



Telenor AS
Annual Report 1997

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Arena for *the world's most advanced* telecommunications?

Norway is one of the first countries in the world with a telecommunications network based 100 per cent on the digital technology of the future. We are very much to the fore with regard to mobile telephone and Internet density. Why is that?

Partly because we have developed the telecommunications in a country that presents major challenges, geographically and meteorologically.

Partly because Norwegians actually have traditionally been open to technical and technological innovations.

Partly because we are a relatively egalitarian society, where education is justly distributed, and where most people have had a share of the welfare and growth.

And partly because Telenor, the entire nation's company, has been willing to learn from others, and had the ability to look to the future when developing its services.

● Highlights 1997

The digitalisation programme for the Norwegian telecommunications network was completed by 1 December 1997. It was started in 1966, when the first digital elements were built into the transmission network. Digitalisation of the central network and the exchanges started in 1986.

The internationalisation programme was continued and escalated, with major investments in mobile licences in Germany, Austria, and Greece.



Telenor's second communications satellite, Thor II, was launched from Cape Canaveral in Florida, and placed at the strategic position «one degree west». Simultaneously, satellite number three, Thor III, was ordered.

A proposal was presented to the owner that the equity should be increased by NOK 3 billion in order to ensure the Group's financial strength and capital adequacy. The Storting (Parliament) later provided NOK 2 billion in new equity.

The installation activities were organised in one business area, Telenor Installasjon AS, these were previously organised under Telenor Privat, Telenor Nett, and Telenor Bedrift. This was a success, and ensured a positive contribution to the Group's result.

Prices were rebalanced, with a strong shift toward cost-based prices. All in all, the trend of significant price reductions continued.

The internet commitment was strengthened by the establishing of a new business area, Telenor Nextel AS, which has overall responsibility for its own results and operations. At the end of the year, internet accounted for about 15 per cent of the local traffic over the Norwegian telecommunications network.

Telenor's localisation strategy was determined and there will be principal regional centres and nationwide presence, in order to ensure that fundamental services are delivered to everybody.

An agreement was signed regarding the purchase of land at Fornebu for the building of a future-orientated head office and cost-effective co-location of the activities in the Oslo area. Similar efforts were made to co-locate in Bergen and in Trondheim.

As the first company in the world, Telenor started to offer digital TV services within an open standard, and the first step in the direction of integrating TV and computer technology for the mass market was made.

Key figures

The Telenor Group

Amounts in NOK million	1997	1996	1995
Operating income	25,518	22,170	19,859
Operating expenses excl. depreciation	18,682	15,670	13,723
Ordinary depreciation	4,070	3,887	3,562
Operating profit	2,766	2,613	2,574
Profit before taxes	1,915	2,354	2,103
Current assets	7,533	6,474	5,910
Fixed assets	26,095	23,106	21,568
Total assets	33,628	29,580	27,478
Interest-bearing debt	9,224	5,860	6,906
Equity	15,026	14,671	11,721
Cash flow from operating activities	5,496	4,827	6,284
Investments ¹⁾	8,891	5,528	4,555
Profit margin ²⁾	7.5%	10.6%	10.6%
Return on capital employed ³⁾	10.6%	14.3%	14.3%
Return on equity ⁴⁾	12.9%	17.8%	18.5%
No. of employees	20,848	19,221	18,480
No. of man-years	19,598	18,113	17,406
Profit for the year	1,200	1,910	1,481
Dividend	570	950	550
Earnings per share (in NOK) ⁵⁾	1,667	2,894	2,468
Equity per share in NOK ⁵⁾	20,869	22,229	19,535

Definitions:

1) Investments in fixed assets, long-term investments in shares, and capital subscribed in satellite organisations.

2) Profit before taxes/Total operating income.

3) Profit before taxes + financial expenses/Average (total assets – non interest-bearing debt).

The return for 1996 and 1995 has been adjusted, in that interest regarding the provision for redundancies (TNM) and early retirements has not been added as a financial expense. This has reduced the calculated return by 0.5 percentage points in both years.

4) Profit before taxes/Average equity.

5) Adjusted for increase in equity in 1996.

● Introducing Telenor

The Telenor Group comprises the parent company, Telenor AS, and its subsidiaries. All the shares are owned by the Norwegian State. With 20,848 employees, and an annual income of NOK 25.5 billion in 1997, Telenor is one of the largest companies in Norway, and one of the companies that adds most value. Telenor's range of products and services in the field of data and telecommunications comprises everything for the simple telephone subscription, be it fixed or mobile, to installation and operation of complete IT systems, global satellite communication, transmission and distribution of broadcasting signals, value added services, Internet services, and the production and distribution of directories.

Telenor is Norway's market leader in the fields of telecommunications and the supply of IT services. In Europe, Telenor is the third largest in the field of satellite communications, and one of the ten largest mobile telephone operators.

Telenor has ownership interests in more than 40 operative subsidiaries and associated companies in 25 countries outside Norway. This forms the platform on which Telenor will

develop into a multinational telecommunications/IT group. Telenor is strategically seeking to integrate telecommunications and data.

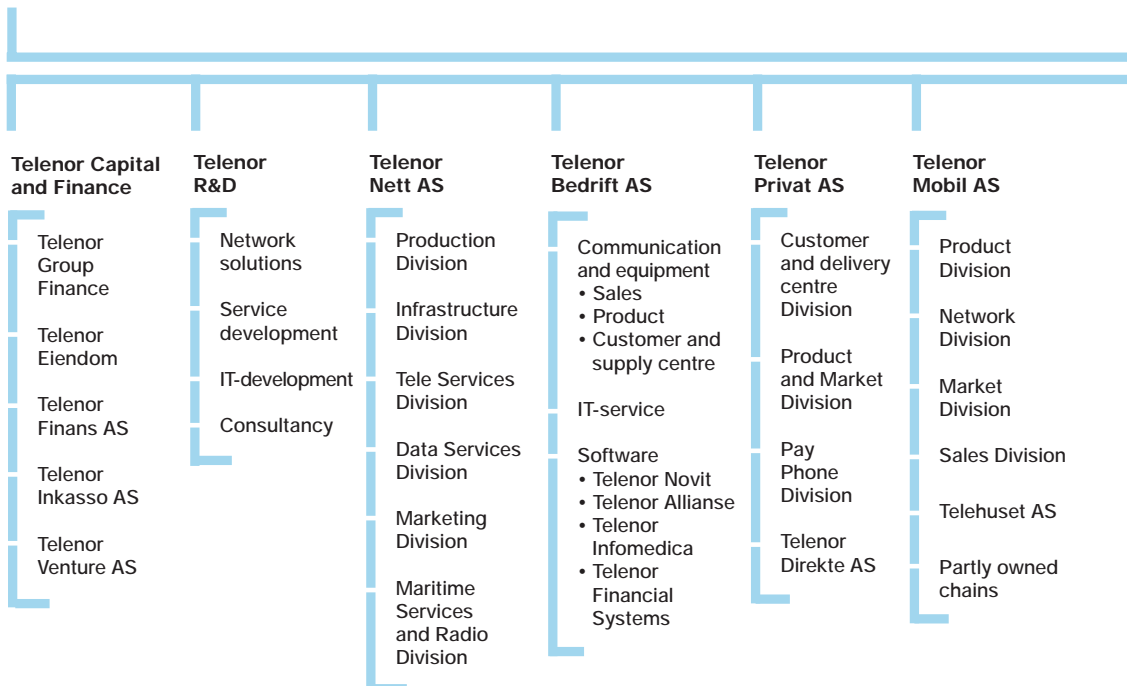
The Group builds its activities on the basic values of responsibility, reliability, and involvement. The current management of the Group's operations is based on demands relating to customer orientation, adding value and renewal.

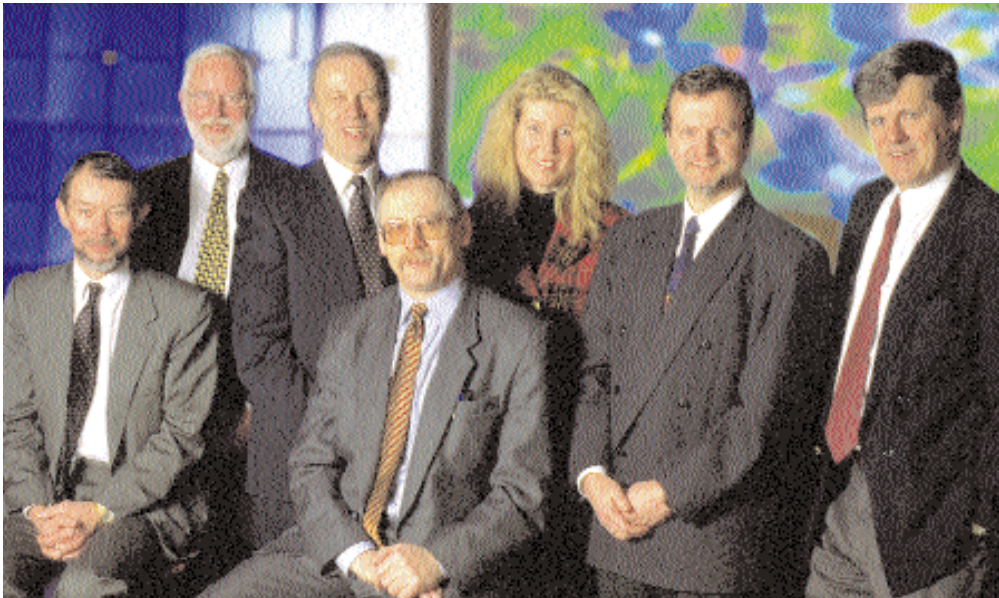
Telenor considers a good reputation to be an important competitive factor. It will ensure that Telenor is attractive to customers, and creates financial values for the owner. Telenor shall be an attractive place to work, and the Group shall be innovative both with respect to technology and to the market.

The Group shall contribute to a positive development of the society in general, be trustworthy, and have good business morals.

Telenor AS

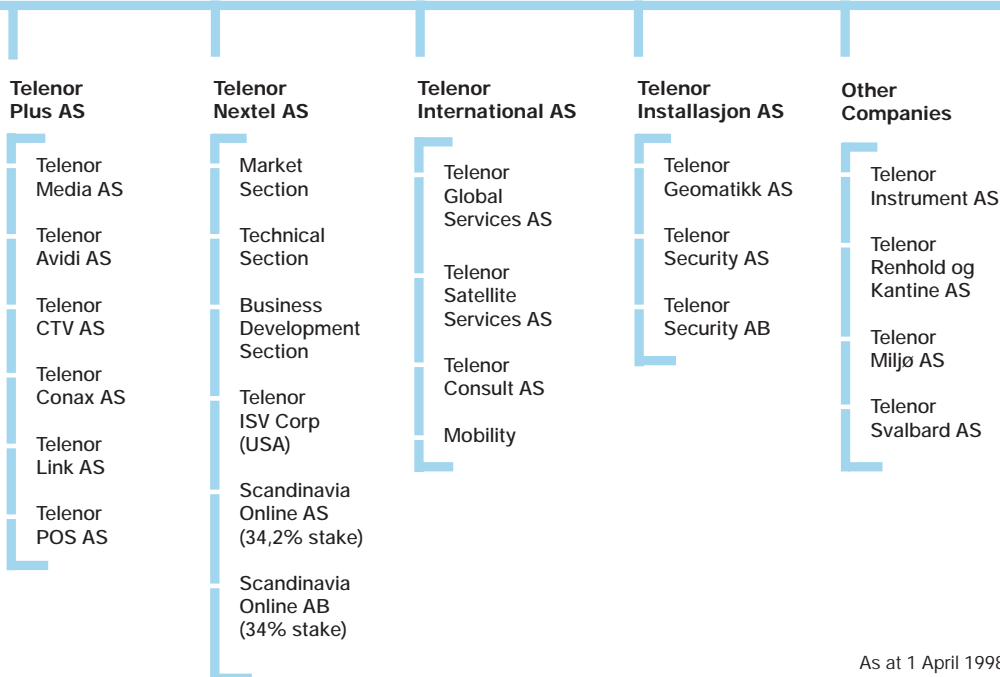
Group centre
(Group management and staffs)





Telenor's Group Management.

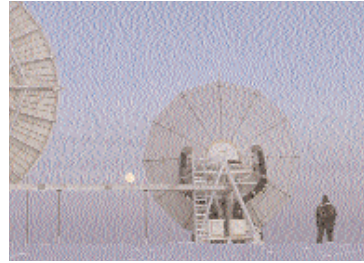
From the left: Peter Pay, SVP (Business Development and New Services), Torstein Moland, SVP (Economy and Finance), Ole Petter Håkonsen, EVP (Technological Selection and Concentration), Tormod Hermansen, President and C.E.O., Marit Eliabeth Døving, SVP (Corporate Communication), Jon Fredrik Baksaas, EVP (Operations in Norway) and Terje Thon, EVP (International Operations), Magnus Dokset, SVP (Regulatory matters and internal IT strategy) was not present when the photo was taken.



As at 1 April 1998







One degree

*Some names are inextricably connected
to space adventures and to satellites.
Cape Canaveral. The Pacific Ocean.
Spitsbergen. Spitsbergen?*

west of infinity

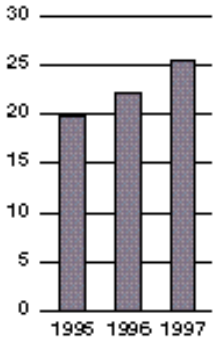
Sure! 1,310 kilometres from the North Pole we find the world's first satellite-based telephone network in this part of the world. Two communication satellites orbit over Europe at the strategic position «one degree west».

They serve everything from Scandinavian and Eastern European TV stations to major companies with a need for world-wide communication facilities.

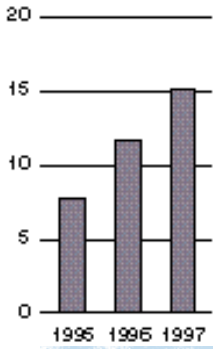
Telenor is, and intends to remain, one of the two-three leading satellite communication companies in Europe. Few companies of our size, if any, are so well positioned for the future development we will see in this field.

Report of the Board of Directors

Operating income
Telenor Group
(NOK 000 million)



Growth in operating income
Telenor Group
(per cent)



The telecommunications and IT industry is developing at a furious pace, with major technological strides that result in a convergence of telecommunications, broadcasting, data processing, and content activity. The development is being followed up by new regulatory regimes that shall ensure full interconnection and transition to a functioning competitive market for telecommunications services. The remaining monopoly rights in Norway, and in most EU members states, were dismantled on 1 January 1998. Changes in the framework conditions have resulted in a great deal of restructuring and international positioning in the world's telecommunications/IT industry. Global alliances are being established, the competition is becoming fiercer, and the geographic borders are being erased. The new competitive situation represents considerable challenges in Telenor's home market, while at the same time less restrictions to market access open up for new, exciting business opportunities abroad.

Telenor's Board of Directors has opted to meet the new challenges with an offensive strategy. Some of the highlights from the operations in 1997 illustrate this:

- The completion of the digitalisation programme for the telecommunications network in Norway.
- The continuation, and in fact escalation of the internationalisation programme with major investments in mobile licences in Germany, Austria, and Greece.
- The launch of the new satellite, Thor II, and the ordering of Thor III.
- The proposal to the owner that the equity should be increased by NOK 3 billion in order to ensure that the company has adequate financial strength and capital adequacy.
- The re-balancing of prices and, on the whole, the continuation of further sharp price cuts.
- The strengthening of the internet commitment by establishing a new business area with overall responsibility for results and operations.
- Determining a localisation strategy which emphasises regional principal centres and presence throughout the country, in order to ensure the provision of basic services to everybody.
- An agreement to buy land at Fornebu for the development of a future-orientated head office, and cost-effective co-location of activities in the Oslo area. Similar initiatives were made in Bergen and in Trondheim.

In the opinion of the Board of Directors, these issues, and other result-orientated measures in 1997, make a necessary contribution towards placing Telenor in the global competitive market, while simultaneously developing the company into the leading telecommunications/IT supplier in Norway

In 1997, the Group's operating income amounted to NOK 25,518 million, compared to NOK 22,170 million in

1996. The growth amounts to 15.1 per cent. Income from the Group's activities outside of Norway rose by approximately NOK 1,500 million in 1997. In 1997, the Group's profit before taxes amounted to NOK 1,915 million, compared to NOK 2,354 million in 1996. The decline in profit was due to considerable investments being made, for instance in mobile communications and satellite activities abroad, which in the first few years will contribute with losses to the accounts.

The market and services

Network activity

With effect from 1 January 1997, Telenor Nett AS was established as a separate subsidiary of Telenor AS. At the same time, a new organisational structure was established with divisions and with fewer regional centres. Efficiency improvements and a reduction in the workforce of Telenor's network operations were made in accordance with the adopted plans that aim at reducing the annual operating expenses considerably in the time to come. The completion of the digitalisation programme for Telenor's telecommunications network and exchanges on 1 December 1997 has made it possible to operate the network from fewer locations and with a smaller staff. For Telenor, being able to exploit the potential for increasing efficiency that is created by the large and long-term investment programmes which the Group has implemented in the network field, will be of decisive importance. Telenor has now at its disposal one of the world's most up-to-date and advanced telecommunications networks, and the object is to satisfy the next century's expectations of "the electronic highway". The new competitive situation allows the establishment of alternative infrastructure, and results in Telenor cutting its network prices and its expenses in order to maintain market shares and competitiveness in the future.

In 1997, Telenor continued to expand the GSM network at full steam, and at the same time the capacity of all mobile networks was adjusted to the volume of traffic and the demand. Considerable improvements were achieved with respect to access and the number of cut-off calls was reduced. At the moment, Telenor is in a development phase where services and functions that are currently realised in several networks, both fixed and mobile, will gradually be integrated in a common technical and administrative platform. The integration of network development, terminals, and range of services in a large market gives strength, and results in economies of scale.

Co-ordination of production of services in Norway

A considerable part of Telenor's production of services for the end-user market are based on deliveries from the network operations, and are conditional on a very close co-operation and interplay between all links in the

value added chain if synergies are to be exploited and competitive advantages maintained. As part of the preparation for the open competitive market from 1998, it was decided to co-ordinate the activities of the wholly owned subsidiaries Telenor Nett AS, Telenor Bedrift AS, Telenor Privat AS, Telenor Mobil AS, and Telenor Installasjon AS under a joint Norwegian management with effect from 1 July 1997. In a similar way, the activities abroad were co-ordinated into a single management area. This management organisation ensures a stronger co-ordination of the core activities at home and abroad.

With effect from 1 January 1998, further integration and co-ordination of the production of services on the Norwegian market were ensured by Telenor Privat and Telenor Mobil now having the same management, which now manages the Group's total activities in the private and the small business market.

The Board strongly believes that the improvement in efficiency of the core activities in Norway will be profitable, and it has already registered improvements in Telenor's customer-orientated activities.

In 1997, the development on the Norwegian market was particularly positive for telephony/ISDN and mobile telephony. From 1996 to 1997, the growth in volume of fixed network generated traffic in the business and private segments was 13.8 per cent and 11.5 per cent respectively. This was particularly noticeable in the increase in the traffic to the mobile networks, where the growth in volume was approximately 40 per cent. In addition, the market's use of internet is a driving force behind the use of the telecommunications network. In the mobile market, the number of subscribers rose by approximately 281,000, with a growth in the GSM market of about 338,000, and a reduction in the NMT markets of 57,000.

Telenor's total IT activity recorded weak financial results in 1997. Both software companies and the IT service activities recorded significant losses, as a result of development costs, and also to some extent because of a decline in sales. On the other hand, by concentrating on the IT area too, Telenor has achieved a unique position which it could not have had if it had remained just a traditional telecommunications operator. It is a considerable challenge to take advantage of this positioning to improve the company's grip on the market and the value adding.

International operations

At the end of 1997, Telenor had ownership interests in more than 40 operative subsidiaries and associated companies in 25 countries outside Norway, and is engaged in activities in a wide range of telecommunications services. The Group is engaged in a number of promising international projects, mainly in mobile and satellite communication, and in directories. Today,

Telenor is considered to be an attractive partner or alliance member for large, international groups. The strengthened international profile is underlined by investments outside Norway rising from NOK 1,250 million in 1996 to NOK 4,220 million in 1997. These major investments have a short-term negative effect on the profits, but will make a positive contribution to both profits and values in a few years' time. Income rose from NOK 3.1 billion in 1996 to NOK 4.6 billion in 1997. In the opinion of the Board, all this illustrates quite clearly that Telenor is developing into an international company, where the Group's growth will increasingly come from its activities abroad.

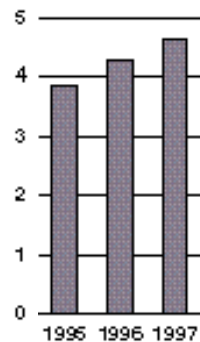
In the satellite field, Telenor's involvement in broadcasting has given positive results. Telenor's satellite position at «one degree west» has now been established as a "Nordic Hot-bird". In other words, the most attractive TV programmes are distributed via Telenor, and most of the dish receivers (DTH) in the Nordic region point to this satellite position. In May 1997, the satellite Thor II was launched, and from "one degree west" more than 110 TV and radio programmes are now being sent to the Nordic countries, and to Central and Eastern Europe. Telenor's third satellite, Thor III, is expected to be launched in June 1998. Satellite broadcasting is therefore in a phase of positive development which secures current and future investments. Telenor has also started to cooperate with Canal Plus (Europe's largest programme company) on the development of a digital standard for satellite broadcasting, a standard that will be of great importance to the business in the future.

In 1997, Telenor decided to participate in a consortium, together with British Telecom and the German industrial and energy company Viag Intercom, with the intention of developing both fixed network and mobile network services in Germany. Telenor was invited to take part in the company because of the Group's cutting-edge competence in the field of mobile telephony services. Together with partners, Telenor has also submitted tender and been given the contracts for building mobile networks in Austria and Greece. In line with Telenor's strategy for Russia, Telenor has been awarded a mobile licence in Stavropol and in Kaliningrad, in association with local partners. Telenor is also engaged in the development of mobile telephony in the Ukraine, together with local partners. The number of mobile licences that Telenor is participating in outside the Norwegian borders has therefore risen from 5 in 1996 to 12 during the course of 1997.

Paging was Telenor's first involvement in international mobile communication. Due to the ever increasing speed at which GSM/DCS mobile telephony is developing in the priority areas outside Norway where Telenor has been engaged in paging projects, a strategic review of paging as a field of concentration has been carried out.

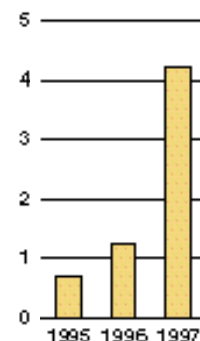
Investments in Norway

Telenor Group
(NOK 000 million)

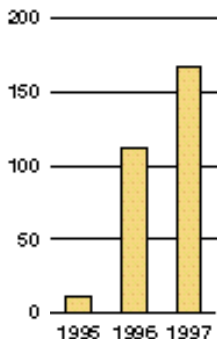


Investments outside of Norway

Telenor Group
(NOK 000 million)



No. of Internet subscriptions (1000s)



Telenor's regional centres in Norway



Based on this, it has been decided to withdraw from this activity. This decision has resulted in restructuring costs, which, together with the financial results of the various projects, was charged to the accounts by NOK 200 million in 1997.

Many of the engagements abroad will, in a start up period of between five to eight years, contribute with losses. The increase in the value of the engagements in this initial phase will only be reflected in Telenor's accounts if they are sold. Therefore, the financial consequence of an extended international involvement will, initially, be negative for Telenor's financial results. The defined requirement for return on equity measured on the basis of the financial results will, therefore, not be satisfactory within a period of five years. The value of such investments for Telenor, and for the State, being the owner, within a five year period will, on the other hand, be expressed through the rise in the value of the separate companies. An assessment of values will be made regularly by external bodies, and will be a good indicator of the values that are created. In this connection, the Board refers to the recent assessment made for Telenor by HSBC Investment Banking. It estimates the value of Telenor International AS's equity to be between NOK 9 and NOK 15 billion, while the book value of the equity at 31 December 1997 was approximately NOK 3 billion. There are reasons to assume that a considerable part of the positive development in the value of the international operations took place in 1997.

Installation activity

Telenor's installation activity represents a very considerable portion of the Group's total operations, but up until 1997 this part of the business had no overall commercial focus, with the same demands on profitability and efficiency as the other activities. To meet the new challenges in this area, a wholly owned subsidiary was founded on 1 January 1997, Telenor Installasjon AS. This implies that most of the installation resources in the Group are now organised together, with a common goal of becoming the leading total supplier of installation services in Norway.

The installation market is growing significantly, both with respect to installation as such, services and operation linked to sales of telecommunication and data services, and with regard to the tender, service and maintenance market in general. Telenor Installasjon has a nation-wide organisation with strong local focus, and divisions at more than 100 locations across the country. In addition, there are company fitters living in virtually all of the municipalities in the country, and these can reach Telenor's customers very quickly.

The installation market is undergoing change, and the customers are increasingly requesting complete solutions of installation services, which cover telecommuni-

cations, data, strong current, alarm, security, and monitoring. At the same time, the various technologies are tending to fuse, which will increase the demand for new solutions.

The Board is rather satisfied with the development in the installation area. From being a significant loss-reporting activity, the company has turned the trend to one of profits during 1997, for instance by focusing on the efficiency of the production chain, cost control, and the building up of competence. Several measures have contributed to the improvement in profitability. A total reorganisation of the distribution of goods has been carried out, resulting in all warehouses being closed and replaced by rapid distribution directly from wholesalers to the individual fitter. In addition, a new order system has been developed, where the individual fitter receives his work assignments via a GSM mobile telephone directly to a small, portable PC.

Internet

Developments are very rapid in the internet field, and internet technology is considered to be a key technology for the future development of communication and multimedia services. The competition for internet customers is fierce in a market that is characterised by large international players which have the Nordic area and the whole of Europe as their home market base.

It was due to this that Telenor resolved to upgrade Telenor Nextel AS (formerly Telenor Online AS) to a separate business area from 1 July 1997. The company has taken over the responsibility for the IP network and the core products such as internet access, communication services based on the IP network, and value added services. Telenor's internet commitment is therefore organised as a vertically integrated profit area with a common profit and operations responsibility for all elements in the value added chain. This will bring the Group to the forefront with regard to product development, and synergy effects in relation to the existing product portfolio in the Group.

The internet market has grown significantly, both in the private market and the corporate market, even though the growth was not as high as one had expected. The competitive situation results in higher commission costs in the sales organisation, and lower subscription prices. At the end of 1997, the Group had approximately 167,000 internet subscribers in the private market, which is approximately 55,000 more than at the beginning of the year. The Board believes that Telenor has created substantial additional values in the internet area.

Innovation and business development

Telenor's focus on own development work has been increased significantly in 1997 through the establishment of a separate Group responsibility area for innovation and business development. The ability to further develop

products and services based on established and new technology platforms will be a critical success factor for Telenor in future. This is especially important as individual business segments such as telecommunications, IT, and media are merging.

Localisation strategy

One of Telenor's most important competitive advantages in Norway is its nation-wide customer base, and the nation-wide organisation which makes it very accessible for the customers. The company's localisation pattern is therefore an important means for realising the Group's targets. Maintaining and further developing the necessary quality and service vis-à-vis the ever more demanding customers is one of the Group's most important challenges. While getting into contact with the units and individuals in the Telenor Group who were responsible for customer contact used to be difficult and often time-consuming, internal reorganisation and the use of newly developed support systems have reduced response times and improved customer service in several areas. However, there is still a great potential for improvement and this must be exploited further if Telenor is to assert itself in the competition for customers in a market characterised by many suppliers and a multitude of new services and products.

Telenor has a decentralised organisational structure that forms a good starting point for the establishment and further development of customer proximity and customer contact. Using this as its starting point, and after thorough analyses, Telenor has established a localisation strategy whose main pattern can best be described as follows:

- Principle centre for the Group in the Oslo region
- A number of regional centres
- A number of local Telenor centres for operating and market-related functions
- A large number of places linked to distribution, sales, installation, and service
- A number of places where activity/functions characterised by localisation independence are localised, made possible by Telenor's technology

The localisation strategy was presented in Telenor's "Section 10" Plan for 1997, and it received the support of the Government in the Report to the Storting (White Paper to Parliament) No. 17 (1997-98) on "Telenor AS' Activities", which was presented to the Storting (Parliament) in January 1998.

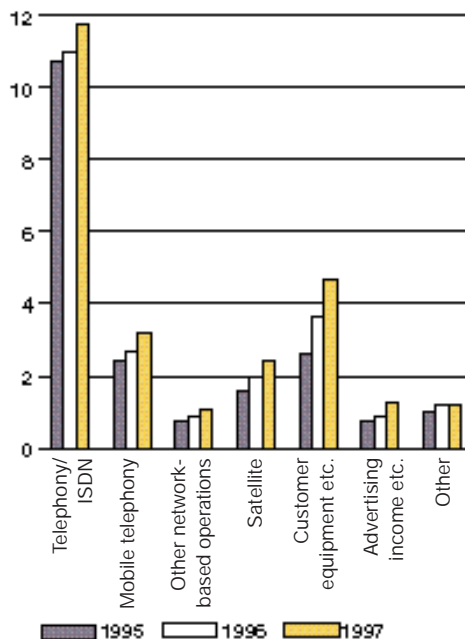
Financial matters

Operating income and result

In 1997, the Group's operating income amounted to NOK 25,518 million, compared to NOK 22,170 million in 1996. This increase of 15.1 per cent came mainly from network-based services, customer equipment, and the

Operating income, by product

Telenor group
(NOK 000 million)



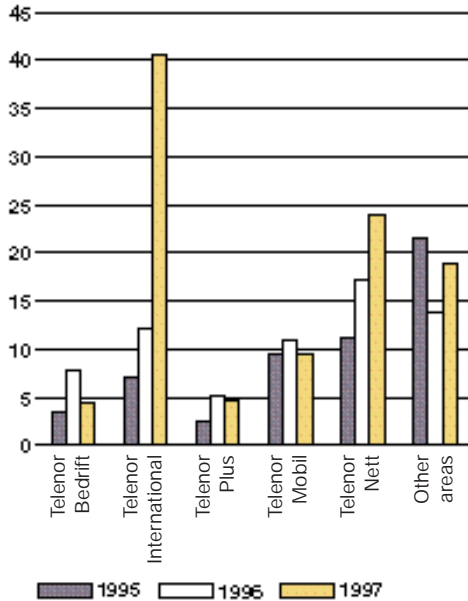
acquisition of companies. The growth in network-based revenue is due to both mobile communication, fixed network telephony, and leased networks, and was achieved in spite of substantial price reductions. The Group's operating income does not include its proportional share of the operating income in associated companies.

In 1997, Telenor's operating profit amounted to NOK 2,766 million, an improvement of NOK 153 million compared to the preceding year. This was achieved in spite of price reductions, tough competition in certain market segments, and increased involvement in areas that are given priority in order to positioning the Group to face more competition. All in all, price reductions resulted in a loss of income in 1997 of about NOK 1,100 million compared to 1996.

The sharp growth in the number of GSM subscribers resulted in expenses related to commission, bonuses, and marketing support of about NOK 1,000 million, which is on a par with 1996. In 1997, the trend was that commissions and market-support costs have rose in other areas, such as the internet.

In 1997, certain amendments were made to the accounting principles/estimates. The depreciation period for NMT and paging services, which were taken over from Televerket on 1 January 1993, was extended to the year 2003 being effective from 1 January 1997. Furthermore, the principles for recording expenses related to the sales

Investments by business area
(NOK 000 million)



of advertisements etc. in directories were also amended. As a result of these amendments, the 1997 profit was improved by a little over NOK 200 million.

As a consequence of the wage agreement in 1997, NAVO's (the Norwegian Association of Publicly owned Companies) AFP scheme (contractual right to early retirement) was considerably expanded. Within the limits set by the current accounting standards, Telenor has decided to charge the implementation effect of approximately NOK 360 million over the remaining earning period of 15 years.

The Group's aggregated pension costs were reduced from NOK 475 million in 1996 to NOK 380 million in 1997. This reduction must be seen in conjunction with the fact that no further commitment in respect of early retirement was made in 1997. As assumed when Telenor AS was founded, this year's accrued as a result of redundancies, totalling NOK 208 million, have been charged against the company's provision for this purpose.

With effect from 1 January 1997, associated companies are consolidated in accordance with the equity method. These companies generated an aggregate loss of NOK 685 million in 1997. Many of the international engagements are in the initial phase, and will therefore record an accounting loss in the first few years, even if the development of their values is positive.

