of the European market.

Telenor owns 88 per cent of Norcom Networks Corporation, headquartered in Reston in Virginia, USA. The Company launched its satellite-based data communications network late in 1997 and proceeded throughout 1998 to win contracts with large American companies such as SEARS.

### **Operating expenses**

Operating expenses increased by NOK 545 million, to NOK 1,876 million, compared to NOK 1,331 million in 1997. This increase reflects the rise in turnover and activity in 1998.

## **GLOBAL SERVICES**

### **Turnover and market conditions**

Turnover for 1998 totalled NOK 2,272 million, an increase of NOK 117 million from 1997. The increase is mainly due to new subsidiaries abroad. NOK 73

million is turnover from other units in Telenor International.

During 1998, the establishment of companies in the UK and USA has further developed the wholesale business. Storm Telecommunication, a co-operation between Telenor, IXC and Clarion, is headquartered in London. Storm is a wholesaler of telecommunication traffic between operators. The company started commercial operation in September 1998, and it sells telecommunication traffic to operators all over Europe. Clarion, in which Telenor holds 65 per cent of the shares, is located in Atlanta, USA, and focuses on wholesale operations in the American telecom market. Total turnover from these activities amounted to NOK 133 million in 1998.

Through proactive marketing campaigns and a 25 per cent price reduction during the course of 1998, Global Services managed to increase the number of traffic minutes out of Norway compared to 1997. The 85 per cent market share held by the Company at the end of the year, exceeded expectations in view of the opening up of the market from 1 January 1998.

The number of minutes of incoming traffic to Norway increased by 12 per cent compared to 1997, which gives Telenor a 95 per cent market share.

Turnover from the sale of international refil and transit traffic rose from NOK 102 million in 1997 to NOK 276 million in 1998.

### **Operating expenses**

Operating expenses increased by NOK 395 million, from NOK 1,646 million in 1997 to NOK 2,041 million in 1998. NOK 211 million of this increase relates to new subsidiaries abroad. The increase relating to activities in Norway was caused by higher administration and marketing costs brought about by changing market conditions and a reduction in gross margin due to price re-balancing within the Telenor Group.

## **THE REGIONS**

The regions are responsible for all Telenor's business within defined geographical areas. It is strategically important for Telenor to succeed in each individual market, and the focus lies on factors such as setting priorities between markets and on developing the right services and product offerings. Within each region, the management has a total responsibility for Telenor International's own product areas, as well as for products and solutions supplied by other Telenor units.

### **Western Europe**

During the first year of a deregulated European market, Telenor has been active within a number of areas: mobile operations, fixed-mobile integration, wholesale international traffic, satellite services, directory services and system integration. The largest investments have been in Viag Interkom in Germany and Esat Digifone in Ireland.

### Central Europe

Telenor has been active in Central Europe for years and is involved in mobile operations, satellite services, directory services and the Internet. The largest investments have been in Pannon GSM in Hungary, Cosmoté in Greece and Connect Austria in Austria.

### Russia and Ukraine

Telenor has been a partner in North-West GSM in St.Petersburg since 1994. In addition, Telenor acquired 35 per cent of Kyivstar GSM in Ukraine, which launched its services in Kiev in the first quarter 1998. Through the agreement to buy into VimpelCom during the first half of 1999, Telenor will become a partner with the largest mobile operator in Russia, with a market share of 45 per cent in the Moscow area. Turnover in 1998 amounted to NOK 2,700 million. Telenor's acquisition of 25.7 per cent of the shares, corresponding to an ownership stake of 31.7 per cent, at NOK 1,200 million, is subject to approval by the Russian authorities. Telenor will continue to explore opportunities in the Russian and Ukrainian markets through these partnerships. Due to the economic situation in Russia, the growth in the Russian mobile market in the second half of 1998 was lower than in the first half.

### South-East Asia and USA

Telenor remains committed to establishing a foothold in both the USA and South East Asia. Currently Telenor has ownership stakes in Clarion and Norcom in the USA and in Grameen Phone in Bangladesh. By appointing resident managers and strengthening project resources, Telenor has increased its efforts to explore and develop business opportunities in these markets.

### TELENOR INTERNATIONAL Investments and capital employed

Telenor International's investments in 1998 amounted to NOK 3,403 million.

The investments have been made in the following areas (in NOK million):

• satellites	458
• satellite equipment	213
• capital contributions to satellite organisations	76
• other operating equipment	311
• shares in associated companies	2,345

The launch of Thor III in 1998 represents substantial investments in equipment. The largest investments in shares relate to mobile companies.

The return on capital employed was negative. Capital employed increased by NOK 3,036 million compared to 1997. The increase is mainly due to investments in the new satellite, satellite equipment and existing and new mobile operations.

### Analytical information

A majority of Telenor's activities abroad have started during the last three years. The start-up of a telecom



*Telenor sells international traffic to telecom companies all over Europe, through the London-based Storm Telecommunication.*

project usually generates financial losses for the first five to eight years. Despite this, substantial shareholder value can be created during this period, which will only be reflected in the financial statements if companies are sold. In other words, the market value is not reflected in the financial statements. Recent transactions in the market show that telecom companies that report operating losses are being sold with substantial profits. An increased international activity will generate financial losses in the short term, but at the same time there will be a substantial increase in the market value.

At year-end 1997, HSBC Investment Bank performed a valuation of Telenor International AS. The total value of the company's investments was estimated between NOK 12 and 18 billion, compared to the invested capital (invested share capital and net interest-bearing debt) at the end of 1997 of NOK 6.4 billion. HSBC has recently performed a new valuation at the end of 1998, which stipulates the value to be between NOK 22 and 35 billion, compared to invested capital of NOK 9 billion at the end of the year. The increase reflects the fact that all mobile operations are now in commercial operation and that their performance has exceeded expectations. In addition, the price of listed mobile companies has increased during the period.

### Future prospects

Technological improvements have so far driven the development in the telecommunication business. Telenor believes that this will change, and that the users and their demands for applications and solutions will be the main driving force in the future. Telenor is well prepared and positioned to play an active part in this development. Mobility has already tested the Wireless Application Protocol, which gives internet access on mobile phones. The Company participates actively in the development of integrated fixed/mobile services in a number of countries and has launched its first digital TV services via the Thor satellites. Telenor will continue to explore the business opportunities in countries where the Company is currently represented, and to further develop its integrated service offering in these markets.



Managing Director of  
Telenor Privat:  
Jo Lunder

# Telenor Privat

Telenor Privat is a customer-oriented service organisation that provides modern, user friendly and standardised fixed network services to the private and small business markets. In a year of increased competition and mobile traffic, the company recorded a growth in traffic volume, turnover and profits.

## Business and strategy

1998 was the first year with full competition in the market for fixed network services. Several newcomers now offer domestic and international traffic, and the market during the year was characterised by substantial growth, the launch of new products and price reductions. In addition, there was a significant migration from analogue connections to digital ISDN subscriptions.

In spite of the increased competition and more widespread use of mobile telephones at home, the traffic volume grew by 14 per cent, measured in minutes. Increased traffic to mobile phones and substantial growth in internet usage were the main reasons for this. Customer surveys show that Telenor's competitors had about 3 per cent of the traffic in the mass market, whereas it is expected that their customer bases made up around 12–15 per cent of the market.

From 1998, the subsidiary Telenor Direkte AS has concentrated on the telemarketing activities. The customer faults/complaints desk was transferred to Telenor IT Service og Installasjon.

New sales of ISDN subscriptions were satisfactory in 1998. At the end of the year, Telenor Privat had over 170,000 ISDN subscribers. ISDN gives customers access to faster data communication and new multimedia services. Starting in May 1998, Telenor offered an ISDN do-it-yourself package, which means that customers can install an ISDN solution at home.

Telenor Privat entered into agreements with housing co-operatives that give tenants discounts on telephony prices. These agreements help secure Telenor's market position in the areas most exposed to competition, a prerequisite to ensure that prices can be kept at a low level.

Bestill & Betal was launched in April 1998. This is a service that makes it possible to order and pay for products and services by phone from the home. The solution has been developed by Telenor in co-operation with Den norske Bank.

Traffic from Telenor's pay phones have decreased the last few years, mainly due to the increased use of mobile phones. Telenor Privat is meeting this challenge by introducing new technology which opens for new services and general quality improvement.

## General analysis of results

Turnover in 1998 totalled NOK 7,643 million, with an operating profit of NOK 682 million. External turnover rose by 8 per cent compared to 1997, mainly due to higher traffic and turnover from subscription and connection fees.

## Turnover

Turnover developed satisfactory in 1998. Connection and subscription fees increased by 26 per cent as a result of widespread conversion from PSTN to ISDN and an increase in subscription prices. Increased traffic volume compensated for reduced traffic prices, resulting in a rise in turnover from traffic of 8 per cent. Price reductions have been implemented through a combination of reduced basic prices, discount programmes and new customer programmes.

During the year, Telenor rebalanced its price structure, whereby traffic prices were reduced and subscription prices increased. Traffic prices were reduced on average by 11 per cent. The greatest reductions have been for long distance, international and fixed-to-mobile traffic. Subscription prices have been increased to cover costs in the subscriber network. The changes in the price structure have been carried out in accordance with the cost-based principles laid down by the authorities for a liberated telecommunications market. The rebalancing of prices will continue in 1999. At the same time, Telenor introduced a mini subscription aimed at the market segment of infrequent callers, which offers a lower subscription fees, but higher traffic prices.

## Operating expenses

Personnel costs were reduced by NOK 36 million compared to 1997, as a result of increased efficiency and the ensuing reduction of man-years

There was an increase in costs related to IT support systems due to additional traffic and the implementation of new, modernised customer, ordering and invoicing systems. In addition, the increased competition required more resources for marketing activities.

NOK 21 million was booked against the 1997 restructuring provision. The remaining NOK 4 million was taken to income in 1998, since the restructuring of the customer service organisation was less costly than originally anticipated.

### Telenor Privat AS



<b>Key figures</b> Amounts in NOK million	<b>1998</b>	1997
<b>Turnover</b>		
• external	7,585	7,003
• intercompany	58	180
Cost of goods sold and traffic charges		
• external	19	92
• intercompany	5,470	5,299
Salaries and personnel costs	421	457
Other operating expenses		
• external	362	438
• intercompany	596	455
Depreciation and write-down	93	106
<b>Operating profit</b>	<b>682</b>	<b>336</b>
Results associated companies	-	-
Net financial items	72	25
<b>Profit before taxes</b>	<b>754</b>	<b>361</b>
Investments	125	159
Capital employed at 31.12	581	569
Operating margin	8.9%	4.7%
No. of man-years at 31.12	961	1,192
• of this abroad	-	-
Subscriptions PSTN	1,783,060	1,917,000
Subscriptions ISDN	174,941	73,500



*During the last few years, significant price reductions have made it less costly to stay in touch with friends and family.*

A reduction in depreciation of NOK 13 million is due to the fact that some fixed assets have been fully depreciated, while a significant portion of new investments will not be completed before 1999.

#### **Operating profit**

An operating profit of NOK 682 million is an increase of NOK 346 compared to 1997. The improvement is mostly due to increased traffic volume that has more than compensated for price reductions and increased competition.

#### **Investments and capital employed**

In 1998, investments amounted to NOK 125 million. Investments in subscription equipment amounted to NOK 18 million, while IT equipment and fixtures represented NOK 34 million. Work in progress increased by NOK 74 million, mainly related to the new Customer, Ordering and Invoicing system.

#### **Prospects**

The introduction of carrier pre-selection and number portability 1 June 1999 will increase competition and reduce prices, as it will become easier to use the services offered by competitors. In addition, increased competition is expected for subscriptions.

Telenor will meet this competition by further improving and co-ordinating activities aimed at the mass market, stimulating market growth, improving the capacity of the network and launching new services and new areas of use for existing services.

