# Annual report 2005

2005 was Telenor's best year ever. During the year Telenor reinforced its position as an international mobile communications provider and strengthened its position within Nordic mobile, fixed-line and TV distribution.

telenor

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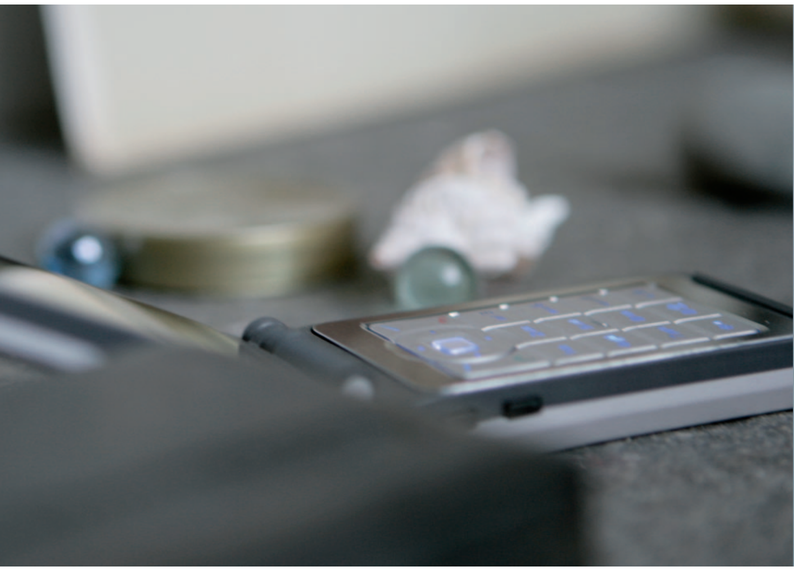
Telenor aims to reduce its consumption of resources and overall impact on the environment. In an effort to keep paper consumption at a minimum, we have decided to limit the scope of our printed annual report. We do not limit the amount of information we issue about our company, however, and Telenor's Investor Relations website provides extensive and current information about the year 2005 and our activities: **www.telenor.com/ir**

# Combining local strengths – achieving global excellence



JON FREDRIK BAKSAAS
President and CEO

2005 was Telenor's best year ever. We have seen significant growth both in revenues and net additions in mobile. We have continued to develop our company, ensuring that Telenor remains one of the fastest-growing providers of mobile communications worldwide, and we have put industrial ownership at the top of our agenda. As we move forward, we continue to build strong ties between all our international operations, developing a common mindset and a global corporate culture.

Our Global Coordination programme enables us to develop and promote best practice in all our operations, and as a result we are able to extract synergies. The programme is progressing well, and we are starting to see the results of our renewed efforts in this field. As we grow our company, we will continue to work as one collaborative international telecommunications group, drawing on local expertise and exploiting to the full our group processes and knowledge. We want to leverage what is common between all our markets and combine this with the local edge our companies already excel at.

To help us provide real customer satisfaction we have developed a new Telenor brand, with a new vision, new values and a renewed visual identity. The brand focuses and guides us for the future by making us stand out from the competition in a positive, distinct and relevant way and helps us deliver a tangible difference to our customers.

During 2005, we made several new acquisitions, strengthening our position both within mobile and broadband. In March, we launched our greenfield mobile operation in Pakistan, which at year-end 2005 had 1.9 million subscriptions. In the Nordic region, we greatly enhanced our overall position through the acquisitions of the mobile operator Vodafone Sweden, and the broadband suppliers Cybercity in Denmark, and Bredbandsbolaget in Sweden. We also increased our economic exposure in DTAC in Thailand, and this allowed us to consolidate the company. While we continue to look for new opportunities in emerging markets, we will pursue the same relentless customer focus across all our operations.

Working with colleagues from regions as far apart as Scandinavia, Central and Eastern Europe and Asia is both inspiring and highly rewarding. As we expand Telenor's international footprint, we must all ensure that we are respectful of prevailing mindsets, cultures and religious beliefs in all the countries where we operate. Mobile communication is a key driver of economic growth, especially in financially constrained societies, but it can also contribute to bridge cultural gaps. At Telenor, we are working to become one company with one vision, but with local flavours and local competitiveness.