Profit before taxes amounted to NOK 1,915 million,

compared to NOK 2,354 million in the preceding year. The return on capital employed was 10.6 per cent, which is 3.7 percentage points lower than in 1996. For the operations in Norway, the return on capital employed rose to 16.0 per cent as against 15.0 per cent in 1996. For the Group as a whole, return on equity was 12.9 per cent, compared to 17.8 per cent in 1996. The Board considers this to be satisfactory for the operations in Norway, and for the Group as a whole, taking into consideration the market situation and the operations the Group has abroad.

Investments

The Group invested a total of NOK 8,891 million in 1997, which is approximately NOK 3,300 million more than in 1996. This increase was due to new, major projects abroad, and a significant rise in customer-driven and capacity-enhancing investments in the Norwegian network.

Of the Group's total investments, NOK 4,220 million was invested outside Norway. In addition investments in the Norwegian network accounted for NOK 2,100 million, of which investments in the mobile network amounted to approximately NOK 700 million.

Capital base and financing

The Group's equity ratio was 44.7 per cent at the end of 1997. This represents equity amounting to NOK 15,026 million. In January, the Government proposed that the Storting (Parliament) should increase Telenor's equity by NOK 2,000 million, and signalled that it would revert to the matter of a partial privatisation before the next increase in Telenor's equity. The Government's proposal regarding the increase in equity has now been passed by the Storting.

At the end of 1997, interest-bearing debt amounted to NOK 9,224 million. This is NOK 3,364 million more than in 1996, and reflects the higher investment level. Long-term debt financed via Telenor Konsernfinans (Group finance) had an average duration of 4.3 years and the average interest term, including the effect of interest swaps, was 1.55 years at 31 December 1997. The rest of the long-term debt is for the most part leasing, where lease financing of Thor II at the end of 1997 amounted to NOK 496 million.

The "Year 2000 Issue"

In the various business areas, and for common systems, Telenor started moves under central co-ordination which will map out and solve different problems related to the transition to the year 2000. Reference is made to a more detailed section on this issue later in the Annual Report.

Regulatory matters

The liberalisation of the telecommunications market with effect from 1 January 1998 has resulted in a num-

ber of new players wanting to compete for the supply of telecommunication services. According to the new Telecommunications Act, with appurtenant regulations, the suppliers of fixed network services will only need a simple registration with the Norwegian Post and Telecommunications Authority, while Telenor, through its licence, is subject to stringent obligations. Telenor is obliged to enter into interconnection agreements with the new players, without these having had imposed on them, so far, adequate security requirements by the authorities. This represents a considerable risk for Telenor in relation to the obligations imposed on the company regarding the overall defence, and in relation to network security for the users. The Board has raised the issue with the Ministry of Transport and Communications, which is the relevant authority for telecommunications policies.

In 1997, Telenor entered into interconnection agreements with Telia, Tele2, and Global One. Negotiations on interconnection have started with several other players, and further agreements are expected to be signed in 1998.

In general, the Board would like to stress that the continued uncertainty surrounding the wording and the practising of the new control regime in Norway from 1 January 1998 represent a considerable commercial risk for Telenor. This is particularly so if, for example, the interconnection terms and other market adjustments are regulated by the authorities in such a way that there is a risk of substantial values being transferred to the competition without the end-user benefiting from this in the form of better and cheaper services. A biased adjustment of access to Telenor's infrastructure for the competition will undermine Telenor's ability to supply equal services nation-wide, and will impair the incentives for further developing telecommunications in Norway.

Organisation and personnel

At the end of 1997, the Telenor Group had 20,848 employees. Of these, 18,338 worked in Norway, and 2,510 worked abroad. At the end of 1996, the Group had 19,221 employees. 1,372 of the 20,848 employees work for the parent company, and 19,476 work for the subsidiaries. In 1996, the corresponding figures were 8,958 and 10,263 respectively. The changes are mainly due to the spinning off of Telenor Privat, Telenor Nett, and Telenor Installasjon as independent joint-stock companies.

In 1997, changes in technology and the market also led to a need to adjust personnel accordingly. Telenor emphasises having a well-functioning internal job market in restructuring processes and encourages greater mobility in its staff. Internal transfers between business areas/companies are estimated to be about 5 per cent. Just over 550 employees have left on severance pay. In addition,

substantial sums were used in resignation-stimulating measures such as study grants and other forms of redundancy pay.

The Management wants to maintain the co-operation with the employees' organisations within the framework of the Basic Agreement between NAVO (the Norwegian Association of Publicly owned Companies) and the main trade union organisations. This co-operation has also been formalised through bodies such as the Group Committee, the Joint Consultative Committee, and regular management forums.

The internal and external environment

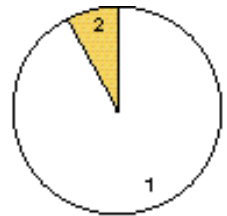
A continual and systematic effort has been made to maintain and improve the total working environment in all the Group's business areas, units, and companies. Working environment activities are implemented in accordance with the authorities' imposition of systematic Health, Environment and Safety work (HES), and in accordance with internal guidelines within the Group. Sick leave for the Group in 1997 was 4.5 per cent, which is at the same level as in 1996. Businesses and industry in general have registered a considerable increase in sick-leave. The injury frequency in 1997, the so-called H-value, measured as the number of absences due to injuries per one million hours worked was 2.9, compared to 2.8 in 1996.

Telenor has prepared an action plan for the external environment for the period 1998-2000 – Telenor Agenda 21 – which will ensure good external environmental work, and a good environmental profile, which represent an important competitive advantage in the future. Telenor's environment report for 1997 provides more details of the environmental work carried out under the Group's auspices, both in the form of management measures and more practical actions.

The Telia case

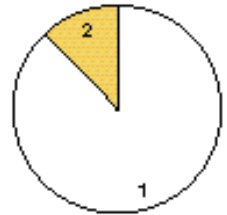
In the autumn of 1997, discussion started between Telenor AS and the Swedish company Telia AB. The objective of the discussion was to merge the two companies into one new company. The discussions were carried out simultaneously between the two countries' governments and the two companies' management. On 20 February 1998 it became apparent that the two owners could not reach an agreement that implied the necessary balance between the two parties. The Board believes that substantial gains could have been achieved by merging the two companies into a new telecommunications group. A basic precondition for such a merger was that the new company should be seen as an integrated and credible Norwegian-Swedish company based on full equality and balance. Considering this could not be achieved, it was natural to terminate the discussions.

Employees
Telenor Group
1996



1. In Norway: 17,796
2. Abroad: 1,425
Total: 19,221

1997



1. In Norway: 18,338
2. Abroad: 2,510
Total: 20,848

Allocation of the profit for the year

In the last two years, the proposed dividend in the Government's national budget proposal was increased by the Storting (Parliament) in connection with the budget debate. For the 1997 accounting year, dividend was set to NOK 570 million, or 47.5 per cent of the profit for the year after taxes, compared to NOK 300 million in the national budget proposal. Telenor's Board of Directors has suggested to the owner that the Government should set a long-term and stable dividend policy that is adapted to the potential for growth and the capital adequacy requirement. The Board assumes that the future dividends from Telenor will be based on these principles, and will be seen in conjunction with the Group's equity requirement.

For Telenor AS, the loss for the year, before taxes, amounted to NOK 319 million. The Board proposes that the result, including recieved group contribution of NOK

1,264 million, and after taxes of NOK 331 million, should be allocated as follows:

To dividend:	NOK 570 million
To retained earnings:	NOK 44 million
<u>Total</u>	<u>NOK 614 million</u>

Prospects

Considering the fact that all of Telenor's business areas are subject to ordinary market competition with effect from this year, the company's main objective is to create the highest possible values for the owner. Telenor considers it to be a primary goal to contribute to the continued development of the information society in Norway, and the possibilities this give should be beneficial to all parts of the country. Telenor will systematically endeavour to master the challenges this presents. Telenor's business concept assumes that Telenor can be engaged in all links of the value added chain, and that, in addition to

The Board of Directors of Telenor AS 1997



Arnfinn Hofstad

Christian Brinch

Terje Moe Gustavsen

Áshild Bendiktsen

Oddbjørn Nordset

Arnfinn Hofstad
(Chairman)

Christian Brinch
(Deputy Chairman)

Terje Moe Gustavsen

Áshild Bendiktsen

Oddbjørn Nordset

increased profitability in all links, it will also be possible to exploit the synergy effects across the individual business areas.

Telenor's main strategy assumes that the individual business areas and units are competitive, flexible, and fast. This places considerable demands on the organisation, and on Telenor's ability to understand the underlying structural moves in the market development. Telenor has chosen to organise the operation into business areas with defined tasks and responsibilities, in order to respond quickly to signals from the market or the competition within the respective business areas, and to make the necessary adjustments to the service range, resources and competence requirements. Even with the rapidly changing market and competitive conditions, and the new technological opportunities that will characterise the day-to-day life of the company in the future, the Board is of the opinion that Telenor has for many years

been showing a continuous ability to use new organisational structures, and working and operating methods, in order to achieve results. The Board, therefore, takes a positive view of the company's chance of asserting itself, both nationally and internationally in the future.

Salary, remuneration and fees

Remuneration to the parent company's Board of Directors amounted to NOK 767,500 in 1997. In the same period, the Corporate Assembly received a remuneration totalling NOK 307,500. In 1997, the salary and remuneration to the President and Chief Executive Officer amounted to NOK 1,515,069. The President and C.E.O.'s other agreements are referred to in Note 4 to the Accounts.

The proposed auditor's fee for the parent company in 1997 is NOK 800,000. In addition NOK 3.061.405 has been invoiced for other services.

Oslo 31 March 1998



Inger Karin Nerheim

Inger Karin Nerheim



Anne Sørli

Anne Sørli
(Elected by the employees)



Synnøve Lohne-Knudsen

Synnøve Lohne-Knudsen
(Elected by the employees)



Svein Eivind Solheim

Svein Eivind Solheim
(Elected by the employees)



Tormod Hermansen

Tormod Hermansen
(President and CEO)







An accessible *nation*



It is not by chance that Norway is today one of the countries in the world with the highest mobile telephone coverage.

in an inaccessible landscape

Mobile telephony is exceptionally well suited to Norway. With long distances, high mountains, deep valleys and fjords, secure and advanced telecommunications are a necessity.

That is why Telenor was one of the pioneers when mobile telephony started to be developed 20 years ago. We first took part in the development of NMT, the Nordic mobile phone standard that became very widely used. And based on this know-how, we helped to build up the European standard, GSM.

Nevertheless, mobile telephony is still in its infancy. We are launching new services more or less monthly.

At the same time, Telenor wants to view technology critically, with a necessary portion of sobriety. We want our customers to use their common sense when using technology, and for us “mobile phone sense” is an important issue to concentrate on.

Profit and loss account

The Telenor Group

1 January–31 December

Amounts in NOK million	Note	1997	1996	1995
Operating income	1	25,518	22,170	19,859
Operating expenses				
Cost of goods sold and traffic charges	2	6,243	5,052	4,339
Salaries and personnel costs	3,4	6,767	5,940	5,265
Other operating expenses	5,6,7	5,672	4,678	4,119
Depreciation and write-downs	16	4,070	3,887	3,562
Total operating expenses		22,752	19,557	17,285
Operating profit		2,766	2,613	2,574
Result of associated companies		(685)		
Financial income and expenses				
Financial income	8	320	252	231
Financial expenses	8	(486)	(511)	(702)
Net financial items		(166)	(259)	(471)
Profit before taxes		1,915	2,354	2,103
Tax charge	9	(779)	(441)	(603)
Minority interests		64	(3)	(19)
Profit for the year		1,200	1,910	1,481
Earnings per share in NOK		1,667	2,894	2,468

Balance sheet

The Telenor Group

as at 31 December

Amounts in NOK million	Note	1997	1996	1995
Assets				
Cash and cash equivalents	10	385	557	1,033
Accounts receivable	11	4,772	4,206	3,713
Other current assets	12	1,713	1,104	691
Inventories		663	607	473
Total current assets		7,533	6,474	5,910
Shares and other investments	13	922	641	603
Associated companies	14	1,974	917	391
Other long-term receivables	15	629	975	518
Fixed assets	16,17	22,570	20,573	20,056
Total fixed assets		26,095	23,106	21,568
Total assets		33,628	29,580	27,478
Liabilities and equity				
Short-term interest-bearing debt	18	189	333	58
Short-term non interest-bearing debt	19	8,259	7,387	6,586
Total short-term debt		8,448	7,720	6,644
Long-term interest-bearing debt	18	9,035	5,527	6,848
Long-term non interest-bearing debt	19	877	1,567	2,196
Total long-term debt		9,912	7,094	9,044
Minority interests		242	95	69
Equity	20	15,026	14,671	11,721
Total liabilities and equity		33,628	29,580	27,478
Mortgages	21	209	92	45
Guarantee liability	21	2,471	1,832	1,627

Cash flow statement

The Telenor Group

1 January–31 December

Amounts in NOK million	1997
Proceeds from sale of goods and services	29,448
Payments to suppliers of goods and traffic	(7,265)
Payments to employees, pensions, social security tax, PAYE deductions	(7,257)
Payment of other operating expenses	(5,926)
Interest etc. received	327
Interest etc. paid	(420)
Other payments in/out related to operating activities	119
Payment of taxes and public duties	(3,530)
Cash flow from operating activities ¹⁾	5,496
Proceeds on sale of fixed assets	476
Payments on purchase of fixed assets	(6,120)
Net cash receipts on sale of shares and investments	210
Net cash payments on purchase of shares and investments	(2,833)
Proceeds on sale of other investments	981
Payments on purchase of other investments	(958)
Cash flow from investment activities	(8,242)
Proceeds of long-term debt issued	10,366
Proceeds of current liabilities	10,298
Payments on long-term debt	(6,858)
Payments on current liabilities	(10,449)
Paid in equity from minority in subsidiary	163
Payment of dividend	(950)
Cash flow from financing activities	2,570
Effect on cash and cash equivalents of changes in foreign exchange rates	4
Net change in cash and cash equivalents	(172)
Cash and cash equivalents at 1.1	557
Cash and cash equivalents at 31.12	385
<i>¹⁾ Reconciliation:</i>	
Profit before taxes	1,915
Taxes paid	(574)
Gain/loss on sale of fixed assets and activities	(116)
Write-downs, depreciation and result of associated companies	4,755
Changes in inventories	(56)
Changes in accounts receivable and pre-payment	(526)
Changes in accounts payable	539
Diff. between recorded result and payment for pensions and restructuring provisions (TNM)	(435)
Change in other accruals	(209)
Net VAT and investment tax unrelated to operating activities	203
Cash flow from operating activities	5,496

Accounting principles

General

Through to 31 October 1994, Telenor was a public enterprise. On 1 November 1994, this public enterprise was changed, with accounting continuity, but after adjustments to the Joint-Stock Companies Act and generally accepted accounting principles, into a joint-stock company that is wholly owned by the State.

The annual accounts comprises the Report from the Board of Directors, the parent company's and the Group's Profit and Loss Accounts, Balance Sheets, Statement of Cash Flows, and Notes to the accounts. All amounts are in NOK million and refer to the Telenor Group, unless otherwise stated.

In 1997, the Group has implemented the equity method of accounting for associated company and jointly controlled activities. The implementation effect has been recorded directly against equity at 1 January 1997, with an amount of NOK 328 million. In accordance with generally accepted accounting principles, the comparative figures have not been restated. The pro forma effect of implementation on the 1996 accounts had implementation taken place on 1 January 1996 would have been an expense of NOK 225 million. Furthermore, the accounting principles for recording expenses relating to sales of advertisements in directories etc have been amended. The non-recurring effect of this on the 1997 result is an improvement of NOK 63 million. A provision of NOK 95 million has been made for restructuring, primarily for workforce reductions in Norway, cf. note 7, while a net NOK 88 million has been recorded as income from earlier provisions. Depreciation of the mobile network has been prolonged to the year 2003, which reduced this year's depreciation by NOK 147 million, calculated on the book value at 1 January 1997.

Consolidation principles

The Group accounts comprise Telenor AS and all subsidiaries in which Telenor AS owns more than 50 per cent of the capital and has a controlling influence. These companies are disclosed in note 25. The Group accounts show the Group's financial situation and result when these companies are regarded as one.

All significant transactions and balances between companies in the Group are 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. The results of companies acquired/sold during the year are consolidated from the date of acquisition/sale.

Investments in subsidiaries

In the case of subsidiaries bought, the cost price of the shares is eliminated in the parent company's accounts against the equity in the subsidiary at the time of acquisition. Any purchase price paid in excess of net asset value or any undervalue is assigned to the assets or liabilities these relate to and are expensed/taken to income later. Excess values/shortfalls of market values are recorded gross with a provision for deferred tax/deferred tax benefit as far

as possible. Excess values that cannot be assigned to assets and liabilities is recorded in the balance sheet as goodwill. Goodwill is amortised on the basis of an assessment of the economic life of the asset, but maximum 20 years. Goodwill related to an underlying licence is amortised over the term of the licence, but maximum 10 years. Excess values have primarily been classified as goodwill.

Investments in associated companies and jointly controlled activity

Associated companies are companies, irrespective of legal form, where the Telenor Group does not have a controlling ownership interest or joint control, but nevertheless has a significant influence. Significant influence is normally considered to exist if the ownership is between 20 per cent and 50 per cent. Pending new accounting legislation, the gross method has not been implemented for either jointly controlled joint-stock companies or other legal entities.

Associated companies and jointly controlled activities are assessed in accordance with the equity method of accounting. The Group's share of the results for the year after taxes and after amortisation of excess values (percentage of profits) are recorded on a separate line in the profit and loss account. The portion of the equity is recorded on a line on the balance sheet, adjusted for dividend and direct equity adjustments. Excess values over net asset values on acquisitions in associated companies and jointly controlled activities are dealt in accordance with the same principles as for subsidiaries.

Companies in which Telenor Venture AS has an ownership stake of more than 20 per cent are not assessed according to the equity method of accounting, nor are they consolidated, since these shareholdings are considered to be of a temporary nature.

Translation of foreign units

The Telenor Group regards all significant foreign units (subsidiaries, associated companies, and jointly controlled activities) as independent units. At present, the Telenor Group has no investments in hyper-inflation countries (more than 100 per cent inflation over three years).

The Group uses the day's exchange rates to translate net investments in independent foreign units, where also debt that is used to hedge the net investment is taken into consideration. Profit and loss account items are translated at average exchange rates. Translation differences are recorded against equity, until the possible sale of the net investment.

In the company's accounts, the same net investment is recorded at cost price (at the exchange rate on the date of the transaction). Debt used as hedging of such net investment is recorded at the exchange rate on the date it was taken up, even if this is lower than the rate on the date of the accounts, when there are undoubtedly excess values in the hedged assets above and beyond the possible unrealised exchange loss on the debt.

Accruals principles and classification principles

Income

Foreign telecommunications operators settle telecommunications to and from abroad with Telenor. The share of the traffic from abroad to Norway is registered as traffic income by Telenor. Telecommunications traffic to and from mobile networks are also calculated correspondingly.

Traffic income and other income is recorded as income at the time of delivery. Subscription income referring to fixed telephony, mobile telephony, and Internet access, is accrued regularly over the corresponding subscription period. Individual service assignments are recorded as income as performed. Income from service agreements is accrued over the term of the agreement.

Advertising income is mainly related to the publication of directories. These are recorded as income when the directory is published.

Costs of goods sold and traffic charges

Costs of goods sold and traffic charges are accrued in line with income.

Telenor settles traffic to and from Norway with foreign telecommunications operators. Traffic costs to foreign countries represent remuneration to the foreign telecommunications operators for their share of the traffic from Norway.

Telecommunication traffic to and from mobile networks is settled in a similar manner, where the mobile telephone operators' share of external mobile-terminated traffic is recorded as traffic costs in Telenor's accounts.

Costs of goods sold are for the most part leases of network capacity, materials for catalogues, customer equipment, and the share of other operating costs recorded in the balance sheet as inventories, and expensed as costs of goods sold. Expenses related to the sale of advertisements are expensed at the time the income is recorded.

Pension costs and pension obligations

The manner in which pension costs are dealt with in the accounts is in accordance with the Draft Norwegian Accounting Standard for Pension Costs. According to this standard, the group pension scheme is dealt with as a benefit plan. Up until 31 August 1995 most of Telenor's employees were covered through the Norwegian Public Service Pension Fund. This scheme was dealt with as a supplementary scheme.

The Group pension plan is mainly covered through the foundation Telenor Pensjonskasse. 17,347 of the Group's employees (1,998 in Telenor AS) are covered through Telenor Pensjonskasse.

In addition, the company has a number of small group pension schemes with independent insurance companies, and separate pension schemes for top management.

The pension costs and pension obligations for the defined benefit scheme are calculated on a straight-line earning basis based on the assumptions below, and other actuarial assumptions regarding mortality, voluntary retirement etc. The pension funds are valued at their actual value, and deducted from net pension obligations recorded in the balance sheet. Any surplus funding is recorded on the balance sheet in that Telenor believes that such a surplus funding can probably be utilised. Changes in the obligations and pension fund assets that are the result of deviations in assumptions (changes in estimates) are realised over

remaining pension-earning period (15 years) if the deviations exceed 10 per cent of gross pension obligations (pension funds if these are higher). Deviations that are not recorded appear in Note 3 to the Accounts. The companies' legal obligations are not affected by the manner in which they are dealt with in the accounts.

The basis for calculating the year's pension cost for the defined benefit scheme is based on the number of qualifying (pension earning) years, salary level on retirement and the following assumptions:

Discount rate	7.0%
Annual salary adjustment/increase in NIS basic amount (G)	3.5%
Annual adjustment to pensions	2.5%
Return on pension fund assets	8.0%
Leaving rate	2.5%

In 1997, an Agreement-based early retirement plan (AFP) was negotiated for the NAVO area. The scheme implies that employees may retire on reaching the age of 62 years or later with a pension equivalent to 60 per cent of ordinary pay, limited upwards to 12G. From the age of 62 to the age of 64 the employer covers the cost 100 per cent, while from the age of 64, the State covers 40 per cent. On reaching the age of 67, the employee goes over to the normal old-age pension.

Ordinary premiums are paid in the AFP period. The ordinary pension obligation from reaching the age of 67 years is recorded in the accounts until the expected early retirement. When calculating AFP obligations, the same assumptions as are mentioned above are used, together with the estimated withdrawal frequency.

The effect of implementing AFP in accordance with the NAVO scheme is to be regarded as a change of plan that is to be expensed over the expected remaining earning period (15 years). The total obligation at 1 January 1997 is calculated to be NOK 362 million, of which NOK 24 million has been expensed in 1997. This is recorded in the books of Telenor AS since most of the earning took place while those entitled to pensions were employed by Televerket/Telenor AS.

Uncovered schemes – early retirement pensions

Early retirement were offered to the employees within established delimitation until the end of 1996. The cost of early retirement is covered by Telenor AS. The present value of the estimated pension obligation is recorded in the balance sheet as long-term debt. A discount rate of 7 per cent has been applied, and the amount includes social security tax.

In 1997, no early retirements were granted under these schemes, and the effect on the results for 1997 relates to imputed interest on NOK 53 million. The interest element was previously presented as a financial expense. For 1997, the interest element is included as a part of the pension costs, as they are for covered schemes. The profit and loss accounts for 1995 and 1996 have been similarly reclassified, with NOK 45 million and NOK 52 million respectively.

Research and development costs

Research and development (R&D) costs are expensed as incurred, and relate for the most part to salaries and contracted consultants. Telenor has a separate department that carries out R&D assign-

ments for other units in the Group. In addition, R&D is carried out in the different business areas.

Leases

Leases under which the operating assets are leased on terms that, for the most part, transfer the financial rights and obligations to Telenor are recorded in the balance sheet (financial lease). At 31 December 1997, there was mainly one agreement relating to the financing of a satellite that satisfied the demands for being recorded in the balance sheet.

Interest

In connection with the management of the Group's interest rate risk, the loan portfolio is seen in conjunction with corresponding financial investments. The main guideline is to seek an average interest term of about one year, with a possibility of varying interest rate terms within given limits based on market expectations. The loan portfolio's interest binding profile is formed, in part, through the choice of interest rate structure on the Group's loans and, in part, by the use of different interest rate instruments. As of today, interest rate swaps and FRAs are used.

Interest rate instruments that satisfy the Group's accounting demands for hedging are included in the base when the corresponding receivables/loans are dealt with in the accounts. Interest income and interest expenses are accrued for over the term of the agreement and classified as interest.

Interest rate agreements that do not satisfy the Group's demands for financial hedging are currently only used to a limited extent, and are assessed on the principles applied to securities.

Dividends

Dividends received are recorded as financial income. Any unscheduled dividend from the satellite organisations is dealt with as long-term debt until the resolution on final dividend is passed.

Taxes

The tax charge in the accounts includes the taxes payable for the period as well as the change in deferred tax benefits/liabilities. The change in deferred tax benefits/liabilities is that part of the taxes which relate to the financial results for the period, but which will become due for payment/receipt during later periods. Deferred tax benefits/liabilities are calculated by making full allocation for all temporary differences including carryforward losses in accordance with the liability method, using nominal amounts and the tax rate at the balance sheet date.

Classification of assets and liabilities

Items which are linked to the business cycle, or which normally fall due for payment within one year of the balance sheet date, are classified as current assets and short-term liabilities in the balance sheet. Assets acquired for the purpose of long-term holding are classified as fixed assets. The distinction between short-term and long-term debt and receivables is normally drawn at one year before the payment matures. Loans relating to the financing of investments where there is an underlying long-term drawing facility, are treated as long-term debt, irrespective of the actual due date. Next year's instalment on long-term debt is not reclassified

as a current liability.

Other

Gains and losses resulting from the sale of fixed assets are treated as part of normal business operations and are classified as ordinary operating income and expenses.

Valuation principles

Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits, bonds, and certificates for which, at the time of being acquired there were less than three months to maturity. For 1996, therefore, NOK 156 million has been reclassified from cash and cash equivalents to short term investments.

Bonds, certificates and other securities

Bonds and certificates are deliberately managed together, and an adjustment in the value is only made if the total portfolio has 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 losses.

Short-term shares are valued in accordance with the portfolio principle.

Accounts receivable

Accounts receivable are recorded at their nominal value, less a provision for doubtful debt. Accrued, not yet invoiced income is classified as accounts receivable.

Inventories

Inventories are valued at the lower of original cost price and market value.

Shares and other investments

Shares and other investments, excluding shares in associated companies and jointly controlled activities, are valued at historical cost, or possibly market value if the fall in value is not temporary. Shares and interests in associated companies and jointly controlled activities are assessed in accordance with the equity method of accounting.

Fixed assets/depreciation

General

Capitalised assets include investments which increase capacity or substantially improve quality. These are recorded in the balance sheet at original cost less accumulated depreciation and write-downs. Ongoing maintenance costs are expenses as incurred.

Ordinary depreciation is based on the expected economic and technical life of the asset from the time the asset was brought into normal operation. Depreciation on fixed assets taken over from the public enterprise Televerket on 1 November 1994 is based on original acquisition cost.

In principle, fixed assets are assessed individually using the "lower value" principle. The total book value of the fixed assets, taken over in November 1994, was carried forward without changing the balance sheet classification. Any shortfall in the market value at the time of acquisition and identified by a concrete review of fixed assets is viewed against the excess values in other fixed assets taken over at the same time. Properties up for sale are assessed as a whole, and provisions are made for possible losses

Notes to the consolidated accounts

1. Operating income

	1997	1996	1995
Telephony	11,551	10,951	10,742
Mobile telephony	3,201	2,686	2,399
Satellite	1,090	875	771
Other network-based operations	2,543	1,971	1,566
Customer equipment etc.	4,642	3,616	2,609
Advertising income etc.	1,259	895	774
Other	1,232	1,176	998
Total operating income	25,518	22,170	19,859

Telephony is income referring to traffic, subscription, establishment/connection for telephone and ISDN. Further, it includes income for incoming traffic from other networks (international and NetCom).

Mobile telephony is income referring to traffic, subscription, establishment/connection for mobile telephones and paging.

Other network-based activities include leased networks, telex, datapak, datex, Internet subscriptions etc.

Satellite is income referring to satellite broadcasting, distribution of TV channels to the Nordic market, satellite-based network, and income from maritime satellite communication. Transit traffic over Eik is recorded net.

Customer equipment etc. is income from the sale of customer equipment (telephone sets, mobile phones, computers, PABXs etc.), sale and operation of IT systems, consultancy and services rendered etc.

Advertising income etc. is income from the sale of advertising related to directory activities and sales of directories etc.

Other includes i.a. installation and contracting income, income from the sale of activities and operating assets, rental income etc.

Gains on the sale of activities in 1997 amounted to NOK 65 million, while the gain on sale of fixed assets, primarily properties, amounted to NOK 91 million.

GEOGRAPHIC DISTRIBUTION OF EXTERNAL OPERATING INCOME *)

	1997
Norway	22,662
<i>Abroad</i>	
Sweden	863
Other EU	1,398
Other Europe	235
Other areas	360
Total abroad	2,856
Total	25,518

*) Specification of operating income based on the customer's location. If all Telenor International activities are included, income from outside Norway is NOK 4.6 billion.

2. Costs of goods sold and traffic charges

	1997
Lease of network capacity	1,534
Lease of satellite capacity	528
Consumption of goods	3,536
Energy	58
Other	587
Total	6,243

3. Pension costs, pension obligations and pension funds

	1997	1996	1995
PENSION COSTS FOR THE PERIOD ARE AS FOLLOWS:			
<i>Contribution plans and early retirement pensions:</i>			
Contribution schemes	8	–	89
Early retirement pensions etc.	53	221	259
Total contributions and early retirement pensions	61	221	348
<i>Defined benefit plans:</i>			
Present value of the year's earnings	246	222	91
Interest cost on pension obligations	85	42	20
Gross pension costs	331	264	111
Estimated return on pension funds	(69)	(42)	(28)
Recorded difference in plan changes, changes in estimates, differences in estimates	21	4	–
Net pension costs	283	226	83
Social security tax	36	28	12
Net pension cost incl. social security tax	319	254	95
Total pension costs charged to the year's result	380	475	443
PENSION OBLIGATIONS AND PENSION FUNDS ARE AS FOLLOWS:			
Gross pension obligations at 01.01	928	550	412
Acquisition/sale of subsidiaries	3	128	29
Gross pension costs	331	264	111
Implemented pension obligations, changes in schemes	321	–	–
Difference between estimated and actual obligations 01.01	(32)	–	–
Payment of pensions	(5)	(14)	(2)
Gross pension obligations 31.12	1.546	928	550
Pension funds 01.01	737	444	263
Acquisition/sale of subsidiaries	2	65	50
Difference between estimated and actual obligations 01.01	3	–	–
Payments in and out and estimated return on pension funds	298	228	131
Pension funds at 31.12	1.040	737	444
Net pension obligations (funds) at 31.12	506	191	106
Changes in schemes, not recorded	(298)	–	–
Changes in estimates and deviations not recorded on balance sheet	(11)	(47)	(19)
Prepaid employer's share of social security tax	24	18	10
Net pension obligations (assets) and accrued social security tax	221	162	97
Pension funds (see Note 15)	9*	115	166
Pension obligations (see Note 19)	230*	277	263

*) Pension funds and pension obligations in Telenor Pensjonskasse are recorded net. Early retirement obligations appear in Note 19.

4. 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 328 million in 1997 (NOK 295 million in 1996 and NOK 198 million in 1995).

In connection with the establishment of Telenor AS, an agreement was signed with the President and C.E.O. according to which the company is obliged, under certain conditions, 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, 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 the retirement date.

5. Other operating expenses

	1997
Cost of premises, vehicles, office machinery etc.	1,005
Travel and travel allowances	573
Sales, advertising etc.	1,503
Bad debts (see Note 6)	195
Losses on sale of fixed assets and activities	40
Other	2,356
Total other operating expenses	5,672

6. Bad debts

	1997	1996	1995
Realised losses for the year	210	204	149
Recovered on amounts previously written off	(32)	(42)	(35)
Change in provision for bad debt	17	4	54
Total bad debts	195	166	168

7. Provision for restructuring etc. in Norway

Telenor Resource Pool (TNM) has been absorbing Telenor's redundant staff. By improving the level of their skills, and initiating new activities, the division sought to obtain income-generating activity within or outside Telenor for these people.

In accordance with the Proposition no. 43 (1993–1994) to the Norwegian Storting (Parliament) a provision of NOK 1,100 million was made to cover deficits through to the end of 1997. At the end of 1995 and 1996, the provision amounted to NOK 652 and NOK 341 million, respectively. In February 1997, TNM was dismantled after having been operative for four years. Further restructuring has been placed in the hands of Telenor Restructuring.

In 1997, a net loss before tax of NOK 7 million was recorded in connection with reorganisation and readjustment in Norway. Of this, NOK 88 million related to income from the provisions for 1994, and minus NOK 95 to new provisions.