The capacity of the subscribers' network will be extended through the use of new technology (ADSL, HDSL) and by stretching fibre cables closer to the subscribers. In addition, ISDN will continue to be a central area of focus. Telenor Privat expects to double ISDN sales in 1999. The increased capacity will be necessary to offer new multimedia services at attractive prices. New areas of use and new services will focus on messaging and data services, transaction handling, service and advisory services, as well as end user solutions (such as home offices, smart homes and alarm/security services).



Managing Director of Telenor Mobil: Stig M. Herbern

# Telenor Mobil

In 1998, Telenor Mobil strengthened its position as Norway's leading supplier of mobile telecommunication services. Products and services from Telenor Mobil include mobile telephony, paging and mobile data communication, messaging services, content services and related communication solutions.

The Telenor Mobil Group comprises, in addition to Telenor Mobil AS, Telenor Telehuset AS, COMMIT AS, MobilData Kjeden AS and Transport Telematikk AS. In June, Telenor Mobil acquired the remaining 30 per cent of the shares in Telenor Telehuset AS and now owns the company 100 per cent.

## Business and strategy

In 1998, the strong growth in the number of mobile telephone subscriptions continued. Most of this growth came in the private market, particularly due to the success in the youth segment of the pre-paid subscription Ring Kontant. Additionally, the new and interesting trend amongst young people to use text messages (SMS) is on the increase.

Price reductions throughout the year amounted to a total cut of 20 per cent. Effective 1 January 1999, Telenor Mobil reduced prices another 8 per cent.

As one of three operators, Telenor was awarded a license for GSM 1800 (DCS 1800). On 12 June, Telenor launched its new GSM 1800 network in Oslo, Bergen, Trondheim and Stavanger. This means increased capacity in the GSM network at large, and an increased opportunity to use new high-capacity services such as internet based services. After six months of operation, Telenor Mobil has more than 100,000 users and heavy traffic on the GSM 1800 network.

In the autumn of 1998, the Ministry of Transport and Communication decided to shorten the notice period for the extension or termination of the NMT 900 and NMT 450 mobile networks from five to two years. At the same time, the termination date for NMT 900 was set to the end of 2001. No changes have been made to the NMT 450 license.

At the same time as Telenor Mobil launched GSM 1800, the subscription category "Nomade" was introduced. This subscription encompasses all mobile telephony, data and content services in one package, making it easier for customers to work flexibly, regardless of time and place.

In 1998, Telenor Mobil launched MobilPost, the first in a series of internet based services for the mobile telephone. This service makes it possible for GSM customers to reply to and forward electronic mail via a mobile phone.

In 1998, Telenor Mobil entered into an agreement with the international satellite operator, Iridium, to become a service provider for the company. This will give Telenor's customers direct access to Iridium's worldwide satellite network.

A new tool for electronic road information – ELVEG – was launched in 1998. ELVEG has been developed by Transport Telematikk AS in co-operation with the Norwegian Mapping Authority and the Norwegian Public Roads Administration. The new technology makes it possible for transporters to select the shortest, fastest and most cost-efficient routes.

In co-operation with AS Batteriretur, Telenor Mobil has established a return point and handling programme for used mobile telephony equipment. The service is free of charge to customers.

## General analysis of results

The operating profit for the Telenor Mobil Group was NOK 1,047 million, compared to NOK 753 million in 1997. This improvement is primarily due to higher turnover as a result of a substantial increase in the number of subscribers and more traffic minutes per subscriber. The operating profit for Telenor Mobil AS was NOK 1,108 million. Adjusted for the accrual of costs between 1997 and 1998, Telehuset posted an operating loss of NOK -37 million in 1998, which is an improvement of NOK 24 million in relation to 1997. The profit improvement is the result of an increase in the contribution margin ratio.

## Turnover and market conditions

The Telenor Mobil Group recorded a turnover of NOK 5,843 million in 1998, compared to NOK 5,137 million in 1997.

Telenor Mobil AS' turnover was NOK 5,051 million in 1998, compared to NOK 4,375 million in 1997. Turnover from subscriptions amounted to NOK 1,196 million, compared to NOK 1,004 million in 1997. Turnover from mobile generated and terminated traffic was NOK 2,539 million and NOK 1,133 million respectively, compared to NOK 2,073 million and 1,070 million respectively in 1997. The improvement in traffic income is due to the rise in the number of subscribers and an increase in traffic minutes per subscriber from 148 per month in 1997 to 165 per month in 1998. 64 per cent of new sales are related to pre-paid calling cards. Turnover from hook-up fees and change fees totalled NOK 102 million, compared to NOK 159 million in 1997.

## Telenor Mobil AS

- Product Division
- Network Division
- Market Division
- Sales Division
- Telehuset AS
- Partly owned chains

Key figures	Amounts in NOK million	
	1998	1997
<b>Turnover</b>		
• external	4,660	3,890
• intercompany	1,183	1,247
Cost of goods sold and traffic charges		
• external	844	768
• intercompany	685	745
Salaries and personnel costs	633	512
Other operating expenses		
• external	1,385	1,392
• intercompany	522	453
Depreciation and write-down	727	514
<b>Operating profit</b>	<b>1,047</b>	<b>753</b>
Results associated companies	2	-1
Net financial items	-73	-67
<b>Profit before taxes</b>	<b>976</b>	<b>685</b>
Investments	1,183	944
Capital employed at 31.12	2,653	2,253
Operating margin	17.9%	14.7%
Return on capital employed	44%	35.0%
No. of man-years at 31.12	1,458	1,331
No of subscriptions		
• NMT 450	143,415	164,651
• NMT 900	167,167	223,100
• GSM	259,940	871,535
• Paging	134,748	136,520
Traffic minutes/subscription GSM (per month)	165	148



Using the electronic road information database ELVEG, transporting companies are able to select the shortest and most cost-effective route for their vehicles.

The growth in the number of subscriptions increased our GSM market share from 67 per cent in 1997 to 70 per cent in 1998. According to the OECD, Telenor Mobil's prices are among the lowest in the world.

#### Operating expenses

The total cost of goods sold and traffic charges rose to NOK 1,529 million in 1998, compared to NOK 1,513 million in 1997. The price of traffic in the networks of other operators was lower in 1998 than the year before, but this was offset by increased traffic volume. Depreciation increased in 1998 compared to the previous year as a result of increased investments and the completion of a number of projects during the year. In addition, the depreciation period for NMT 900 was reduced from the year 2003 to 2000, which increases depreciation by NOK 31 million. Depreciation for the year was NOK 727 million, compared to NOK 514 million in 1997.

Salary and other personnel costs increased as a consequence of growth in the number of employees and general salary increases in 1998. Retailer commissions, marketing support, retailer chain support and other sales and marketing costs totalled approximately NOK 900 million, compared to approximately NOK 1,000 million in 1997. The decrease is due entirely to lower commissions. This has been made possible through improved efficiency in distribution, cheaper telephones on the market and lower retailer commissions for the prepaid subscription Ring Kontant. The increase in other operating expenses is to a large extent related to increased IT costs as a consequence of increased traffic volume.

#### Investments and capital employed

In 1998, total investments amounted to NOK 1,183 million, against 944 million in 1997. NOK 851 million was invested in mobile networks and switches.

Profitable operation has made it possible to carry out the investments without increasing long-term interest-bearing debt. Return on capital employed rose from 35 per cent in 1997 to 44 per cent in 1998 as a result of the higher turnover.

#### Prospects

The Norwegian mobile market is one of the best developed in the world. Mobile telephone penetration is high, and the prices for equipment, subscriptions and traffic are low. In the coming years, demand for internet based and other data services will increase sharply. Competition will also increase as new operators gain access to the mobile networks, through roaming agreements.

GSM will continue to be the most important system and form a platform for the majority of Telenor Mobil's services in the coming years. Satellite based systems will start operating in 1999, but are expected to be a niche area unable to challenge the dominant position of GSM. In combination with GSM, however, the satellite systems will give a unique coverage.

During the next three years, specifications for the next generation mobile communications system (UMTS) will be completed and pilot installations established.



Managing Director of  
Telenor Bedrift:  
Thor A. Halvorsen

# Telenor Bedrift

Telenor Bedrift is a major player in the Norwegian IT and telecom market. The business concept is to supply communication solutions that will add value to its customers' business processes. The Company provides telecom and computer network services, products and solutions, in close co-operation with other Telenor companies. In 1998 both turnover and profits increased. The business area can once again report a positive result, following the negative result the year before.

## Business and strategy

Telenor Bedrift has responsibility for the 35,000 largest companies and institutions in Norway.

During 1998, Telenor Bedrift carried out an extensive restructuring process to improve profitability. At the beginning of the year, computer installation, support and maintenance services were transferred from Telenor Bedrift to Telenor Installasjon. In the middle of the year, the software operation was established as a separate business unit within the Telenor Group. Today, Telenor Bedrift is concentrating its activities on communication and IT.

At the end of 1998, Telenor Bedrift had established an even stronger focus on product profitability through the establishment of product oriented business units. At the same time, the integration of telecom and computer products and technologies, as well as co-ordinated market behaviour, was secured through a single market and distribution organisation. The restructuring process has led to reductions in both own and hired staff.

## General analysis of results

In 1998, turnover was NOK 8,020 million, compared to NOK 7,265 million in 1997. This represents an increase of 10 per cent. Growth in volume compensated for general price reductions. The strongest growth was within IT operations and outsourcing. Traditional voice and data network services also showed an increase in turnover. Sales of equipment showed a modest decline in 1998.

Operating profit for 1998 was NOK 73 million, compared to an operating loss of 156 million in 1997. The improvement was due mainly to growth in turnover. Operating expenses were particularly high during the 4th quarter of 1997. A provision for restructuring of NOK 70 million was made at year end 1997. Upon completion of the restructuring measures in a number of areas, NOK 20 million of last year's provision was taken to income in the fourth quarter of 1998, while NOK 10 million was transferred to 1999.

## Turnover and market conditions

Turnover for 1998 was NOK 8,020 million, an increase of NOK 755 million compared to 1997. This includes business generated through large-customer activities, which secured several major and long-term contracts for integrated solutions. Intercompany turnover

increased by NOK 789 million in 1998 to NOK 2,482 million. Approximately half of the increase relates to increased turnover from sales through Multicom to partners. Intercompany IT operations and sales of equipment through Telenor's financing company also showed an increase.

For network based services, external turnover increased by 7 per cent. The growth was strong both within telephony and IT. The migration from PSTN to ISDN contributed to continued growth in the number of lines, whilst increased use of mobile telephones and the internet were the principal reasons for a 23 per cent increase in traffic minutes from 1997 to 1998. An increasing number of operators in the market also led to an increased turnover from leased lines. Competition from the new operators in the telephony market was mainly restricted to international traffic and to some extent fixed-to-mobile traffic.

Value-added network services, like the virtual private network service (Telenor VIP Nett) showed a positive development in 1998. For large companies, the functionality offered in the VIP network is becoming an increasingly decisive factor when choosing communication solutions. This functionality is constantly being developed, and home offices can now be included in the service, in addition to mobile phones and offices abroad.

Data communication networks was also a product area focused on in 1998. The demand for increased capacity and speed in data/telephony networks increased sharply. The number of subscribers for the high speed network Nordicom doubled in 1998. From the end of 1997 and through 1998, turnover from data network services increased 600 per cent and our market position was strengthened considerably.

Turnover generated from equipment such as switchboards, video conferencing and computer equipment ended marginally lower than in 1997. The market for company financed home office PC equipment has grown, and Telenor won a number of large PC contracts in 1998.