Going forward, we aim to build a unique group of companies in mature and emerging markets with more than 100 million customers making use of our services by 2008. Together we will continue to work towards our common goal: To help customers get the full benefit of communications services in their daily lives.

Jon Fredrik Baksaas
President and CEO

# Report of the Board of Directors

2005 was Telenor's best year ever. Operating revenues amounted to NOK 68.9 billion, representing a growth of NOK 8.3 billion, or around 14%, compared with 2004. With significant growth in the number of net additions, Telenor reinforced its position as an international mobile communications provider. Telenor also strengthened its position in the Nordic market, within mobile and fixed-line services, as well as within TV distribution. The increase in subscriptions during 2005, combined with strong cash flow from the home market, provide a sound basis for future profit performance and value creation.

The Board bases its work on a strategy aimed at further development of Telenor as an international provider of telecommunications services with a strong Nordic base, a firm commitment to mobile communications and prospects of further growth in emerging markets. In the Nordic market, Telenor has consolidated its position through new acquisitions within broadband and mobile. In international mobile, the Board is confident that Telenor will seek to attain its strategic goals by assuming control of operations wherein it holds minority interests, or else seek to dispose of such assets, and by developing new operations in emerging markets.

On this basis, the international mobile portfolio was further developed in 2005. Telenor Pakistan opened its mobile network for commercial operations in March 2005, and at year-end the company had acquired 1.9 million subscriptions. In the fourth quarter of 2005, Telenor increased its ownership in the mobile operator DTAC in Thailand, reaching the current economic exposure of 69.3%.

In October 2005, Pannon in Hungary opened its UMTS network for commercial operations, and in December 2005, Sonofon in Denmark was awarded a UMTS licence.

The international mobile operations have seen considerable customer growth. During 2005, the total number of subscriptions in companies in which Telenor has ownership interests increased by 30 million, reaching a total of 82.7 million. Telenor is currently the world's twelfth largest mobile company.

During the initial stages of its international expansion, Telenor developed its mobile commitments through active ownership, exercised through the boards of individual mobile operations. Today, Telenor's mobile operations are developed in accordance with a group-wide industrial model, which has been introduced across all operations. To ensure the success of this model, a governing structure has been established to facilitate joint procedures for procurement, management and coordination, and increase Telenor's industrial capabilities.

The commercial situation in the markets in which Telenor has activities has become far more challenging in recent years. Telenor is seeing intensified competition, more demanding customers and the emergence of new technology. These factors add pressure on revenues and margins, primarily in fixed-line, but gradually also in mobile.

During 2005, Telenor continued to focus on maintaining its strong position in the Nordic market. In order to simplify operations in Norway, develop a more distinct profile and extract synergies from the Nordic operations, Telenor's mobile and fixed-line operations in the Nordic region were organised under one joint management, effective from February 2005. In July 2005, Telenor acquired the broadband operations Cybercity in Denmark and Bredbandsbolaget in Sweden. In mobile, Telenor's position was further strengthened through the acquisition of Vodafone Sweden in October 2005. The company was consolidated in January 2006. These acquisitions have enhanced Telenor's competitive edge in the Nordic region and will facilitate the process of establishing a common Nordic platform for products and services.

The Board will continue to make active efforts to direct and facilitate the extraction of synergies from the Nordic operations, which is essential to maintain satisfactory progress in the Nordic region in the period ahead.

In the Norwegian mobile market, focus has been on enhancing customer satisfaction and stabilising Telenor's market share. At year-end, Telenor had a 56% market share, measured in the number of subscriptions, a figure that corresponds to the level at the outset of 2004. The mobile network NMT-450 was formally wound up in January 2005.

Revenues from fixed-line operations in Norway were further reduced in 2005, reflecting an ongoing rapid migration from fixed-line telephony and Internet dial-up to mobile telephony, ADSL and broadband telephony. Measures have been introduced to reduce costs and maintain margins. As part of this effort, the core network will be changed into a pure IP network in 2010.

Broadcast recorded strong profits in 2005, maintaining its position in the Nordic market. Through a partnership with TV2 in Norway, the rights to broadcast Norwegian elite football were acquired in June 2005. In September 2005, Broadcast signed an agreement for the acquisition of a new satellite for transmission of TV and data signals. The new satellite, which will replace the Thor II satellite, is due in the fourth quarter of 2007.