The provisions at 31 December 1997 of NOK 140 million are related to the approved restructuring of Telenor Privat (NOK 25 million), and Telenor Bedrift (NOK 70 million), and the continuation of measures in Telenor Installasjon that are covered by the TNM provision (NOK 45 million). The measures have been, or will be, implemented in 1998. The cost provisions shall for the most part cover pay without work performance (NOK 48 million), lump sum packages and support for studies and/or company establishment in connection with resignations (NOK 44 million), losses related to terminated rent contracts (NOK 3 million), and measures in Installasjon to raise the level of competence that were not finished at 31 December 1997 (NOK 45 million)

TNM's deficit is charged as expense in the profit and loss account, and the provision is recorded as income in line with the deficit in TNM that was assumed when the amount of the provision was set, taking into account the continuation of provision at 31 December 1997. Any deviation between the actual deficit is classified as other operating expenses.

	1997	1996	1995
Provision 1.1	341	652	1,045
Income TNM	–	5	47
Salaries and personnel costs	170	253	346
Other costs	38	71	101
Total costs TNM	208	324	447
Deficit TNM	(208)	(319)	(400)
To income from provision made	315	363	456
Net effect on other operating expenses	107	44	56
Imputed interest cost	(19)	(52)	(63)
Net effect on profit before tax	88	(8)	(7)
Provision 31.12	45*)	341	652

*) Transferred to Telenor Installasjon.

8. Financial income and expenses

	1997	1996	1995
Dividend/distribution from satellite organisations	171	119	97
Interest income	104	93	80
Other financial income *)	45	40	54
Total financial income	320	252	231
Interest on Government loans	–	92	328
Interest on other debt	462	384	164
Other financial expenses	24	35	210
Total financial expenses	(486)	(511)	(702)
Net financial items	(166)	(259)	(471)

*) Includes foreign exchange gains and losses of NOK 91 million and NOK 65 million respectively in 1997.

9. Taxes

THE TAX CHARGE FOR THE YEAR IS AS FOLLOWS:

	1997	1996	1995
Taxes payable in Norway on result for the year	855	571	333
Change in Norwegian tax for previous fiscal years	2	2	3
Taxes payable abroad on result for the year	18	-	-
Change in deferred tax	(96)	(132)	267
Total tax charge	779	441	603

The change in deferred tax assets/liabilities arises due to different accrual principles for recognising certain revenues and expenses in the tax and financial accounts.

	1997	1996	1995
<i>Basis for taxes payable in Norway:</i>			
Profit before taxes	1,915	2,354	2,103
Permanent differences	40	36	26
Losses carried forward	(297)	(1,403)	(1,181)
Temporary differences not previously taken into account in tax assessment	(203)	-	-
Loss on foreign companies and associated companies	1,014	111	-
Amortisation of goodwill	148	39	-
Change in temporary differences	533	838	243
Group items	(95)	65	(2)
Basis for taxes payable in Norway	3,055	2,040	1,189
Taxes payable in Norway (28%)	855	571	333

<i>Basis for deferred tax:</i>			
Temporary differences linked to short-term balance sheet items	(585)	(380)	(321)
Temporary differences linked to long-term balance sheet items	611	729	1,579
Utilisation of losses carried forward in Norwegian companies not in tax group	(217)	(7)	(22)
Total basis for deferred tax/deferred tax benefit	(191)	342	1,236
Total deferred tax benefit (28%)	-	77	72
Total deferred tax (28%)	-	173	418

Temporary differences mainly consist of tax depreciation exceeding financial depreciation, and provisions for early retirements and pension obligations, as well as other provisions in accordance with generally accepted accounting principles (GAAP). Losses carried forward are mainly related to subsidiaries that are owned less than 90 per cent. In accordance with Norwegian GAAP, net deferred tax benefits are not recorded in the balance sheet.

The Group's tax rate, measured as a percentage of profit before taxes, was 41 per cent. This is mainly due to the non-deductible deficits in foreign subsidiaries, associated companies, the Group's amortisation of goodwill on shares purchased, and the expensing of the net deferred tax benefits. The Group's tax charge has been reduced by taking advantage of the tax benefits that were not taken into consideration on acquisition or which have not previously satisfied the requirements for offset.

10. Cash and cash equivalents

With the exception of certain companies, the Group has established withholding tax guarantees for payment of the staff's PAYE withholding tax. Those companies that are not included under the guarantee have restricted bank deposits of NOK 48 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. Interest on the subsidiaries' share of deposits and amounts due the banks are recorded as inter company interest and are eliminated in the Group accounts.

11. Accounts receivable

	1997	1996	1995
Accounts receivable	3,635	3,010	2,036
Accrued, not yet invoiced income	1,408	1,450	1,922
Provision for bad debts	(271)	(254)	(245)
Total accounts receivable	4,772	4,206	3,713

12. Other current assets and shares

	1997	1996	1995
Bonds/Certificates	295	156	114
Prepaid expenses	436	174	163
Shares *)	419	406	211
Other receivables	563	368	203
Total other current assets and shares	1,713	1,104	691

*) Specification of shares classified as current assets:

Amounts in NOK 000s	No. of shares held by Telenor	The Group's holding	Book value
Elkjøp ASA	824,450	11.5%	150,585
Provida ASA	1,018,100	14.2%	59,831
Cetronic AS	534,200	21.9%	7,918
Eltek AS	1,862	8.9%	21,233
Gran-Jansen AS	299,200	21.6%	7,611
Incatel AS	45,382	43.0%	600
Internett Kanal 1 AS	182,500	33.2%	5,025
Intra Media AS	95,847	17.2%	14,200
Linne Data Management AB	1,474,206	20.9%	15,201
Maritech Systems AS	36,500	26.8%	6,625
Maxware AS	909,959	31.5%	10,260
Micro Design AS	194,817	13.4%	9,315
MRT Micro ASA	4,400,000	12.3%	14,602
Norsk Tekst AS/ Norvekst AS	815,625	37.5%	7,750
Open World Distribution AS	90,680	22.7%	6,000
PolyDisplay ASA	751,982	7.5%	672
Scandinavian Group ASA	513,000	42.8%	960
Sydesco Dikas AS	269,216	35.0%	5,618
T-SAT AS	23,820	4.3%	2,338
T-SAT Holding AS	56,850	37.9%	2,026
Trade AS	277,800	45.0%	2,303
Ucom AS	6,103	26.7%	2,953
MODE International BV	199	49.8%	850
Kvatro-Telekom AS	101,106	31.5%	1,140
TeleNostra AS	21,428	30.0%	800
SCM Microsystems Inc	674,965	5.9%	42,405
Telepost Holding S.A	17,864	26.2%	9,261
NetChannel Inc	1,261,364	3.3%	4,009
Multi Media Studio AS	10,445	85.0%	1,185
MODE Norge AS	100	100.0%	50
MODE Nordic AS	100	100.0%	50
MODE Sverige AB	100	100.0%	95
MODE Finland OY	50	100.0%	68
MODE Danmark AS	125	100.0%	143
Media Venture AS	100	100.0%	50
ClustRa AS	36,764	72.1%	1,036
Poly Venture AS	9,000	100.0%	3,902
Total shares classified as current assets			418,670

The market value of listed Norwegian shares at 31 December 1997 was NOK 322 million, compared to a book value of NOK 210 million. At 31 December 1996 the unrealised gain was NOK 4 million. For foreign listed companies, the market value at 31 December 1997 was NOK 119 million, compared to the book value of NOK 42 million.

13. Shares and other current receivables

Amounts in NOK 000s	Book value
Capital contributions to satellite organisations *)	893,748
Other shares **)	28,681
Total shares and capital contributions	922,429

*) Investments in satellite organisations:

Amounts in NOK 000s	Share owned	Total max. capital (mill)	Share of actual max capital (guarantee liability)	Book value
Inmarsat	6.81%	USD 1,600	801,346	332,878
Eutelsat	0.25%	ECU 1,900	38,678	6,569
Intelsat	4.22%	USD 4,000	1,242,028	554,301
Total			2,082,052	893,748

Telenor AS is a member of the satellite organisations INTELSAT, EUTELSAT, INMARSAT. These satellite organisations are financed in part by capital contributed by the members and in part by external loans. Telenor AS 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.

**) Specification of other shares:

Amounts in NOK 000s	The company's share capital	No. of shares	Share owned	Book value
Tele Danmark AS	DKK 1,310,000	70,006,793	0.02%	10,926
Trøndelag Vekst AS	41,025	19,335	2.93%	3,000
IT Fornebu AS	6,000	20,000	33.33%	2,000
Marinor AS	12,526	61,005	12.0%	6,140
Canal Digital Norge	2,251	383 (B-shares)	17.0%	1,224
Eurospill International AS	116	163	14.0%	2,000
Others				3,391
Total other shares				28,681

14. Associated companies

Company	Share owned	Book value 1.1.97	Investments/disposals during the year	Share of profit after tax	Amortisation of excess values	Equity/share price adjustments	Book value 31.12.97	Recorded excess value 31.12.97
Norkring AS	40.0%	139,824	-	15,560	-	-	155,384	-
Imedia AS	50.0%	-	4,188	(4,983)	-	-	(795)	-
Telenordia AB	33.3%	101,134	177,177	(69,437)	-	(974)	207,900	-
Internordia Communications AB	50.0%	(1,781)	-	(8,373)	-	-	(10,154)	-
Kaliningrad GSM (Extel)	49.0%	212	10,315	(4,347)	(732)	-	5,448	6,568
Stavropol	49.0%	286	45,747	(3,101)	-	-	42,932	-
North West GSM	12.7%	21,744	(10,764)	10,163	-	-	21,143	-
ESAT Digifone Ltd	45.0%	(40,601)	270,279	(164,945)	(4,593)	-	60,140	51,660
Pannon GSM	20.3%	197,455	-	10,060	(3,269)	(6,957)	197,289	29,207
European Telekom, Lux	44.0%	23,951	(912)	7,776	-	(1,486)	29,329	-
Cosmote A.E	30.0%	-	678,262	(16,415)	(15,681)	-	646,166	253,092
Connect Austria	17.5%	64	269,812	(23,489)	-	-	246,387	-
Starlight, USA	42.5%	12,656	-	(4,664)	-	-	7,992	-
Wahlberg & Selin AB, Sweden	34.0%	6,801	838	2,016	(2,253)	-	7,402	5,242
Taide Network AS, Norway	50.0%	-	4,500	(4,387)	-	-	113	-
Viag Interkom	10.0%	-	559,279	(207,457)	(14,348)	(445)	337,029	202,211
DM Huset AS	34.0%	2,650	-	3,065	(123)	-	5,592	369
Polskie Dsiaski Telefontyczne	50.0%	-	54,688	(3,702)	(2,659)	-	48,327	50,511
InformKatalog	27.5%	-	6,931	(2,175)	(833)	-	3,923	4,167
Norsk Tekst AS	37.0%	5,658	1,750	(1,510)	(1,035)	-	4,863	4,863
Canal Digital AS	50.0%	-	70,780	(93,203)	-	776	(21,647)	-
Scandinavian Online AB	34.0%	7,106	-	(21,760)	-	-	(14,654)	-
Scandinavian Online AS	34.2%	26,250	-	(27,927)	-	-	(1,677)	-
Other		85,464	(64,471)	(21,334)	(4,374)	272	(4,443)	3,964
Total		588,873	2,078,399	(634,570)	(49,900)	(8,814)	1,973,989	611,854

Shares and investments are carried at negative values in those cases where Telenor has at least a corresponding liability above and beyond the capital contributed.

15. Other long-term receivables

	1997	1996	1995
Deferred tax benefit	–	77	72
Net pension fund	9	115	166
Subordinated loan Norkring AS	168	184	–
Subordinated loan ESAT Digifon Ltd	–	108	–
Subordinated loan Scandinavia Online AS and Scandinavia Online AB	24	–	–
Loan Norkring AS	176	175	–
Loan associated companies	41	–	–
Prepaid expenses	29	180	100
Deposits for housing and commercial properties	14	51	46
Other	168	85	134
Total other long-term receivables	629	975	518

16. Fixed assets

	Accumulated cost 1.1.97	Additions 1997	Foreign exchange adjustment 1997	Disposals 1997	Depr. and write-downs 1997	Acc. depr and. write-downs at 31.12.97	Book value 31.12.97
Local, regional and trunk networks	23,665	1,219	–	(136)	1,278	(18,300)	6,448
Mobile telephone network and exchanges	3,450	699	–	(18)	405	(2,037)	2,094
Subscriber equipment	1,173	69	–	(5)	52	(1,066)	171
Exchange equipment	10,910	1,156	–	(286)	915	(7,708)	4,072
Radio installations	1,372	4	–	–	7	(574)	802
Cable TV facilities	520	51	–	–	44	(260)	311
Land	213	2	–	(19)	–	–	196
Buildings	7,071	166	–	(362)	285	(3,242)	3,633
Adm. joint investments	3,587	1,093	6	(1,051)	764	(2,762)	873
Satellites	292	782	–	–	64	(327)	747
Goodwill	1,038	301	(2)	(13)	233	(418)	906
Other intangible assets	101	133	–	(7)	23	(74)	153
Total	53,392	5,675	4	(1,897)	4,070	(36,768)	20,406
Installations in progress	1,491	672*)	–	–	–	–	2,164
Total	54,883	6,348	4	(1,897)	4,070	(36,768)	22,570

Depreciation in Telenor AS on operating assets taken over from the public enterprise Televerket are based on the principle of continuity in the transition from public enterprise to joint-stock company. This implies that the depreciation in the joint-stock company is based on the acquisition cost in the public enterprise at 31 October 1993, and a continuation of the original depreciation schedules for these operating assets.

*) Net additions

17. Investments in and disposals of fixed assets over the last 5 years:

	1997		1996		1995		1994		1993	
	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale
Local, reg. and trunk network	1,219	33	1,122	10	899	6	706	–	529	–
Mob. phone network and exch.	699	–	634	–	1,176	–	644	2	302	–
Subscriber equipment	69	–	59	–	58	6	52	–	42	59
Exchange equipment	1,156	12	789	–	539	3	685	–	369	140
Radio installations	4	–	41	166	110	1	62	–	228	299
Cable TV facilities	51	–	74	5	82	–	38	–	57	1
Land and buildings	168	281	461	288	263	143	204	13	307	18
Satellites	782	–	–	–	–	–	–	–	–	–
Joint adm. investments	1,093	43	861	53	1,118	49	600	61	264	4
Goodwill and intangible assets	434	10	738	–	407	–	96	–	65	8
Total	5,675	379	4,779	522	4,652	208	3,087	76	2,163	529

Investments and sales for the years 1993–1994 comprise Televerket and subsidiaries.

18. Interest-bearing debt

INTEREST-BEARING DEBT BY TYPE

	1997	1996	1995
Certificate loans	748	1,186	1,135
Interest-bearing debt to the Norwegian State	–	–	3,000
Loans taken up under EMTN programme	3,997	2,767	–
Loans from Japanese investors	1,450	1,450	1,450
Syndicated loan/long-term drawing rights	–	–	1,263
Subordinated loan	2,199	–	–
Other	641	124	–
Total long-term interest-bearing debt	9,035	5,527	6,848
Short-term bank loans	111	133	–
Other	78	200	58
Total short-term interest-bearing debt	189	333	58
Total interest-bearing debt	9,224	5,860	6,906

In 1996, a short-term Euromarket Commercial Paper programme (ECP) was established with a limit of USD 500 million. At 31 December 1997, outstanding certificates under this programme totalled NOK 598 million, with an average term of 0.19 years. In addition there was one outstanding certificate in the Norwegian market corresponding to NOK 150 million. The certificate loans are linked to an underlying long-term credit facility, established in 1995 with a limit of USD 500 million, maturing in the year 2002, and is treated as long-term, irrespective of the actual maturity date.

Also in 1996, a Euromarket Medium Term Note programme (EMTN) was established with a USD 1,000 million limit. This was increased to USD 2,000 million in July 1997. At 31 December 1997, ordinary loans drawn under this facility had a book value of NOK 3,997 million, and a term of between 1 and 9 years. In addition, a subordinated loan was raised under the EMTN programme in August 1997, corresponding to NOK 2,199 million, with a term of 5 years, within the limit of the EMTN programme. Telenor has an option to redeem the subordinated loans free of charges, in August 1998.

The average weighted term of the Group's outstanding long-term debt drawn down by Group Finance was 4.3 years at 31 December 1997. The corresponding average interest term, including the effect of interest rate swaps, was 1.55 years at 31 December 1997.

ANALYSIS OF LONG-TERM INTEREST-BEARING DEBT

Maturity distribution	Balance at 31.12.97	1998	1999	Maturity 2000	2001	2002	After 2002
Certificate loans	748	748	–	–	–	–	–
Drawings under the EMTN programme	3,997	229	71	529	2,053	302	813
Loan from Japanese investors	1,450	–	–	146	–	–	1,304
Subordinated loan	2,199	–	–	–	–	2,199	–
Total Group finance	8,394	977	71	675	2,053	2,501	2,117
Other *)	641	96	121	117	153	120	34
Total long-term interest bearing debt	9,035	1,073	192	792	2,206	2,621	2,151

*) Of which, at 31.12.97, leasing of satellite amounts to NOK 496 million

DISTRIBUTION OF CURRENCIES (GROUP FINANCE)

	NOK	JPY	USD	CHF	DEM	ECU	AUD	ITL	Total in NOK
Certificate loan	150	–	83	5	–	–	–	–	748
EMTN loan	–	15,500	232	250	30	–	24	20,000	3,997
Japanese investors	–	21,100	–	–	–	–	–	–	1,450
Subordinated loan	–	–	–	200	150	70	–	–	2,199
Total Group finance	150	36,600	315	455	180	70	24	20,000	8,394

By using forward foreign exchange contracts, foreign exchange swaps, and interest rate swaps that comply with the principal amount, interest rates and term, the loans/drawings are converted to NOK. For accounting purposes, these loans/drawing rights are dealt with as loans in NOK at floating rates.

INTEREST COST (GROUP FINANCE)

	Balance 1997	Average nominal interest rate 1997 (%)	Interest rate incl. effect of interest swaps (%)	Nominal interest term (years)*	Interest rate fixing incl. effect of interest swaps (years)*
Certificate loans	748	3.68	3.68	0.21	0.21
Drawings under EMTN programme	3,997	4.04	4.33	0.25	1.92
Loan from Japanese investors	1,450	4.25	6.20	0.18	2.49
Subordinated loan	2,199	3.95	3.95	0.11	0.11
Total Group finance	8,394	3.99	4.92	0.20	1.55

*) Remaining interest-rate fixing period is indicated in number of years.

Interest rate swaps are arranged to achieve the desired interest rate structure. Interest income/expense on these contracts is accrued over the period of the contract. At 31 December 1997, Telenor has entered into interest rate swaps for a principal amount of NOK 3,267 million. Telenor pays a fixed average interest rate of 6.52 per cent and receives floating six month NIBOR. The interest swap contracts have maturity dates from 1999 to 2007 which affect average rates payable. At 31 December 1997 the unrealised loss on the portfolio was NOK 222 million.

FORWARD RATE AGREEMENTS (FRAS) AT 31.12.97

Currency	Net bought/sold (-)	Period
NOK	700 million	6 months

FRAs are used to cover short-term fluctuations in the interest rates. At 31 December 1997 the portfolio had a unrealised loss of NOK 1 million, which has been expensed.

19. Non-interest bearing liabilities

	1997	1996	1995
Accounts payable	2,861	2,322	2,343
Government taxes, withheld PAYE taxes, holiday pay etc.	1,478	1,387	1,164
Dividend payable	570	950	550
Taxes payable	875	571	333
Advances from customers	995	955	928
Other current liabilities	1,480	1,202	1,268
Total current non-interest bearing debt	8,259	7,387	6,586
Early retirement *)	608	763	750
Pension obligations *)	230	277	263
Obligations TNM *)	-	341	652
Deferred tax	-	173	418
Other long-term debt	39	13	113
Total long-term non-interest bearing debt	877	1,567	2,196
Total non-interest bearing debt	9,136	8,954	8,782

*) The obligations are discounted to their present value and are subject to imputed interest expenses.

20. Equity

	1997	1996	1995
Equity at 01.01	14,671	11,721	10,979
Profit for the Group 01.01-31.12	1,200	1,910	1,481
Implementation of accounting standard, pensions	-	-	(187)
Implementation of accounting standard, associated companies	(328)	-	-
Allocated to dividend	(570)	(950)	(550)
Increase in equity	-	1,994	-
Other	53	(4)	(2)
Total Telenor Group	15,026	14,671	11,721
Time-weighted average number of shares	720,000	660,000	600,000

The share capital at 31 December 1997 comprises 720,000 shares with a nominal value of NOK 10,000 each. All the shares are owned by the Norwegian State. The share capital was increased from 600,000 shares to 720,000 shares on 27 June 1996 when the Norwegian State converted interest-bearing debt of NOK 2,000 million into 120,000 shares with a nominal value of NOK 10,000 each.

21. Mortgages and guarantees

	1997	1996	1995
<i>Mortgages</i>			
Inventories, receivables, operating assets etc.	209	92	45
Total mortgages	209	92	45
<i>Guarantee liability</i>			
PAYE taxes withheld	301	271	251
Satellite organisations	2,083	1,507	1,347
Other guarantees	269	54	29
Total guarantees liability	2,653	1,832	1,627

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

22. Other liabilities and disputes

CONTINGENT LIABILITIES

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). NetCom claims that the company paid about NOK 92 million too much to Telenor in the years 1993 to 1996 inclusive in connection with leased networks. Telenor refutes the claim and has found no grounds for making any provision for possible costs.

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 refutes the claim and has found no grounds for making any provision for possible costs.

In September 1995, the Telenor Group signed an agreement with the Norwegian State Railways (NSB) to lease NSB's infrastructure. In 1997, the parties decided not to continue the agreement. Prepayments on the lease are presented in the balance sheet as a current receivable. Telenor is claiming that the prepayment should be returned, with interest accrued after May 1997. No income or expenses have been recorded after May 1997 in respect of this agreement.

In March 1998, Telenor entered into a settlement agreement with parties that claimed pre-emptive rights to the shares acquired in Comma AS. The settlement agreement implies a payment by Telenor of NOK 18 million, which has been expensed in the 1997 accounts.

On 17 March 1998, Telenor Invest AS was served a writ issued in Athens, Greece. The plaintiff is a Cypriot company, S & A Telecom Cyprus Ltd., which is a co-owner in a company in Greece, together with Telenor Invest AS. The grounds for the writ is a claim that Telenor Invest AS has breached the provisions in the shareholder agreement between the parties in connection with Telenor Invest's acquisition of 30 per cent of the shares in the Greek mobile telephone company Cosmote A.E. Damages of about NOK 920 million are claimed. Both the grounds for the claim and the amount of damages claimed are challenged. At the present time, after a preliminary assessment, there are no grounds for making any provision in the accounts.

Furthermore, Telenor is directly and indirectly a party in certain cases where claims and counterclaims have been made. Based on an evaluation, no provision has been made in the accounts.

No provision has been made for tidying up work in relation to environmental issues etc.

RENTAL OBLIGATIONS

	1998	1999	2000	After 2001
Rents	292	270	221	169
Vehicles, office machinery etc.	233	159	97	31
Printing	96	96	96	91
Other	14	15	21	3
Total	635	540	435	294

23. Business areas

The Telenor Group does a great deal of inter company trading. The objective of the pricing of internal supplies is to obtain a reasonable picture of the profitability in the individual business areas.

Deliveries on network-based monopoly services within the Group are priced on the basis of negotiations between the units on the basis of cost-based prices. For contract-based services, product development and the like, prices are negotiated between the parties on the basis of market prices. All other deliveries between the business areas shall be based on market prices.

Pro forma figures for 1996 are based on the organisational structure in 1997. For some business areas proforma figures will, therefore, deviate from the figures presented in the previous year. In the pro forma figures, consideration has been given to the transfer of activities internally within the Telenor Group. No consideration has been given to the transfer of activities to/from external parties. An exception to this

is Datavarehuset that was merged on 1 January 1997, where the pro forma figures for Telenor Mobil in 1996 have been restated so that Datavarehuset is included. The effect on external operating income of Datavarehuset in 1996 amounts to NOK 150 million, and a negative operating profit of NOK 63 million. The large external transfers in 1997 were the acquisition of Novit AS (Telenor Bedrift) at the turn of the year 1996/97, and a further purchase of shares in Lokaldelen AB (Telenor Plus) at 1 January 1997. Furthermore, consideration has been given to the effect of the shares of results in associated companies in the pro forma figures for 1996, which for the most part related to Telenor International. Reference is made to the reports for the business areas later in this annual report.

The table below shows the distribution of external income for each business area, cf. Note 1, and the distribution of internal and external expenses in 1997.

Pro forma figures for 1996 have not been audited.

RESULT 1997

	Operating income	Cost of goods sold and traffic charges	Salaries and personnel expenses	Other operating expenses	Depreciation	Operating result	Share of result of associated companies	Profit before taxes
Telenor Bedrift	9,961	6,309	2,101	1,443	291	(183)	(2)	(188)
Telenor International	3,588	1,994	326	716	379	173	(534)	(289)
Telenor Plus	2,816	986	759	518	196	357	(109)	244
Telenor Mobil	5,137	1,513	512	1,845	514	753	(1)	685
Telenor Privat	7,183	5,391	457	893	106	336	-	361
Telenor Nextel	309	35	70	373	52	(221)	(49)	(280)
Telenor Nett	9,196	1,751	963	2,497	2,100	1,885	-	1,654
Telenor Installasjon	1,868	237	996	534	34	67	-	67
Telenor AS	1,972	37	653	1,283	372	(373)	10	(319)
Other AS	426	37	179	110	77	23	-	21
Eliminations	(16,938)	(12,047)	(249)	(4,540)	(51)	(51)	-	(41)
Total	25,518	6,243	6,767	5,672	4,070	2,766	(685)	1,915

RESULT 1996

	Operating income	Cost of goods sold and traffic charges	Salaries and personnel expenses	Other operating expenses	Depreciation	Operating result	Profit before taxes
Telenor Bedrift	9,912	6,365	1,772	1,359	167	249	304
Telenor International	2,995	1,731	184	431	260	389	476
Telenor Plus	2,340	777	678	547	168	170	166
Telenor Mobil	3,968	1,040	362	1,626	865	75	12
Telenor Privat	7,134	4,116	1,197	1,285	127	409	437
Telenor Nett	6,802	491	976	2,051	2,082	1,202	701
Telenor RNT	7,926	7,306	47	178	1	394	375
Other units in TN AS	2,283	372	718	1,019	411	(237)	(118)
Other AS	298	8	159	76	41	14	16
Eliminations	(21,488)	(17,154)	(205)	(3,894)	(235)	-	(15)
Total	22,170	5,052	5,888	4,678	3,887	2,665	2,354

RESULT 1996 – PRO FORMA *)

	Operating income	Cost of goods sold and traffic charges	Salaries and personnel expenses	Other operating expenses	Depreciation	Operating result	Share of result of associated companies
Telenor Bedrift	8,858	5,634	1,651	1,219	200	154	3
Telenor International	2,995	1,731	184	431	260	389	(245)
Telenor Plus	2,252	770	651	496	153	182	11
Telenor Mobil	4,418	1,400	445	1,718	867	(12)	-
Telenor Privat	6,863	4,801	403	842	92	725	-
Telenor Nextel	111	8	33	125	11	(66)	-
Telenor Nett	8,533	1,701	964	2,224	2,071	1,573	-
Telenor Installasjon	1,500	203	996	423	37	(159)	-

*) Unaudited

BALANCE SHEET AND CASH FLOW 1997

	Current assets	Fixed assets	Short-term debt	Long-term debt	Minority-interests	Equity	Cash flow		
							Operational	Investments	Financial
Telenor Bedrift	3,691	1,142	2,513	378	4	1,938	1	(253)	460
Telenor International	2,792	5,717	1,833	3,599	150	2,927	474	(4,010)	4,300
Telenor Plus	992	875	974	479	7	407	351	(273)	79
Telenor Mobil	1,069	2,847	1,897	1,164	2	853	986	(709)	(551)
Telenor Privat	2,238	342	2,159	61	-	360	1,239	(116)	(603)
Telenor Nextel	347	124	362	17	-	92	(139)	(147)	342
Telenor Nett	2,166	10,833	2,179	5,597	-	5,223	3,591	(2,621)	(907)
Telenor Installasjon	582	95	425	149	-	103	83	(67)	42
Telenor AS	(473)	24,716	2,326	9,012	-	12,905	(1,347)	(2,399)	1,950
Other AS	445	302	190	184	-	373	93	(143)	102
Eliminations	(6,316)	(20,898)	(6,410)	10,728	79	(10,134)	164	2,496	(2,644)
Total	7,533	26,095	8,448	9,912	242	15,026	5,496	(8,242)	2,570

EXTERNAL OPERATING INCOME

	1997 Actual	1996 Pro forma*)
Telephony /ISDN		
Telenor Bedrift	3,236	3,018
Telenor International	772	514
Telenor Plus	690	618
Telenor Privat	6,862	6,700
Telenor Nett	88	101
Other	(97)	-
Total	11,551	10,951

Mobile telephony

Telenor International	19	11
Telenor Mobil	3,182	2,675
Total	3,201	2,686

Customer equipment etc.

Telenor Bedrift	3,912	3,142
Telenor International	83	-
Telenor Mobil	644	567
Telenor Privat	-	26
Telenor Nextel	3	-
Telenor Nett	-	31
Datavarehuset	-	(150)
Total	4,642	3,616

Advertising income etc.

Telenor Plus	1,259	895
Total	1,259	895

*) Unaudited

EXTERNAL OPERATING INCOME

	1997 Actual	1996 Pro forma*)
Other network-based operating income		
Telenor Bedrift	1,393	1,252
Telenor International	79	27
Telenor Plus	412	377
Telenor Privat	108	19
Telenor Nextel	184	51
Telenor Nett	310	245
Total	2,486	1,971

Satellite

Telenor Bedrift	8	-
Telenor International	1,082	869
Telenor Nett	-	6
Total	1,090	875

Other

Telenor Bedrift	61	201
Telenor International	98	90
Telenor Plus	217	177
Telenor Mobil	65	9
Telenor Privat	33	16
Telenor Nextel	6	-
Telenor Nett	203	242
Telenor Installasjon	275	83
Telenor AS	204	309
Other AS	127	87
Other	-	(38)
Total	1,289	1,176

	1997 External	Internal
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Cost of goods sold and traffic charges		
Telenor Bedrift	2,463	3,846
Telenor International	1,604	390
Telenor Plus	698	288
Telenor Mobil	768	745
Telenor Privat	92	5,299
Telenor Nextel	26	9
Telenor Nett	559	1,192
Telenor Installasjon	209	28
Telenor AS	36	2
Other AS	27	10
Eliminations	(239)	(11,809)
Total	6,243	

	1997 External	Internal
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Other operating expenses		
Telenor Bedrift	1,180	263
Telenor International	542	174
Telenor Plus	336	182
Telenor Mobil	1,392	453
Telenor Privat	438	450
Telenor Nextel	257	116
Telenor Nett	499	1,989
Telenor Installasjon	324	210
Telenor AS	937	344
Other AS	82	28
Eliminations	(315)	(4,209)
Total	5,672	

24. Cash flow statement Telenor Group

1 JANUARY – 31 DECEMBER

Figures for 1996 and 1995 in the Cash flow statement have not been restated in accordance with the new presentation.

Amounts in NOK million	1996	1995
CASH FLOW FROM/USED IN OPERATING ACTIVITIES		
Generated by the year's operations *)	5,851	5,405
Change in inventories, debtors and creditors	(579)	299
Change in other operating items	(445)	580
Net change in cash flow from operating activities (A)	4,827	6,284
CASH FLOW FROM/USED IN INVESTMENT ACTIVITIES		
Investments in fixed assets	(5,047)	(4,473)
Proceeds from sale of fixed assets	522	208
Change in other investments etc.	(1,176*)	(655)
Net change in cash flow from investment activities (B)	(5,701)	(4,920)
NET CASH FLOW FROM/USED IN FINANCING ACTIVITIES		
Changes in equity	1,994	-
Establishment of debt due to reorganisation	-	-
Dividend paid	(550)	(100)
Repayment of debt	(4,263)	(3,576)
New debt raised	3,217	1,740
Net change in cash flow from financing activities (C)	398	(1,936)
Net change in cash and cash equivalents (A+B+C)	(476)	(572)
Cash and cash equivalents as at 1 January	1,033	1,605
Cash and cash equivalents as at 31 December	557*)	1,033

*) This figure comprises the following:

Profit before taxes	2,354	2,103
Loss/Gain on sale of fixed assets	(46)	73
Depreciation and write-downs	3,887	3,562
Taxes payable	(344)	(333)
Generated by the year's operations	5,851	5,405

The effect of companies that have been acquired is not shown on a separate line.

*) NOK 156 million has been reclassified from cash and cash equivalents to current investments.