The largest growth was in operating services, primarily consultancy work and the operation of large enterprise systems, as well as remote operation of telephony and computer networks. Telenor Bedrift has the full responsibility for the operation of the entire IT system

## Telenor Bedrift AS

- Sales & Market Division
- Product and Service Division
- Customer and Supply Center

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	1997* <i>Restated</i>
<b>Turnover</b>		
• external	5,538	5,572
• intercompany	2,482	1,693
Cost of goods sold and traffic charges		
• external	1,544	1,573
• intercompany	4,614	4,282
Salaries and personnel costs	880	847
Other operating expenses		
• external	566	606
• intercompany	212	32
Depreciation and write-down	131	81
<b>Operating profit</b>	<b>73</b>	<b>-156</b>
Results associated companies	-6	-2
Net financial items	36	-
<b>Profit before taxes</b>	<b>103</b>	<b>-158</b>
Investments	310	n.a.
Capital employed at 31.12	2,385	2,302
Operating margin	0.9%	-2.1%
Return on capital employed	6.8%	-
No. of man-years at 31.12	1,694	1,920
• of this abroad	-	-
No. of lines		
• PSTN	360,000	364,844
• ISDN	417,000	237,286

\*The restated figures reflect transfer of activities the business areas within the Telenor Group. In 1998, service, maintenance and installation of computer solutions, as well as Comma AS and Comma AB, have been transferred from Bedrift to IT Service og Installasjon, and Multicom and ND UK are now being accounted for under "Other". The software activities and DataService have been spun off from Telenor Bedrift into a separate business area.

of the Telenor Group, which is probably the most advanced and demanding IT customer in the country. Implementation of new customer systems within the Group led to a significant growth in this business. Remote operation of customer telephony and computer networks also increased considerably. With turnover more than double that of the previous year, Telenor Bedrift strengthened its position in the growing market for outsourcing services.

#### Operating expenses

The cost of goods sold and traffic charges increased by NOK 303 million to NOK 6,158 million. The external cost of goods sold, NOK 1,544 million, was at the same level as in 1997. The intercompany cost of goods sold increased by NOK 332 million to NOK 4,614 million, which mainly related to IT operations.

Personnel costs were NOK 880 million in 1998, an increase of NOK 33 million compared to 1997. Adjusted for the restructuring provision in 1997, the increase in personnel cost was 13 per cent, due primarily to the increased focus on customer and delivery services, as well as higher activity within IT operations. The effect of the restructuring did not become evident until the 4th quarter, and this compensated to some extent for the general salary increases of 1998.

Other operating expenses rose by NOK 140 million from 1997 to NOK 778 million. The increase was mainly due to growth in the outsourcing projects and operations management services, including the devel-

opment and operation of the Telenor group's telephony and IT solutions.

Depreciation was NOK 131 million in 1998, an increase of NOK 50 million over the previous year. The increase reflects higher depreciation of investments in IT systems, particularly within the business responsible for the operation of the IT and telephony systems of the entire Telenor Group, but is also related to new customer systems within Telenor Bedrift.

#### Investments and capital employed

In 1998, Telenor Bedrift's investments totalled NOK 310 million. The investments were mainly related to internal business-critical IT systems, as well as to contracts for the operation of customers' systems. At the end of the year, the capital employed was NOK 2,385 million, compared to NOK 2,302 million at the beginning of the year.

#### Prospects

In the next few years, competition within the telecom and IT markets will most likely continue to be driven by developments in technology. Price will be a decisive factor for the sale of telephony and data traffic, but only one of several factors when it comes to integrated solutions in the professional market. Customer service, precision in deliveries and the ability to handle complete and integrated solutions incorporating voice, data and video will become increasingly important. The restructuring of Telenor Bedrift in 1998 has made the company well positioned to exploit these opportunities in the future.



Video conferences are becoming more and more popular. Every morning at 8.30 am, Bergen Fonds "travel" round trip to Oslo in less than a second to discuss today's stock market.



Managing Director of  
Telenor Programvare:  
Bjørn Trondsen

# Telenor Programvare

In 1998, Telenor's activities within software and centralised IT systems operations were reorganised in a new business area, Telenor Programvare. The business area offers software solutions with corresponding consultancy and operations management services aimed at the health sector, public sector and the bank and finance sector. It also provides IT systems operations management for the entire market. The business area is active within the Nordic region, but intends to extend its business to other geographic markets. This will be achieved partly through organic growth and partly through acquisitions and in co-operation with other players.

## Business and strategy

The operations are organised in four main areas: solutions for the financial market, administrative software for the health sector, administrative and economic software for the public sector, and centralised IT systems operation for all market segments. Specialised software for the telecom industry will be included effective 1 January 1999.

Telenor Novit develops applications and system operation services for banks and other finance institutions in Norway. During the past two years, the product portfolio has been renewed and currently includes terminal systems, payment solutions, internet banking solutions and accounts ledger systems. The development of the accounts ledger system Bancs, the most comprehensive project, has been in progress for three years. Bancs was implemented in the first bank in October 1998.

Telenor InfoMedica develops and markets administrative software for health institutions in the Scandinavian market, and is the market leader in the field of patient administration systems in Norway. In 1998, Telenor InfoMedica completed the development of a new patient administration system, adapted to both the Norwegian and Swedish markets. During 1998, the system was implemented in three hospitals in Norway and Sweden.

Telenor Allianse develops IT solutions for the public sector. The main products are economic/administrative software products and related services. There has been substantial growth in products related to work processes (task flow systems) and within the health and social security sectors. The acquisition of DataConsult in 1997 gave a positive contribution to the results in 1998.

The core business of Telenor DataService is the centralised operation of business-critical IT systems. The Company's customers include medium-sized to large companies within the private and public sectors in Norway. The Company sees the Nordic region as its market. Investments in expertise and processing power have made Telenor DataService Norway's largest provider of centralised systems operations. In addition, the Company is a leading supplier of paper and electronic document production services

in Norway. The largest customer is the Telenor Group, which accounts for 75 per cent of the turnover.

## General analysis of results

The operating profit for the year was NOK 76 million, an improvement of NOK 101 million compared to 1997. The improvement was mainly due to a reduction in development costs. 1997 was a year of heavy investments in development of new products, and the largest projects were finalised in 1998. Increased sales also contributed positively to the operating profit. Depreciation of goodwill was NOK 62 million in 1998, about the same level as for 1997. Telenor Financial Systems sold its activities in 1998 and have currently no operations. The sale resulted in a net gain of NOK 23 million in 1998, compared to sales gains in 1997 of NOK 34 million.

## Turnover and market conditions

Turnover was NOK 1,392 million in 1998, compared to NOK 1,363 million in 1997. The growth was mainly attributable to increased sales of consulting services, as well as a substantial demand for assistance in surveying and safeguarding IT systems against potential year 2000 problems. Turnover was reduced by the net amount of NOK 52 million due to the sale of the activities of Telenor Financial Systems AS.

## Operating expenses

Operating expenses were NOK 1,316 million in 1998, a reduction of NOK 77 million compared to 1997. Disregarding Telenor Financial Systems, where there was only limited activity in the first half of the year, the reduction in operating expenses was NOK 18 million. The main reason for the reduction was the completion of product development projects, in particular the new banking system, Bancs. For the other companies, there was a modest increase in operating expenses, in accordance with increased activity. The number of employees was at the same level as 1997.

## Investments and capital employed

Total investments amounted to NOK 178 million, of which NOK 120 million was for investments in the centralised IT system operations area. The majority of these investments was for equipment for and management of Telenor's year 2000 test centre.

### Telenor Programvare AS

Telenor  
Allianse AS

Telenor  
DataService AS

Telenor  
InfoMedica AS

Telenor Novit AS

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	1997* <i>Restated</i>
<b>Turnover</b>		
• external	835	903
• intercompany	557	460
Cost of goods sold and traffic charges		
• external	317	335
• intercompany	65	89
Salaries and personnel costs	422	420
Other operating expenses		
• external	251	308
• intercompany	85	75
Depreciation and write-down	176	161
<b>Operating profit</b>	<b>76</b>	<b>-25</b>
Results associated companies	2	-
Net financial items	-8	-2
<b>Profit before taxes</b>	<b>70</b>	<b>-27</b>
Investments	178	188
Capital employed at 31.12	702	n.a.
Operating margin	5.5%	-1.8%
Return on capital employed	10 %	n.a.
No. of man-years at 31.12	845	884
• of this abroad	-	48

\* The restated figures reflect transfer of activities between the business areas within the Telenor Group in order to establish relevant figures for comparison. In 1998, the software activities and DataService have been spun off from Telenor Bedrift into a separate business area, Telenor Programvare.



The accounts ledger system Bancs was implemented in the first bank in October 1998.

## Prospects

The total market for IT services in the Nordic region is growing. Many companies and organisations have not yet completed surveys and preparations to safeguard computers, basic systems and applications for the turn of the millennium. This represents a substantial opportunity in 1999, which Telenor Programvare is well positioned to exploit. The Norwegian financial market is characterised by increased co-operation between Norwegian players, as well as the entrance of new international players. The takeover of Fokus Bank, Telenor Novit's largest customer, by Den Danske Bank, may have significant consequences in the long run.

In 1999, Telenor Programvare will continue to pursue its strategy of offering products and services for specific market segments. Following the merger between Telenor Allianse and part of Posten SDS, the company has strengthened its position as a service provider to the public sector.

An agreement has been signed to merge Telenor Programvare (including 4Tel and Dolphin) and the listed company EDB ASA. The merge is subject to approval by the General Meetings. The objective is to create a leading Norwegian expertise-based IT company with a focus on services. A merged company will become a large player in the Nordic market, and will be well positioned for further growth. The company, in which Telenor will be a strategic long-term owner, will remain quoted on the Oslo Stock Exchange.

## Telenor 4tel AS

Liberalisation and increased competition have led to a significant need for new software for the telecommunications business. Relatively immature products dominate the market, and there is a definite need for standardised solutions. For several decades, Telenor has developed its own internal solutions. Telenor is the only telecom company in Europe that has managed to implement a new customer, ordering and invoicing system, whilst at the same time phasing out the old systems. On 1 May 1998, Telenor established Telenor 4tel as a dedicated software house for telecom applications. The company was spun off from Telenor FoU and has over 30 years of experience in developing business-critical systems for Telenor's business units.

Telenor 4tel will, in co-operation with international alliance partners, develop and market solutions within customer handling, ordering, invoicing, network administration, customer and traffic pattern analysis and traffic handling. Telenor 4tel will develop a modular product family targeted at small to medium sized telecom operators. Telenor 4tel was incorporated into Telenor Programvare effective 1 January 1999.



Managing Director of  
Telenor Nextel:  
Morten Lundal

# Telenor Nextel

Telenor Nextel is the Group's centre of expertise for internet technology in Norway and abroad. The business area is responsible for the majority of the activity and ambitions of Telenor when undertaking product development and innovation based on internet technology (IP). The growth in internet usage in Norway resulted in a 52 per cent increase in turnover in 1998.

## General analysis of results

Telenor Nextel's turnover in 1998 was NOK 470 million, compared to NOK 309 million in 1997 – an increase of 52 per cent or NOK 161 million. This increase is mainly due to increased internet access subscription. The operating result showed a loss of NOK 186 million, compared to a loss of NOK 221 million in 1997. The rise in turnover was to some extent offset by a substantial increase in personnel costs as a result of the increased activity in Norway and abroad.

## Turnover and market conditions

Telenor Nextel recorded a substantial increase in turnover in 1998, and strengthened its position within all product areas.

Internet services for the private market continued to grow in 1998, and the number of Telenor Internett subscribers increased from 165,000 to 260,000 during the year. The Telenor Internett product retained its market share of approximately 70 per cent in a very competitive market. This strong position has been achieved through extensive representation at the retail level, focus on framework agreements with companies and direct sales through Telenor Nextel's customer service.

The customer support service for the private market experienced strong growth in the number of enquiries in 1998, up to 25,000 per week. At the same time, the organisation and support systems were improved and made more efficient. Today, Telenor Nextel's customer support service is without doubt the largest and most efficient in the home market.

Telenor Nextel's family of products for the business market were combined and branded under the name Nextel. Turnover came mainly from various internet access solutions. In addition, the company established a strong position within the market for web hotel services, increasing the turnover and taking over some 300 customers from Scandinavia Online. Telenor Nextel has around a 50 per cent market share within internet access for the business market. The most important product is Nextel Aksess, which offers an internet connection from the customers' LANs via ISDN or leased lines.