In 2005, Telenor's shares performed better than the sector average, but below the OSE Benchmark Index. Telenor ASA endeavours to provide its owners with added value. Based on the company's financial position and expected capital requirements, Telenor has adopted a policy of paying an annual dividend to shareholders corresponding to 40 – 60% of normalised annual profits. The company's goal is to achieve relatively even growth in the annual ordinary dividend per share.

The Board proposes to the AGM that a dividend of NOK 2 per share be paid out for the financial year 2005, against NOK 1.50 for 2004. The dividend approved by the AGM will be paid on 8 June 2005, to parties registered as shareholders on the date of the AGM. The share will be quoted ex-dividend on Oslo Stock Exchange as from Wednesday 24 May.

The Board has also taken the initiative for the company to buy back own shares in the open market. During the period following the AGM in 2005 and up to 22 September 2005, the company acquired 13,844,000 own shares in the open market, and of these 1,738,818 shares have been used in share programmes for employees and options programmes for senior managers and key personnel. The acquisitions of own shares in the open market have been carried out under the authorisation of the AGM of 20 May 2005. As Telenor's largest shareholder, the Norwegian State has undertaken to participate in the buy-back by cancelling a proportional part of its shareholding whereby the percentage held by the State remains unchanged.

At the forthcoming AGM on 23 May 2006, the Board will propose that Telenor shares owned by Telenor itself be cancelled out, and, furthermore request that a renewed authority to acquire own shares is given.

At year-end 2005, Telenor ASA had 41,340 shareholders. The ten largest shareholders represented 69.9% of all outstanding shares. Telenor's share capital was NOK 10.2 billion, divided into 1,706,570,293 shares.

Telenor's shares are listed on Oslo Stock Exchange and Nasdaq. In 2005, Telenor's shares were among the most traded shares on Oslo Stock Exchange, and at year-end they were quoted at NOK 66.25, compared to NOK 55.00 at year-end 2004. This represents an increase of 20%, and gives Telenor a market capitalisation of NOK 113.1 billion, against NOK 96.2 billion at the start of the year.

During the same period the OSE Benchmark Index rose by 40%, while the Dow Jones European Telecom index fell by 2%.

In 2005, Telenor was again active in channelling information to financial markets and shareholders, thus ensuring that all relevant information required to make external assessments of the company was published in accordance with current regulations and guidelines.

During 2005, the Board closely monitored Telenor's strategic work. The Board also paid particular attention to performance-related follow-up, efforts to reduce costs, and issues relating to investments. Previous investments were subject to separate evaluation reports.

## RESULTS

In 2005, Telenor's net income was NOK 7,646 million, corresponding to NOK 4.47 per share. The corresponding figures for 2004 were NOK 6,093 million and NOK 3.49 per share, respectively.

In 2005, Telenor's profit before taxes and minority interests amounted to NOK 12,591 million, compared to NOK 9,874 million in 2004. In both 2005 and 2004, the profit before taxes and minority interests was adversely affected by a number of special items (gains and losses on disposals, costs relating to workforce reductions, loss contracts and write-downs), and amounted to NOK 0.5 billion and NOK 0.7 billion, respectively. Adjusted for these special items, the profit increased by NOK 2.5 billion, reaching NOK 13.1 billion in 2005. The increase was largely due to growth in revenues during 2005, resulting from significant customer growth at the international mobile operations.

The operating profit for 2005 was NOK 11.7 billion, against NOK 7.4 billion in 2004. The operating profit for 2004 was negatively affected by write-downs. Net financial items were NOK 1.9 billion lower in 2005 than in the previous year, mainly because the 2004 figures included a realised gain of NOK 2.6 billion on the sale of shareholding in Cosmote.

Cash flow from operational activities increased by NOK 3.3 billion in 2004, to NOK 22.3 billion in 2005, largely due to an increase in revenues. The consolidation of DTAC in Thailand and the acquisitions of Bredbandsbolaget and Cybercity also contributed positively. During 2005, Telenor invested a total of NOK 25.3 billion. Of this amount, NOK 16.4 billion were capital expenditure, which is an increase of NOK 3.7 billion compared to 2004. This was mainly related to the international mobile operations where network capacity has been increased due to high customer growth.