25. Shares in subsidiaries

Amounts in NOK 000s	The company's share capital	No. of shares	The Group's holding	Book value
Telenor Bedrift AS	350,000	350,000	100%	350,000
Telenor Mobil AS	300,000	300,000	100%	595,000
Telenor Privat AS	250,000	250,000	100%	250,000
Telenor Plus AS	109,000	109,000	100%	129,314
Telenor Venture AS	100,000	1,000,000	70%	86,000
Telenor International AS	2,100,000	2,100,000	100%	3,800,000
Telenor Installasjon AS	40,000	40,000	100%	100,000
Telenor Nett AS	2,800,000	2,800,000	100%	4,600,050
Telenor Nextel AS	60,625	12,125	100%	257,866
Telenor Finans AS	3,500	3,500	100%	81,968
Telenor Renhold og Kantine AS	1,000	1,000	51%	510
Telenor Svalbard AS	5,700	5,700	100%	5,700
Telenor Eiendom Vest AS	50	50	100%	50
Telenor Miljø AS	2,000	2,000	100%	2,000
Telenor Instrument AS	500	500	100%	500
Telenor Inkasso AS	2,000	2,000	100%	2,000
Telenor Geomatikk AS	8,000	8,000	100%	20,000
Telenor Research and Development Ireland Ltd	IEP 26,250	26,250	100%	198
Telenor AB	SEK 100,000	1	100%	95
Total shares in subsidiaries				10,281,251

SHARES IN SUBSIDIARIES OWNED THROUGH SUBSIDIARIES:

Amounts in NOK 000s		The company's share capital	No. of shares	The Group's share
<i>TELENOR BEDRIFT</i>				
TBK Mobiltelefonhuset AS		425	425	100.0%
Telenor Comma AB	SEK	1,434	14,360	100.0%
Telenor Comma AS	DKK	8,000	80	100.0%
Telenor Dolphin AS		500	100,000	100.0%
Telenor Novit AS		45,000	4,500,000	100.0%
Norsk Data Ltd.	GBP	3,804	3,804,000	100.0%
Data Consult AS		500	5,000	100.0%
Comma Data Services AS		50	50	100.0%
Telenor Multicom AS		1,000	1,000	100.0%
Telenor Financial Systems AS		1,500	60,000	100.0%
Nordpartner AS	DKK	1,800	4	100.0%
Telepost Communications AS		50	50	100.0%
Telenor Infomedica AS		7,300	7,300	100.0%
Norsk Data AS		600	6,000	100.0%
4P Datalab AS		600	6,000	100.0%
Telenor Alliance AS		10,000	9,100	91.0%
Telefonselskapet AS		1,000	1,360	68.0%
Teleteknikk AS		50	68	68.0%
Telenor Forum AS		1,530	153,000	100.0%
CDI AS	DKK	500	5	100.0%
SCS Consultance AS		50	50	100.0%
Computer Telephony AS		50	50	100.0%
Novit AS		50	500	100.0%
Samdata AS		100	1,000	100.0%
AS Trønderdata		50	500	100.0%
Norddata Vestdata AS		50	500	100.0%
Telenor Financial Systems Innovation AS		50	50	100.0%
Ergosoft AB	SEK	9,403	100,500	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%
Wordplex Holdings Ltd	GBP	100	100,000	100.0%
ND Service Team Ltd	GBP	1	1,000	100.0%
Ludhouse (Computing) Ltd	GBP	7	7,000	95.5%
Solix Systems Ltd	GBP	25	25,000	100.0%
Videcom Customer Services Ltd	GBP	1,945	1,945,000	100.0%
Finansnett AS		50	2	100.0%
<i>TELENOR INTERNATIONAL</i>				
Telenor Consult AS		3,000	30,000	100.0%
Telenor Satellite Services AS		800,000	800,000	100.0%
Telenor Global Services AS		125,000	125,000	100.0%
Telenor Invest AS		575,000	575,000	100.0%
Telenor Marlink AS		20,050	17,741	88.5%
Telenor Hungary Tavkolesi Kft	HUF	1,000	1	100.0%
ND Systems Ltd	IEP	650	650,000	100.0%
Norcom Network Corporation	USD	34,131	1,895,808	87.8%
Telenor Interkom Verwaltungs GmbH	DEM	50	1	100.0%
Telenor Polska sp.z.o.o	PLN	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. Services Group BV	NLG	576	138,032	100.0%
Telenor Satellite Services AB	SEK	700	7,000	100.0%
DCIT s.r.o.	CZK	2,000	1	62.0%
Telenor Comm. Services BV	NLG	40	400	100.0%
Telenor Network BV	NLG	40	400	100.0%
Neva Nor Telekom AS		150	20,100	67.0%
Full Cry Neva	RUB	49,100	32,897	67.0%
AirPage GmbH	ATS	1,440	1,400	100.0%
Comet Holding AS		19,000	19,000	100.0%

continued

<i>continued from note 25</i>		The company's share capital	No. of shares	The Group's share
Grameen Phone	BDT	1,798,682	21,333	51.0%
KCC Kalingrad	USD	2	1	60.0%
Second Opinion Solutions AS		296	2,025	68.5%
Telenor Infonet Telecom AS		1,000	800	80.0%
Clarion AS	USD	100	7,812,500	78.0%
International Private Networks AS		50	50	100.0%
Andrella Ltd	GBP	8,695	3,518,000	56.0%
Telenor Marlink Pte. Ltd	SGD	–	2	100.0%
Telenor Marlink Ltd	HKD	50	50,000	100.0%
Comet Kft	HUF	2,860	286	100.0%
UAB Nelte	LITAS	5,200	3,614	69.5%
BelPagette	USD	192	475	100.0%
<i>TELENOR PLUS</i>				
Telenor Media AS		50,000	50,000	100.0%
Telenor CTV AS		10,000	10,000	100.0%
Telenor Avidi AS		300,000	300,000	100.0%
Telenor Conax AS		1,000	10,000	100.0%
Telenor Link AS		8,000	8,000	100.0%
Telenor Pos AS		4,500	128,793	100.0%
Telenor Marktech AS		480	48,000	100.0%
Maxtel AS		50	50	100.0%
Telenor Media Directoria AS		2,000	2,000	100.0%
Gule Sider AS		50	50	100.0%
Telefonkatalogens Gule Sider AS		50	50	100.0%
Lokalveviseren - Informasjonsforlaget AS		7,288	7,288	100.0%
Publishing AS		5,000	4	80.0%
Golfguiden AS		50	50	100.0%
Lokaldelen Sverige AB	SEK	203	18,774	92.6%
Bonnier Telenor Företagsinfo AB	SEK	50	66	66.0%
Nord Trans Handelshus AB	SEK	50	100	100.0%
Telenor Media España SA	ESP	30,000	30,000	100.0%
Tu Distrito SA	ESP	155,000	15,550	100.0%
Telenor Media Polska Sp.z.o.o	PLN	300	1,000	100.0%
Salgsselskapet AS		50	1	100.0%
Games AB	SEK	100	1,000	100.0%
Telecom Scandinavia AS		50	50	100.0%
Tele Media Service AS		50	50	100.0%
Telemarkedet AB	SEK	100	100	100.0%
AB Svensk Programagentur	SEK	214	2,180	51.0%
<i>TELENOR MOBIL</i>				
Com-Gruppen AS		280	332	51.0%
MobilData Kjeden AS		730	35,040	100.0%
Telenor Telehuset AS		36,666	25,666	70.0%
Transport Telematikk AS		50	50	100.0%
MobilData Finans AS		100	10,000	100.0%
MobilData Billingstad AS		730	73,000	100.0%
Lyd & Telesystemer Vestfold AS		–	–	51.0%
Ring Telesenter AS		–	–	100.0%
<i>TELENOR PRIVAT</i>				
Telenor Direkte AS		9,000	1,000	100.0%
Telenor Alfashop AS		50	50	100.0%
<i>TELENOR INSTALLASJON</i>				
Telenor Security AS		5,000	5,000	100.0%
Telenor Security AB		1,034	1,100	100.0%
Elektriker-Service AS		500	500	100.0%
Holtan Elektriske AS		100	100	100.0%
Atewa Elektro AS		50	100	100.0%
<i>TELENOR NEXTEL</i>				
Telenor Online AS		50	50	100.0%
Nextra AS		50	50	100.0%
Nextra AS - Danmark	DKK	500	100	100.0%
Scandinavian Online OY - Finland	FIM	19	100	100.0%
Telenor ISV	USD	285	285	100.0%







To succeed in Norway,



At the risk of repeating ourselves: The Norwegian climate, the topography, and the geography in general have presented Telenor with enormous challenges in its telecommunication development.

is to succeed *anywhere*

But problems have been turned into benefits for Norwegian telecommunications, in the same way as for Norwegian petroleum technology: If you have managed to master the problems in your own area, you have knowledge and competence that is worth its weight in gold in the rest of the world.

Digital technology is a good example. Because the signals are sent via dish antennae from mountaintop to mountaintop, rough country and road-less terrain are no longer a hindrance. This made Telenor into one of the world's foremost users of radio lines for the transmission of telecommunication signals. And that made us into a sought-after partner for similar developments in other parts of the world, especially in developing countries and other "immature" markets.

● Profit and loss account

Telenor AS

1 January–31 December

	Note	1997	1996	1995
Operating income	1	1,972	12,634	13,207
Operating expenses				
Cost of goods sold and traffic charges		37	2,852	3,050
Salaries and personnel costs	2	655	2,848	3,125
Other operating expenses	3	1,281	2,597	2,512
Depreciation and write-downs	8	372	2,621	2,707
Total operating expenses		2,345	10,918	11,394
Operating profit		(373)	1,716	1,813
Financial income and expenses				
Interest from companies in the Telenor Group		498	132	95
Financial income		61	68	131
Interest to companies in the Telenor Group		(85)	(57)	(75)
Financial expenses		(420)	(464)	(647)
Net financial items		54	(321)	(496)
Profit before taxes		(319)	1,395	1,317
Tax charge	4	(331)	(276)	(512)
Profit for the year		(650)	1,119	805
Transfers and allocations:				
Group contribution		1,264	(450)	545
Allocated to dividend		(570)	(950)	(550)
Transferred to Legal reserves		–	–	(81)
Transferred to/(from) Retained earnings		(44)	281	(719)
Total transfers and allocations		650	(1,119)	(805)

Balance sheet

Telenor AS

as at 31 December

	Note	1997	1996	1995
Assets				
Cash and cash equivalents		71	–	–
Accounts receivable	5	275	2,125	2,253
Other current assets	6	2,170	506	777
Inventories		3	120	156
Total current assets		2,519	2,751	3,186
Shares and other current investments		10,437	2,919	2,718
Other long-term receivables	7	10,857	4,293	2,561
Fixed assets	8,9	3,713	14,967	16,011
Total fixed assets		25,007	22,179	21,290
Total assets		27,526	24,930	24,476
Liabilities and Equity				
Short-term interest-bearing debt	10	3,781	803	673
Short-term non interest-bearing debt	11	1,537	4,131	3,616
Total short-term debt		5,318	4,934	4,289
Long-term interest-bearing debt	10	8,619	5,401	6,848
Long-term non interest-bearing debt	11	684	1,734	2,180
Total long-term debt		9,303	7,135	9,028
Equity	12	12,905	12,861	11,159
Total liabilities and equity		27,526	24,930	24,476
Mortgages		–	–	–
Guarantee liability	13	52	188	176

Cash flow statement

Telenor AS

1 January–31 December

Amounts in NOK million	1997
Proceeds from sale of goods and services	1,900
Payments to suppliers of good and traffic	(255)
Payments to employees, pensions, social security tax, PAYE deductions	(1,419)
Payment of other operating expenses	(1,463)
Interest etc. received	572
Interest etc. paid	(465)
Other payments in/out related to operating activities	100
Payment of taxes and public duties	(317)
Cash flow from operation activities ¹⁾	(1,347)
Proceeds on sale of fixed assets	298
Payments on purchase of fixed assets	(199)
Net cash receipts on sale of shares and investments	-
Net cash payments on purchase of shares and investments	(2,566)
Proceeds on sale of other investments	887
Payments on purchase of other investments	(819)
Cash flow from investment activities	(2,399)
Proceeds of long-term debt issued	10,078
Proceeds of current liabilities	11,360
Payments on long-term debt	(6,847)
Payments on current liabilities	(11,240)
Paid in equity from minority in subsidiary	1,866
Payment of dividend	(1,400)
Cash flow from financing activities	3,817
Effect on cash and cash equivalents of changes in foreign exchange rates	-
Net change in cash and cash equivalents	71
Cash and cash equivalents at 1.1	-
Cash and cash equivalents at 31.12	71
<i>¹⁾ Reconciliation:</i>	
Profit before taxes	(319)
Taxes paid	(397)
Gain/loss on sale of fixed assets	(54)
Write-downs and depreciation	372
Changes in inventories	-
Changes in accounts receivable	67
Changes in accounts payable	(208)
Diff. between recorded result and payment regarding pensions and restructuring provisions	(477)
Change in other accruals etc.	(315)
Net VAT and investment tax unrelated to operating activities	(16)
Cash flow from operating activities	(1,347)

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

Notes to the accounts

Telenor AS

1. Accounting principles

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 1996, the parent company was considerably different from 1996, in that Telenor Nett, Telenor Privat, and Telenor Installasjon were spun off as separate companies with effect from 1 January 1997. In 1997, the parent company's activities mainly comprises the administrative units, Real Estate, R&D, and Group Finance.

Internal income and expenses within the Group amounted to NOK 1,769 million and NOK 345 million respectively. 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 costs, pension obligations and pension funds

	1997	1996	1995
PENSION COSTS FOR THE PERIOD ARE AS FOLLOWS:			
<i>Contributory schemes and early retirement pensions:</i>			
Contribution Norwegian Public Service Pension Fund	-	-	78
Early retirement pensions	53	217	255
Total contributions and early retirements	53	217	333
<i>Benefit plans:</i>			
Present value of the year's earnings	40	127	37
Interest expense on pension obligations	12	16	4
Gross pension cost	52	143	41
Estimated return on pension funds	(9)	(8)	(1)
Difference between estimated and actual yield recorded	19	-	-
Net pension costs	62	135	40
Social security tax	8	17	5
Net pension cost incl. social security tax	70	152	45
Pension costs charged to the year's result	123	369	378
PENSION OBLIGATIONS AND PENSION FUNDS ARE AS FOLLOWS:			
Gross pension obligations at 1.1	379	274	233
Transfer to subsidiaries	(229)	(34)	-
Gross pension cost	52	143	41
Pension obligations, change in scheme (AFP)	41	-	-
Difference between actual and estimated obligations 1.1	(14)	(4)	-
Payment of pensions	(1)	-	-
Gross pension obligations 31.12	228	379	274
Pension funds 1.1	170	47	1
Transfers to subsidiaries	(90)	(2)	-
Difference between actual and estimated obligations 1.1	18	(3)	-
Payments in and out and estimated yield on pension funds	55	128	46
Pension funds at 31.12	153	170	47
Net pension obligations (funds) at 31.12	75	209	227
Changes in schemes, not recorded for *)	(39)	-	-
Estimates and deviations not recorded	32	1	-
Social security tax	9	27	29
Net pension obligations (funds) including payroll tax	77	237	256
Pension funds (see Note 7) *)	292	-	-
Pension obligations (see Note 11) *)	77	237	256

*) Telenor AS is also committed to cover the implementation effect at 1.1.97 of the AFP scheme for wholly owned subsidiaries. At 31.12.97, NOK 313 million has been recorded in the balance sheet as debt to companies within the Group, and NOK 292 million is recorded in the balance sheet as changes in pension plans. Early retirement obligation is presented in note 11.

3. Bad debts

	1997	1996	1995
Realised losses for the year	2	53	56
Received on amounts previously written off	-	(15)	(14)
Change in provision for bad debt	-	3	7
Total bad debts	2	41	49

Bad debts are included in Other operating expenses in the Profit and Loss Account.

4. Tax charge

THE TAX CHARGE FOR THE YEAR IS AS FOLLOWS:

	1997	1996	1995
Taxes payable	288	396	249
Change in Norwegian tax for previous fiscal years	2	1	-
Change in deferred tax	41	(121)	263
Total tax charge	331	276	512

The change in deferred tax assets/liabilities arise due to different rules for accruing certain revenues and expenses in the tax and financial accounts.

	1997	1996	1995
<i>Basis for taxes payable:</i>			
Profit before tax charge	(319)	1,395	1,317
Group contribution	1,264	(450)	536
Permanent differences	4	-	2
Change in temporary differences	81	470	123
Applied losses carried forward	-	-	(1,086)
Basis for taxes payable	1,030	1,415	892
Taxes payable (28%)	288	396	249
<i>Basis for deferred tax:</i>			
Temporary differences linked to short-term balance sheet items	(51)	(101)	(156)
Temporary differences linked to long-term balance sheet items	(152)	1,276	1,762
Total basis for deferred tax/deferred tax benefit	(203)	1,175	1,606
Total deferred tax benefit (28%)	-	66	72
Total deferred tax (28%)	-	395	522

Temporary differences mainly consist of tax-related depreciation exceeding financial depreciation, and provisions for early retirements and pension obligations. In accordance with NGAAP, net deferred tax benefits are not recorded in the balance sheet.

The change in deferred tax in the balance sheet compared to the deferred tax recorded in the profit and loss account is different as a result of the effect of spin-offs and the implementation effect of the AFP scheme.

5. Accounts receivable

	1997	1996	1995
Accounts receivable	223	1,294	1,000
Accrued, not yet invoiced income	52	898	1,317
Provision for bad debts	-	(67)	(64)
Total accounts receivable	275	2,125	2,253

When spinning off activities at 1 January 1997, provisions of NOK 67 million for bad debts have been transferred to the new subsidiaries.

6. Other current assets

	1997	1996	1995
Inter company receivables	1,450	123	553
Certificates	295	-	114
Shares	210	208	40
Other receivables	215	175	70
Total other current assets	2,170	506	777

7. Other long-term receivables

	1997	1996	1995
Interest-bearing subordinated loan Group companies	-	-	350
Interest-bearing subordinated loan associated companies	168	-	-
Interest-bearing inter company receivables	10,166	3,645	1,990
Deferred tax benefit	-	66	72
Change in pension plan	292	-	-
Other receivables	231	582	149
Total long-term receivables	10,857	4,293	2,561

8. Fixed assets

	Acquisitions 31.12.96	Spin-off 1.1.97	Addi- tions 1997	Disposals 1997	Depr. and write-downs 1997	Acc. Depr and. write-downs at 31.12.97	Book value 31.12.97
Local, reg. and trunk network	23,181	(23,181)	-	-	-	-	-
Subscriber equipment	1,173	(1,168)	-	(5)	-	-	-
Exchanges	7,679	(7,678)	-	(1)	-	-	-
Radio installations	73	(73)	-	-	-	-	-
Land	210	-	2	(18)	-	-	194
Joint administrative investments	11,292	(3,014)	135	(1,122)	296	(3,933)	3,357
Computer equipment	596	(264)	16	(141)	55	(162)	45
Goodwill	106	(1)	-	-	21	(42)	63
Total	44,310	(35,379)	153	(1,287)	372	(4,137)	3,659
Installation in progress	485	(451)	19	-	-	-	54
Total	44,795	(35,830)	172	(1,287)	372	(4,137)	3,713

Depreciation on operating assets in Telenor AS that were taken over from the public enterprise Televerket is based on a principle of continuity on transition from a state enterprise to a joint-stock company. This implies that the depreciation charges in the joint-stock company are based on the original acquisition cost to the public enterprise as at 31 October 1994, and on the original depreciation schedules for these assets.

9. Investments in and disposals of fixed assets over the last 5 years:

	1997		1996		1995		1994		1993	
	Inv.	Sale*)	Inv.	Sale	Inv.	Sale	Inv.	Sale	Inv.	Sale
Local, regional and trunk network	2	-	1,087	9	899	163	706	-	529	-
Subscriber equipment	-	-	59	-	58	6	52	-	42	59
Exchange equipment	-	-	607	-	539	3	685	-	369	140
Radio installations	-	-	41	166	110	713	62	-	228	299
Land and buildings	85	281	382	285	168	123	202	13	307	18
Joint administrative investments	66	14	178	47	384	42	439	34	144	-
Goodwill and intangible assets	-	-	1	-	105	-	-	-	-	-
Total	153	295	2,355	507	2,263	1,050	2,146	47	1,619	516

Investments and sales for the years 1993 and 1994 comprise Televerket.

*) The spin-off of companies/activities at 1 January 1997 are not included as sales.

10. Interest-bearing debt

	1997	1996	1995
Group account bank	2,923	490	670
Inter company liabilities	758	181	–
Other short-term liabilities	100	132	3
Total short-term interest-bearing liabilities	3,781	803	673
Inter company liabilities	225	–	–
Other long-term debt	8,394	5,401	6,848
Total long-term interest-bearing debt	8,619	5,401	6,848
Total interest-bearing debt	12,400	6,203	7,521

11. Non-interest bearing liabilities

	1997	1996	1995
Accounts payable	141	1,222	1,329
Public duties, withheld PAYE taxes, holiday pay etc.	79	604	586
Dividends payable	570	950	550
Group contribution	103	450	–
Taxes payable	288	396	249
Other current liabilities	356	509	902
Total current non-interest bearing liabilities	1,537	4,131	3,616
Early retirement *)	607	761	750
Pension obligations *)	77	237	256
Obligations TNM *)	–	341	652
Deferred tax	–	395	522
Other long-term debt	–	–	–
Total long-term non-interest bearing debt	684	1,734	2,180
Total non-interest bearing debt	2,221	5,865	5,796

*) The obligations are discounted to their present value and are subject to imputed interest expenses.

12. Equity

EQUITY MOVEMENTS IN 1997

	Share capital	Legal reserve	Retained earnings	Total
Equity at 1.1	7,200	4,900	761	12,861
Profit 1.1–31.12	–	–	(650)	(650)
Allocated to dividend	–	–	(570)	(570)
Group contribution received	–	–	1,264	1,264
Total Telenor AS	7,200	4,900	805	12,905

The share capital comprises 720,000 shares with a nominal value of NOK 10,000 each. All the shares are owned by the Norwegian State.

13. Guarantees

	1997	1996	1995
<i>Guarantee liability</i>			
PAYE taxes withheld	40	176	176
Other guarantees	12	12	–
Total guarantees issued	52	188	176

When long-term loans were raised without collateral, a negative pledge was issued.

14. Other liabilities

LEASES AND RENTS

Telenor AS has leasing liabilities for its fleet of vehicles and office machinery. Furthermore, the company has signed long-term leases for premises. Most of these leases expire in the period 1998–2006.

15. Cash flow statement Telenor AS

1 JANUARY–31 DECEMBER

Figures for 1996 and 1995 in the Cash flow statement have not been restated in accordance with the new presentation.

Amounts in NOK million	1996	1995
CASH FLOW FROM/USED IN OPERATING ACTIVITIES		
Generated from operating activities *)	3,712	3,916
Change in inventories, debtors and creditors	57	265
Change in other operating items	(727)	(559)
Net change in cash flow from operating activities (A)	3,042	3,622
CASH FLOW FROM/USED IN INVESTMENT ACTIVITIES		
Investments in fixed assets	(2,038)	(2,263)
Proceeds from sale of fixed assets	507	1,050
Change in other investments etc.	(1,873)	(3,362)
Net change in cash flow from investment activities (B)	(3,404)	(4,575)
NET CASH FLOW FROM/USED IN FINANCING ACTIVITIES		
Changes in equity	1,994	–
Establishment of debt due to reorganisation	–	–
Group contribution received	545	474
Dividend paid	(550)	(100)
Repayment of debt	(4,265)	(3,576)
New debt raised	2,818	2,585
Net change in cash flow from financing activities (C)	542	(617)
Net change in cash and cash equivalents (A+B+C)	180	(1,570)
Cash and cash equivalents as at 1 January	(670)	900
Cash and cash equivalents as at 31 December	(490)	(670)
<i>*) This figure comprises the following:</i>		
Profit before taxes	1,395	1,317
Loss/Gain on sale of fixed assets	(44)	141
Depreciation and write-downs	2,621	2,707
Taxes payable	(260)	(249)
Generated from operating activities	3,712	3,916

● Auditors' Report for 1997

To the Annual General Meeting of Telenor AS

We have audited the annual accounts of Telenor AS for 1997, showing a net result of respectively - 650 million NOK for the company and 1.200 million NOK for the group. The annual accounts, which consist of the Board of Directors' report, profit and loss account, 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 the Joint Stock Companies Act.

In our opinion, the annual accounts have been prepared in conformity with the Joint Stock Companies Act and present fairly the company's and the group's financial position as of 31 December 1997 and the result of its operations for the fiscal year in accordance with generally accepted accounting principles.

Arthur Andersen & Co.



Olve Gravråk
State Authorised Public Accountant (Norway)

Oslo, 31st March 1998

Value added accounts

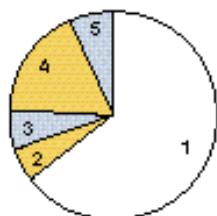
The Telenor Group

	1997		1996		1995	
Operating income	25,518		22,170		19,859	
To suppliers of goods and services	(11,704)		(9,621)		(8,371)	
Value added in own business – gross	13,814		12,549		11,488	
Capital use (depreciation)	(4,070)		(3,887)		(3,562)	
Share of result of associated companies	(685)		–		–	
Value added in own business – net	9,059		8,662		7,926	
Financial income	320		252		231	
Total value added	9,379		8,914		8,157	
Which is distributed as follows:						
<i>Employees</i>						
Salaries and personnel costs	6,062	64.6%	5,273	59.1%	4,599	56.4%
(of which PAYE taxes withheld)	1,650	17.6%	1,430	16.0%	1,368	16.8%
<i>Investors of capital</i>						
Interest to the State	–	–	92	1.0%	328	4.0%
Interest to other lenders	486	5.2%	471	5.3%	419	5.1%
Dividend to the State	570	6.1%	950	10.7%	550	6.8%
<i>The State</i>						
Taxes and charges *)	1,631	17.4%	1,168	13.1%	1,330	16.3%
<i>Telenor</i>						
Retained for security and further increases in values	630	6.7%	960	10.8%	931	11.4%
Total value added	9,379	100.0%	8,914	100.0%	8,157	100.0%

*) Payment of VAT accounted for a further NOK 2,804 million for the Group (NOK 2,605 million in 1996 and NOK 2,552 million in 1995).

Value added accounts The Telenor Group

1997

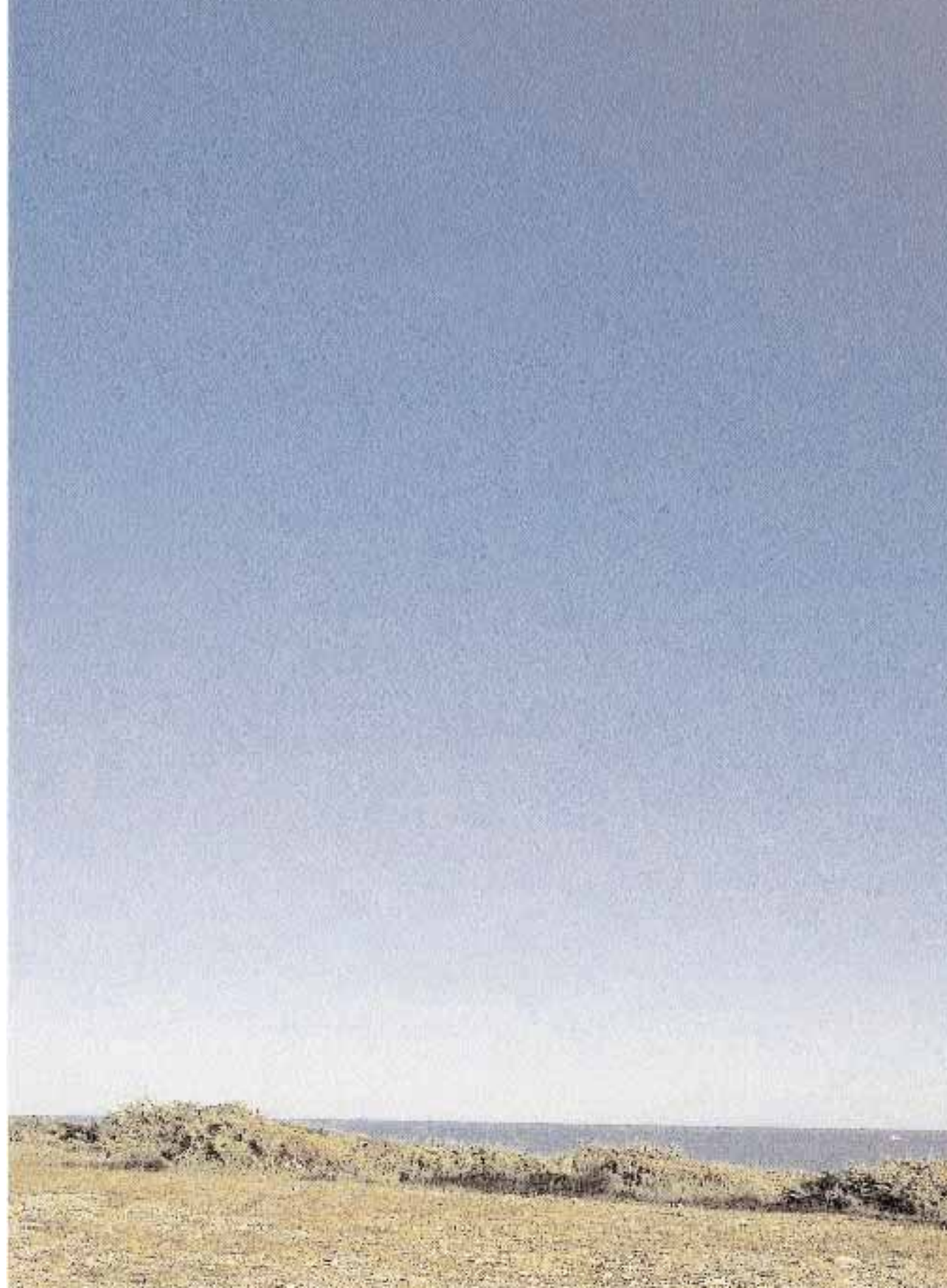


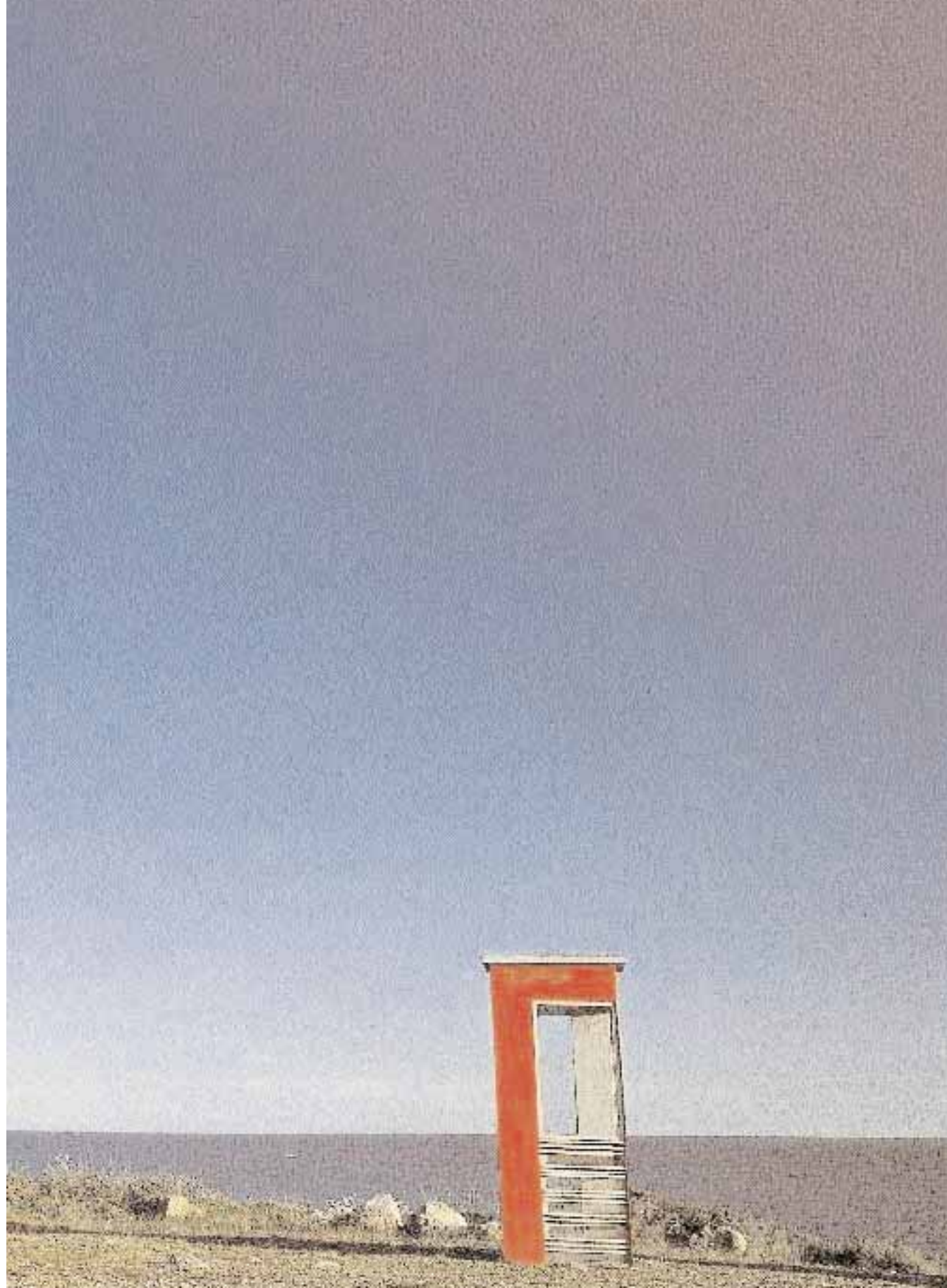
1. Salaries and personnel costs 64.6%
2. Interest to other lenders 5.2%
3. Dividend to The State 6.1%
4. Taxes and duties 17.4%
5. Retained for security and further valued adding 6.7%

1996



1. Salaries and personnel costs 59.1%
2. Interest to the State 1.0%
3. Interest to other lenders 5.3%
4. Dividend to the State 10.7%
5. Taxes and duties 13.1%
6. Retained for security and further valued adding 10.8%







The *electronic motorway*

Yesterday was analogue. Today is digital. Before, the telephone network was more or less a lot of mechanical junction points between telephone sets placed with the subscribers. The network was expensive to operate, and the queue for a phone of one's own was so long that for a lot of people the coin phone was the only alternative.

runs *here*

In the late autumn of 1997, Telenor completed the work of digitalising the fixed network in Norway. Norway became one of the first «fully digitalised» countries in the world.