Telenor Nextel continues to have a strong position in the Norwegian and international markets for tradition-

al electronic mail, e.g. based on X.400. However, it is anticipated that these types of services will gradually be replaced by internet-based e-mail and related value-added services for security, directory services, etc. In 1998, Telenor Nextel's internet-based e-mail service grew both in the number of messages and in the average size of messages. In December alone, Telenor Nextel delivered over 12 million e-mail messages.

At the beginning of 1998, Telenor was a relatively small player in the web hotel market and other host service markets for the business segment. Following a decision to focus on this area, Telenor Nextel has been successful in building a strong position during the year, expanding its customer base by more than 400 per cent.

In 1998, Telenor Nextel launched the first of its IP telephony products under the brand Interfon. The first product was an Interfon telephone card that allows the user to make calls over the internet through any telephone, simply by typing in a personal code and make calls over the internet from any telephone until the card is empty. The benefit to the user is low prices on many overseas calls. The Company also launched an IP telephony service for Telenor Internett subscribers, giving them the opportunity to use their PC as a telephone and make calls by clicking on the screen. This gives the same advantages as the telephone card and also fully integrates telephony with the internet.

## Operating expenses

Operating expenses increased by 24 per cent compared to 1997. The increase reflects a substantial growth in the number of employees compared to 1997, predominantly due to the need to handle the increasing number of subscribers. There was also a growth in the consultant organisation staff, as well as higher personnel costs in connection with preparation activities abroad. The substantial growth in subscribers led to a significant rise in commission payments to retailers selling to the private market, as well as an increase in the cost of leased lines.

## Associated companies

Telenor Nextel has ownership interests in the Scandinavia Online companies (34.5 per cent in Norway and 20 per cent in Sweden), which is a significant content provider and a portal to the internet for many users. The companies' development in 1998

### Telenor Nextel AS

Telenor magnet  
GmbH (Østerrike)

Telenor Internet  
S.R.O. (Slovakia)

Telenor Internet  
S.R.O. (The  
Czech Republic)

Telenor ISV Corp.  
(USA)

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	1997
<b>Turnover</b>		
• external	342	194
• intercompany	128	115
Cost of goods sold and traffic charges		
• external	31	26
• intercompany	17	9
Salaries and personnel costs	169	70
Other operating expenses		
• external	232	257
• intercompany	143	116
Depreciation and write-down	64	52
<b>Operating profit</b>	<b>-186</b>	<b>-221</b>
Results associated companies	-59	-49
Net financial items	-4	-10
<b>Profit before taxes</b>	<b>-249</b>	<b>-280</b>
Investments	125	92
Capital employed at 31.12	129	119
Operating margin	-	-
Return on capital employed	-	-
No. of man-years at 31.12	404	210
• of this abroad	69	4
Subscriptions Internet private market	260,000	165,000
Subscriptions Internet business market (network)	3,500	1,500



*In 1998, Telenor Nextel established internet activities in several Central European countries, among them the Czech Republic. The Internet café Terminal Bar is found in Prague.*

was very disappointing. However, a restructuring was undertaken towards the end of the year in both countries, which is expected to give an improved performance in 1999. Instead of creating content and investing in various development projects, Scandinavia Online will concentrate on becoming the users' natural starting point for internet use and giving access to content through partnerships.

#### **Investments and capital employed**

Investments totalled NOK 125 million in 1998, of which NOK 62 million are investments abroad. This includes the investments in the Czech Republic and the acquisition of the company Magnet in Austria.

#### **Prospects**

At the beginning of 1999, Telenor Nextel is well positioned for further growth. The ambition is to retain its strong market position in both the private and business segments in Norway, and to secure a strategic foothold and market growth for its new subsidiaries in Europe. Competition is expected to remain strong within all segments where Telenor Nextel is active, ensuring that the company remains cost efficient and flexible.

The price level for internet related services is low in Norway. In combination with high PC penetration both in businesses and private homes, this indicates

that the market growth – and the growth for Telenor Nextel – will continue to be strong in 1999. Simultaneous with the media hype concerning the explosive growth in the internet market, a technology shift is taking place within telecommunications, whereby the internet protocol (IP) is gaining momentum as an important technology for both voice and data communication. Telenor Nextel, on behalf of the Telenor Group, is well positioned to take advantage of this development.



Managing Director of  
Telenor Plus:  
Gunnar Bjørkavåg

# Telenor Plus

Telenor's value-added services are primarily found in Telenor Plus. The mission of Telenor Plus is to become the leading partner for Nordic content suppliers with regard to the electronic distribution of products and services. This involves providing access to large customer databases and sophisticated electronic market places. The increased use of the company's services led to a rise in turnover of 19 per cent in 1998.

## Business and strategy

Telenor Plus' activities are organised in three main areas: media and information services, TV distribution and electronic markets. The products and services are developed and supplied in co-operation with other Telenor units.

## Media and information services

Telenor Media's business idea is to develop and provide information products and market arenas based on the user's and the customer's needs, and distribute these through various media. In Norway, Telenor Media is responsible for the development, production and distribution of a number of directories: White Pages/Pink Pages, Yellow Pages, Internet Yellow Pages, Local Pages and Business Pages. The company also runs the national directory enquiries (180), international directory enquiries (181), teleconferencing services and call-centre services (switchboard services for example).

The company is a leading player in the European directory market, with subsidiaries in 11 countries, including Sweden, Poland, Spain, the Baltic countries, Russia, Czech Republic and Slovakia. In 1998, Telenor Media also established activities in France through acquisition of a local company.

## TV distribution

Companies involved in TV distribution include:

- Telenor Avidi (cable TV)
- Telenor CTV (satellite TV)
- Telenor Vision (hotels and smaller TV cable networks in housing cooperatives, termed SMATV) and SPA AB (SMATV)
- Telenor Conax (smart card technology for pay-TV)
- Canal Digital and Broadcast Text (only partly owned).

Canal Digital launched digital TV services in all the Nordic countries in the autumn of 1998.

Telenor Vision (formerly SF Vision) was acquired from the Bonnier Group early in 1998, and is now integrated with the TV-distribution activities.

Telenor Avidi is the second largest cable TV company in Norway, and had more than 270,000 subscribers at the end of 1998.

Telenor Conax showed a very strong growth throughout the year, and holds a strong position within the digital TV market.

## Electronic market

Telenor Plus intends to take a leading role in the development of the electronic market in Norway. This role will be developed in co-operation with the main suppliers of electronic content and the companies controlling the most important distribution channels. Telenor's prominent position within the various technologies ensures that the partners in such a co-operation will be very well positioned to supply net commerce services, including the sale of goods, services, information and entertainment to Norwegian consumers and companies. Over time it is the company's ambition to become a prominent player on the Nordic market.

The main company within the electronic market is Telenor Link AS, which offers value-added telephony services on 8xx numbers (teleshopping and various free-phone services) that allow companies to service their customers better. Through partly owned companies, Telenor Link has taken an active part in developing text TV and home shopping solutions in co-operation with leading media companies in the Nordic countries.

Telenor POS AS is Telenor's centre of expertise for administrative electronic payment systems. The company co-operates with the majority of Norwegian banks and credit card companies.

## General analysis of results

The Telenor Plus group increased its turnover by 19 per cent in 1998. This increase was mainly due to the increased use of the Company's services. The operating profit amounted to NOK 353 million, a reduction of NOK 4 million compared to 1997. However, a change in the accounting principle relating to sales costs for directory advertisements in Telenor Media in 1997 affected the overall operating profit figure. Adjusted for this change, the operating profit increased by NOK 59 million, a 20 per cent increase. This was mainly due to good results in Telenor Media's directory activities in Norway and Sweden.

Turnover increased by NOK 176 million as a result of acquisitions. This had a negative impact of NOK 20

### Telenor Plus AS

Telenor  
Media AS

Telenor Avidi AS

Telenor CTV AS

Telenor Vision AS

Telenor Conax AS

Telenor Link AS

Telenor POS AS

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	1997
<b>Turnover</b>		
• external	2,391	2,481
• intercompany	969	335
Cost of goods sold and traffic charges		
• external	836	698
• intercompany	335	288
Salaries and personnel costs	932	759
Other operating expenses		
• external	475	336
• intercompany	205	182
Depreciation and write-down	224	196
<b>Operating profit</b>	<b>353</b>	<b>357</b>
Results associated companies	-156	-109
Net financial items	10	-4
<b>Profit before taxes</b>	<b>207</b>	<b>244</b>
Investments	310	547
Capital employed at 31.12	732	831
Operating margin	10.5%	12.7%
Return on capital employed	29.6%	32.3%
No. of man-years at 31.12	2,968	2,732
• of this abroad	799	681
No. of paying TV subscribers incl. associated companies	1,338,000	642,000
No. of directories published by Telenor Media	579	400
Directory enquiries in Norway – million minutes	54.7	54
Million minutes, service telephones	267	164
Million minutes, entertainment telephones	18	20



The new design of the 1999 telephone directories depicts Norwegian inventions of the 20th century.

million, after goodwill depreciation, on the operating profit. Losses from associated companies amounted to NOK 156 million in 1998, compared to NOK 109 million in 1997. The increase in losses is mainly due to increased activity in Canal Digital, which launched the first digital service in all Nordic countries, in addition to the activities within TV shopping and teletext that started at the beginning of 1998.

The change in the net financial result is mainly attributable to a dispute, which has now been resolved, where accrued interest on loans redeemed in 1998 was forgiven. The non-recurring effect amounted to NOK 10 million.

The company reported a satisfactory 29.6 per cent return on the capital employed.

### Turnover and market conditions

Turnover was NOK 3,360 million in 1998, compared to NOK 2,816 million in 1997. Telenor Media contributed a net increase of NOK 250 million, TV distribution NOK 223 million and electronic market NOK 64 million. The increase in turnover is in line with the growth in recent years.

Telenor Media recorded a turnover of NOK 2,150 million in 1998, an increase of more than 13 per cent from 1997, reflecting both acquisitions and expansion of the existing product portfolio. The directory activities in Norway accounted for approximately 50 per cent, information and call centre services around 25

per cent, international activities approximately 22 per cent and Norwegian subsidiaries around 3 per cent. The international activity increased its share of the total by around 2 per cent in 1998, in line with the company's strategy of international growth.

The directory activities in Norway showed considerable growth in 1998. Turnover from additional entries in directories and the sale of advertisement in printed directories increased by more than 10 per cent. On the other hand, turnover from the sale of directories decreased due to the price reductions given to telecom operators, of which Telenor is the largest. Telenor Media's focus on electronic media led to increased turnover. For example, the Internet Yellow Pages are currently one of the most visited web sites in Norway, with more than 1 million visits per month.

Together the directory enquiry services and the call-centre services had a growth of approximately 10 per cent, mainly related to the call forward service, which was introduced in 1998, where the demand was greater than anticipated. Teleconferencing services also saw a rise in turnover of around 14 per cent.

Throughout the year, Lokaldelen AB in Sweden strengthened its position as the leading publisher of local directories and saw considerable growth. Through the acquisition of 51 per cent of Tele 24, Telenor Media established a central position in the call-centre market in Sweden.

In 1998, Telenor Media entered a new geographic market by acquiring 75 per cent of the French company Soleil Publicité, a publisher of local directories. This was part of the strategy to gain a foothold in relatively unsophisticated directory markets. The same strategy lies behind Telenor Media's previous entry into the Polish and Spanish directory markets. In both Spain and France, Telenor is now positioned as a major supplier of local directories.

The TV distribution area recorded a turnover of NOK 796 million in 1998, an increase of 47 per cent compared to 1997.

The cable-TV company Telenor Avidi had around 270,000 subscribers by the end of the year. The Company focused on profitability instead of volume growth in 1998, and recorded its best result ever. Telenor CTV AS had around 218,000 subscribers in the Nordic region in 1998. The problem of piracy of access cards was reduced following the replacement of old analogue cards by new smart-cards with increased security. Efforts are being made to tighten legislation in Sweden and Denmark to reduce piracy, and positive effects have already been achieved.