At year-end 2005, Telenor's total assets amounted to NOK 124.4 billion and the company's equity ratio (including minority interests) was 43.0%. The corresponding figures for 2004 were NOK 91.4 billion and 48.2%. Net interest-bearing liabilities amounted to NOK 30.9 billion, reflecting an increase of NOK 11.7 billion during the year, due to high capital expenditure and new acquisitions. In the view of the Board the company's financial position is satisfactory.

Pursuant to Section 3-3 of the Norwegian Accountancy Act, the Board confirms that the annual accounts have been prepared on a going concern basis.

## TELENOR'S OPERATIONS

### Mobile

Total revenues from Telenor's mobile operations in emerging markets showed significant growth in 2005, mainly due to an increase in new additions. Kyivstar in Ukraine experienced a 72% increase in operating revenues, while GrameenPhone in Bangladesh recorded a growth of 36%. Operations in mature markets showed a modest level of growth. In Norway, Telenor's mobile operation registered a 4% increase in revenues, while the corresponding figure for Pannon in Hungary was 3%.

All of Telenor's mobile operations, with the exception of Telenor Pakistan, which is currently in a start-up phase, enhanced their operating profits from 2004 to 2005.

### Fixed

Total revenues from Fixed were in line with 2004. The reduction in revenues in Norway was due to a decline in telephony revenues, although this was offset by the acquisitions of Bredbandsbolaget in Sweden and Cybercity in Denmark, both of which were made in July 2005.

The operating profit was NOK 0.7 billion lower than in 2004. This was mainly due to write-downs relating to Fixed Sweden.

### Broadcast

Total revenues increased by NOK 303 million in 2005, reaching NOK 5,649 million. The operating profit was NOK 1,015 million, against NOK 750 million in 2004. This increase is due to growth in subscriptions and lower leasing costs for satellite capacity.

### Other units

Total revenues increased by NOK 427 million in 2005, reaching NOK 9,967 million. This was mainly due to higher revenues derived from EDB Business Partner. This was partly offset by reduced revenues from Venture, following the divestment of activities in 2004.

## ALLOCATIONS

Following the receipt of group contributions of NOK 2,000 million before taxes, the parent company Telenor ASA's net income for the year amounted to NOK 2,188 million. The Board proposes the following allocation:

Transferred to other equity: NOK 2,188 million

After this allocation, Telenor's distributable equity, as at 31 December 2005, amounted to NOK 13,259 million.

At the AGM, the Board of Directors will propose a dividend of NOK 2 per share, to be paid out in 2006. In total, the proposed dividend will amount to NOK 3.4 billion.

## NON-FINANCIAL INFORMATION

### Health, Environment and Safety (HES)

During 2005, Telenor again introduced targeted and systematic initiatives aimed at continuous improvement of the working environment at all levels within the group. Special attention was given to sickness absence and rehabilitation, ergonomics, personal safety and crisis management.

A total of 73 HES reviews were carried out as part of the follow-up of these key areas within Telenor's operations. During 2005, 1,089 employees took part in HES training programmes.

Sickness absence at Telenor's Norwegian operations was 4.53%, which is approximately the same as the previous year. At Telenor's other operations, sickness absence varied from 0.43% to 4.0%. During 2005, Telenor registered ten injuries resulting in absence from work, none of them serious. A further 13 injuries which did not involve any absence from work were also registered, as well as two near-accidents.

In April 2003, together with a number of other major enterprises in Norway, Telenor signed an agreement relating to a more inclusive working life. The purpose of this agreement is to reduce the extent of sickness absence, ensure better adaptation of working conditions for employees with special needs, and to increase the actual retirement age within Telenor. This work was continued in 2005.

### External environment

Telenor is taking active steps to reduce the environmental impact of its various activities, and has maintained a special focus on energy consumption, travel and installations. A new group-wide environmental policy was adopted in 2005, and this will contribute to even better environmental controls and a reduction in the environmental impact of Telenor's activities.