But we don't intend to stop there. Sound, pictures and data can still not be transmitted at the speed the customers want. So we are continually developing our digital network, with one main goal in view:

That the telephone socket in your wall will be your interface to free and unrestricted communication, irrespective of where you live.

● Report from the President and Chief Executive Officer



Tormod Hermansen

Tormod Hermansen
President and Chief
Executive Officer

1997 was a satisfactory year for Telenor. The operations outside of Norway show a very positive development in values. We have reason to be rather satisfied with the result of the operations in Norway. The return on capital employed was 16 per cent, despite a loss for Telenor Bedrift.

In 1997, the Telenor Group recorded a 15.1 per cent growth in operating income, while the profit before taxes was lower than in 1996. This was as we had anticipated due to the substantial establishment and start-up costs for activities outside Norway.

The development, therefore, is much in line with the goals we had set.

The directive guidelines for Telenor's Group strategies over the last few years have been linked to growth, profitability and capital strength, and with fundamental strategic choices associated with the desire to develop Telenor into an international industrial group within the converging telecommunications/IT/media field.

Telenor's performance during this period has therefore been characterised by persistent substantial reorganisation, restructuring, and positioning to meet the increasing competition in the market and the removal of the last monopoly rights from 1 January 1998. We have sought to combine the need for developments and positioning under changed terms and conditions in our environment, both with respect to market development and regulatory issues, with the day-to-day requirements of an adequate current profit performance. Telenor has a decentralised organisation, with strongly delegated responsibility where the business areas are responsible for their own activities and results. Market dynamics, combined with a great deal of commercial freedom of action, generate strong growth and diversification impulses. By and large, we have managed to maintain our focus on results.

On the other hand, there has been an increasing opinion, both internally and among our customers, that Telenor has not sufficiently managed to create that uniform profile which is a fundamental challenge in the company's strategic goals. This is the case for both our domestic market and for our international activities.

We must again ask ourselves how Telenor is structured, and which organisational structure and management form that will give us the necessary ability to change and to be effective.

The task is not to find a final and perfect management model, it is rather to find an acceptable balance between different forms of creative forces and impulses, which generate good results in a dynamic interplay.

This development will already in the short run force the

organising of the operations to be such that it allows a greater degree of uniform responsibility for products and markets throughout the entire Group. The chosen organisational structure and management model must be suitable for the changed framework conditions that Telenor is facing:

- A more complex technological development with faster changes and more uncertain decision-making situations.
- Demand for adjustments as the competition on the domestic market will be more varied and fierce.
- Adjustments to an international market, nationally as well, with more, and more powerful competitors and partners.

The changes that are made must first and foremost aim at creating a more uniform and less fragmented customer front, with professional customer treatment, and with greater precision in deliveries and dealing with errors and faults. There is reason to emphasize that there is a high degree of loyalty and team-spirit among the employees, who consider the reorganisation that has already taken place to be successful, and to some extent to be success stories.

Telenor must develop into a service company in the electronic services market. Until now, and for some time to come, technology and ownership of infrastructure are important competitive advantages. To an increasing extent, the competitive advantages will be based on a market orientated organisation that serves the customers in a customer-friendly and cost-effective way, on leadership and management at all levels, and on flexibility and a willingness to change at all levels.

Just as important, will be our speed and ability to change, our ability to be innovative, and our ability to build relationships, with partners, suppliers and with competitors, and last but not least to our demanding customers.

This calls for important changes in personal attitudes, processes, and in management methods, and – ultimately – in how Telenor defines its own role. We have every reason to stick to the strategies that have been set. During the negotiations we had with Telia, it became very obvious that we have a commercial, market-orientated organisation that can demonstrate its strength in the domestic market and in the international market. Many of the opportunities for improvement that we can identify lie in increasing the efficiency of the day-to-day operations, and focusing more intensely on customers and the market, and in mobilising even more of our total competence.

● Regulatory matters

On 1 January 1998, the remainder of Telenor's monopoly rights ceased as Norway, like the rest of the EU/EEA area, opened for free establishment rights and free competition on telephony and the telecommunications network, like it has been for many years in the field of data communication and telecommunications equipment.

In reality, this means that other operators now can connect their telecommunications network to Telenor's network, or base the services they offer on Telenor's network by purchasing interconnection. Competing operators may also establish their own infrastructure for telephony and other telecommunications services. As a result of this, Telenor is no longer the only supplier of fixed network telephony and infrastructure in Norway.

1997 has, therefore, been a year characterised by the authorities' and the market players' preparations with respect to designing and adapting to the new competition regulations, and entering into interconnection contracts, which are a prerequisite if the customers should be able to choose freely between suppliers, and if the new players should have access to the market.

In connection with the opening of the markets, the authorities have imposed significant limitations on the former monopolist with respect to the terms and conditions which should be offered the other players, and these players are given more freedom to set their own terms and conditions. With such a starting point, negotiating agreements presents considerable challenges. At the turn of the year 1997/1998, however, mutual agreements had been entered into between Telenor and such trend-setting players as Telia, Tele2, and Global One. We have not yet succeeded in reaching an agreement with the mobile operator NetCom, because variations and differences in the price level for mobile vs. fixed network services make it especially difficult to reach an agreement that is mutually acceptable. However, interconnection continues between the mobile and the fixed networks, and the customers are, therefore, not affected by the contractual problems.

Even though Telenor might be considered to be an effective and technically updated operator by international standards, cost calculations for interconnection unveils that unit costs per traffic minute and per connected subscriber are fairly high in Norway with the settlement pattern, the corporate structure, and the population density that are so particular for this country. If competition can stimulate even further growth in the telecommunications markets, and this creates additional traffic over Telenor's network, this may give reason to cutting interconnection costs in the future.

In the 1990s, Telenor has had very low end-user prices, compared to other countries, and compared to the underlying costs. It is therefore primarily on international

traffic and on traffic from the fixed network to the mobile networks that there are clear margins for competitors, and this is where we have already seen, and gradually will see, the considerable impact competition has on prices. But if the development in traffic gives reason to reducing interconnection prices, we will also see tough competition on domestic traffic, which will also push Telenor's relatively low domestic prices even further down.

On 5 December 1997, the Government presented an Odelsting Proposition (Bill) (Ot prp no. 31 1997-98) on the Act amending the Telecommunications Act. This is expected to come into force in March/April 1998. The amendments imply an adaptation to deregulation and re-regulation of the telecommunications market, and an increase in the competition based on free establishment rights, combined with demands on players with strong market positions in accordance with the patterns in the EU and the EEA. Telenor's licence is currently being revised and will be available some time this spring.

For some time now, Telenor has considered the telecommunications industry's monopoly right regulations as rather unsuitable, seen in the light of the technological development and the development of the global market. The telecommunications market is subject to sector specific regulatory frameworks on the part of the authorities through the Telecommunications Act of 23 June 1995, and the Regulations previously referred to on public telecommunications networks and public telecommunications services of 5 December 1997. Telenor is subject to considerably more stringent regulatory demands than the competitors, in the light of its strong market position in fixed network telephony, leased networks, interconnection, and access to the telecommunications network. For Telenor, the regulatory demands imply, inter alia, the following:

- Telenor's end-user prices in fixed voice telephony and leased networks are subject to maximum price regulation.
- Telenor is obliged to offer fundamental, high quality telecommunications services at reasonable or the lowest possible prices to all households and companies nation-wide (also referred to as universal services or USO). This implies that Telenor supplies some parts of the market with services that from a business point of view are unprofitable, without receiving any form of compensation in 1998. The authorities will review this obligation in 1998 with a view to introduce a possible financing arrangement from 1999.

Regulatory matters

- In 1998, Telenor has committed itself to maintain unprofitable public pay phones in sparsely populated areas.
- In addition, Telenor provides services to handicapped people using telecommunications services.
- With respect to the financing of special tasks that are imposed on Telenor by the authorities, such as emergency and security services, assignments relating to Spitsbergen, and services for the overall defence of the country, Telenor has entered into an agreement with the relevant government bodies and ministries regarding the Government's purchase of such services. This agreement took effect on 1 January 1998. Up to and including 1997, Telenor has financed these services itself.
- Telenor is obliged to open the network for interconnection to all interested parties on strictly cost-regulated terms.
- Telenor must supply production factors to others on the same terms as it supplies them to its own units.

For the further development of an effective telecommunications industry in Norway, which is to the benefit of all households, companies, and the public administration, the authorities' adaptation of the regulations to the development of the market will be crucial. Otherwise, we could end up with regulations that will make the industry stagnate, which would be to the detriment of the consumers of telecommunications services and to the impairment of the Norwegian competitiveness.

If one has a short-term perspective, the efficiency of the market can be measured in terms of cost savings in the network operations, and this will result in lower telecommunications prices for the consumers. Such efficiency can be achieved without duplicating infrastructure or increasing the bandwidth.

Applying a longer perspective, the existing network capacity will no longer be adequate to satisfy the demand. With a converging market, where traditional telecommu-

nications services only account for a fraction of the total market, each individual customer's need for time and capacity on the network will increase considerably.

In recognition of the fact that competition on the network creates the best end-user services, it must be in the interest of the authorities to let other market players than Telenor set up their own infrastructure. From a long-term perspective it is difficult to see how competition exclusively on services with low access prices is compatible with the high level of innovation and the introduction of new products to the market. In such cases, the network owner will lack incentives for increasing the efficiency of its own operations.

All players in the telecommunications industry must be humble when facing the enormous process of change that is emerging. From a dominant player's vantage point, the worst that can happen is being deprived of the opportunity to compete through asymmetrical (unequal) detailed regulations. Today, nobody is able to foresee the economic consequences, commercial or social, that such regulations may have in the long run. In order to counteract unfortunate regulatory impositions, Telenor will communicate actively with the authorities in order to create a better understanding of the industry's development, and to provide an insight into the challenges the sector will face in the next few years. In connection with this, it will also be important that we make the financial, technical, and legal implications of the various regulatory measures visible.

After focusing on price as a competitive parameter in the initial phase of opening the market to competition, Telenor expects that service, quality, and product renewal will gradually be emphasised just as much, and it intends to compete in the front line in all these areas.

Converging markets in telecommunications, IT, media, and broadcasting create new regulatory challenges.



Analytical information and development characteristics

The telecommunications industry is undergoing market liberalisation and a transition from a national to an international competition arena. At the same time, technologies are fusing, and erasing borders between the traditional market areas. To satisfy its customers and owners, Telenor must consider these market areas as a whole and master complex total deliveries.

Background

Telenor's main objectives are to have satisfied customers, satisfied employees, and a satisfied owner, and these are the fundamental bases for all its activity. If these parties are not satisfied, Telenor will not be able to ensure access to the competence and capital that will be decisive for future growth and the creation of values. In order to ensure that Norway remains a country with world class communication services, Telenor must, over time, achieve a competitive return on capital invested.

The telecommunications industry is facing market liberalisation and a transition from national to international competition arenas. This implies comprehensive structural changes, where market players in communication, data, content services, and user equipment, will increasingly take a total market view. Telenor has been positioning itself for some years to face these challenges, by concentrating on the above segments in Norway, as well as through its internationalisation strategy.

Norway is very much at the fore front when it comes to developing the information society. The telephone density among its 4.4 million inhabitants is 62 per cent, or 2.7 million fixed network connections. Mobile telephone penetration in Norway was 38 per cent, and the number of internet subscribers was about 250,000 at the end of 1997. From an international perspective, Norway is one of the countries where the merging of the various segments has come furthest. Telenor's success in Norway is therefore closely linked to mastering complex total deliveries, and its ability to increase the value of and further develop the comprehensive customer base.

Internationally, Telenor is concentrating on an area where the Group has special cutting-edge competence. The major international engagements are therefore in the fields of mobile services, satellite services, and directories.

Fixed network telephony

Fixed network telephony still accounts for most of Telenor's activity. Historically, the telecommunications industry is characterised by national monopolies, and this has resulted in a considerable imbalance between income and cost structures. Usage, length of calls, and distance, are priced more highly than the underlying costs would indicate, while the prices of connection (subscription) and short local calls have been too low. When the telecommunications industry now enters a

phase with minimal international constraints on competition, the ability to bring the income and cost structures to a better balance will be a very decisive success factor.

Telenor's total income from fixed network telephony amounted to NOK 11,551 million in 1997. Of this amount, 21 per cent referred to international and long distance traffic, 14 per cent of traffic to the mobile networks, and 20 per cent to local traffic, while income from initial installations and subscribers accounted for 30 per cent. The remaining 15 per cent represents value added network services and income from other operators.

The price per minute of all types of calls, fell in 1997 as well, but relatively, local calls fell the least. The ratio between long distance (trunk) and local calls in 1997 was 2.12, while it was 2.40 in 1996.

	1997	1996	Change
Operating income (NOK million)	11,551	10,951	5%
No. of telephone connections	2,734,000	2,550,000	7%
... of which ISDN	15%	5%	
Fixed network-generated traffic (mill. minutes)	14,299	13,211	8%
Degree of exchange digitalisation	100%	91%	

Mobile telephony

The mobile market continued to grow sharply in 1997, and the total penetration at the end of the year was 38 per cent, or almost 1,7 million subscribers. At year-end, Telenor Mobil had 1,259,000 subscribers, of whom 871,000 used the digital GSM network and 388,000 used the analogue NMT networks.

Telenor Mobil's operating income from mobile telephony rose by 16 per cent from 1996 to 1997. The volume of mobile generated traffic rose by 35 per cent, while mobile terminated traffic rose by 40 per cent.

1997 resulted in the number of customers increasing by about 281,000 net. In 1997, the number of GSM subscribers increased by 338,000, while the number of NMT subscribers fell by 57,000. The gross increase in the number of subscribers in 1997 was about 564,000, which includes internal moves by customers between the GSM system and the NMT systems, and moves within one of the systems.

Analytical information and development trends

Commissions, market support, chain store support, and other sales and marketing expenses totalled about NOK 1 billion in 1997, which is on a par with the preceding year.

	1997	1996	Change
Total market penetration	38%	29%	
Telenor's market share	75%	78%	
Operating income mobile telephony (NOK million)*	4,375	3,758	16%
No. of subscribers	1,259,000	977,000	29%

* Includes income from termination in the mobile network, which is also included in fixed mobile traffic in the paragraph on fixed network telephony. See also Note 1 to the Accounts.

Mobile telephony operations outside Norway

During 1997, Telenor increased its portfolio of ownership interests in mobile telephone licences outside Norway from 5 to 11, and this represents a major challenge over the next few years, both financially and organisationally. Experience tells us that the mobile telephone operators experience a development that can be divided into three phases – the start-up phase, the early operating phase, and the mature operating phase.

Phase I – Start-up phase (0-2 years)

The main focus is on establishing an organisation and building up of the mobile network. The network must be built as quickly as possible, with adequate coverage, and in a financially rational manner. Depending on the complexity and scope, this phase can take up to two years. At 31 December 1997, a large part of Telenor's mobile operator portfolio was at this stage, VIAG InterKom, Connect Austria, and Cosmote are major commitments, whilst Extel and Stavtelsot are two smaller involvements in the former USSR.

Phase II – early operating phase (2-5 years)

The most important value locomotive in this phase is the growth in the number of subscribers and a satisfactory service quality through adjusting the organisation and the network's capacity. Telenor has stakes in three operators that are in the early operating phase, ESAT Digifone, Grameen Phone, and ProMonte.

Phase III – mature operating phase (after 5 years)

Maintaining satisfactory margins, being attractive to new customers, and keeping existing customers are essential to the development of values. Operators in this phase therefore focus on extending the range of services, reducing the customer acquisition costs, and making the operation cost-effective. Telenor has an ownership interest in two companies in the more mature operating phase, Pannon GSM and North West GSM.

For most mobile operations, successful development through phases I and II has generated a substantial return in the form of value added, in spite of the loss

recorded in the current accounts. The following table illustrates the competitive situation and the potential value of the largest operators in Telenor's mobile operator portfolio:

	Pannon GSM	ESAT Digifone	Cosmote	VIAG Interkom	Connect Austria
Country	Hungary	Ireland	Greece	Germany	Austria
Population (mill.)	10.2	3.6	10.1	81.8	8.1
Penetration	7%	14.2%	9.2%	10.1%	16%
No. of operators*	2 (2)	2 (4)	3 (3)	3 (4)	3 (3)
Operator no.	2	2	3	4	3
Operations start(ed)	April 94	March 97	Spring 98	Autumn 98	Autumn 98
Telenor's % stake	20.3%	45%	30%	10%	17.45%
Telenor's investment (NOK million) **	300	450	700	3.600	600
No. of subscribers	265,000	100,000	0	0	0
Market share	38%	30%			

* The figures in brackets show the number of operators expected at 31 December 1998.

** Estimated maximum capital contribution by Telenor. The equity ratio target is about 40 per cent, with the exception of VIAG which is a partnership.

TV distribution

Being a priority area for Telenor, TV distribution is organised in a cable TV company, Avidi, the pay-TV companies Canal Digital, CTV, and AB Svensk Programagentur, as well as the smart-card company Conax, and the broadcasting company, Noriking. In addition, Telenor is investing substantial resources in satellite-based TV distribution organised through Telenor Satellite Services. Telenor is therefore engaged in the entire value added chain from signal distribution to programme packaging and end-customer handling.

In 1997, Avidi recorded an 18 per cent growth in the number of subscribers, and has thus maintained its 35 per cent market share in Norway.

CTV registered a fall in the number of subscribers in 1997, mainly as a result of piracy of decoder cards. The introduction of new card technology will reduce the possibilities of unlawful copying. The investments in digital TV take place through Canal Digital, which was established in 1997 together with Canal +, this company is expected to grow considerably faster than the analogue programme offerings from CTV.

	1997	1996	Change
Operating income cable TV (NOK million)	235	214	18%
Operating income programme card CTV (NOK million)	234	194	21%
Number of cable TV subscribers	244,000	230,000	6%
Number of programme card subscribers CTV	198,000	223,000	-11%
AB Svensk Programagentur/Canal Digital	200,000	-	-

Satellite services

Through the Eik earth station, its own satellites, and participation in the international satellite organisations Inmarsat and Intelsat, Telenor has considerable

competence in the field of satellite operations. From mainly being a support for international telephony and maritime communication, the main opportunities in the future for satellite communication lie in TV and multi-media. Digital technology provides a distribution capacity per transponder that is 5–10 time greater than analogue technology can offer, and this is expected to facilitate the growth of specialised TV channels and pay-TV, including Video on Demand or Pay Per View. The development in digital TV distribution will therefore be a critical success factor for exploitation of capacity and the pricing of transponders in the future.

By launching Thor II, Telenor has expanded its satellite capacity from 24 to 38 transponders in 1997. With Thor III being launched in mid-1998, a corresponding increase is expected.

Directories and information activities in Norway

The directory and information activity in Norway is first and foremost linked to publishing printed or electronic directories or registers, where the income comes from advertising, as well as the operation of direct enquiries and other service telephones.

The sharp growth in electronic media and in internet represents major opportunities and considerable challenges in the next few years. Telenor has fully mastered these challenges, and so far Yellow Pages on CD-ROM and on internet have exceeded expectations.

	1997	1996	Change
Operating income directories activity (NOK Million)	1,109	895	24%
Operating income, value added services (NOK Million)	690	618	12%

International directories

Considerable investments abroad, and the acquisition of directory companies in Sweden, Spain, and Poland generated total directory-related income abroad of NOK 341 million in 1997. Profitability was good in Sweden, while the high rate of expansion put profitability under some pressure in Spain and Poland.

Transfer of competence from the domestic organisation to the international activities produces synergy effects quickly, and Telenor's directory-related operations have strengthened their international position further by co-operating with the US company Bell Atlantic.

IT/data and software activities

Telenor Bedrift is currently one of Norway's largest IT/data companies. The company has a clear goal of becoming the preferred supplier when the borders between IT/data and telecommunications are erased, and for several years the company has been building up its competence to serve the market with integrated solutions.

The acquisition of NOVIT accounts for a large part of the

growth from 1996 to 1997. Furthermore, the level of activity in the markets that Telenor services is high, but the high demand is also forcing costs up, and affects the stability of the organisation. The integration of the relatively large number of companies that has taken

	1997	1996	Change
Operating income customer equipment and applications (NOK million)	2,955	2,375	24%
Operating income, supply services and computer operations (NOK million)	1,687	1,239	36%

place the past few years, has taken somewhat longer than expected, and the profitability in these areas has not been satisfactory. The software companies in particular have contributed with substantial losses, as a result of substantial development costs and, in the case of some companies, a decline in sales. If values are to be secured and developed in the future, this will call for profit margins to improve to something in the region of 5-7 per cent.

Internet

Telenor further focused its concentration on the internet in 1997. The content side was merged with the Schibsted Group's internet operation into the company Scandinavian Online at the turn of the year 1996/1997, while the access activity was transferred to a separate business area in Telenor Nextel. At the end of 1997, Nextel is by far Norway's largest supplier of internet access.

However, the competition in the market is tough, and the struggle for customers results in high sales-related commission costs at the sales level, and reduced subscription charges. Internet has contributed with a substantial growth in the local traffic and constituted at year end approximately 15% of the local traffic.

	1997	1996	Change
Total market penetration	5%	4%	
Market share (including Schibsted Nett)	70%	75%	
No. of private subscribers	165,000	113,000	46%
No. of corporate subscribers (companies/schools)	2,200	780	282%

● The Year 2000 Issue

The transition to the next millennium calls for changes to computer programs that can only read the last two digits in a year. Telenor has a comprehensive portfolio of standard systems and in-house designed systems. This portfolio must perform adequately also after 1 January 2000.

Like all other businesses that use information technology, Telenor will be affected by what is referred to as the «Year 2000 Issue», both as a supplier and as a user of products and services. The Year 2000 issue is receiving a great deal of attention in the Group, and different measures have been instigated at different levels in the organisation. The goal is that the most important tasks should be finished by the end of 1998. The central measures include:

- On 27 February 1997 it was resolved that all business areas should start a Year 2000 project. The managing director of each business area is responsible for the Year 2000 project. In total of 23 projects with varying complexity were started.
- The business areas Telenor Nett, Telenor R&D, Telenor Bedrift, and its IT Services Division have Group responsibility, and will assist the other business areas as applicable.
- A secretariat has been appointed to provide advice, and to ensure synergy effects across the company borders. The Year 2000 secretariat gathers the status of the projects and reports to the Group management.
- A value chain test project shall identify and test high priority value chains that go across companies. A risk analysis will provide the basis on which systems are selected for inclusion in the testing.
- Business customers shall be taken care of through a separate project that establishes tools for dealing with enquiries and providing technical assistance.
- The Group's Audit Section plays an active role in scrutinising and assuring the quality of the individual projects and in preparing ongoing risk analysis for the Group.

The telecommunications network

Telenor's fixed network comprises a large number of components which are divided into about 170 component types. In addition, it has about 170 adjacent systems. For the telecommunications system, typical Year 2000 problems are likely to be relating to:

- Applications (for instance for tariffs) that are connected to the telecommunications network. Interconnection, i.e. when a telephone call involves more than one telecommunications operator, complicates the work of identifying and testing systems that may be dependent on date-related information.
- Operative systems
- A system's clock
- Software that is built into the system
- Databases connected in the network that do not process date information correctly.

Telenor Nett, Telenor Mobil, and Telenor International are working on ascertaining what measures will be necessary to ensure that the telephony sphere works correctly. One critical success factor is that the suppliers are able to deliver upgrading of the systems early 1998, so that there will be time to test that everything functions correctly together. Furthermore, corrections must be made to software programs that are designed especially for Telenor's systems. Through international co-operation within the telecommunications industry, one of the goals is to ensure that telephone and data connections function satisfactorily across the networks at home and abroad too.

Common systems

Telenor R&D manages most of the Group's critical system portfolio, and it is also responsible, at Group level, for standards and methods. At the end of 1997, R&D had analysed its approximately 63,000 programs and had started on the adjustments. In order to avoid having Year 2000 work taking up too many internal resources, R&D has entered into agreements with different external resource partners. A model is used where all analytical work takes place within Telenor, and where some of the corrections are made in factories in the United States, India, and Ireland. Specialists have been engaged in Norway and abroad.

Other IT systems

In addition to the common systems, the Telenor companies have a comprehensive portfolio of standard systems and in-house developed software programs for which the companies are responsible for bringing up-to-date with the Year 2000 in mind. Software houses have their own Year 2000 projects, which are also being followed up by the Group.

The internal operating environment for IT and telephony

Telenor Bedrift's IT Services Division is responsible for operating most of Telenor's internal IT and telephony systems. A stable and correct operating environment is a prerequisite for Telenor's operations. Telenor is working on the change-over to the 32-bits platform, and this work is an important precondition for the Year 2000 project. An analysis of what remains to be done with respect to the Year 2000 problem is being prepared.

Testing the value chain

Testing is considered to account for between 40 and 60 per cent of all the work in the Year 2000 project. In addition to testing the individual systems, Telenor has chosen to test entire value chains together. A value chain



might, for example, comprise the receipt of orders, technical work, reporting, and invoicing. Such value chains go across company borders, and a project group has been appointed to carry out value chain testing in cooperation with the companies. One pilot project is underway and the testing starts in April 1998. For this pilot project, the value chain which starts with a call from a mobile telephone and ends when the call is connected through a satellite telephone has been chosen. This value chain also includes assessing the pricing of the call. From 1 July 1998, the project will start the extensive testing of Telenor's prioritised value chains.

Customer project

Telenor supplies a wide range of products and services in the field of information technology and telecommunications. Telenor is building up an information base and an organisation that answers enquiries and provides technical assistance in mapping out and if necessary upgrading products and services supplied by the Group. The goal is to provide the best possible support to the customers' own Year 2000 audit. A critical success factor in this respect is that the correct information is available from subcontractors, and that Telenor's service has adequate staff. From April 1998, customers will be offered information via a separate Year 2000 telephone service and devoted web sites regarding the products and services supplied by Telenor.

The way ahead

So far, work on the Year 2000 Issue has not occupied so many internal resources that product development has stopped up or been delayed. The strategy is that the most labour-intensive work on bringing software up-to-date is outsourced, but we cannot ignore the possibility that some projects might have to be postponed in the future.

It is of decisive importance that business and the public administration take on an active responsibility for unveiling possible problems in time within their own organisations. In order to deal with possible problems that may crop up in the first period after the turn of the millennium, Telenor will have adequate staff to deal with irregularities, but this will primarily be with respect to its own network and systems.

Despite the comprehensive work going on and the focus on the Year 2000 Issue by Telenor, there is a risk that not all systems will function completely faultless.

Financial matters

For 1997 and 1998, Telenor has estimated that an amount in the region of NOK 500 million will be used, part of which will be investments and thus recorded in the balance sheet. In addition, there will be expenses after 1998, see below. Estimated expenses include internal expenses for 1998. Not all internal expenses for 1997 have been registered.

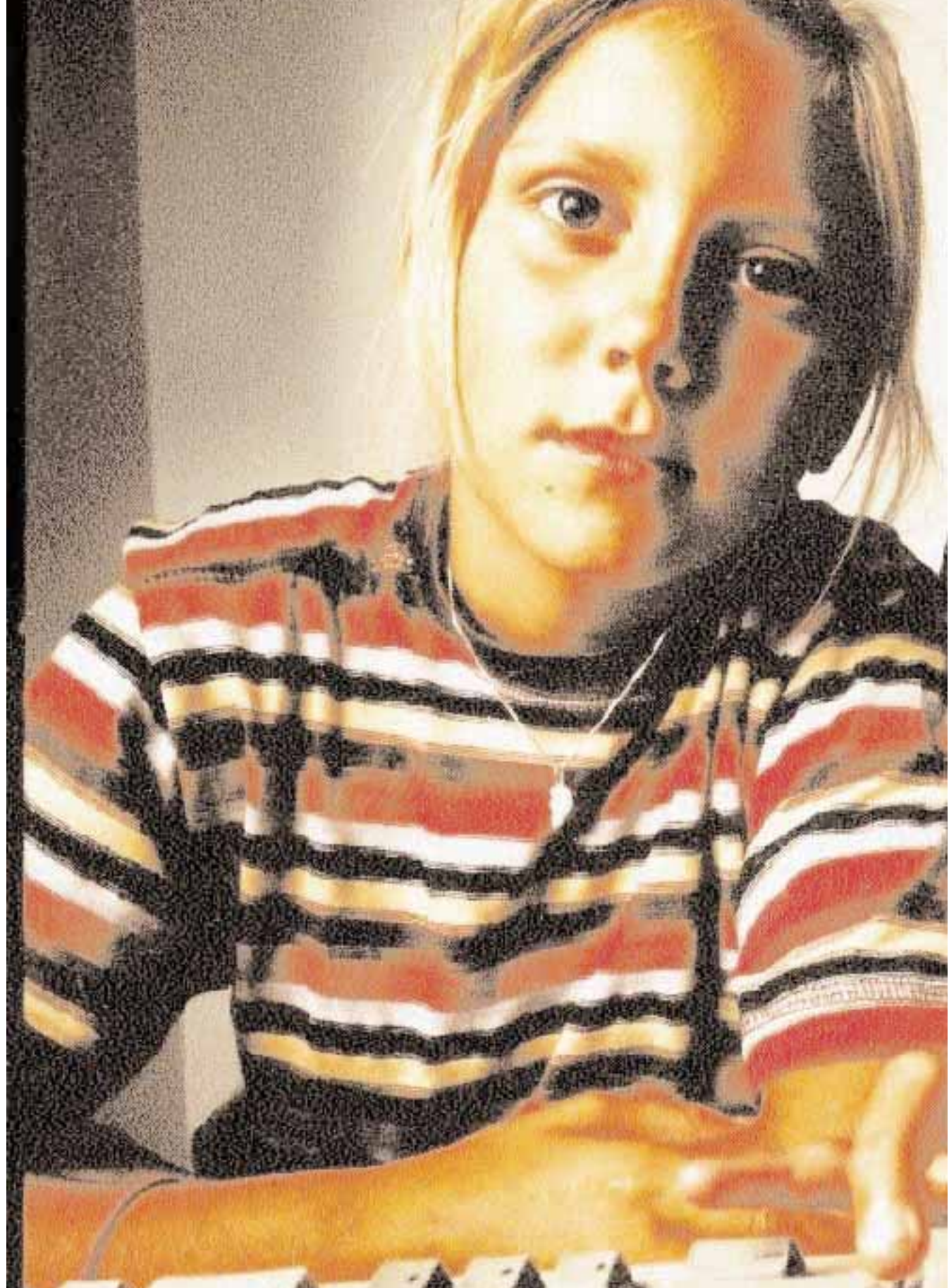
The upgrading that would have been carried out irrespective of the Year 2000 issue has not been included in these figures. However, the Year 2000 investments include a new testing environment of about NOK 100 million. This testing environment will also be used after the Year 2000, and will be an improvement to Telenor's IT-environment.