Canal Digital is accounted for according to the equity method. Turnover is therefore not reflected in the financial statements of Telenor. The turnover generated by Canal Digital increased from NOK 305 million in 1997 to NOK 418 million in 1998. Canal Digital had a total of about 352,000 pay-TV subscribers and 30,000 digital TV subscribers in the Nordic region, of which approximately 218,000 were registered as subscribers of Telenor CTV. The Company expects growth to continue as the rollout of digital TV continues in 1999. Canal Digital launched its digital service later than originally planned, due to technical issues that have now been solved.

Telenor Vision has operations in Norway, Sweden and Denmark. The company offers pay-TV channels mainly to independent cable-TV networks and offers pay-TV channels to 586,000 subscribers. Svensk Programagentur offers pay-TV channels to 100,000 subscribers in Sweden. The companies were acquired by Telenor at the beginning of 1998 and contribute significantly to Telenor's position within TV distribution in the Nordic region.

The electronic market area of Telenor Plus recorded a turnover of NOK 433 million in 1998, an increase of 17 per cent compared to 1997. Services like Green numbers and other various information services saw a growth of 60 per cent. Following the tightening of legislation regarding entertainment and gambling/games services, which led to a significant drop in turnover from 1996 to 1997, turnover from such services levelled out and stabilised in 1998, at around 10 per cent lower than in 1997.

Turnover from the new products within home shopping, teletext and pay-TV had little impact on the

1998 figures, because the services were launched late in 1997 and were only in the early development stages throughout 1998. This has produced a platform from which the company expects electronic commerce to grow significantly in the coming years.

### **Operating expenses**

Adjusted for the non-recurring NOK 63 million effect in 1997 of the change in accounting principles for Telenor Media, the percentage growth in operating expenses was the same as for turnover. This means that the profit margin is unchanged.

The new role of Telenor Media as an internal supplier of directory enquiry services in the Telenor Group resulted in a lower cost of goods sold and traffic charges compared to 1997, which explains the relatively modest growth compared to turnover. The cost of goods sold and traffic charges increased by NOK 106,8 million as a result of acquisitions.

Salary and other personnel costs increased relatively more in percentage than turnover. This reflects Telenor Media's focus on personnel-intensive business activities in the form of wholly owned foreign directory companies and call-centres in Norway and Sweden. High personnel costs and poor profitability in Spain also contributed to the increase. Measures have been taken to rectify the situation, which lead to non-recurring restructuring costs in 1998 of approximately NOK 20 million.

### **Associated companies**

Through Canal Digital, Yellow Pages Poland and other joint ventures, the level of activity was high in associated companies during the year. Losses from associated companies totalled NOK 156 million, compared to NOK 109 million in 1997. The increase in losses is mainly due to increased activity in Canal Digital with the launch of the first digital service in all Nordic countries, as well as activities within TV shopping and teletext, which started at the beginning of 1998.

The associated companies represent innovation within Telenor Plus – either by launching new products/services or entering new markets. This results in planned investments, particularly within market development, which are expensed as they are incurred. These ventures are based on a long-term strategy and positive results are expected over time. Value estimates made by foreign analysis agencies indicate that the market value of the ventures is significantly higher than the accumulated losses.

### **Investments and capital employed**

Total investments amounted to NOK 310 million, of which investments in shares, predominantly in the French directory company Soleil Publicité, accounted for NOK 55 million.

Other significant investments included the upgrading of cable-TV networks, a new IT system for the direc-

tory business and the implementation of a new directory enquiry system. Investments in Norway amounted to approximately NOK 250 million. The capital employed amounted to NOK 732 million on 31 December 1998, compared to NOK 831 million on 31 December 1997.

### Prospects

The market for value-added services is driven to a large extent by the converging of technologies and products within telecommunications, data and broadcasting. It is expected to continue to grow significantly. Competition will be intense, new technological opportunities will emerge, and we will see international company structures and changing alliances.

In 1999, Telenor will continue its ambitious strategy of focusing on new products and services and exploiting opportunities in markets outside Norway. Telenor Media will further develop its range of products on the home market, including the Internet Yellow Pages and call-centre services, and continue its ambitious strategy of international growth.

The sale of directory products with delivery in 1999 has come off to a good start, and continued growth is expected in the sale of advertising.

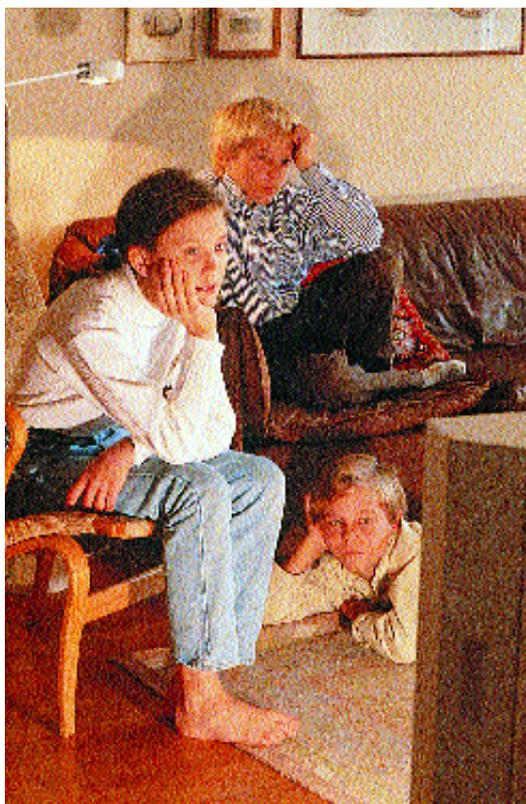
The TV distribution area is well positioned to meet future challenges, with 1.3 million subscribers in the Nordic region and the launch of the first digital TV services for satellite dish subscribers in all of the Nordic countries. The digitalisation of the cable TV networks, deployment of digital decoders and the introduction of digital/interactive services supported by new payment solutions, form a solid basis for a strong and leading position in the Nordic TV market in the years to come. A strong position in the Nordic region provides a good platform from which to pursue opportunities abroad.

The electronic market is in an early development phase, where the use of 8xx-numbers and other telephone-based services are the most mature services. Based on Telenor Link's leading position within this area and Telenor's broad offering of communication products and services, the basis for further alliances with leading suppliers of goods, services, information and entertainment is very good. The consumer market will continue to be characterised by a high degree of innovation and risk, and the necessity for further investments in market development, as has been illustrated by the development of internet commerce. The professional market is more mature both when it comes to infrastructure, system solutions and a need for improved competitiveness. Profitable growth is therefore expected to come earlier in the professional market. Internationally standardised payment solutions based on smart card technology are emerging. Through close co-operation with Norwegian and international players, it is Telenor's ambition to stay in front with new payment solutions – an important prerequisite for success within electronic commerce.

### Norkring

Norkring was established in 1996, based on the traditional broadcasting services of Telenor and the broadcasting networks of Telenor and NRK. Norkring is the country's largest transmission company, with approximately 6,500 large and smaller transmitting stations around the country, including Spitsbergen and Jan Mayen. Norkring's most important customers are NRK, TV2 and P4, as well as local TV and radio stations. Since the establishment of the company, Telenor has held 40 per cent of the shares and NRK 60 per cent. According to the shareholder agreement, Telenor will increase its share to 90.1 per cent by 1 July 1999.

Norkring is an efficiently managed company delivering solid economic results – an important platform on the eve of the digital broadcasting revolution. Norkring will be included in the business area TV distribution from 1 July 1999.



*With 1.3 million subscribers and a digital TV offering, the TV distribution area is well positioned to meet future challenges.*



Managing Director of  
Telenor IT Service og  
Installasjon: Jan Kåre  
Pedersen

# Telenor IT Service og Installasjon

Telenor IT Service og Installasjon provides services in the areas of telephony, information technology, electrical engineering, security and integrated solutions. More than 6,000 employees carry out installation, service and maintenance within the fields of telecommunications and information technology, as well as integrated installations. In 1998, both turnover and profits increased. More and more of the business is generated from external customers.

## Telenor IT Service og Installasjon AS

Telenor  
Geomatikk AS

Telenor  
Security AS

Telenor  
Security AB

Dansk  
Hustelefon-  
selskab AS

Comma AS

Comma AB

At the start of 1999 the business area will assume responsibility for the sales and delivery organisation for small and medium-sized business customers in Norway through the transfer of 600 employees from Telenor Bedrift. The sale of equipment will form a natural part of the business area's activities, which already encompass telephony, information technology, electrical engineering, security and integrated solutions. 1,300 employees were transferred from the IT service division of Telenor Bedrift in 1998, and the unit changed its name to Telenor IT Service og Installasjon. Furthermore, Telenor Geomatikk AS was included in the business area, together with the faults/complaints desks for both private and corporate customers. Centralised management for most of the services and delivery organisations makes it easier to coordinate customer work and raise the level of service and efficiency.

The business area expanded its business activities in the Nordic region throughout the year. In Sweden, Telenor Comma AB was transferred from Telenor Bedrift, while Telenor Security AB was already established. In Denmark, the company now owns Dansk Hustelefon Selskab AS and Telenor Comma AS.

### Business and strategy

Telenor IT Service og Installasjon's primary objective is to be the leading total supplier of IT service and installation services in Norway, with focus on quality, reliability and satisfied customers. The company offers consultancy, installation, service, maintenance and operation of solutions within telecommunications, information technology, electrical engineering, security and integrated solutions.

Approximately 40 per cent of the turnover relates to external customers, of which installation, service, maintenance and integrated solutions are the most important areas. Oslo Airport, Gardermoen and the new National Hospital were the two largest contracts in 1998.

Telenor IT Service og Installasjon operates nation-wide. This is important in order to serve large customers and offer total solutions. The business area has people in most municipalities, working out of 150 locations, securing a local presence and local knowledge all over the country.

The high demand for ISDN both in the business sector and in the private market throughout 1998 meant the company had to continue the recruitment of technical personnel. This necessitated the hiring of additional personnel, relocation of some qualified personnel and the establishment of new positions to meet the demand. In addition, the business area continued its recruitment of trainees to meet the long term need for qualified personnel in the various areas. Since the business area was established in January 1997, nearly 400 trainees have been employed. The first group will finish their training programme in 1999.

As part of Telenor's increasing international activity, Telenor IT Service og Installasjon had several assignments in the Nordic countries and elsewhere in 1998 – in Bangladesh, Montenegro, Kosovo, Lithuania and Russia.

### General analysis of results

The operating profit for 1998 was NOK 149 million, an increase of NOK 65 million compared to 1997. The operating margin was 3.9 per cent, against 2.6 per cent in 1997. This positive development is a result of more efficient use of resources, cost-efficient operations and an increased volume of business.

### Turnover and market conditions

Turnover increased by NOK 552 million (17 per cent), from NOK 3,242 million in 1997 to NOK 3,794 million in 1998.

The installation market comprises two main sectors: Light current (telecom, data, security/surveillance) and heavy current (electrical installations). During 1998, there was a significant demand for all types of installation services in the market, due to a high level of building and construction, maintenance and rehabilitation, as well as increased investment in telecom and data networks and products, both in the business and private sectors. Demand was also high for service, maintenance and operation of telecom and IT systems. The migration away from traditional on-site service, maintenance and operations towards more centralised and automated service, maintenance, operation and implementation of IT technology continued through the year, as did the trend of converging telecom and computer technologies.

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	<b>1997*</b> <i>Restated</i>
<b>Turnover</b>		
• external	1,430	1,446
• intercompany	2,364	1,796
Cost of goods sold and traffic charges		
• external	692	520
• intercompany	62	52
Salaries and personnel costs	1,803	1,687
Other operating expenses		
• external	624	454
• intercompany	382	373
Depreciation and write-down	82	72
<b>Operating profit</b>	<b>149</b>	<b>84</b>
Results associated companies	-	-
Net financial items	3	1
<b>Profit before taxes</b>	<b>152</b>	<b>85</b>
Investments	98	84
Capital employed at 31.12	272	183
Operating margin	3.9%	2.6%
Return on capital employed	67%	n.a.
No. of man-years at 31.12	5,705	5,188
• of this abroad	354	251

\* The restated figures reflect on transfer of activities between the business areas within the Telenor Group, in order to establish relevant figures for comparison. In 1998, service, maintenance and installation of IT solutions and Comma AS and Comma AB have been transferred from Bedrift to IT Service og Installasjon. Geomatikk has been transferred from "Other".

In 1997, parts of the business areas activities that were classified as external turnover, are now classified as intercompany turnover. In view of this, the development of external turnover is satisfactory, and reflects the business areas focus on the external market. The increase in intercompany turnover is due to increased demand for ISDN installation and significant amounts of work in connection with the expansion of Telenor's access networks. In addition, the business area now co-ordinates a large proportion of the activities connected to error correction and further development of the telecommunications network.

#### Operating expenses

The cost of goods sold and traffic charges increased by NOK 182 million to NOK 754 million, compared to NOK 572 million in 1997. The increase is due to a growth in activity and a higher cost of goods for services rendered. Digging assignments related to fault corrections and further development of the telecommunications network have in 1998 been co-ordinated by the business area, and amounted to NOK 140 million.

Salary and other personnel cost increased by NOK 116 million, from NOK 1,687 million in 1997 to NOK 1,803 million in 1998. This is a result of an increase in the number of man-years, overtime and general wage increases. The use of overtime is a consequence of a lack of qualified personnel in the market.

Other operating expenses increased by NOK 179 million to NOK 1,006 million, compared to NOK 827 million in 1997 – mainly due to the increased level of activity. Need for hiring external personnel in central regions explains much of the increased costs.



In 1998, Telenor has further developed its nation-wide offering of telephony, data and electrical engineering installation services.

#### Investments and capital employed

Employed capital was NOK 272 million at the end of the year, compared to NOK 183 million last year. In 1998, the company invested a total of NOK 98 million in fixed assets, of which NOK 59 million was in Norway and NOK 39 million abroad. The investments in fixed assets are related to current operations.

#### Prospects

Customers are increasingly demanding total, integrated solutions. Technological developments make it possible to combine telecom, IT, energy and security/alarm technologies into integrated systems and solutions. The establishment of so-called smart homes where installations and appliances are computerised units that communicate with each other, will give users greater flexibility and provide economic savings. This convergence of technologies presents new opportunities for a company like Telenor with its broad technological base, but it also means that new areas of competence have to be developed. At the same time, the company intends to meet the competition within its markets by retaining and strengthening its expertise within the telecommunications, data and electrical engineering areas. There is no reason to expect a fall in future demand or market prices.

The positive development in the business areas is expected to continue, and emphasis will be placed on the efficient exploitation of resources and cost-effective operations in the years to come. A key challenge for the immediate future will be to secure sufficient access to qualified personnel.



Managing Director of  
Telenor Nett:  
Jan Edvard Thygesen

# Telenor Nett

**Telenor Nett AS is responsible for the development and operation of the fixed telecommunication network in Norway. The company supplies network products and solutions to the service providers in the Telenor Group and other operators, which in turn package the products into solutions that are sold to the end users. In 1998, network traffic rose and contributed to increased turnover and profit for Telenor Nett.**

## Business and strategy

The main challenge for Telenor Nett is to achieve the greatest possible traffic volume in a cost-effective network, to continuously develop new products, and modernise and expand the network to ensure optimum quality, security and accessibility at all times. The main products available today are telephony, leased lines, interconnection and data communication services. To develop the company's competitiveness there is an increased focus on faster and more reliable delivery of ISDN.

The telecommunications network in Norway is fully digitalised with the world's highest ISDN penetration per capita. At the end of the year, the number of private and business ISDN subscriptions totalled 300,000. In all, 3.64 million telephone numbers were operative.

Throughout 1998, a substantial amount of resources were allocated to expand and improve the quality of the access network. By use of electronics, fibre cables and modern copper cables, more capacity is being made available so that ISDN and subsequent high capacity services can be delivered.

The telecommunications network is maintained to provide a high quality and reliable service, with an accessibility of 99.1 per cent, i.e. less than one out of every 100 calls made were denied as a result of faults or lack of capacity in the network. In 1998, there were 12 customer-reported faults per 100 connections, down from 13 in 1997.

In 1998, the deployment of fibre-optic cables in the network continued, primarily to improving the robustness of the network against failures. Furthermore, to increase capacity and secure quality the heavy-traffic highways in the network are being expanded with multi-channel fibre-optic systems (WDM) in combination with SDH technology.

The new competitive market has led to a greater demand for leased networks, particularly from new operators. For some interconnection services, prices were reduced by nearly 17 per cent in 1998 compared to 1997, and the price reduction for digital connections was between 5–10 per cent.

The liberalisation of the market changed the traffic patterns to and from the fixed network. In 1998, 14

interconnection agreements were signed and more are expected in 1999. Interconnection is a growing business area for Telenor Nett, and further growth is expected following the introduction of carrier pre-select (CPS) on 1 July 1999. By introducing CPS, traffic charges that are invoiced to Telenor's end users will decrease and be replaced by sale of interconnection capacity. The steep growth in the number of mobile telephone users in 1998 has resulted in growing traffic volumes between the fixed and mobile networks.

## General analysis of results

Turnover rose by 7 per cent and operating profit by 11 per cent, compared to 1997. This improvement is primarily due to migration from analogue to ISDN GT, increased traffic in the network and increased sales of leased lines. Payment received for certain telecommunication services imposed by the authorities, amounted to NOK 100 million in 1998. Throughout the year, the company continued to focus on cost reductions through optimisation of the network's operations, improved planning processes in connection with its expansion, as well as improved routines and contracts for purchases.

## Turnover and market conditions

Turnover increased to NOK 9,808 million in 1998, due to a general growth in traffic of 16 per cent. This was primarily generated by an increase in internet and other data traffic. In addition, ISDN GT in the private and business segments increased to 300,000 subscriptions.

ISDN customers generate more traffic and income compared to traditional telephone customers. ISDN is perfect for home office solutions and Internet access, both from private homes and companies. Internet usage contributed to an increase of 16 per cent in local traffic. Another emerging trend in 1998 was the increase in incoming mobile traffic, which grew by 18 per cent. The growth in traffic to other networks was mainly due to interconnection traffic to other internet access providers.

The effect of the liberalisation and new competitive market conditions became evident in 1998. The growth in mobile and international traffic was lower than anticipated, due to a loss of market share to other operators.

## Telenor Nett AS

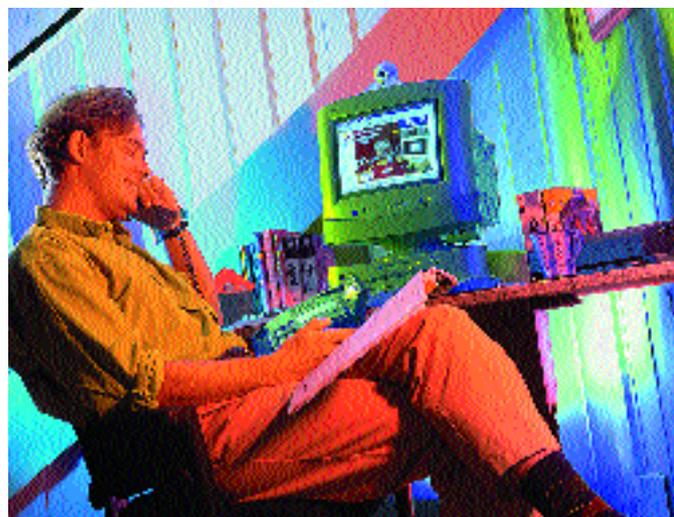
Production  
Division

Platforms  
Division

Product area  
ISDN/PSTN

Product area  
Interconnect/  
Leased Lines

<b>Key figures</b> Amounts in NOK million	<b>1998</b>	1997
<b>Turnover</b>		
• external	802	601
• intercompany	9,006	8,595
Cost of goods sold and traffic charges		
• external	500	550
• intercompany	1,492	1,201
Salaries and personnel costs	991	963
Other operating expenses		
• external	481	499
• intercompany	2,094	1,998
Depreciation and write-down	2,154	2,100
<b>Operating profit</b>	<b>2,096</b>	<b>1,885</b>
Results associated companies	-	-
Net financial items	-172	-231
<b>Profit before taxes</b>	<b>1,924</b>	<b>1,654</b>
Investments	2,705	2,403
Capital employed at 31.12	10,648	10,346
Operating margin	21.4%	20.5%
Return on capital employed	20.4%	18.4%
No. of man-years at 31.12	2,484	2,574
• of this abroad	-	-
Minutes called, telephone and ISDN, mill. min.	16,610	14,300
Numbers in operation in the fixed network (1,000)	3,690	3,500
Telephone connections (1,000)	2,167	2,381
ISDN GT (1,000)	304	146
ISDN UT (1,000)	5	4



ISDN, increased use of PCs and Internet access in private homes has contributed to a strong traffic growth.

### Operating expenses

Operating expenses increased by 5 per cent in 1998 to NOK 7,712 million. Most of the increase was due to a rise in the cost of goods sold and traffic changes related to mobile terminated traffic from the fixed network.

Other cost drivers were increased demand for ISDN and increased depreciation following large investments in 1997 and 1998. In 1998, substantial cost reductions were achieved through improvements in purchasing contracts and routines. In addition, a considerable amount of time and effort was invested in further rationalisation of the operations. The production organisation was re-organised at the beginning of the year, and a cost reducing exercise were introduced focusing on the Company's main processes.

### Investments

Investments totalled NOK 2,705 million and were driven by a high demand for ISDN, traffic growth, new services and necessary upgrading of the network. The investment level is expected to remain high in the short term due to the migration to ISDN, which requires higher access network quality, increased traffic requirements and the introduction of new products.

### Prospects

Competition from other network operators is expected to increase in the coming years. More players and a competitive market will lead to lower prices and increased pressure on margins for telecom operators. Interconnection traffic with other networks will increase, but in time many operators will have their

own access facilities in place for end users and route the traffic either via one connection point from Telenor or through separate alternative networks. The CPS is expected to create more pressure in the market, in particular when it applies to private users. In addition, a greater part of the mobile traffic will go directly between different mobile networks. At the same time, the increased competition and the development of the information society will create a strong growth in demand for telecommunication and data services, and the share of data traffic will increase.

Telenor Nett is committed to retaining its position as a market leader within network access and transport. To meet the need for increased bandwidth, the company will continue to focus on ISDN. The objective is to have more than one million ISDN subscribers by the end of year 2001. The next step will be the introduction of the modem technology ADSL, which will increase the capacity of subscribers' lines by up to 2 mbps. In the years to come, several billion kroner will be invested to reinforce the access network and prepare for high-capacity services. Another major focus area will be increased integration of the current network with IP technology.

Increased competition and new technology will lead to an even stronger focus on efficient operations and cost levels. In the coming years, Telenor Nett is committed to reducing costs by focusing on increased efficiency and the automation of work processes, which in turn will lead to higher quality services for customers.







A pioneer within

# satellite communication

The Norwegian merchant fleet's need for global communication was the background for Telenor's early entry into the arena of satellite communication. Today, the target group has expanded to any business that requires efficient communication over long distances and in areas outside the reach of the land based networks. Telenor has expanded its business scope from its previous policy of just renting out satellite

capacity to becoming a leading supplier of its own capacity for TV distribution, business communication and mobile communication. With three Thor satellites positioned strategically at 1 degree west, Telenor covers the whole of Europe. Telenor is – and intends to remain – one of the leading suppliers of satellite based communication in Europe.



SVP Economy and Finance:  
Dag Hylin

# Telenor Capital and Finance

Telenor's activities in the fields of real estate, capital and finance are organised under Telenor Capital and Finance. Telenor Capital and Finance is responsible for providing the Group with financial and other related services. Telenor Capital and Finance includes Group Treasury, Telenor Eiendom and the subsidiaries Telenor Finans, Telenor Inkasso AS, Telenor Forsikring AS and Telenor Venture AS.