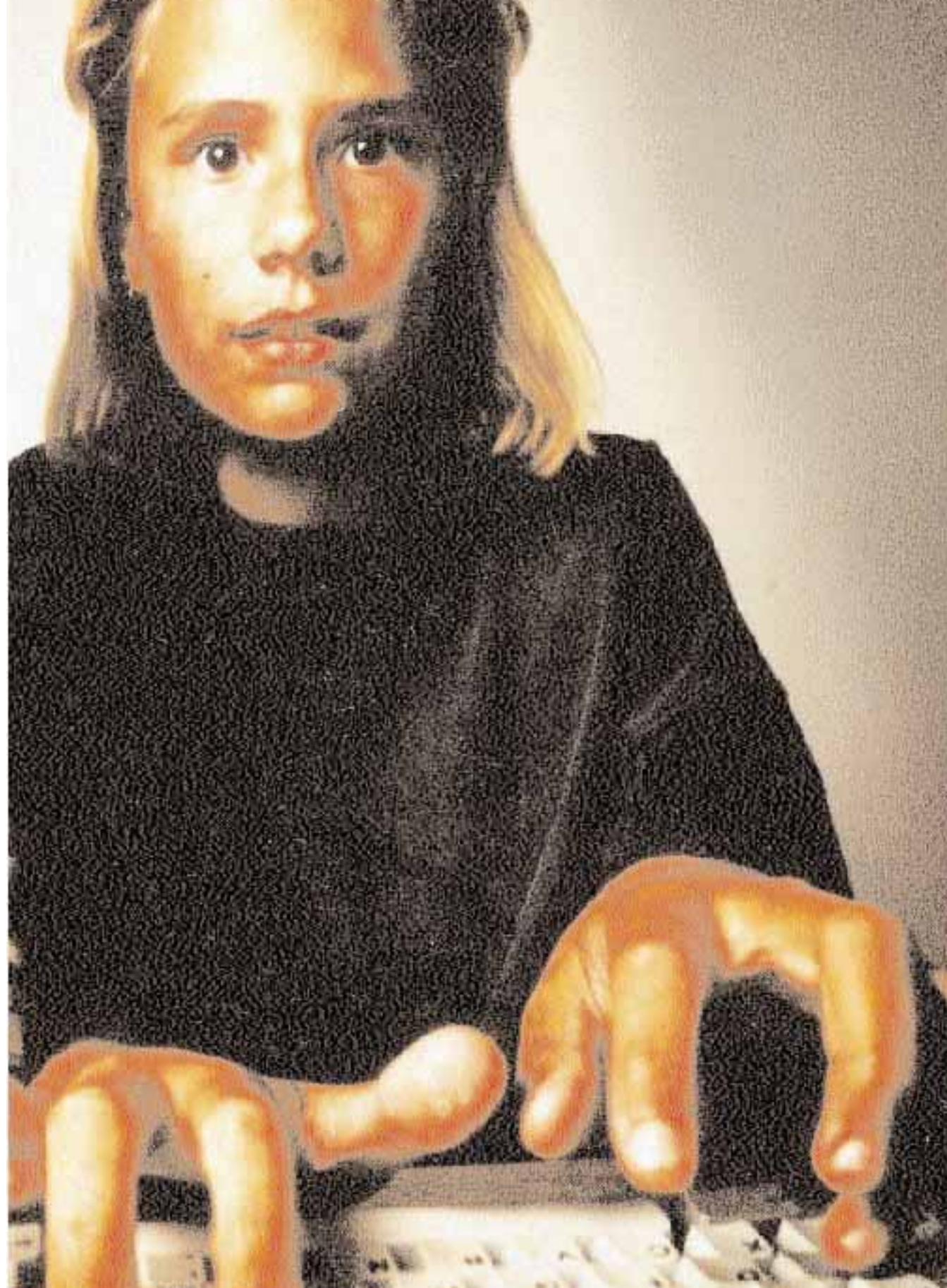
There is some uncertainty surrounding the estimates, inter alia because experience shows that the scope of the Year 2000 task grows in line with its progress. The above estimates assume that the main work will be completed in 1998, and are based on current prices. Expenses for 1999-2000 are not yet budgeted, and are not included in the above figures. Tasks in this period might be additional testing, upgrading which is currently not identified, extra staff, and customer services. An estimate of these expenses could be in the region of NOK 250 million. No consideration has been given to the income or productivity gains from the Year 2000 work, which can be expected.

Overriding goal

Telenor's responsibility towards the customers neither with respect to performance nor functionality shall be affected by the date. The Year 2000 issue should not:

- Have negative consequences for deliveries to our customers in the form of faults or interruptions
- Affect security in a negative way
- Affect Telenor's reputation in a negative way
- Result in a loss of earnings for Telenor.







One world

To many people, new media and new technology can appear frightening. On the other hand, most young people are very much at home with the new media, and use the internet as a matter of course.

with a single keystroke

Internet use by business and organisations is also growing dramatically. One third of Norway's population currently has direct internet access. In per capita terms, this makes Norway into one of the countries in the world with best internet coverage.

Much of the honour for this, or the responsibility, lies with Telenor, since at the end of 1997 we had a market share of 70 per cent of internet connections and subscriptions. But taking care of the Norwegian market alone is not enough. Since the internet is global by nature, Telenor is going to internationalise its internet efforts.

Telenor International



Managing Director of Telenor International; Arve Johansen

Telenor International AS

Telenor Global Services AS

Telenor Satellite Services AS

Telenor Consult AS

Mobility

Telenor's international involvement shall develop further and consolidate the Telenor Group's competitiveness on the domestic market and abroad. The business concept for Telenor's international activities are: "Telenor is to be the preferred supplier of global communication and information solutions to prioritised target groups, and participate in profitable projects in selected markets, so that Telenor maintains its relative market position into the next century and is able to decide its own fate".

Activities and strategy

The strategy of Telenor International is to establish profitable international operations within the areas it has competence, such as mobile services, satellite services, and value added services/global networks. In addition to establishment in Europe, which is the main area of concentration, the objective is to establish a footing in the US and in South-East Asia. Telenor's goal in Europe is to be one of the 10 largest market players in the fields of mobile communications and international telecommunications traffic. The goal is also to be one of the three largest in the field of satellite-based activities in Europe, in addition to being a leading supplier of global information systems within several industry segments.

Greater demands are being placed on Telenor International with regard to capacity, competence, and the following-up of established activities in different markets. Telenor International's organisation has therefore been restructured in 1998 in order to achieve a better management structure that will optimise resource exploitation and ensure clear lines of responsibility. This means the introduction of a national/regional dimension in addition to a product dimension. In addition, two companies have been established, Telenor AB in Sweden, and Telenor Ireland Ltd. in Ireland. They are responsible for ensuring continuity and for following up Telenor's activities and engagements in these countries, and the offensive strategy that is necessary if this is to be crowned with success. As the international activities gradually increase, similar companies will be established in other countries.

Mobile services

In March 1997, Telenor International opened the GSM mobile networks in Bangladesh and Ireland. In 1997, together with its partners, Telenor was awarded licences to develop the mobile networks in both Austria and Greece, and opening of the mobile network are planned in both countries in 1998.

Possibly the single most important event in 1997 was the selection of Telenor as a partner in VIAG INTERKOM GmbH & Co., together with BT plc and Viag AG. This company has a licence to build up both a fixed network and a mobile network in Germany, and it will therefore build an integrated fixed and mobile network that is planned to be opened in 1998. Telenor International has concentrated its European activities in selected

countries and technologies. Based on the GSM 1800 technology. Telenor is engaged in projects in Germany, Austria, and Greece, in addition to Norway.

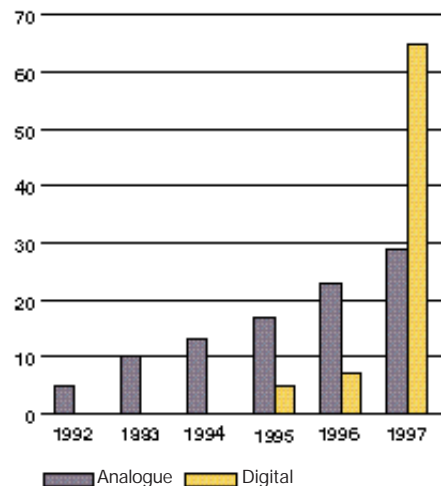
Telenor is also engaged in a GSM 900 project in Ireland, Hungary, Montenegro, Ukraine and also in St. Petersburg, Kaliningrad, and Stavropol in Russia, which are now all in operation. Pannon GSM in Hungary, ProMonte GSM in Montenegro, the Ukraine, and North-West GSM in St. Petersburg have been in operation for 2-4 years, and are already returning profits. During the nine months it has been in operation in 1997, ESAT Digifone in Ireland has enjoyed faster growth than its competitors, and at the turn of the year it had more than 100,000 subscribers.

Satellite services

In the satellite field, the successful launch of the communications satellite Thor II was the most important event in 1997. Thor II is the first satellite designed and is built according to Telenor's specifications for distributing both analogue and digital TV signals. Thor II has made the satellite position "one degree west", which is currently distributing more than 110 TV and radio programmes, the leading position for the Nordic countries.

Digital success at "one degree west"

The figure shows the development in the number of programmes distributed from the orbital position "one degree west".



During 1997, Inmarsat traffic over Eik earth station rose too, due to low prices and the sharp rise in the use of MOBIQ, a service developed by Telenor and BT for mobile satellite telephones. Together with BT, Telenor has distributors of MOBIQ in almost 50 countries, and has about 30 per cent of this market. In 1997, many new vessels started to use SeaLink, the ship-to-ship communication system, and this service is growing, while new services are being launched. In 1997, in the US, Telenor's company NORCOM launched its service for fleet management of trucks, a service based on a combination of radio and satellite communication.

Value-added services/global networks

During 1997, a global Customer Care service was established for international communications services. Marlink, an intranet-based communications and trading systems for the shipping industry, was also launched during the course of the year. Marlink has obtained a number of major customers, and has established companies in four countries.

In 1997, there was a considerable growth in incoming international traffic, but as a result of the deregulation of the telecommunications market, increased competition is expected in this market. Several moves were therefore planned and initiated in 1997, including a project aimed at maximising profitable traffic to, from and via Norway, to at least compensate for the loss of traffic due to lost market shares. A company has been established, together with partners, which will position Telenor in the deregulated European markets for international traffic. The service will be launched in spring 1998.

Consultancy services

Upgrading of telecommunications networks is going on around the world, and the competence Telenor has at its disposal is of interest to many telecommunications operators. Consultancy services are therefore offered through Telenor Consult in the fields of technical planning, assessment of extensions, transfer of competence, and management training.

Telenor AB

Telenor views the Nordic region as its home market, and therefore needs to work more actively on the Swedish market. Over the past few years, Telenor, either alone or in association with others, has established several companies in Sweden in the fields of telecommunications, IT, software, new media/internet, the directories market, TV rights, and in satellite services. The total operating income of these companies was just over NOK 1.4 billion in 1997, and they had approximately 900 employees.

Telenor AB was established in the autumn of 1997 to co-ordinate and develop Telenor's activities in Sweden. The companies that are part of the Telenor AB Group in 1998 are Telenor Comma AB, Ergosoft AB, Telenor Satellite Services AB, Lokaldelen AB, Telenor Företagsinfo AB, Internordia AB, Telenordia AB, and Telenor Security AB. Telenor AB has the overall market responsibility in Sweden and will report independently of Telenor

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	2,133	1,511
• Inter company	1,455	1,484
Cost of goods sold and traffic charges		
• External	1,604	1,388
• Inter company	390	343
Salaries and personnel costs	326	184
Other operating expenses		
• External	542	286
• Inter company	174	145
Depreciation and write-downs	379	260
Operating profit	173	389
Share of result of associated companies	(534)	(245*)
Investments	4,064	666
Capital employed	4,803	2,927
Operating margin	4.8%	13.0%
Return on capital employed	-	10.8%
No. of man-years at 31.12.1997	1,244	549
• Of which abroad	764	145

*Adjusted for the effect of the equity method.

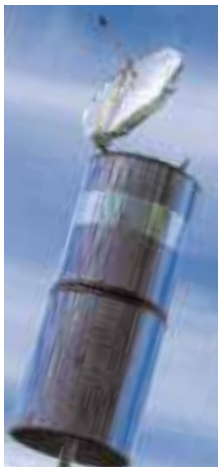
International in 1998. For 1997, Internordia AB, Telenordia AB, and Telenor Satellite Services AB are included in Telenor International's accounts.

Telenor Ireland Ltd.

Subsequent to Telenor and its local partners being awarded the mobile licence in Ireland in 1996, up to 25 Telenor employees have been engaged by ESAT Digifone. After only 9 months operation in 1997, and a very satisfactory development, ESAT Digifone has more than 100,000 customers. Telenor already owns the IT service company Telenor ND Systems in Ireland, and in May 1997, Telenor RDI was established, which will be engaged in program development. Telenor's Irish operations thus cover mobile telephony, IT services, and software development, with aggregate sales of about NOK 280 million. Telenor is considering additional interesting possibilities in its other main areas of interest, satellite communication, directories, and the internet, and it therefore established Telenor Ireland Ltd. in June 1997 to co-ordinate and develop business opportunities in the Republic of Ireland.

General analysis of results

The operating profit for the year amounted to NOK 173 million, compared to NOK 389 million in 1996. This resulted in the operating margin falling from 13 per cent to 4.8 per cent. Mobile services recorded a fall in operating profits of NOK 213 million, from an operating loss of NOK 120 million in 1996 to a loss of NOK 333 million in 1997. This is due to Telenor International being awarded a number of mobile licences, and these generate losses in the start-up phase.



The launching of Thor II increased capacity at "one degree west".

Paging activities, which the company operates in five countries, have also been running at a loss. In 1997, the strategy for paging services abroad was reviewed on the basis of the loss trends in the companies and the strongly increasing and resource-demanding involvement in GSM/DCS mobile operations. It was decided not to engage in paging abroad any more. The accounts for 1997 show an operating loss of NOK 113 million, in addition to which comes a provision of NOK 87 million for restructuring in order to withdraw from activity in 1998.

Global network/value-added services recorded an operating profit of NOK 509 million in 1997, compared to NOK 530 million in 1996. This decline in the operating profit was mainly due to starting up new operations in connection with value-added services.

Satellite Services improved its operating result from a loss of NOK 24 million in 1996 to an operating loss of NOK 8 million in 1997. The operating profit for the Norwegian-based activity was NOK 43 million higher than in the preceding year because of the increase in satellite broadcasting, due the rising number of programmes being distributed over "one degree west", while new activities abroad reduce this amount by NOK 28 million.

Telenor International recorded a positive development in financial income, mainly due to the higher dividends from international satellite organisations (Inmarsat, Intelsat, and Eutelsat), amounting to NOK 171 million, which is NOK 53 million higher than in 1996. Simultaneously, financial expenses rose as a result of losses on foreign exchange and higher funding costs for new investments. All in all, net financial items fell by NOK 15 million, from NOK 88 million in 1996 to NOK 73 million in 1997.

Telecommunication projects are very capital-intensive, and have high start-up costs. This means that in the short term, Telenor's major investments in international activities will have a negative impact on the financial result. This is seen inter alia in the results of associated companies.

Income and market conditions

External income rose in 1997 by NOK 622 million, from NOK 1,511 million in 1996 to NOK 2,133 million in 1997, which is a growth of 41 per cent. There are several reasons for this. Incoming international telephony traffic rose considerably compared to 1996. This is true for both ordinary and transit traffic. All in all, external revenue related to international telephony rose by NOK 236 million, or 41 per cent, from NOK 579 million in 1996 to NOK 781 million in 1997.

The launching of Thor II in 1997 meant that the capacity for satellite broadcasting increased. This, together with an increase in mobile satellite telephony, resulted in operating income rising by NOK 238 million, or 28 per cent, from NOK 869 million in 1996 to NOK 1,107 million in 1997.

During 1997, several new mobile networks were opened. This resulted in income from mobile services increasing by NOK 105 million, from NOK 39 million in 1996 to NOK 144 million in 1997.

Consultancy services were up NOK 40 million, mainly because of a higher level of activity in foreign projects in which Telenor has a financial interest. In 1997, income from within the Group amounted to NOK 1,454 million, compared to NOK 1,484 million in 1996.

Operating expenses

As a result of rising turnover and investments in new activities, operating expenses rose by NOK 808 million, or 31 per cent, compared to 1996.

The increase in broadcasting activities due to the greater capacity with Thor II, the development of new digital services, and starting up new activities abroad resulted in satellite activities recording an increase in operating expenses of NOK 164 million, or 15 per cent, in 1997. In the case of value-added services/global network, the increase was NOK 221 million, to NOK 1,523 million in 1997. The increase in costs is mainly linked to a strengthening of the marketing organisation and the development of new services in order to meet the deregulated competition from 1 January 1998. Operating expenses for mobile services rose by NOK 351 million, which is more than twice of what they were in the preceding year. This refers to project development in connection with new licences awarded in 1997, the starting up of new operations, and a provision for the restructuring of the paging operation referred to above.

Important associated companies

1997 is the first year in which Telenor applies the equity method of accounting when consolidating associated companies. This year's share of the results of associated companies contributed with a loss of NOK 534 million. Had the equity method of accounting been applied in 1996, this would have represented a loss of NOK 245 million from associated companies.

VIAG INTERKOM, Germany

Telenor took a 10 per cent interest in VIAG Interkom GmbH & Co in 1997. During the autumn of 1997, the company signed a contract with several large German companies. Telenor's share of the loss for 1997 amounted to NOK 222 million. The company is currently serving the business segment with advanced telecommunications and data solutions, and in the course of the autumn of 1998 it will open mobile services on both the private and business markets.

ESAT Digifone Ltd., Ireland

Telenor owns 45 per cent of ESAT Digifone. The company's first nine months of operation were a success. At the end of the year, ESAT Digifone had 100,000 subscribers, and a 20 per cent market share. Telenor's share of the loss amounted to NOK 170 million.

Pannon GSM, Hungary

Telenor owns 20.3 per cent of Pannon GSM. At the end of the year, it had 265,000 subscribers. During 1997, sales of new subscriptions were higher than expected. The company operated at a profit in 1997, and Telenor's share amounted to NOK 7 million.

Cosmote, Greece

Telenor bought a 30 per cent ownership stake in Cosmote in 1997. The mobile network is planned to be opened in the spring of 1998. Telenor's share of the 1997 loss was NOK 32 million.

Connect Austria, Austria

Telenor took a 17.45 per cent stake in Connect Austria in 1997. The mobile network will be opened as planned in the summer of 1998. Telenor's share of the 1997 loss was NOK 24 million.

Investments and capital employed

In 1997, Telenor International's investments totalled NOK 4,064 million.

The investments were divided as follows:

- Satellites NOK 782 million
- Satellite equipment NOK 239 million
- Subscribed capital, satellite organisations NOK 261 million
- Other operating equipment NOK 765 million
- Shares in associated companies NOK 2,017 million

The largest investments in equipment were related to Telenor's launching of Thor II in 1997, and its ordering of Thor III. The largest investments in shares refer to mobile telephony companies.

The return on capital employed was negative in 1997. There are several reasons for this. 1997 was a year when Telenor International obtained several new mobile licences, through participating in consortia. These are in the start-up phase and charge the accounts with considerable losses. Telenor International has also established a number of foreign subsidiaries that are in the start-up phase and which therefore charge the accounts with losses.

Prospects

For international telephony, the deregulation of the market implies more competition, but also opens up new business opportunities, i.a. in a growing market for free trade of international minutes. It is expected that Telenor, therefore, will be more than compensated for lost market shares on the domestic market by traffic to/from others' home markets.

A sharp global growth is expected in satellite communication, at the same time as the world is going through a paradigmatic technological transition from analogue to digital broadcasting. This, combined with

the fact that Telenor is launching its third communications satellite, Thor III, that will increase capacity, mean that Telenor's revenue from satellite-based communication and associated value-added services will increase also in 1998.

The growth in the mobile market is expected to continue in 1998, because the mass markets in an increasing number of countries are beginning to grow sharply. In the course of 1998, all of Telenor's existing mobile engagements will be in operation.

Development in values

Most commitments abroad are newly established and in a start-up period of 5-8 years they will generate financial losses. The increase in the value of the commitments during this phase will be reflected only in Telenor's accounts if they are sold. Therefore, the financial consequence of an extended international involvement will, initially, be negative for Telenor's financial results. In connection with this, HSBC Investment Banking has recently estimated the value of Telenor International AS's equity at between NOK 9 and NOK 15 billion, while the book value of the equity at 31 December 1997 was approximately NOK 3 billion. There are reasons for assuming that a considerable part of the positive development in the value of the international operations took place in 1997.



No barriers, described the ability to break down the barrier to communication, something that Thor Heyerdahl and the Kon-Tiki Museum are very engaged in.

Telenor Bedrift



Managing Director
of Telenor Bedrift;
Jon Fredrik
Baksaas.

Telenor Bedrift AS

Communication
and equipment
• Sales
• Product
• Customer and
supply centre

IT-service

Software
• Telenor Novit
• Telenor Allianse
• Telenor
Infomedica
• Telenor
Financial
Systems

Telenor Bedrift is Norway's largest player on the IT market. The company supplies network services, i.e. telephony and data communication services, as well as equipment and network solutions in the field of telephony and data. In 1997, this has also included the installation and starting up of such solutions, and service and maintenance of customers' equipment.

The area IT services covers network operations and central application operations, as well as consultancy services and training in this area. Software activities cover data telephony as well as administration and financial systems for the banking, the public administration, and the health sector.

Business and strategy

In 1997, Telenor Bedrift had customer responsibility for the 35,000 largest companies and institutions in Norway. The company has offices at more than 50 locations in Norway, and is organised in three profit centres: Communications and Equipment, IT Services, and Software programs.

The accounts for 1997 include the software companies Telenor Novit, Telenor Allianse, Telenor InfoMedica, Telenor Dolphin, and Telenor Financial Systems (formerly Ergosoft). Furthermore, they include the activities of Comma AB, Sweden, Comma AS, Denmark, and Norsk Data Ltd., UK, which are all primarily engaged in service and maintenance services in the IT field. The software company Telenor Financial Systems is also active in Sweden.

Over the past three or four years, Telenor Bedrift has made deliberate, strategic efforts to position the Telenor Group in the Norwegian telecommunications and IT market. This has resulted in a company with a wide range of products and services and considerable competence. The tendency towards an integration of telecommunications and data is now being realised in the market at an increasing rate along several dimensions. Equipment, applications and services are based on common digital platforms, allowing for increasingly new functionalities. Purchases, operations and management take place in a joint environment in the companies, and advisory services, system integration, and outsourcing are becoming increasingly important services.

The companies' use of information technology is changing and constantly being expanded. Traditionally, it has been a matter of gathering data and processing transactions, and presenting and distributing information. Today their use is more in the form of organising infrastructure for interaction with others, either colleagues, customers, suppliers, or other players in the industry. In the future, the way it will be used will be expanded to include electronic

trading, and will pave the way for virtual organisations. In this development, Telenor's ambition is to be a leader and to be at the forefront with effective solutions for Norwegian companies and public institutions, with a wide range of services such as transaction processing and data transmissions, organising and operation of infrastructure and applications, as well as system integration.

General analysis of results

In 1997, Telenor Bedrift recorded an operating income of NOK 9,961 million, compared to NOK 8,858 million in 1996. The increase of NOK 1,103 million corresponds to a growth of 12.5 per cent. Telenor Novit accounts for 4.6 percentage points of this. Telenor Bedrift achieved improvements in operating income in all the main product areas. However the tendency was for margins to fall, both in network services and in the equipment area.

The operating result in 1997 shows a loss of NOK 183 million compared to a profit of NOK 154 million in 1996. The decline in the result was mainly due to several independent aspects relating to operating expenses. Telenor Bedrift's British subsidiary, Norsk Data Ltd., contributed with a substantial loss in 1997. The company is currently undergoing restructuring, and as a result of this, large non-recurring expenses were charged to the accounts.

During the year, considerable increases in expenses were incurred with respect to developing and starting up new customer services. These systems will replace the systems which soon will be outdated and will be taken out of service in 1998. When the new services are fully implemented in the operations, these will enable the handling of customer-adapted product launching, customer enquiries, and invoicing routines to be more effective and flexible.

Furthermore, in the 1997 accounts, a provision of NOK 70 million was made for necessary restructuring measures. In 1998, it will be necessary to introduce measures that will change the company's cost structure. For employees this will imply reorganisation.

A NOK 18 million provision was made in the accounts for 1997 with respect to the settlement agreement entered into with the original shareholders in Comma Data Services AS.

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	8,610	7,597
• Inter company	1,351	1,261
Cost of good sold and traffic charges		
• External	2,463	1,903
• Inter company	3,846	3,731
Salaries and personnel costs	2,101	1,651
Other operating expenses, total		
• External	1,180	967
• Inter company	263	252
Depreciation and write-downs	291	200
Operating result	(183)	154
Share of result of associated companies	(2)	
Investments	448	1,133
Capital employed	1,982	2,348
Operating margin		1.7%
Return on capital employed		21.4%
No. of man-years at 31.12.97	5,170	5,215
• Of which abroad	1,006	1,053

* Changes from actual 1996 figures are mainly due to the transfer of Telenor Direkte, Telenor Telehuset as well as the installation activities to other Telenor companies. In addition the aquisition of Telenor IT and Telenor Kompetanse are taken into consideration.

Number of subscribers/lines		
• PSTN	364.844	404.326
• ISDN	237.286	123.370

Telenor Novit recorded significant non-recurring expenses in connection with the development of a new generation of bank applications that is now in pilot operation. In 1997, Telenor Bedrift realised gains totalling NOK 60 million on the sale of operations. These sales include primarily parts of Telenor Financial Systems and the company's shares in Avenir AS.

Income and market conditions

Telenor Bedrift's external operating income from network services, i.e. telephony and data, rose by 8.6 per cent from 1996 to 1997. This growth was achieved in spite of the increase in competition in the market, particularly in certain parts of the data communication segment, and in international telephony and telephony from the fixed network to the mobile networks. Telenor Bedrift is experiencing heavy demand for ISDN, and the number of ISDN subscribers doubled in 1997. This resulted in large sales of products with ISDN interface. Unfortunately, however, the great interest being shown in ISDN resulted, at times, in long delays for equipment and installation.

In the field of data communication, Telenor Bedrift experienced a period with falling market shares in the Frame Relay services. During the second half of 1997, however, the fall in market shares was more than recouped, and Telenor Bedrift's ATM-based service Nordicom, which is delivered on a Scandinavian basis through its co-operation with Tele Danmark and Telenordia, is growing sharply.

The VIP-Network service, which allows customers to establish a virtual private telephone network, was also in great demand in 1997. During the year, this service was supplemented by VIP-Nett Mobil and VIP-Nett Utland (International), which allow the customer to include mobile telephone users and offices abroad in their internal telephony network.

Telenor Bedrift's sales of equipment to the external market tended to stagnate in 1997. This is disappointing as the market is characterised by a high level of activity, where the customers' willingness to pay is high. The



By removing the limitations in the traditional data network, Telenor Nordicom has made it possible to transfer large amounts of data quickly. The service is available throughout Norway, and is extremely flexible and cost-effective for the user.



In 1997, Telenor competed for, and was awarded the contract for supplying home PCs with internet access to about 13,000 Statoil employees. This contract has a value of approximately NOK 210 million.

main reason for this development is the aggressive competition by market players which are in the establishment phase, and the turbulent situation with regard to sales staff in Oslo, which is Telenor Bedrift's largest market area by far. However, the activity showed a positive development towards the end of the year.

At the beginning of 1998, Telenor Bedrift's market share in the field of operating IT systems was approximately 20 per cent. Capacity in the field of operating data centres was increased by 50 per cent, and production capacity is currently 1,200 MIPS. This makes Telenor Bedrift into Norway's largest data centre. This service covers all phases of the life cycle of a data system, and is marketed under the concept Telenor HOLOS.

Service and maintenance contracts rose by 40 per cent compared to the amount of orders at the beginning of 1997. Telenor Bedrift is also experiencing sharp growth in the demand for its IT services linked to the "Year 2000 Issue". There is a lack of available competence in the market in order to meet this increase in demand.

Telenor Novit supplies applications and operational services to banks and finance companies. Telenor Novit recorded a growth in income of 11.5 per cent in 1997. During the year, this software company carried out a significant renewal of the entire product portfolio. This was expensed in its entirety, and contributed to the company showing a loss. The new solutions were

launched in 1997, and major contracts have already been signed which imply deliveries of the solutions in 1998 and 1999. Telenor Bedrift owns 91 per cent of Telenor Allianse. This company develops and sells software and software services, primarily to the public sector. In 1997, the company registered a growth of 14.2 per cent. In 1997, Telenor Bedrift bought the company Data Consult, which was later merged with Telenor Allianse. Subsequent to the acquisition of Data Consult, Telenor Bedrift has a 40 per cent market share in the local council market in Norway.

Telenor InfoMedica develops and sells software to hospitals and other institutions in the health sector. The company is the market leader in patient administration and medical service systems. Telenor InfoMedica's list of customers includes most Norwegian hospitals. By cooperating with Enator, the company had a breakthrough in Sweden in 1997. Telenor InfoMedica signed several contracts in 1997, inter alia with hospitals in the counties of Østfold, Buskerud, Hedmark, and Oslo. However, implementation costs will be considerable in both 1997 and 1998.

Operating expenses

Operating expenses include personnel costs, depreciation, and other operating expenses. All in all, operating expenses rose by NOK 765 million, compared to the pro forma figure for 1996, or by 24.9 per cent. Novit accounted for NOK 416 million of this increase, or 13.5 per cent.

Personnel costs rose by NOK 451 million compared to 1996, a rise of 27.3 per cent. Of this amount, Novit accounted for NOK 162 million (9.8 per cent). In other respects, the increase is due, in part, also to the provision of NOK 70 million (4.2 per cent) for restructuring. Besides, the increase is a result of the high level of activity and pay pressures in a situation where parts of Telenor Bedrift's competence are much coveted by competitors in an establishment phase.

Other expenses rose by NOK 224 million compared to 1996 (18.3 per cent). Telenor Novit accounts for NOK 216 million of this (17.7 per cent). This increase is explained in the result analysis above.

Depreciation rose by NOK 91 million compared to 1996 (45.7 per cent). Telenor Novit accounts for NOK 38 million of this (19.1 per cent). The rest of the increase represents for the most part amortisation of goodwill as the result of acquisitions and investments in IT systems.

Investments and capital employed

In 1997, Telenor Bedrift's investments aggregated NOK 448 million. The investments were mainly in connection with IT systems and the take-over of the Telenor Group's data network.



Telenor Nordicom is about as close as you can get to an all-in-one solution, with full data communication flexibility. Telenor Nordicom covers all conceivable transfer needs in multimedia and data communication.

At the end of 1997, capital employed totalled NOK 1,982 million, compared to NOK 2,348 million in 1996. This decline was due to a reduction in interest-bearing debt during the year, through repayment of inter-company debt.

Prospects

The positioning strategy adopted by Telenor Bedrift has been extremely resource-demanding, both from a management and a financial point of view. Despite the rather unsatisfactory results for 1997, the Telenor Group will continue to concentrate on the telecommunications and IT market. This is being done in the knowledge that this positioning represents a considerable increase in Telenor's net values. In 1998, Telenor Bedrift's management will deliberately work to improve the company's financial result. This will call for a clearer organisational and managerial structure, simplified product areas, and an improvement in the cost-effectiveness of the entire value added chain of Telenor services and solutions for the business segment.

Telenor Privat



Managing Director of
Telenor Privat; Stig
Herbern

Telenor Privat AS

Customer
and delivery
centre
Division

Product and
market
Division

Pay
Phone
Division

Telenor
Direkte AS

In 1997, Telenor Privat presented itself as a pure service supplier to the mass market in the field of fixed network telephony. 1997 was the final year with a monopoly on fixed network telephony to private customers, and the focus has therefore been on preparing for the new competitive situation. The company's objective is to offer a wide product range, to make things easy for the customer, and to be the best with respect to price/value.

With effect, for accounting purposes, from 1 January 1997, Telenor Privat was spun off as a separate company from Telenor AS, being responsible for private customers and pay phones. From the same date, the dialogue marketing company Telenor Direkte was transferred from Telenor Bedrift, together with responsibility for small business customers. The installation business was spun off as a separate company, while Telenor Nextel assumed responsibility for the internet.

Business and strategy

Market conditions

In 1997, Telenor Privat recorded a 9 per cent increase in traffic volume, measured in terms of minutes. It was particularly the growth in traffic to mobile telephones, and a sharp rise in the use of internet that contributed to this growth. Lower mobile prices have resulted in some customers opting for a mobile phone as their only telephone. In addition customers are increasingly transferring from an analogue connection to a digital ISDN subscription.