## Telenor Capital and Finance

- Telenor Group Treasury
- Telenor Eiendom
- Telenor Finans AS
- Telenor Inkasso AS
- Telenor Venture AS

### Group Treasury

The Group Treasury's main objective is to ensure that the Telenor Group has adequate liquidity and access to capital from the external capital markets. External transactions are carried out by the Group Treasury with a view to realising economies of scale in the field of financing, and to ensure optimal management of financial risks.

Group Treasury functions as an internal bank within the Group, and offers loans and other financial services. The operative units are responsible for their own finances, and relate to the Group Treasury in a purely business-oriented manner.

At 31 December 1998, long-term interest-bearing debt amounted to NOK 11,446 million, with an average interest rate term of 0.93 years.

Group Treasury administers the assets of the Telenor Pension Fund, which at year-end 1998 amounted to NOK 1,300 million.

### Telenor Eiendom

Telenor Eiendom's main task is to ensure that the Telenor Group has sufficient square meters at its disposal so that its primary business activities can be carried out in the most efficient and cost effective environments, at the right cost and with the right amount of capital tied up.

At the end of the year, Telenor Eiendom administered 1,179,000 square metres of premises, in about 4,550 buildings. Floor space used increased by 20,000 square metres over the year. Telenor owned premises of total 891,000 square metres with a book value of NOK 2,955 million. In 1998, 50 buildings were sold, corresponding to 73,000 square metres.

Telenor's total need for floor space, particularly for technical activities, is falling. However, the rate of reduction has slowed in recent years. At the same time, there has been an increase in rented office space in Oslo, and office space in Bergen has been rented back.

During the year, considerable activity took place in the Company's three building projects, at Fornebu near Oslo, in Bergen and in Trondheim. In addition, a process to reduce the number of office locations was started in Kristiansand, Stavanger, Bodø and Tromsø. In connection with Telenor's planned new headquarter, the Company acquired a 215,000 square metre site at Fornebu in 1998. The objective of Telenor's Fornebu project is to develop the foremost physical

environment for innovative work in the Nordic countries. In all, the main office will comprise 136,000 square metres in the first phase, and an additional 65,000 square metres in the second phase. The improvement in space efficiency for Telenor in the Oslo area will be in the region of 40%. In 1998, the architect were assigned and a sketching project carried out. The pre-project has started, and the first contracts for ground-work and construction will be awarded in 1999. The move to the new offices will take place during 2001 and 2002.

### Telenor Finans AS

In 1998, Telenor Finans AS further developed its organisation and services, to offer leases and financing solutions in connection with the business areas' sale of equipment. In 1998, Telenor Finans AS recorded an increase of leases in the Norwegian market of 38% compared to 1997.

Traditionally, leasing has been most common for telephony solutions. In 1998, however, the growth was greatest for IT solutions, so that the balance between the products is currently close to 50/50.

Telenor Finans AS adapted its financing solutions for the home office market at an early stage. Efficient financing, combined with the successful solutions offered by Telenor Bedrift, contributed to good sales results in the second half of 1998. The Company expects strong demand within this product area to continue in 1999.

Telenor Aksess is the Group's credit card - a financing product for private customers, marketed through Telenor's retailer network. The card was launched in the second half of 1998, and it will be further developed technologically to incorporate more of Telenor's services, in combination with flexible payment and financing solutions.

Telenor Finans AS takes an active part in the international expansion of the Telenor Group. The Company assists through developing its own financial solutions, as well as co-operating with foreign credit institutions.

### Telenor Inkasso AS

The role of Telenor Inkasso AS is to ensure the efficient handling of claims and loans.

Since its establishment in 1995, there has been increased demand for Telenor Inkasso's services. Telenor Inkasso has taken over collection for most

companies within the Telenor Group. The Company's services are also in demand outside of the Group.

In 1998, the Company developed a set of unique integrated solutions for the entire value chain within the area of credit and collection administration. These included solutions for credit support (enquiries) to long-term surveillance/loss depreciation/write-offs. Telenor Inkasso AS is licensed to carry out both collection and credit information activities.

### Telenor Forsikring AS

Telenor Forsikring AS was established on 1 July 1998, and is wholly owned by Telenor AS. The Company underwrites shares of insurance policies for companies in the Telenor Group. The purpose of an internal insurance company is to achieve a more cost efficient handling of the Group's insurance programmes. At the same time, the Group achieves a more optimal taxation of insurance-technical provisions and can benefit from its own management of the accumulated funds. Telenor Forsikring limits risk partly by taking out re-insurance in the international re-insurance market and by taking out insurance for maximum losses that must be carried over the Company's books.

### Telenor Venture AS

Telenor Venture's objective is to be a driving force in the development of new, profitable business units within the areas of telecommunications and information technology through bringing together industrial environments and entrepreneurs. The Company's business concept is to contribute to 'value creation' through providing access to venture capital and networks, as well as technological and commercial expertise. It is uniquely positioned to take advantage of opportunities arising from commercialising and industrialising product concepts and research that fall outside of Telenor's core businesses.

The Telenor Group owns 70% of the shares in Telenor Venture AS. The other owners, are Storebrand Liv AS 14,1%, Vital Forsikring AS 10,8%, Gjensidige Livsforsikring AS 3,6% and Gjensidige Skadeforsikring 1,5%. At 31 December 1998, the recorded equity was NOK 361 million, compared to NOK 251 million in 1997.

The Company's largest sale in 1998 was the sale of shares in the American listed company SCM Microsystems Inc., which produced a profit gain of NOK 227 million.

Telenor Venture AS has considerable access to entrepreneurs with interesting projects. Having been in operation for five and a half years, the Company has considered more than 450 companies and business concepts.



The architectural contest for the new Telenor headquarters took place in 1998, and planning is now well under way.

### At 31 December 1997, Telenor Venture's major investments were:

- **Cetric AB 16 per cent:** Infocast Technologi AB is a subsidiary that is active within mobile information handling via the Internet and a leading supplier of lift and emergency telephones.
- **Clustra AS 72.2 per cent:** High capacity, high reliability database solutions.
- **DataRespons AS 34 per cent:** Leading real time supplier for standard hardware/software.
- **Eltek ASA 4.9 per cent:** Security systems and power electronic for telecommunication.
- **Eye Control Technique AB 15.1 per cent:** Technology for eye control of peripheral equipment.
- **Gran-Jansen AS 21.6 per cent:** Advanced, integrated analogue and digital radio circuits.
- **Hegel AS 26.9 per cent:** Advanced music systems for the "high end" market.
- **Incatel AS 43.0 per cent:** Database and system solutions for the GIS telecom market.
- **Idonex AB 25.3 per cent:** Software applications for the Internet and consultancy service provider.
- **LinnéData AB (Publ.) 20.9 per cent:** Internet supplier with focus on market communication for IT support
- **Maritech AS 26.1 per cent:** Leading supplier of IT systems for the fishing industry.
- **MODE International B.V. 49.8 per cent:** Electronic distribution of music and music information.
- **MRT Micro ASA 13.8 per cent:** Digital image handling systems and digital medical instruments.
- **Broadcast Text AS 18.4 per cent:** Subtitling of TV and video programmes.
- **PolyDisplay AS 23.4 per cent:** Electronic flat screen based on patented EASL technology.
- **ComputerHouse ASA 20.6 per cent:** Development of multi-user games for the internet and CD-ROM.
- **SCM Microsystems Inc. 0.4 per cent:** PC and Smart card solutions and systems.
- **SevenMountains Software AS 14.8 per cent:** Java based application framework for thin client environments.
- **Telenostra AS 32.1 per cent:** Slide dialler and related patents for simple operation of mobile phones and calculators etc.
- **Telepost Holding S.A. 26.2 per cent:** Services based on integration between internet and telephony.
- **Trade AS 34.5 per cent:** Electronic solutions for collection, standardisation, storage and distribution of product information.
- **Teamcom AS 4.5 per cent:** Satellite solutions for smaller closed networks for data transmission at low speeds.
- **Ucom AS 29.7 per cent:** Supplier of modems, ISDN adapters, etc.
- **Utel AS 22.2 per cent:** Measuring systems and services within telecommunication.
- **Q-Free ASA 13.4 per cent:** Previously Micro Design ASA. Information and payment systems for the transport sector.



Managing Director of  
Telenor R&D:  
Oddvar Hesjedal

# Telenor Research and Development

**Telenor Research & Development (R&D) is the Group's centre of expertise within information and communication technology and their applications. Following the spin-off and establishment of the separate company 4tel in 1998, which specialises in the development of IT solutions for the telecommunications industry, Telenor R&D is now focusing on long-term research.**

## Business and strategy

R&D's main objective is to lay the foundations for Telenor's long-term development, through highly qualified research within the Company's core areas, to provide the background for sound, strategic decisions and to strengthen the company's competitive power by employing new technology at an early stage.

In May 1998, R&D spun off its IT development section, which was established as the independent company 4tel AS. Subsequently, R&D is concentrating on long-term research, within three main areas: networks, services and applications. R&D has established a multi-disciplinary programme for the next generation of the Internet – Project 1. The project incorporates expertise in infrastructure, middleware services, multimedia, contents, business and markets under the vision "Everything over IP – IP everywhere".

On the network side, R&D is active in key areas such as optics, broadband technologies and radio solutions for satellite and mobile communication. In addition, R&D performs technical and economical analyses to give qualified predictions about trends. A separate laboratory supports the entire R&D operation, and takes on assignments for other companies in the Group.

In the services area, the focus is on new services and technologies in particular within fixed, mobile and satellite communications. Middleware and intelligent network platforms are central areas, as well as security solutions across various network technologies.

Within the application area, various user interface technologies such as speech, multimedia and virtual reality are combined in experiments and tests with new applications for the public sector, businesses and private use.

Telenor's research is carried out in co-operation with other research units, from within academia, the industry and public institutions, both in Norway and abroad. In 1998, R&D participated in 45 European projects, mainly through various EU programmes and EURESCOM, the European telecom operators' common research organisation. R&D has continued its co-operation with Bellcore and MIT (Massachusetts's Institute of Technology) in the USA, and signed agreements with companies such as Microsoft, Ericsson, NEC and SUN.

Over the last few years, Telenor has had an agreement with British Telecom concerning technological co-operation. In 1998, this work focused on the relationship between UMTS (Universal Mobile Telecommunications System), a next generation universal communication system and on the Internet protocol (IP).

Telenor supports and works with several Norwegian universities and academic institutions, including the Norwegian University of Science and Technology, University of Oslo, University of Tromsø, UNIK (University Studies at Kjeller), Agder Regional College, Rogaland College, the Foundation for Research in Economics and Business Administration at the Norwegian School of Economics and Business Administration in Bergen and the Norwegian School of Management. Several of the R&D researchers hold positions and teach at a number of these institutions. Likewise, University employees are also offered research positions in R&D. In 1998, with the co-operation of the Research Council of Norway, R&D instigated an increased national effort towards research in the information and communications sector. This has culminated in a number of projects with participation from several Norwegian companies. External companies carried out assignments for R&D at a value of NOK 32 million in 1998.

R&D's main office is located at Kjeller outside Oslo, where approximately 250 people are employed. In addition, there are offices in Tromsø, Trondheim, Stavanger and Grimstad, working closely with the universities in these regions.

R&D is responsible for co-ordinating Telenor's participation in global standardisation organisations.

The operating result for Telenor R&D in 1998 showed a loss of NOK 19 million, which was in accordance with the budget.

Turnover amounted to NOK 262 million in 1998, an increase of NOK 3 million from 1997, based on comparable restated figures for 1997. The majority of turnover from external customers comes from projects organised by EURESCOM and EU/ACTS.

At the end of 1998, Telenor R&D had 317 man-years.

# Telenor in Sweden

The turnover in Telenor's business in Sweden grew by 40% to SEK 755 million in 1998 (not including Telenor's share of turnover in associated companies), with an operating result of SEK 2 million. Telenor's share of losses from associated companies increased to SEK 162 million.

Telenor is a full or part owner of 13 companies in Sweden. In 1998, the Swedish activities were gathered in the business area Telenor AB. The objective is to secure continued growth by increased focus on the market and co-ordination between the companies in the portfolio.

## Telecom and internet

Telenordia AB, which is equally owned by Telenor AS, British Telecom and TeleDanmark, recorded growth of over 60% in 1998 and a turnover of approximately SEK 1,100 million. In spite of the growth in turnover, the operating result ended at the same level as the year before due to falling prices and rising costs.

Telenordia increased its market share for internet access and strengthened its situation as the third largest internet operator in Sweden, with more than 240,000 customers at the end of the year.

During the year, Telenordia increased its market share for telephony.

26% of large and medium-sized companies use products from Telenordia. The relationships established with many of the leading companies in Sweden are a good platform from which to increase activities and turnover in the year to come.

As part of its telecom activities, Telenor supplies a complete range of telecommunication products and services for the business market via InterNordia Communications AB, which is owned 50/50 with TeleDanmark.

Telenor Satellite Services AB offers tailor-made IT and telecom services such as business TV (internal TV), interconnected company networks that include, for instance, credit card verification, back-office, IT traffic and database management. Telenor plays a central role in developing the Swedish markets for business TV, internet and data communication via satellite.

Telenor has a 32% share in Swedish Wahlberg & Sehlin. Wahlberg & Sehlin supplies both services and products for satellite communication and is a leading supplier of equipment for satellite broadcasting.

Telenor has a 20% share in Scandinavia Online (Telia and Schibsted own 40% each). 1998 was a weak year for Scandinavia Online, with substantial losses.

A restructuring and focusing of the business at the end of the year points to improved results in the future.

In connection with the inclusion of Taide AS as a wholly-owned Telenor company, the internet activities in Liljekonvalen AB became a part of Telenor in Sweden. The activities of the company Liljekonvalen were terminated as of 1999.

## IT, Service, Security & Data

Telenor Comma AB is a significant supplier of operation and surveillance services for IT systems. In 1998, Telenor Comma took on the operation of Södersjukhuset's IT systems and integrated this into a new business area - IT Care. With IT Care, Telenor is becoming one of the leading IT companies within the health sector.

Telenor entered the market for security systems through the establishment of Telenor Security AB. The services of Telenor Security AB include fire alarms, burglar alarms, TV surveillance and security systems.

Telenor Venture also has ownership interests in the computer companies Linnédatabank and Cetronics. Ergosoft was sold during the year.

## TV distribution

At the beginning of the year, Telenor Vision AB was acquired from the Bonnier Group. The company is a market leader within the pay-TV segment, with a market share of 75% for hotels and 60% for independent cable-TV networks.

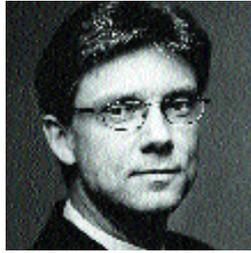
Canal Digital AB, a joint venture with Canal Plus, markets, sells and administers digital TV subscriptions and services. In the autumn of 1998, the first digital solution was launched.

## Directories

Lokaldelen AB is, with 245 local directories, the leading publisher of local directories for both the private and business markets in Sweden. Telenor Företagsinformation AB publishes two of Sweden's leading business-to-business directories, Handelskalendern and Stortele.

## Call centres

During 1998, Telenor gained a leading position within call centre services through the acquisition of 51% of the shares in the Kalix Tele24 Group.



Managing Director of  
Telenor AB:  
Per Dahl







# Leading the way

# into new territories

Satellite based communication has a strong growth potential, and encompasses a broader range of services. Telenor with its three Thor satellites has a strong position on the European market as a competent and powerful player.

Telenor's business expands in line with developments in technologies and markets. The internet, and the underlying IP technology, are developing into the cornerstone of the future global communication infrastructure, both when it comes to telephony and data communication. Telenor is a world leader in this area and utilises its expertise internationally as a spearhead for entry into new markets in Europe, often in combination with other products.

# Elected officers and management

## Corporate Assembly

### Members elected by the shareholder

- Chairperson: Mona Røkke, Tønsberg
- Vice-Chairman: Gisle Handeland, Fedje
- Kjersti Graver, Bærum
- Brit Seim Jahre, Oslo
- Hilde Kinserdal, Bergen
- Ragnar Klevaas, Bærum
- Anne Cathrine Høeg Rasmussen, Oslo
- Bjørg Simonsen, Rana
- Kristian Zachariassen, Arendal
- Eystein Gjelsvik, Ski

### Alternates elected by the shareholder

- Ove Andersen, Arendal
- Erna Beate Støren, Porsgrunn
- Inger-Grethe Solstad, Gausel

### Members elected by the employees

- Svein Åge Samuelsen, Trondheim
- Bjørg Fagnastøl, Bergen
- Anne Bjerk, Sarpsborg
- Irma Ruth Tystad, Trysil
- Jan Riddervold, Lillehammer

### Observers for the employees

- Karstein Rystad, Bodø
- Ole-Morten Olsen, Steinkjer

### Alternates elected by the employees

- Arnt-Johann Christensen, Bergen
- Reidunn Wahl, Oslo
- Hildegunn Øvretveit, Bergen
- Per Erik Uthus, Skedsmo
- Helge Enger, Kongsvinger
- Arne Bjørnsen, Notodden
- Wenche Aannestad, Tønsberg
- Arne Jenssen, Trondheim
- Anny Solvik, Oslo
- Helge Nilsen, Skånland
- Brian Anders Gundersen, Oslo

## The Board of Directors

### Members elected by the shareholder

- Chairman: Arnfinn Hofstad, Levanger
- Deputy Chairman: Finn A. Hvistendahl, Oslo
- Terje Moe Gustavsen, Oslo
- Marianne Damhaug, Oslo
- Oddbjørn Nordset, Steinkjer
- Åshild Bendiksen, Sjøvegan

### Alternates elected by the shareholder

- Jørn Rattsø, Ranheim
- Eva Karal, Oslo

### Members elected by the employees

- Synnøve Lohne-Knudsen, Grua
- Svein Eivind Solheim, Askvoll
- Anne Sørli, Oslo

### Alternates elected by the employees

- Harald Stavn, Kongsberg
- Hans Mikalsen, Tromsdalen

## Group management

- President and Chief Executive Officer:  
Tormod Hermansen
- Senior Executive Vice President:  
Ole Petter Håkonsen
- Senior Executive Vice President: Terje Thon
- Senior Executive Vice President:  
Jon Fredrik Baksaas
- Senior Executive Vice President: Arve Johansen
- Executive Vice President: Heidi Kvernevik
- Executive Vice President: Peter Pay
- Executive Vice President & CFO: Torstein Moland

## Subsidiaries

### Telenor International AS

Managing Director Morten Karlsen Sørby

### Telenor Privat AS

Managing Director Jo Lunder

### Telenor Mobil AS

Managing Director Stig M. Herbern

### Telenor Bedrift AS

Managing Director Thor A. Halvorsen

### Telenor Programvare AS

Managing Director Bjørn Trondsen

### Telenor Nextel AS

Managing Director Morten Lundal

### Telenor Plus AS

Managing Director Gunnar Bjørkavåg

### Telenor IT Service og Installasjon AS

Managing Director Jan Kåre Pedersen

### Telenor Nett AS

Managing Director Jan Edvard Thygesen

### Auditors

Arthur Andersen & Co., Oslo

# Glossary and definition of terms

**ADSL:**

Asymmetrical Digital Subscriber Line. Mode of transmission for exploiting existing copper cable network for services with a need for higher capacity in one direction than in the other, e.g. video-on-demand.

**ATM:**

Asynchronous Transfer Mode. ATM is a switching and transmission mode for high-speed networks based on dividing the bits stream into cells of a fixed length (a given number of bits). An ATM-based network can carry both voice, data and video.

**Base station:**

A radio station in a landmobile radio network. It comprises a transmitter, a receiver, and an antenna facility, and connects traffic between mobile subscribers and the rest of the telecommunications network.

**Basic affiliation:**

ISDN basic affiliation (GT) consists of two B channels (64 kbit/s) and a D channel (16 kbit/s), (2B+D).

**Bit/s:**

Bit per second. Unit of information speed when transmitting digital signals. (Other abbreviations used are bps and b/s).

**Centrex:**

PABX function in a public exchange as an alternative to a private exchange.

**DCS-1800:**

European mobile telephone service (equivalent to GSM) on the 1800 Mhz frequency band. Based on ETSI standards.

**DECT:**

Digital European Cordless Telecommunications. European standard for digital cordless connection to the telecommunications network.

**ETSI:**

European Telecommunications Standard Institute. Has members from among network operators, regulators, industry, research, and user organisations.

**Extended connection:**

ISDN extended connection (UT) comprises 30 B channels (2 mb/s) and one D channel (16 kbit/s), (30B+D). This service is offered to the corporate market i.a. to connect PABXs to the telecommunications network.

**Frame relay:**

Service built on X.25, but with a much higher throughput and flexibility, on the basis of the higher quality in today's transmission network. Used primarily to link companies' local networks (intranet), but also for the establishment of branch networks/extranet.

**Green numbers:**

Service where the recipient, the B subscriber pays for the call and the call is free of charge to the A subscriber. The recipient is given a number in the 800 series.

**GSM:**

Global System for Mobile communications. Pan-European digital mobile telephone system.

**IN:**

Intelligent Networks. Telecommunications network where parts of the software for the services are withdrawn from exchanges and put into a few nodes. This makes it easier to change services as required, and users can be offered customised services. New services can be introduced quickly.

**INMARSAT:**

International Maritime Satellite Organisation. An operator company that established and operates satellite systems for maritime, land mobile, and aeronautical mobile communication.

**INTELSAT:**

International Telecommunications Satellite Organisation. The international telecommunications satellite organisation mainly operates intercontinental telecommunications via satellite.

**Interface:**

Point of connection between two types of equipment with different functions. The term is also used to state the dividing line between areas of responsibility, ownership, etc. (e.g. between

monopoly areas and competition areas).

**ISDN:**

Integrated Services Digital Network. Digital network integrating several types of service: voice, text, data, and picture. The standard for ISDN speed is 64 bit/s.

**LAN:**

Local Area Network. Local network for transmission of data, e.g. Ethernet/Tokenring standard.

**MIPS:**

Millions of instructions per second. A unit indicating a computer's processing speed.

**Network:**

Connection for transmitting signals between defined termination points.

**Node:**

A coupling or switching point in a network.

**Nordicom:**

Proprietary name of ATM broadband network that has been established in Scandinavia by Telenor, Telenordia, and Tele-Danmark. Nordicom is nationwide and available to the business market in Norway. The network provides the same functionality throughout Scandinavia, and in addition to BT's global network Concert. The range of services spans from Frame Relay, which is a standard product for all types of data transmission, to especially customised solutions with the use of ATM all the way through to the end-user.

**ONP**

Open Network Provision.

Regulations within the EEA designed to ensure user access to specified services with specified interfaces on equal conditions and at cost-based prices.

**Radio access**

Subscriber access to the telecommunications network via radio systems.

**SDH**

Synchronous Digital Hierarchy. Synchronous transmission and multiplexing system for telecom-

munications networks. It operates at speeds between 155 Mbit/s to 2.54 Gbit/s. SDH will be the future transmission system in the telecom network.

**TINA-C**

Consortium of organisations/companies that work with network infrastructures. Established on the initiative of several large telecom operators and equipment suppliers.

**TMN**

Telecommunications Management Network.

A separate network for operation, maintenance and operation of the telecommunications network.

**Transport network**

Networks consisting of transmission systems for the physical transmission of information and the logical functions that are required to route the information for various services through the network.

**UPT**

Universal Personal Telecommunication (Alpha number). A service whereby one personal UPT number can be used in various networks, so that the subscriber can be reached via one number, regardless of which network he or she is connected to.

**VIP**

Virtual Private Network.

Service for business communication whereby departments and offices at different locations are connected via switchboard and Centrex solutions in a company-wide network via switched connections in the public telecommunication network.

**VSAT**

Very Small Aperture Terminal. Satellite terminal with a small disc antenna, intended for business customers.