With its high capacity, ISDN is an important platform for supplying new products and services to the mass market, such as, for example, the internet. The sale of ISDN to this market was given high priority in 1997, and 54,400 new ISDN subscriptions were installed in the private market, and 10,800 in the small business market. At year-end, a total of 73,500 ISDN subscriptions had been installed. In October, for the first time, the number of ISDN subscriptions ordered was higher than the number of standard telephone subscriptions ordered. The high level of ISDN sales resulted in problems of delivery in certain regions. As a result, "ISDN Do It Yourself" was introduced on a trial basis in December.

Telenor Privat launched several customer-orientated products in the course of 1997. "Who is calling?" allows the customer to see who is calling before answering. "Return the call" replaces the engaged tone for about half of the customers, and makes it possible for a call to be set up automatically when the line is no longer busy.

In 1997, Telenor Privat reorganised the price structure. The result of this is that customers have a simplified tariff structure and lower prices. On average, the price of calls was cut by 7 per cent. Combined with the discount programme "Family & Friends", the prices are

extremely competitive. At the beginning of the year, a new discount scheme was introduced, "Family & Friends Local". The number of active subscribers to "Family & Friends" rose to 565,000 at the end of the year.

The fixed network faced competition in 1997 from mobile telephones as substitutes and from call back/card solutions especially from/to distant countries. This competition resulted in a lower growth than before, particularly for long distance and international calls.

Restructuring of customer service

In October, a plan was adopted for the restructuring of customer services. The changes imply that the Customer Services 140 will be at 9 locations by the end of 1998, compared to 17 locations before. The restructuring of customer services is estimated to result in significant savings every year from 1999 onwards.

Customer services answered to more than 3.5 million calls in 1997. The average response time was 21 seconds. Customer services was also developed into a sales channel and made 570,000 sales in the course of the year.

Pay phones

The introduction of the new one krone-coin in September made it necessary to replace or upgrade 2,100 pay phones. In 1997, a major replacement programme was implemented, when a total of 6,000 pay phones were moved to new locations or they were changed from being coin-operated to being card-operated. At the same time, 4,400 new patient telephones were set up in hospitals. At the end of the year, 83 per cent of pay phones were card-operated.

General analysis of results

Because there were changes in the company's business areas during the year, pro forma figures were prepared for 1996. Telenor Installasjon and the internet operations have been eliminated, while Telenor Direkte has been added. For comparison purposes, the pro forma figures are used rather than the financial figures in the report for 1996.

Operating income in 1997 amounted to NOK 7,183 million, and the operating profit was NOK 336 million. External operating income rose by 3.6 per cent compared to 1996, mainly due to higher traffic income from the mass market. In spite of the increase in

competition from mobile telephones, operating income from the use of pay phones rose by 7.7 per cent to NOK 251 million. A new principle regarding the settlement of costs of goods within the Group is the reason for the significant change in the operating result.

Income

Income developed satisfactorily in 1997. The increase in the volume in the private market was so large that even though traffic prices were reduced by an average of 7 per cent, traffic revenue rose by 4 per cent. Prices were reduced through a combination of lower basic prices and the introduction of new customer-orientated programmes such as Family & Friends.

Operating expenses

Salaries and social expenses rose by NOK 54 million from 1996. About half of this increase was due to a provision made in connection with the restructuring of Customer Services and Telenor Direkte, while the other half is due to increases in the salaries combined with a shift in the direction of more market-orientated salaries.

There was an increase in the costs relating to administrative systems in the form of special costs linked to the changes in the organisational structure in 1997 from seven administrative regional offices to a centralised organisation. There were no significant changes in expenses related to the marketing activities, but the reorganisation is expected to release funds for this purpose in the future.

The increase in depreciation and write-offs is mainly due to a review of the fixed asset portfolio in 1997.

Investments and capital employed

A total of NOK 159 million was invested in 1997. The investments in the subscribers' equipment amounted to NOK 42 million, and investments in IT equipment and fittings totalled NOK 82 million, while the installation work in progress rose by NOK 35 million, for the most part related to a new, integrated Customer, Order, and Invoicing system (KOF).

In 1997, average capital employed was NOK 569 million, which resulted in the return on capital employed being 66 per cent.

Prospects

The abolition of monopoly rights in telephony with effect from 1 January 1998 will result in more competition, and a battle for market shares. Telenor will, therefore, continue its endeavours to make a better balance between the prices and the costs of the individual services. From 1 March 1998, a price change has been adopted that implies a rise in subscription prices, while at the same time it will be considerably cheaper to make international calls and to call mobile telephone numbers. This change does not imply a rise in Telenor's income.

Telenor Privat will face the competition with a fully digitalised telecommunications network. The wide dispersion of mobile phones and the more integrated

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	7,003	6,761
• Inter company	180	102
Cost of goods sold and traffic charges		
• External	92	46
• Inter company	5,299	4,755
Salaries and personnel costs	457	403
Other operating expenses		
• External	438	362
• Inter company	455	480
Depreciation and write-downs	106	92
Operating result	336	725
Investments	159	169
Capital employed	569	
Operating margin	4.7%	11.1%
Return on capital employed	66%	
No. of man-years at 31.12	1,192	1,207
Subscriptions PSTN	1,917,000	1,980,900
Subscriptions ISDN	73,500	8,300

* The change from 1996 is due to the transfer of the installation and the internet activities to other Telenor companies. Furthermore, Telenor Direkte has been included.



The "Family & Friends" discount scheme has proved popular and had 565,000 subscribers at the end of the year.

solutions for mobile and fixed network telephones make it necessary to view these markets as one. New technology makes it possible to develop new services and products being somewhere in between fixed and mobile telephony. It was as a result of this that Telenor Privat and Telenor Mobil were put under a common management with effect from 1 January 1998.

Telenor Privat expects the price of calls to continue to fall, and that this, together with new services, will stimulate an increase in traffic over the fixed network. The growth in ISDN connections is expected to continue in the years to come, in line with the increased use of the Internet, and home office solutions, at the same time as ISDN equipment and telephones become cheaper.

Telenor Mobil



Managing Director
Telenor Mobil; Stig
Herbern

Telenor Mobil AS

Product
Division

Network
Division

Market
Division

Sales Division

Telehuset AS

Partly owned
chains

In 1997, Telenor Mobil maintained its position as Norway's leading supplier of mobile telecommunications services. The Telenor Mobil Group comprise, in addition to Telenor Mobil AS, Telehuset AS, MobilData kjenen AS, Com-gruppen AS, and Transport Telematikk AS.

Business and strategy

The difference between fixed and mobile telecommunications services is gradually being erased, both with respect to technology, price and market. Since 1996, Telenor Mobil and Telenor Privat have been co-operating on projects in the fields of customer services, IT, product development, and sales. To develop this further, and to achieve a better co-ordination of Telenor's relationship with the mass market, the two companies were given a common management with effect from 1 January 1998. The companies continue to operate as separate joint-stock companies.

In 1997, Telenor Mobil achieved the largest growth ever in the number of mobile telephone subscribers. At year-end the company had 871,535 GSM subscribers, representing a 67 per cent market share. In the case of NMT, there was a slight decline, but nevertheless, the company had 164,651 NMT-450 subscribers, and 223,100 NMT-900 subscribers.

From the beginning of 1998, Telenor Mobil cut the prices of calling considerably, so that the customers have, on average, had their telephone bills reduced by approximately 20 per cent. At the same time, two new types of subscription, or call plans, were introduced. At the end of the year, the paging service had 136,520 subscribers. MiniLink, which is a paging service without any subscription charges, experienced considerable growth in 1997. This service is very popular among young people.

In 1997, a new version of the mobile office was introduced, called MobilKontor 2.0, which makes it possible to send messages to mobile phones, fax machines, pagers, e-mail, and to access the internet, irrespective of where one might be. In 1997, the MobilInfo service was opened, which enables GSM subscribers to receive news, weather reports, and stock market prices.

With effect from 1 January 1998, the wholly owned subsidiary Transport Telematikk AS was established as an operative company. This company will provide effective road information based on new information technology.

Telehuset AS, which is Telenor Mobil's own chain of stores, merged with Datavarehuset AS on 1 January 1997, with Telenor Mobile owning 70 per cent of the merged company. Restructuring of the chain of stores and reorganising the business went on throughout 1997. This process will continue in 1998 as well.

One of the reasons why Telenor Mobil has such a strong position in the market is the development of effective distribution channels. It will therefore be of decisive importance that it has a well developed distribution organisation in the future as well.

Over the past few years, it has been shown that the market makes heavy demands on personal service and on products that are adapted to the market segments.

Telenor Mobil will stimulate greater diffusion and greater use of mobile communications through having an active product development and competitive prices.

General analysis of results

The Telenor Mobil Group's operating result was NOK 753 million, compared to a loss of NOK 12 million in 1996.

The improvement in the results was mainly due the sharp increase in the number of subscribers, and considerably higher income from traffic. Telenor Telehuset returned an operating loss of NOK 49 million, which to a great extent is due to extraordinary expenses in connection with the merger with Datavarehuset and the restructuring of the business. In addition to higher income, the reduction in leased networks and lower depreciation had a positive impact compared to the operating result for 1996, and resulted in the operating margin rising from 0 per cent in 1996 to 15 per cent in 1997.

Depreciation was considerably reduced in 1997. This is due to the fact that the depreciation of the NMT networks, and the post-accounting agreement in connection with the NMT and Paging networks were prolonged with effect from 1 January 1997 to the year 2003, which is equal to the licence period. This result in a reduction of this year's depreciation, based on book values 1 January 1997, equal to NOK 247 million for Mobil and NOK 147 million for the Group.

Net financial expenses for the Telenor Mobil Group in 1997 amounted to NOK 67 million, compared to NOK 68 million in 1996.

Income and market conditions

The Telenor Mobil Group recorded an operating income of NOK 5,137 million in 1997, of which NOK 3,890 million was external operating income. The corresponding figures for 1996 were NOK 4,418 million and NOK 3,251 million respectively.

Telenor Mobil AS recorded an income of NOK 4,375 million in 1997, of which NOK 3,233 million was external

income. The corresponding figures for 1996 were NOK 3,758 million and NOK 2,684 million respectively. The increase from the preceding year was mainly a result of the sharp rise in the number of GSM subscribers, and a rise in the volumes in terms of the number of minutes called.

Telenor Telehuset's operating income rose from NOK 662 million in 1996 to NOK 821 million in 1997. Of this, external operating income rose from NOK 509 million in 1996 to NOK 620 million in 1997. This increase in income was primarily due to higher sales of mobile telephones.

Operating expenses

The total cost of goods sold and traffic charges amounted to NOK 1,513 million in 1997, compared to NOK 1,400 million in 1996.

For Telenor Mobil AS, the increase in the traffic volume generated higher traffic charges domestically, but this was offset in its entirety by the reduction in leased network fees compared to 1996.

Of other operating costs, the growth in the number of employees resulted in salaries and other personnel costs rising, and the increase in the product development activity and marketing has led to higher consultancy fees and advertising costs, than in 1996.

Investments and capital employed

Total investments in 1997 amounted to NOK 944 million, compared to NOK 947 million in 1996. In 1997, an amount of NOK 692 million was invested in the mobile telephone network and exchanges. The remaining investments were mainly relating to the development of new IT solutions, and fixtures, fittings, and computer equipment.

In addition to the improvement in results, the decline in interest-bearing long-term debt contributed to the return on capital employed rising from 0 per cent in 1996 to 35 per cent in 1997.

Prospects

The Norwegian mobile market is one of the best developed in the world, but there is still a considerable potential for growth. The various data services are expected to account for 50 per cent of the growth in total traffic over the next few years.

In March 1998, Telenor was awarded the licence for GSM 1800. Telenor Mobil will use the licence to increase the capacity for basic GSM services in urban areas, and to offer new, high capacity mobile data services.

With more players in the market, the pressure on the prices of basic mobile services will increase. Telenor Mobil will therefore have to get an increasing part of its income from data traffic and value-added services, which exploit the possibilities offered by the GSM system.

The major structural changes, where telecommunications, data processing, consumer

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	3,890	3,251
• Inter company	1,247	1,167
Cost of goods sold and traffic charges		
• External	768	622
• Inter company	745	778
Salaries and personnel costs	512	445
Other operating expenses		
• External	1,392	1,314
• Inter company	453	404
Depreciation and write-downs	514	867
Operating result	753	(12)
Share of result of associated companies	(1)	-
Investments	944	947
Capital employed (average)	2,253	1,879
Operating margin	15%	-
Return on capital employed	35%	-
No. of man-years at 31.12.97	1,331	1,196
No. of subscribers/lines		
• NMT 450	164,651	183,460
• NMT 900	223,100	261,154
• GSM	871,535	533,516
• Paging	136,520	132,856

* Telenor Telehuset AS and Datavarehuset AS are included in the pro forma figures.



Telenor supplied the communication equipment used when it was decided that Kvaerner Innovation should participate in the Whitbread Round the World Race.

electronics, and content are fusing, will be of great importance to mobile communication. Information that is made available over the internet will allow for completely new mobile services, such as booking flights, graphic presentation of weather forecasts, and the use of mobile phones for payment of goods purchased.

Telenor Plus



Managing Director of Telenor Plus; Gunnar Bjørkavåg

Telenor Plus AS

Telenor Media AS

Telenor Avidi AS

Telenor CTV AS

Telenor Conax AS

Telenor Link AS

Telenor POS AS

Telenor's value added services are primarily found in Telenor Plus. The Telenor Plus Group's business concept is to be the leading business partner for content suppliers in the Nordic region in the field of electronic distribution of products and services. This involves providing the content suppliers with large customer databases and well developed electronic market places.

The business activities are organised in three main areas: Media/directory activities, TV-distribution, and the electronic market. Goods and services are developed and delivered in synergy with Telenor's other network-based infrastructure.

Media/directory activities

The media/directory activities form the largest part of the Telenor Plus Group, and are organised in Telenor Media and its subsidiaries. In 1997, Telenor Media recorded its best year so far, with growth in operating income and profits, for the fifth consecutive year. This company has the Norwegian-based directories Yellow Pages, White Pages, and Pink Pages, and telephone services such as Directory Enquiries 180 and 181, telephone conferences, reception services etc.

In addition, the directory activities are operated internationally. In 1997, Lokaldelen AB in Sweden was completely taken over, and substantial investments were made in Poland and Spain.

Furthermore, Telenor Media has wholly or partly owned directory activities in Western Russia, the Baltic States, and in the Czech Republic.

TV distribution

TV distribution covers Telenor Avidi (cable TV), Telenor CTV (DTH TV), SPA AB (SMATV), Telenor Conax (smart card technology for pay-TV), and the partly owned companies Canal Digital and Norsk Text. Telenor Plus and Canal Plus each own 50 per cent of Canal Digital, a Nordic-focused joint-venture company engaged in the distribution of pay TV.

Telenor Avidi has established itself as Norway's second largest cable TV company.

Telenor Conax is well positioned to take part in the increasing demand for digital TV services with access, encryption and other smart card-based services.

The electronic market

In the electronic market, Telenor Plus is endeavouring to acquire a position as the market's most attractive partner with regard to preparing information, helping to create branded goods, channelling traffic, and developing major centres for electronic shopping. Over time, the ambition is to acquire this position in the other

Nordic countries as well. The main company in the electronic market is Telenor Link AS, which offers value-added telephony services on 8xx numbers, such as Telemarket, info-numbers, games/lotteries and entertainment, free-phone green numbers, and tele-voting. As a function of this development, Link has worked on developing its role as a supplier of content services. Telenor Link is therefore co-operating with TV 2 AS in the field of TV-based shopping, latest through Nordic Shopping Channel – Canal M, and with TV Norge AS with regard to text-TV.

Other companies in this field are Telenor POS AS, which is Telenor's competence centre for administrative electronic payment systems, and Infowiz a.s which is a joint venture with Blom ASA that develops and distributes information systems based on geographic mapping information.

General analysis of results

The Telenor Plus Group increased its operating income by 25 per cent in 1997. This growth was mainly due to the rise in the use of its services. The operating profit rose by almost 100 per cent. This was mainly due to a substantial improvement in the result of the directory activities in Norway and Sweden, and to changes in the accounting principles applied. Previously, sales costs were expensed as they incurred, whilst income was recorded only when the directories were distributed. The changes in the principles imply that the sales costs are capitalised and recorded as expense in line with income. The effect at 1 January 1997 was NOK 63 million.

Operating income rose by NOK 278 million as a result of acquisitions, which had a NOK 29 million impact on the result.

The return on capital employed is now approximately 32 per cent, which is satisfactory.

Income and market conditions

Total income in 1997 reached NOK 2,816 million, compared to NOK 2,252 million in 1996 for corresponding activities. Of this, the net growth in Media accounted for NOK 449 million, TV distribution for NOK 104 million, and the electronic market for NOK 11 million. Sales rose more than expected, and show that Telenor is capturing market shares.

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	2,578	2,068
• Inter company	238	184
Cost of goods sold and traffic charges		
• External	698	569
• Inter company	288	201
Salaries and personnel costs	759	651
Other operating expenses		
• External	336	346
• Inter company	182	150
Depreciation and write-downs	196	153
Operating result	357	182
Share of result of associated companies	(109)	11
Investments	547	238
Capital employed (average)	831	673
Operating margin	12.7%	8.1%
Return on capital employed	32.3%	26.9%
No. of man-years at 31.12	2,732	2,124
• Of which abroad	681	251
No. of paying TV subscribers incl. associated companies	642,000	453,000
No. of directories published by Telenor Media	400	150
Directory enquiries in Norway - number of million minutes	54	49
No. of million minutes telephones exploited	164	93
No. of million minutes entertainment services	20	36

* Pro forma 1996 figures have been restated to reflect the spin-off of the internet operations.

Telenor Media's total income was approximately NOK 1.9 billion. Of this, directory activities in Norway accounted for 55 per cent, information and call centre services in Norway accounted for 25 per cent, and international activities accounted for 20 per cent.

In general, the directory market in Europe grew by approximately 5 per cent in 1997, but there were considerable differences between the countries and between the types of directories. Norway is one of the world's most highly developed directory markets, where Yellow Pages account for 11 per cent of the total advertising volume. In Norway, Yellow Pages recorded an increase in operating income of about 13 per cent in 1997. Yellow Pages on the internet is a new growth area.

With the launch of the Call Completion service, Direct Enquiries 180 has got a new product for which demand is rapidly growing and which has been very well received by the market. Telenor Media's operating income from the various information and reception services rose by approximately 13 per cent.

Lokaldelen AB has become Sweden's leading local directory, and has shown a sharp growth in its activities.

The decisions to enter the Polish and Spanish market were strategic, considering the directory markets in these countries are poorly developed. In Spain, Telenor has already become the country's leading supplier of local directories. In Poland, Telenor Media, in association with Bell Atlantic, through Polskie Ksiazki, has a leading position in Yellow and White Pages in a market with strong growth.

TV distribution generated operating income of NOK 540 million.

In the field of TV distribution, Telenor Avidi has about 245,000 subscribers. This is more than in 1996. The company has given priority to increasing profitability rather than increasing the volume, and in 1997 it achieved its best result ever. Telenor CTV AS had just under 200,000 subscribers in the Nordic region in 1997. This was about 25,000 less than before, in a market that grew by about 20 per cent measured in the number of DTH dishes in the Nordic region. This decrease is



Yellow Pages on the Internet is a new growth area for Telenor's directory activity.

mainly attributed to the problem of piracy of smart cards in the spring and summer of 1997 in Denmark and Sweden. Old analogue cards have now been replaced by smart cards with a higher security level, and preparations are underway to tighten legislation in this area in Sweden and Denmark. Positive effects have already been achieved. Telenor CTV's income rose from NOK 200 million in 1996 to NOK 250 million in 1997. This was due to an expansion of the product range.

Canal Digital has a total of about 300,000 pay-TV subscribers in the Nordic region, of which approximately 200,000 are registered as subscribers in Telenor CTV, and the company expects to register strong gradual growth as digital TV is introduced in 1998. The Nordic pay-TV market is demanding from a competitive point of view, but Telenor and its partners have stronger positions than they have ever had before.

The electronic market recorded an operating income of NOK 360 million, which is slightly lower than what was expected for 1997. This decline was due to a comprehensive and surprising change in the Norwegian rules for gambling/games and entertainment services, and it represents a shortfall in Telenor Link's operating income of more than NOK 100 million, compared to 1996, or a 50 per cent reduction in the number of minutes called. In utility services, such as free-phone (green numbers) and information telephones, the growth was almost 80 per cent.

Operating income from the new products in home shopping, text TV, and from Infowiz a.s had no effect on the figures for 1997, because they were introduced so late in the year. But, with the foundation that has been laid, considerable growth is expected in electronic trading in the years to come.

Operating expenses

Operating expenses developed in accordance with expectations, which implies improved cost-effectiveness. The change in the accounting principles for Telenor Media had a positive non-recurring effect on the operating result of NOK 72 million. The effect at 1 January 1997 was NOK 63 million.

The growth in salaries and personnel costs reflects the development in Telenor Media with larger, wholly owned directory companies abroad, and a stronger focus on information centres and call centres in Norway. The increase in depreciation is mainly due to the amortisation of goodwill relating to Lokaldelen AB, and a certain increase in other fixed assets.

Associated companies

Through the establishing of Canal Digital, Polskie Książki, and other joint ventures, there has been a strong growth in the volume of business activities in associated companies. In aggregate, these generated a loss of NOK 109 million. The reason being that these joint ventures are to a great extent new creations, either

they are launching new products/services, or they are entering into new markets. This calls for considerable investments over some years before operating profits can be achieved. However, substantial earnings are expected over time.

Investments and capital employed

Total investments amounted to NOK 547 million, of which investments in shares accounted for NOK 197 million. Of other investments, the upgrading of cable TV installations and investments in computer equipment are dominating. Investments in Norway amounted to approximately NOK 90 million. Capital employed amounted to NOK 1,005 million on 31 December 1997, compared to NOK 653 million on 31 December 1996. This growth is mainly due to the investments in Lokaldelen AB, and to improved liquidity.

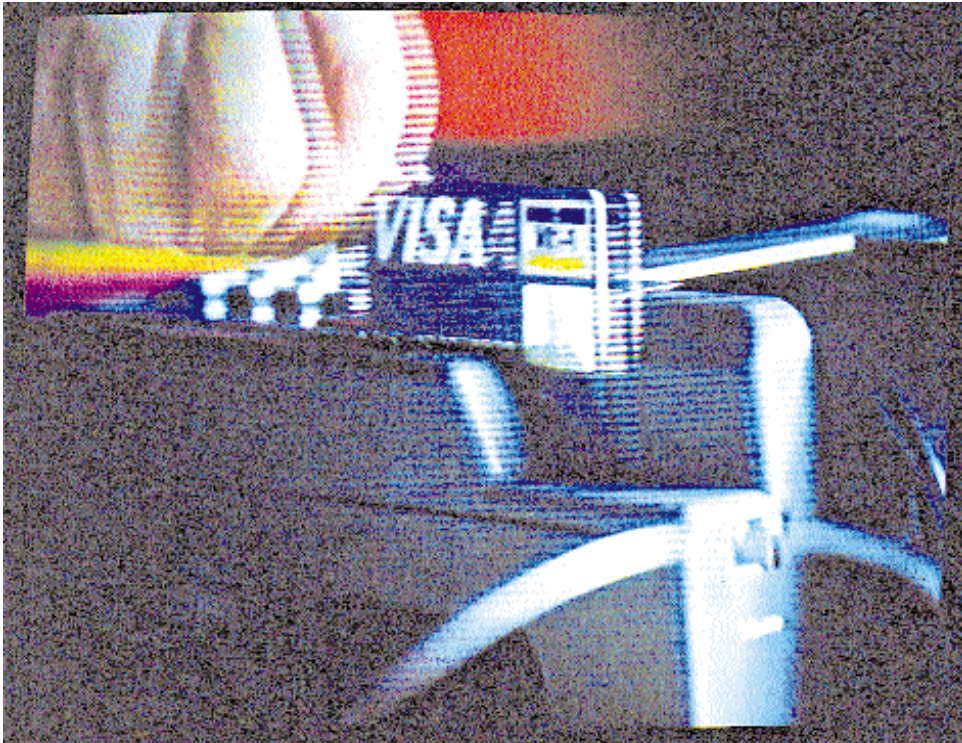
Prospects

The market for value added services related to the fusing of business areas and technology within telecommunication, data, and broadcasting technologies is expected to continue to grow significantly, and will be characterised by high pace, intense competition, new technological possibilities, international corporate structures, and shifting alliances.

In 1998, Plus will continue to have the offensive profile that was initiated earlier, with new products and services being developed, and an involvement in new markets outside Norway. The introduction of digital TV in the Nordic region will be the single most important

activity, and investments in this area are expected to be higher than they were in 1997. More mature products are expected to make a positive contribution to the results also in 1998. Since 31 December 1997, Telenor has acquired SF-Visjon AB from the Bonnier Group in Sweden. SF-Visjon distributes satellite channels and films to small cable networks and hotels. This represents 350,000 households, mainly in Sweden, and more than 100,000 hotel rooms. The TV distribution area thus has customer relations with more than one million households in the Nordic region. Furthermore, several comprehensive agreements have been signed with Scandinavian Broadcasting System with respect to text-TV and the encryption of their transmissions in the Nordic region. This is expected to have a positive effect on the further development of content services in the Nordic region.

The sales of directory products that will be delivered in 1998 is more or less completed, and the results are better than in 1997. The information centre and the call centre services are developing on a par with the general growth in the market for these services.



With the introduction of digital TV in the Nordic region, great opportunities arise in value added services such as home-shopping

Telenor Nextel



Managing Director of
Telenor Nextel; Morten
Lundal

Telenor Nextel AS

Market
Section

Technology
Section

Business
Development
Section

Telenor
ISV Corp
(USA)

Scandinavia
Online AS
(34,2% stake)

Scandinavia
Online AB
(34% stake)

In 1997, Telenor organised all its core internet activities in a separate business area, Telenor Nextel. The company is by far Norway's largest internet supplier, and a power centre for innovative products and services. The ambition of this company is to be the leader in the development of the electronic information society by ensuring broad market acceptance for new internet-based products and services.

Activity and strategy

Subsequent to entering into an agreement with Schibsted ASA in November 1996, Scandinavia Online AS (SOL) was established as a partly owned company on 1 January 1997. Its objective was to prepare for content services on the internet. At the same time, the preparation of the merging of Schibsted Nett into Telenor Nextel started. Customer migration started in July after the green light was received from the Competition Authority.

In 1997, a strong platform was established both technologically and organisationally, at the same time offensive sales targets were reached. At the beginning of 1997, Telenor Nextel had 113,000 internet one-user customers (including Schibsted Nett), a customer base that had grown to 165,000 by the end of the year. At the same time, the number of business customers with internet connections rose from 490 to about 1,500. Telenor Nextel is also a leader with respect to e-mail in Norway, and the number of messages transmitted rose from 2.8 million in January 1997 to 9.1 million in January 1998. In the same period, this business area developed a series of new products and services in the fields of communication, network storage, and net centred applications, new services that there is a demand for in the market. Telenor Nextel is the market leader in all the segments in which it is engaged.

General analysis of results

Telenor Nextel's income in 1997 amounted to NOK 309 million, compared to NOK 111 million in 1996. The increase in operating income from 1996 to 1997 of NOK 198 million is mainly due to the increase in the internet subscription fees from the private and business markets. The operating result loss was NOK 221 million, compared to a loss of NOK 66 million in 1996. This impairment in the operating result was due to a general upsizing of the organisation, the building up of a nationwide network structure, and high commission costs to internet dealers in the private market. In addition, a leading customer service organisation was established.

Income and market conditions

On a per capita basis, Norway is one of the countries in the world with the most dense internet coverage. Telenor Nextel has been the main locomotive, and at the end of 1997 it had a market share of about 70 per cent. Throughout the year, Telenor Nextel has dominated

retail sales and it has been the cheapest supplier of first-time single-user internet subscriptions. This has resulted in a marked influx of new customers, which reached a peak in December, when 20,000 new customers were registered. In 1997, the number of customers rose by 90,000 gross. The net increase, however, was not as high, due to some customers leaving. This was particularly noticeable in certain periods during the autumn when competitors carried out campaigns aimed at users who were about to renew their subscriptions.

The strong growth in the number of users, and the time they spend on the internet, resulted in a substantial growth in the telephone traffic. At the end of the year, about 15 per cent of local traffic on the Norwegian telephone network was internet-related. Traffic minutes generated by Nextel's internet subscribers have had a tendency to grow every month, and in December the average was 4.5 million minutes per day. In 1997, income related to this traffic was recorded as income by other Telenor business areas.

In 1997, Telenor Nextel carried out general business and concept development connected to the internet, which has contributed to the increase in inter company operating income.

In the business segment, competition has increasingly been related to the development of services. In addition to an increasing number opting to connect their own local network to the internet, corporate Norway is looking for suppliers that can assume a more comprehensive responsibility for arranging internet services. All Telenor Nextel's activities in the business market, including the established e-mail service based on X.400, were profitable.

Operating expenses

In 1997, operating expenses reflect the upsizing of the organisation compared to 1996, which is mainly due to the new role the company plays in Telenor's overall strategy. Furthermore, in 1997, a new nation-wide network structure was built up in addition to the establishment of a leading customer service organisation. As a result of the steep rise in the number of subscriptions, commissions paid to private dealers of internet also rose sharply compared to 1996. The higher level of investments in 1997 resulted in higher depreciation.

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	193	51
• Inter company	116	60
Cost of goods sold and traffic charges		
• External	26	2
• Inter company	9	6
Salaries and personnel costs	70	33
Other operating expenses		
• External	257	56
• Inter company	116	69
Depreciation and write-downs	52	11
Operating result	(221)	(66)
Share of result of associated companies	(49)	
Investments	92	43
Capital employed (average)	119	109
No. of man-years at 31.12	210	116
Internet subscriptions, private market	165,000	113,000
Internet subscriptions, business market (network)	1,500	500

* Pro forma figures for 1996 include the transfer of the internet activities from Telenor Plus, Telenor Privat, and Telenor Nett.

The establishment of a separate subsidiary, Telenor ISV based in Palo Alto, USA, has been expensed under operating expenses. The main objective of that company is to be a listening post that will ensure that Telenor has rapid access to the new developments in the US market.

Associated companies

As part of the agreement with Schibsted, the content services for the mass market which is a focus area was placed with the newly established company, Scandinavia Online AS. At 31 December 1997, Telenor Nextel had a 34.2 per cent ownership interest in Scandinavia Online AS, but held 50 per cent of the voting shares. It also had a 34 per cent stake in Scandinavia Online AB. This ownership interest in Scandinavia Online AB will be reduced to 20 per cent in the first half of 1998, as part of joint content endeavour with Telia InfoMedia.

These activities, which have been in a building up phase, base their earnings for the most part on advertising income. Substantial investments, combined with a weaker than expected growth in sales of advertising, resulted in a loss that had an impact on Telenor Nextel's result.

Investments

In 1997, investments amounted to NOK 92 million. The increase on 1996 is mainly a result of the establishment of a new nation-wide network structure.

Prospects

The internet market is still in an early development phase, and there are great expectations with respect to this technology's role and scope in the next few years, both with regard to the number of users and the range of services.

To maintain competitiveness and to continue being the leader in the internet development in Norway, Telenor will establish an international footing in the internet area in 1998. In addition to being a necessity if the company is to develop its competitiveness in Norway, this will also present great opportunities in itself. The cutting edge competence that is being built around the internet in Norway can be exported, and will give Telenor a stronger international footing.

In addition to the international move, Telenor Nextel will especially single out two new areas in 1998, namely telecommunications services over the internet, and internet via the TV. Early versions of the products in these areas will be available some time in 1998, but are not expected to have a breakthrough in the market before some time in 1999.



Managing Director of
Telenor Nett: Jan
Edvard Thygesen

Telenor Nett AS

Production
Division

Infrastructure
Division

Tele Services
Division

Data Services
Division

Market
Division

Maritime
Services
and Radio
Division

Telenor Nett AS is Telenor's fixed network operator. The company is responsible for the fixed network and it supplies network solutions to service suppliers and network operators, which then combine the products into solutions that are sold to the end-users. Telenor Nett AS is also responsible for the commercial handling of interconnection, traffic between networks, with mobile and network operators in Norway.

Activity and strategy

Telenor Nett AS' most important tasks are to ensure network quality, security, and accessibility, and to develop the network and services on the basis of technological advancement. Telenor Nett AS is going to maintain its position as the dominant network operator in a liberalised and growing total market.

Telenor Nett shall increase its customers' creation of value added and their ability to innovate by offering market-orientated information and communications solutions. The main products are leased networks, telephony, ISDN, interconnection, and data services. These services shall have a hallmark of quality and good service. In order to develop the company's competitiveness, focus has been placed on ISDN deliveries, supplier relations, purchasing routines, and the efficiency of work processes.

ISDN

1997 was the great ISDN year, when Norway climbed to the top of the world in ISDN penetration on a per capita basis. The major driving forces behind the increase in ISDN in 1997 was the internet, and the demand for greater capacity when using the internet. The increase in demand for ISDN resulted in Telenor experiencing pressure on deliveries, and somewhat longer delivery periods than had been planned. Efforts to improve quality were intensified in 1997, and will continue in 1998 as well.

Leased networks

By continuing to apply new technology and by improving efficiency considerably, Telenor could cut prices again in 1997. For certain services prices were reduced by 40 per cent compared to 1996, and the average price reduction was 24 per cent. The new competitive situation has resulted in more demand for networks, especially in connection with the new telecommunications operators' activities. The general upswing in business also resulted in a greater need for leased networks and increased transmission capacity. The growth in high-speed networks is especially large. This development is expected to continue in 1998.

Interconnection

The liberalisation of the telecommunications market, with the introduction of free competition from 1 January 1998, has resulted in the positioning of other suppliers of telecommunication services. In 1997, Telenor signed

interconnection agreements with Telia, Tele2, and Global One. Interconnection negotiations have been started with several other market players, and further agreements are expected to be signed in 1998.

The sharp increase in the number of mobile telephones in Norway in 1997 created a marked growth in interconnections between the fixed network and the mobile network. It is expected that stimulating measures by the mobile operators will increase interconnection in the telecommunications network in the time to come.

Telephony

Telephone traffic grew steadily also in 1997. A total of 14.3 billion minutes were registered, up 8 per cent on the preceding year. There was a considerable growth in trunk calls, and traffic related to value added services. In addition, local traffic also showed good growth, mainly because of the explosive growth in internet activities in Norway in 1997.

Despite the steady growth in traffic volume, the effect of the competitive situation is now becoming visible, especially through a 10 per cent reduction in international traffic on the fixed network from 1996 to 1997.

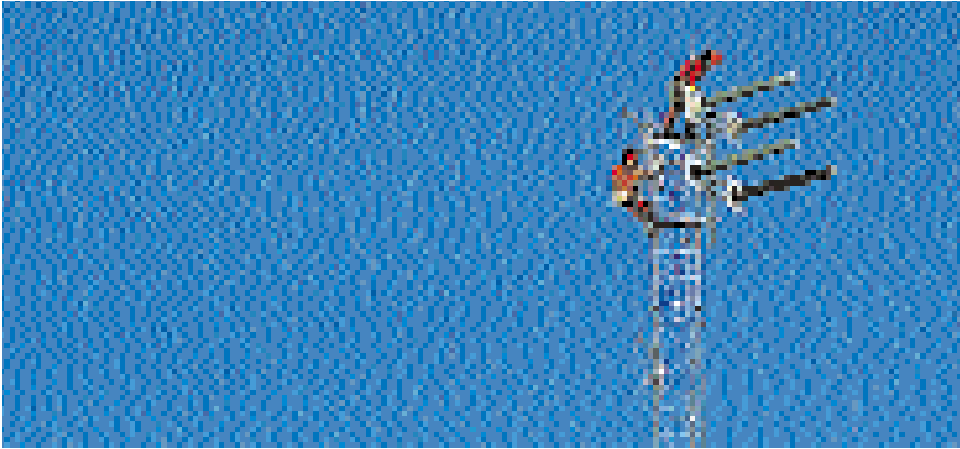
Data services

With the hyper-modern ATM-based NordiCom network for high-speed data communication, Telenor has something powerful offer to the business segment. This network was further expanded in 1997, in order to satisfy increased demand. The network will continually offer new services, in order to meet the needs of the business customers.

The telecommunications network

The Norwegian telecommunications network was fully digitalised at 1 December 1997. With this, Norway has one of the most advanced telecommunications networks in Europe. Telenor has 73,500 private ISDN subscribers. This gives Norway first place in the world with regard to ISDN subscribers per capita.

At the end of the year, 3.5 million telephone numbers were operative, including ISDN. All Norwegian municipalities had, as a minimum, ISDN coverage in the municipal centre, and at 1 July 1998 all central locations in the entire country should be covered.



After full digitalisation of the telecommunications network, Telenor offers the most advanced network in the world.

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	601	625
• Inter company	8,595	7,908
Cost of goods sold and traffic charges		
• External	550	512
• Inter company	1,201	1,189
Salaries and personnel costs	963	964
Other operating expenses		
• External	499	351
• Inter company	1,998	1,873
Depreciation and write-downs	2,100	2,071
Operating result	1,885	1,573
Investments	2,403	1,719
Capital employed	10,346	10,488
Operating margin	20.5 %	18.4 %
Return on capital employed	18.4 %	15.3 %
No. of man-years at 31.12	2,574	2,704
Minutes called, telephone and ISDN, mill. min.	14,300	13,200
Numbers in operation in the fixed network, (000s)	3,500	3,100
Telephone connections (000s)	2,381	2,417
ISDN GT (000s)	146	44
ISDN UT (000s)	4	2

* Changes in the actual 1996 figures are mainly due to the transfer of broadcasting to Norkring AS, and the transfer of personnel to/from Telenor Installasjon AS.

The telecommunications network maintains high quality and is very reliable in operation. The ability to get through on the network was 99.2 per cent. This is better than in 1996, when it was 99.1 per cent. This implies that less than one in every hundred calls was denied because of faults in the network. The number of customer-reported faults per 100 connections rose from 12.6 in 1996 to 13.5 in 1997. This rise was due to network faults resulting from meteorological conditions in the summer of 1997, when there was an exceptional amount of thunder and lightning.

Work on building out the network with fibre-optic cables continued in 1997, particularly with a view to new connections that strengthen the network. Expanding the land-based network with 2.5 Gbit/s SDH-based systems continued in 1997.

The heavy demand for ISDN in 1997 resulted in extra measures and a high level of activity related to the development and maintenance of the access network.



Odd Einar Dørum, Norway's Minister of Transport and Communications (left) and Tormod Hermansen, Telenor's President and C.E.O. mark the occasion of the full digitalisation of the telecommunications network.

Security

Telenor has focused sharply on preventing telecom crime. In 1997, Telenor again reported cases of breaking into the network, and suspected fraud in connection with «call stream» services.

In 1997, a large number of switching stations were secured, and 85 per cent of all switches are now secure. The remainder will be secured by the end of 1998. In 1997, a programme was started for controlling and renovating telephone poles. This programme will run for several years.

General financial analysis

For Telenor Nett AS, 1997 was a good operating year, with an operating profit of NOK 1,885 million, compared to NOK 1,573 million in 1996. The operating margin improved from 18.4 per cent in 1996 to 20.5 per cent in 1997. Profit before taxes amounted to NOK 1,654 million, compared to NOK 1,052 million in 1996. The return on capital employed was 18.4 per cent. The improvement in the result was mainly due to higher income. At the same time, cost reductions have been sharply focused on by improving the purchasing contracts and routines, and by rationalising the network operation.

Income and market conditions

The company's operating income amounted to NOK 9,196 million in 1997, of which NOK 8,595 million was operating income from within the Group and NOK 601 million was from external customers. In 1996, total operating income amounted to NOK 8,533 million. The pricing system for supplies within the Group was completely changed from 1996 to 1997. Nevertheless, the increase in income is mainly due to higher volumes.

The income arose as follows (NOK million):

• PSTN telephony	2,117
• PSTN local traffic	1,332
• Other PSTN traffic	2,064
• ISDN subscriptions	348
• ISDN traffic revenue	585
• Income from leased networks	1,109
• Incoming interconnections, maritime services, data services, and contracts accounted for the equivalent of	1,641

Total traffic over the fixed network in terms of minutes rose by almost 8 per cent in 1997. The number of ISDN customers rose sharply in 1997, and each ISDN customer generated more traffic, and thus higher operating income from the fixed network, compared to

telephony. Internet traffic over ISDN in particular resulted in a high increase in traffic per customer. Even though the number of telephone customers was reduced in line with the growth in ISDN, the internet traffic has contributed strongly to the number of local traffic minutes rising sharply in 1997 – by as much as 9 per cent. One important driving force behind the increase in operating income in 1997 was the 27 per cent rise in incoming mobile traffic, while the growth was 37 per cent for traffic out of the fixed network. Income from mobile-terminated traffic was similarly reflected in the increase in the cost of goods sold and traffic charges. On the basis of the traffic potential represented by the continued heavy demand for ISDN and the increasing number of interconnections with i.a. mobile customers, Telenor Nett expects 1998 to be a good traffic year as well.

In 1997, the competition was felt in international traffic, with traffic from Norway falling. However, traffic from abroad continued to grow considerably in 1997. This increase must be seen in connection with the weak development in outgoing traffic, because many players have made use of the call-back principle in competing with Telenor.

Operating expenses

For Telenor Nett AS, total operating expenses amounted to NOK 7,311 million in 1997, compared to NOK 6,960 million in 1996. In 1997, the cost of goods sold and traffic charges amounted to NOK 1,751 million, compared to NOK 1,701 million in the 1996 accounts.

Traffic charges related to mobile terminated traffic rose considerably in 1997. This is mainly due the increase in traffic from the fixed network that terminates in the mobile network. The fact that this increase is not reflected in the total cost of goods sold and traffic charges is because costs of goods related to installation services were reclassified in 1997. These costs were reclassified to external operating costs.

Operating expenses other than the cost of goods sold and traffic charges amounted to NOK 5,560 million, compared to NOK 5,260 million in 1996. This increase was particularly affected by summer season, with much thunder and lightning causing many faults on the telecommunications network, a sharp rise in demand for ISDN, and the increase in the hourly costs of installation services. Depreciation amounted to NOK 2,100 million in 1997, compared to NOK 2,071 million in 1996.

In 1997, Telenor Nett focused especially on reducing costs through improvements in purchasing contracts and in routines. Considerable gains were realised in this area. Furthermore, a considerable amount of time and effort was invested in rationalising the operations even more. This contributed to the number of man-years being reduced to 2,574 at the beginning of 1998, compared to 2,704 in 1996. Most of the staff reduction took place at the end of the year, so that the impact of the result was rather less than the staff cuts might indicate. Other external operating expenses rose. This

was due to the reclassification of the cost of goods sold and traffic charges.

Investments and capital employed

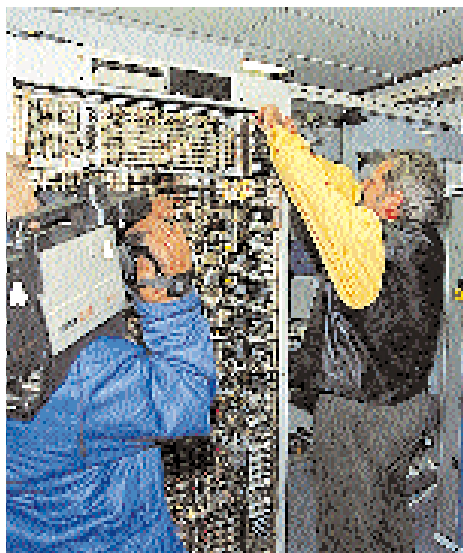
In 1997, total investments amounted to NOK 2,403 million, compared to NOK 1,719 million in 1996. This increase was first and foremost due to the higher level of activity in connection with the network being 100 per cent digitalised in 1997, and to the additional expansion resulting from the heavier ISDN demand in the market. Investments are expected to rise even further in 1998 because of the market's demand for telecommunication services, the upgrading of the network, and the introduction of new support systems.

Telenor Nett AS had total assets of NOK 13.0 billion in 1997, of which fixed assets accounted for 82 per cent.

Prospects

The competition from other network operators is expected to have an effect in particular on income from long-distance and international traffic, as a result of lower traffic volumes. At the same time, competition that results in lower prices will have a demand-stimulating effect, and will generate new traffic. Much of this traffic is expected to come back to the fixed network in the form of interconnections. When the new network operators start to build infrastructure, there will be excess capacity, and market prices will fall in areas with idle capacity. In the long term, a larger portion of the mobile traffic will go between mobile subscribers internally within the mobile networks, and directly between the mobile networks.

In 1998, Telenor Nett will reinforce its commitment to reduce costs by continuing to focus on purchasing, and on a review of the most comprehensive work processes, in order to increase their efficiency. The objective is to realise considerable savings, while at the same time improving both quality and service.



Telenor's strong position as a supplier of state-of-the-art network services attracted a lot of attention in 1997.

● Telenor Installasjon



Managing Director of
Telenor Installasjon;
Jan Kåre Pedersen

Telenor Installasjon AS

Telenor
Geomatikk AS

Telenor
Security AS

Telenor
Security AB

Telenor Installasjon started to operate on 2 January 1997. Most of the Telenor Group's installation activities, which were formerly organised through Telenor Privat, Telenor Nett, and Telenor Bedrift, were thus brought together in one company. As a result, Telenor Installasjon had about 3,500 employees in 1997, 3,000 of whom are telecommunications and data fitters.

In March 1998, the company was further expanded by 1,300 people, when most of the regional organisation of the IT Service Division in Telenor Bedrift AS was taken over by Telenor Installasjon AS. Telenor Installasjon also took over the fault/complaints desk for corporate customers at the same time, and from 1 April it also took over the fault/complaints desk for private customers. With these changes, much of the service and supply organisation in the Telenor group is organised under a joint management. The intention is first and foremost to ensure a better co-ordination of customer-orientated work.

On 1 January 1998, Telenor Geomatikk AS was transferred to Telenor Installasjon AS, and from the same date it became a wholly owned subsidiary. Telenor Geomatikk AS has 300 employees.

Activity and strategy

Telenor Installasjon's objective is to be the leading total supplier of installation services and installation products, with a hallmark of quality, precision, and customer satisfaction.

From the very beginning, Telenor Installasjon was the country's largest company engaged in telecommunication and data installations. In 1997, the company expanded its competence in the field of security and of heavy current installations, so that it is now possible to supply the customers with total solutions. Raising the level of competence in the heavy current field was mainly achieved through acquiring heavy current companies with the capacity to supply services throughout the country. The need for more competence and capacity has in general been taken care of through training of personnel, and by recruitment, including taking on apprentices.

In order to supply solutions and products in the fields of alarms, security and surveillance to the business market, Telenor Installasjon established two subsidiaries, Telenor Security AS in Norway, and Telenor Security AB in Sweden.

Telenor Installasjon is operating nation-wide, with departments at approximately 150 locations, with resident fitters in most municipalities. The company has emphasised nation-wide coverage, and strong local focus, so that customers can be served locally. Because of its size and structure, Telenor Installasjon is also capable of serving large, nation-wide customers.

Telenor Installasjon provides installation services to customers in both the business segment and the private market on behalf of the suppliers of services in the Telenor Group. The company's main assignments in 1997 were the completion of the digitalisation of the telecommunications network, and meeting the enormous demand for installation of ISDN, in addition to installation of traditional telephones.

Telenor Installasjon also had some major development assignments abroad, mainly in connection with Telenor's other internationalisation, i.a. in Bangladesh, Montenegro, Lithuania, Greece, Ireland, Poland, the Netherlands, and Russia.

General analysis of results

In 1997, the business area's income was 24 per cent higher than in 1996. The operating result improved by NOK 226 million from an operating loss of NOK 159 million in 1996, to an operating profit of NOK 67 million in 1997. The operating margin in 1997 was 3.6 per cent, while it was negative in 1996. The substantial improvement in the result shows that the reorganisation of the business area into an independent company has put focus on effective utilisation of resources and on cost-effective operations. Furthermore, the increase in volumes and the market pricing of services has increased income, which has contributed to the improvement in the result.

Income and market conditions

At the moment, demand for installation activities in the market is exceptionally high, i.a. because of the high level of construction and building, considerable maintenance, the rehabilitation of buildings, and a considerable demand for data solutions from both private and business customers. Demand in the tender market and in the service/maintenance market is enormous, and there is a considerable shortage of labour in the line of business.

The business area's total income rose by 24 per cent. Income from customers outside of the Telenor Group showed a very satisfactory rise of NOK 193 million. This increase was a result of stronger emphasis on the external market, combined with a commitment on heavy current activities, and total deliveries. Income from customers within the Telenor Group rose by 12 per cent. This was due to both an increase in volume, and a rise in prices.

Key figures: (Amounts in NOK million)	1997	Pro forma 1996*
Operating income		
• External	275	82
• Inter company	1,593	1,418
Cost of goods sold and traffic charges		
• External	208	203
• Inter company	29	-
Salaries and personnel costs	996	996
Other operating expenses		
• External	324	215
• Inter company	210	208
Depreciation and write-downs	34	37
Operating result	67	(159)
Investments	73	
Capital employed	124	
Operating margin	3.6 %	
Return on capital employed	56 %	
No. of man-years at 31.12	3,465	3,853

* The proforma figures take into account the transfer of installation activities from Telenor Privat, Telenor Nett, and Telenor Bedrift

Operating expenses

In 1997, the cost of goods sold and traffic charges rose by NOK 34 million, compared to 1996. This is an increase of 16 per cent, and is due to the higher level of activity and higher proportion of cost of goods for the services rendered to both internal and external customers.

Personnel costs in 1997 were at the same level as in 1996. The number of man-years was reduced by 4 per cent. The general increase in wages and the use of overtime resulted in the expenses being on a par with the preceding year. More overtime is due to a shortage of labour in this line of business, combined with the high level of activity.

In 1997, other operating expenses rose by 26 per cent. The increase in external operating expenses was mainly a result of the higher level of activity. Costs related to contracted labour as a result of a shortage of own resources in the most hard-pressed areas accounted for a significant part of this.

Investments and capital employed

In 1997, this business area invested a total of NOK 73 million in fixed assets. Of this, NOK 6 million refers to equity due to the establishment of subsidiaries. Acquisitions of heavy current companies called for investments totalling NOK 25 million. The remaining NOK 42 million was invested in fixed assets related to current operations. The return on average capital employed was 56 per cent in 1997.

Prospects

The installation market is changing, and customers are increasingly asking for total solutions. The technological

development is going in a direction of fusing telecommunications, data, heavy current, and alarm/security/surveillance. Demand for integrated solutions in the form of intelligent houses, where the users can control lighting, heating, ventilation, alarm/surveillance, and telecommunications and data solutions is constantly increasing. All the installations in a house are data-based communicating units, and the solutions will provide flexibility and generate considerable financial savings for the consumer. These trends call for increased competence in the field of telecommunications and data, and for adaptation of the intelligent house solutions to both the corporate and the private markets. In the next few years, market demand is expected to stay at about the same level as in 1997. This will also be reflected in the development in market prices, which are expected to remain stable.

The business area's positive development is expected to continue, and emphasis will be placed on exploitation of resources and cost-effective operations.



Demand for installation services is high in the market, and this has contributed to Telenor Installasjon's good results in 1997.

Telenor Research and Development



Managing Director of Telenor R&D; Oddvar Hesjedal

Telenor R&D

Network-solutions

Service Development

IT-development

Consultancy

In telecommunications, both the competitive situation and the technology are undergoing drastic changes. Business sectors are converging, and the information technology is creating a paradigm shift where communication services of the future will be available over many networks. Telenor Research and Development (R&D) is going to contribute to this development so that Telenor will always be at the forefront of selected areas. In 1997, the activities have been three-fold, research, IT development, and consultancy services. In 1998, the entire IT activity will be spun off, together with some of the consultancy services, into a separate software house for telecommunication applications. Subsequently, R&D will be located at Oslo/Kjeller, Trondheim, Tromsø, Grimstad, and Stavanger.

Applied research

In line with the development described, Telenor R&D's research activities are divided into two main fields.

Combined network solutions is working towards the optimal development of transportation in the telecommunication's networks, and assesses strategic alternatives for developing access and transport networks. This area is also engaged in the development of the next generation of mobile solutions, satellite communication and broadcasting, various broadband technologies, optics, and voice technology. R&D has a range of laboratories that support these activities.

Service development works on the telecommunication services of the future from two different perspectives. One of them is how the operator/service supplier can prepare opportunities for the creation of new applications and strategies for service platforms, telecom virtuality, and security. The other perspective is the interaction between the market arena of the future, technology, and the users. In connection with this, Telenor R&D is building a house of the future where also other suppliers and complementary industry are being invited to co-operate on total solutions.

In 1997, to meet the change in paradigm that was mentioned in the introduction in an offensive manner, Telenor R&D started the multi-disciplinary **Project I**. This is based on the Internet Protocol's (IP) potential to be the integrator between transport and services. The vision is «IP everywhere» and «Everything over IP».

IT development

The telecommunications operators' computer systems are becoming an increasingly integrated part of the business. Until April 1998, R&D was responsible for Telenor's Group-wide IT systems, and managed and developed these through the business area **IT Development**. The systems are used in product development and customer service, in the management of the telecommunications networks, for sales and marketing activities, for receiving and following up orders, and for following-up accounts.

In 1997, Telenor Bedrift and Telenor Privat started to operate a major system for customer service, order handling, product defining, and invoicing of fixed network services. This allows for individual customer handling, and in 1998-1999 it will be developed to cover most of the net-based services offered by Telenor.

New demands on Telenor as a network operator are resulting in the establishment of separate system solutions for interconnection invoicing. Simultaneously, a new system for dealing with faults is being implemented.

New software house

Telenor's system for centralised traffic tariffing has received international recognition and has been sold to a number of other telecommunications operators. Also other system solutions have international potential. It is this challenge that the new software house will face. Initially, the company will sell solutions developed by R&D in association with national and international players. During the first few years, Telenor will be the dominant customer, but already next year the company will launch products/services on the external market. To begin with, the software house will supply products in such fields as customer services, ordering, invoicing, service generation, traffic handling, system warehouse, and network administration. The company is expected to have about 500 employees, and it will be one of Norway's largest software companies, located in Oslo, Lillehammer, Bergen, and Bodø. In addition, R&D's company in Dublin, Telenor RDI Ltd. will be part of the software house.

Consultancy services

During 1997, R&D built up a strong consultancy role. The consultants shall help the technological innovations to be transposed into commercial results through internal bridge-building. This environment is unique in Norway, with a strong combination of competence in computers, telecommunications, telecommunication economics, and business development.

General analysis of results

Demand for R&D's products and services rose by 30 per cent from 1996 to 1997, mainly due to the increase in demand for R&D's IT services from customers within the Group. R&D's result in Norway shows a considerable profit compared to 1996. This is partly due to the higher invoicing rate, and partly to reductions in operating expenses in some sections of the organisation.

The profit for 1997 includes Telenor RDI Ltd, which reduced the operating profit by NOK 5 million.

Income and market conditions

About 95 per cent of R&D's operating income comes from within the Telenor Group. The substantial increase in sales of IT services to the Telenor Group is partly a result of greater demand for services for developing and maintaining a range of IT systems, but also due to the increase in demand for services as a result of R&D's responsibility for application architecture for the Group-wide IT systems. In addition, the Year 2000 Project was started. Compared to 1996, R&D recorded a 15 per cent increase in the number of hours invoiced, i.e. 843,000 hours were invoiced in 1997.

Operating expenses

The increase in operating expenses compared to 1996 was primarily due to a considerably higher level of activity in 1997. The largest single item is consultancy fees. In 1997, it was necessary to increase the use of external consultants in order to meet the demand for IT services.

Investments

In 1997, R&D invested NOK 21 million, compared to NOK 16 million in 1996. R&D's investment funds were mainly spent on PCs, servers, and other computer equipment.

Other matters

R&D is an important recruitment channel for high competence to other Telenor business areas.

Telenor Research and Development Ireland (RDI):

R&D's subsidiary in Dublin is primarily engaged in developments in the fields of IT, intelligent networks, the internet, and mobile communication. Additional possible international subsidiaries will be considered in the light of the experiences from Ireland.

Proliferation: R&D stimulates innovation. Ideas that arise as (by-)products of R&D activities receive support for further development and/or commercialisation either from R&D, from Telenor's business areas (including Telenor Venture), or from the public or other support schemes.

- The company ClustRa AS was established in 1997 on the basis of several years' research and development in real time data bases. A strong professional team from R&D Trondheim formed the company, with Telenor Venture as the largest shareholder.
- In the field of multi-media, R&D formed the company

Key figures: (Amounts in NOK million)

	1997	1996
Operating income		
• External	49	40
• Inter company	786	600
Cost of goods sold and traffic charges		
• External	2	8
• Inter company	1	-
Salaries and personnel costs	342	278
Other operating expenses		
• External	334	201
• Inter company	118	124
Depreciation and write-downs	33	27
Operating result	5	1
No. of man-years at 31.12	750	698
• of which abroad	23	-



Telenor established an annual Nordic Research Prize in 1997. Dr Gisle Bjøntegaard received the prize from Minister Bendik Rugaas.

Multimedia Studio AS. This has grown considerably over a short period of time, i.a. through mergers with similar companies.

- The company Tell AS was started early in 1997. This company sells telephony solutions for PCs, where the user interface is simplified, and completely new functionality is added to the user station telephone at the user place instead of to the telecommunications network.

Telenor Capital and Finance



Torstein Moland, SVP
Economy and
Finance

Telenor Capital and Finance

Telenor
Group
Finance

Telenor
Eiendom

Telenor
Finans AS

Telenor
Inkasso AS

Telenor
Venture AS

Telenor's activities in the field of real estate, capital, and finance are organised in Telenor Capital and Finance. Telenor Capital and Finance is mainly engaged in providing the business areas with financial and other related services. Telenor Capital and Finance includes Group Treasury, Telenor Eiendom AS, and the subsidiaries Telenor Finans AS, Telenor Inkasso AS, and Telenor Venture AS. Telenor Capital and Finance accounts for 227 man-years.

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. All external transactions that are carried out by Group Treasury with a view to realising economies of scale in the field of finance, and to ensure optimal management of financial risks.

The Group Treasury functions as an internal bank within the Group, and offers loans and other financial services to various business areas and subsidiaries. Focus is on external creation of values for the Group in the field of finance.

Group Treasury administers the assets of the Telenor Pension Fund.

At 31 December 1997, long-term interest-bearing debt amounted to NOK 8,394 million, with an average interest-rate term of 1.55 years. The average interest rate, including the effect of hedging transactions, was 4.92 per cent for the year as a whole, compared to 6.53 per cent in 1996.

Telenor Eiendom

Telenor Eiendom's main duty is to ensure that the Telenor Group has at its disposal premises that allow the business to be carried out in an efficient and effective way, at the lowest possible cost, while tying up as little capital as possible.

At the end of the year, Telenor Eiendom had at its disposal 1.2 million square metres of premises, in about 4,600 buildings. Premises owned totalled 1 million square metres, with a book value of NOK 3.3 billion.

Telenor's total need for floor space is falling, particularly on the technical side. The need for administrative space in towns and other urban areas is growing.

During the year, there has been a great deal of preparatory work done in relation to the building of new premises at Fornebu (near Oslo), Bergen, and Trondheim. In 1997, 74 properties were sold for a total of NOK 243 million. In the period 1995 to 1997, about 340,000 square metres were sold or returned to the lessor. Net gains on the sales of properties in the same period amounted to NOK 155 million, of which NOK

48.5 million in 1997. In 1997, substantial sales of properties were made in Bergen, with delivery in 1998.

Telenor Finans AS

Telenor Finans AS offers leases, financing and management in connection with the Group's sales of solutions to private companies and public enterprises, and it is Telenor's centre of expertise in these fields. In 1997, the company experienced a sharp growth in demand for leases and financial services, and it doubled the number of transactions processed during the year. All leases and financing agreements are established in close co-operation with the operative companies in the Telenor Group and their customers. The solutions to which Telenor Finans is a part are customised to the special needs of the individual customer.

In 1997, the company saw an increase in volume and felt an increasingly heavy demand on competence and system solutions. The goal is to remain competitive within the entire range of services, from simple standardised rental or leasing contracts to project financing of complex telecommunication and data solutions. In 1997, it was therefore decided to develop a new financing product, "Telenor Access", aimed at the Group's private customers. This product, a charge card, will be launched in the first half of 1998.

Telenor Finans expects demand to grow substantially in the years to come, and the number of employees has therefore been increased.

Telenor Inkasso AS

Telenor Inkasso AS supplies services in the field of collection, credit information, and courses and consultancy services. The company assumes most of the collection-related assignments within the Group. At year-end it had 32 employees, divided between the head office at Skien and the branches in Molde and Leknes.

Telenor Venture AS

Telenor Venture's objective is to develop new, profitable business units in telecommunications and information technology. This is done by bringing together industrial environments and entrepreneurs. The company's business concept is to further develop values through active ownership in profitable projects and companies, by providing access to venture capital and access to

networks, as well as technological and commercial competence. The venture company takes advantage of the possibilities of commercialising and industrialising product concepts and research that arise from Telenor's operations.

The Telenor Group owns 70 per cent of the shares in Telenor Venture AS. The other owners, all of whom are major Norwegian insurance companies, are Storebrand Livsforsikring AS (14.1 per cent), Vital Forsikring AS (10.8 per cent), Gjensidige Livsforsikring (3.6 per cent) and Gjensidige Skadeforsikring (1.5 per cent). At 31 December 1997, the recorded equity was NOK 251 million, compared to NOK 244 million in 1996.

The company's largest divestment in 1997 was the sale of the company's holding in NAVIA ASA (formerly Seatex Garex ASA).

Telenor Venture has considerable access to entrepreneurs with interesting projects. Having been in operation for four and a half years, the company has considered more than 350 enterprises and business concepts.

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

- **Cetronic AB, 21.9 per cent:** Leading supplier of lift and emergency telephones.
- **ClustRa AS, 72.1 per cent:** Development of database solutions with great demands on performance and reliability.
- **Eltek AS, 8.9 per cent:** Security systems, power electronics, and telecommunication products.
- **Gran-Jansen AS, 21.6 per cent:** Production of advanced integrated analogue and digital radio circuits.
- **Incatel AS, 43.0 per cent:** Development and marketing of database and system solutions.
- **Internett Kanal 1 AS, 33.2 per cent:** Editorial products, primarily for publishing via electronic media, such as the internet.
- **Intra Media AS, 17.2 per cent:** Development, operation, and marketing of software and services for the media market.
- **Kvatro-Telecon AS, 31.5 per cent:** Development and sale of software for the telecommunications market.
- **LinnèData AB, 20.9 per cent:** System development in client/server environments with multi-media and communications.
- **Maritech Systems AS, 26.8 per cent:** Development and sale of IT systems for the fisheries industry.
- **MaXware AS, 31.5 per cent:** Communications software which packages and addresses «electronic envelopes».
- **Micro Design ASA, 13.4 per cent:** Development and sale of information and payment systems.
- **MODE International B.V., 49.8 per cent:** Global channel for electronic distribution of music and music-related information.
- **MRT micro ASA, 12.3 per cent:** Development, production, sale and marketing of specialised computer products.
- **NetChannel, Inc, 3.3 per cent:** Internet-based services on TV.
- **Norsk Tekst AS, 37.5 per cent:** Sub-titling of TV and video programmes.
- **Open World Distribution AS, 22.7 per cent:** «The channel», database that links the IT supplier to everybody who wants to transmit IT products to end-users.
- **PolyDisplay ASA, 7.5 per cent:** User-friendly and cost-effective electronic flat screens.
- **Scandinavian Group AS, 42.8 per cent:** Sale of PC games, software on CD-ROM, and multi-user games for the internet.
- **SCM Microsystems, Inc., 5.9 per cent:** Design, development and sale of PC card solutions.
- **Sysdeco Dikas AS, 35 per cent:** Management and distribution of geographic data.
- **TeleNostra AS, 30 per cent:** development of slide dials and related patents.
- **Telepost Holding S.A., 26.2 per cent:** Services based on integration between the internet and PSTN.
- **Trade AS, 45.0 per cent:** Electronic solutions for gathering, standardising, storing, and distributing product information.
- **TSAT AS, 22.8 per cent (directly and indirectly owned):** Satellite solutions for small, closed networks for low speed data transmission.
- **Ucom AS, 26.7 per cent:** Supplier of modems, ISDN adapters etc.







The benefit *of not* having the old,

Many countries in Eastern Europe have a lot to catch up on with regard to infrastructure - everything from roads to telecommunications. This is a problem, but it can also be turned into an advantage: When you haven't invested a great deal in old fashioned solutions, you can invest in new!

is that you can concentrate on the new

And that is exactly what they are doing at present in parts of Eastern Europe: i.a. by going directly to digital broadcasting technology, without going via yesterday's methods. Telenor's satellites, including Thor II, which was launched in May, are playing a major role in this development.

For example, in January 1998, Telenor Slovakia opened a new link-up station for digital TV channels, including British, Slovak and Czech ones, as well as a home shopping channel. And the country people, for once, get the same services as the city-dwellers, and at the same time!

● 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
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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 land-mobile 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: ISDM 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 kbits/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 of 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 establishes and operates satellite systems for maritime, land-mobile, and aeronautical mobile communication.

INTELSAT: International Telecommunication Satellite Organisation. The international telecommunications satellite organisation mainly operates inter-continental 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 kbit/s.

LAN: Local Area Network. Local network for data 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 nation-wide 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.

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