Telenor's environmental accounting shows that the total energy consumption during 2005 was 735 GWh. Of this, 268 GWh related to management of various buildings, while network operations accounted for 467 GWh. The energy consumption per man-year was 33,000 kWh. Additional to this is energy consumed for transportation purposes, which totalled 150 GWh.

### Corporate social responsibility

In 2005, Telenor's activities and commitments in respect of ethics, the environment and society – our corporate social responsibility – again reinforced Telenor's position as one of the world's highest-ranking companies on the Dow Jones Sustainability Indexes.

### Diversity and equal opportunities

In 2005, Telenor adopted a new policy underlining the significance of diversity with respect to value creation. The policy has special emphasis on gender, age and ethnicity/nationality. In Norway, Telenor's compiled figures for gender equality reveal that 37% of Telenor's total workforce, and 24% of Telenor's managers, were women.
In 2005, the Board of Directors of Telenor ASA consisted of 40% women and 60% men.

During 2005, and in accordance with the Board's adopted principles of gender equality, initiatives have been introduced to ensure better balance in relation to gender and competence within the boards of Telenor's own operations. All representatives who are appointed to Telenor's various boards are offered training in board work.

### Competence and training

Telenor recognises the importance of attracting and retaining talented and motivated employees who, in accordance with Telenor's Codes of Conduct, display a strong passion for business and who are capable of motivating their colleagues to give their best. Two global processes – Telenor Leadership Development Process (TLDP) and Internal Value Creation (IVC) – were developed further during 2005. TLDP is a tool for systematic evaluation, development and remuneration of managers, while IVC monitors human and process capital as well as the quality of management. All managers at Telenor's Nordic companies, with the exception of Sonofon, participated in the TLDP process in 2005. Outside the Nordic region, the top two management levels of all mobile companies participated in the process.

## REGULATORY ASPECTS

Telenor's operations adapt to the prevailing regulatory frameworks that the group is subject to in individual markets, both within and outside Norway. The development of equal and fair competition is a key challenge for authorities in all countries, and Telenor seeks to play an active role in the development of robust competition in all markets.

Changing framework conditions and market intervention could potentially affect Telenor's revenues and profitability, and thus represent a regulatory risk.

The goal of ensuring a well-functioning telecommunications market will be difficult to achieve if individual players in Norway are subject to regulations which are more detailed and extensive than those which apply in other European countries. The fact that players with similar market positions are subjected to different regulations, as is the trend with respect to both fixed-line and mobile interconnections in the Norwegian market, is an obstacle to healthy market development.

During the course of 2005, broadband telephony has gained a firm foothold, and an extensive regulatory process has resulted in provisional clarification as regards regulatory obligations and dispensation schemes for the various broadband telephony services. This involves far-reaching and important changes in the area of telephony.

Telenor maintains a relentless focus on the regulations that its international mobile operations are subject to. Of particular importance for a more stable operating environment is adaptation to the EU's new legislative framework by the new member states in Eastern Europe. Regulatory developments are also being affected, albeit more indirectly, in other countries seeking closer integration with Europe. Outside Europe, membership of the WTO and alignment with the WTO Agreement are of great significance to secure stable framework conditions for the international operations.

An increase in the regulation of mobile operators is expected both within and outside Europe, also as regards contributions to USO funds, the introduction of mobile number portability and conditions for interconnections. Telenor will continue to work actively to ensure regulatory framework conditions that are as optimal as possible for its operations outside Norway.

## ORGANISATION AND PERSONNEL

At year-end 2005, Telenor had 28,500 employees (27,600 man-years), of whom 11,300 were employed in Norway and 17,200 abroad. This reflects an increase of 6,750 employees compared to year-end 2004. As in previous years, Telenor restructured its operations in 2005, with the aim of maximising operational efficiency. This is increasingly important in view of the intensifying competition in the Nordic markets and with respect to products that were formerly highly profitable, such as fixed-line telephony.

At the outset of 2005, Telenor implemented a restructuring of its organisation with the aim of reinforcing and developing its activities in the Nordic region, and at the same time secure further growth in the international mobile market. In order to simplify and strengthen its position in the Nordic market, Telenor established a separate management area for mobile and fixed-line services in the Nordic region, effective from 26 January 2005. At the start of 2006, Telenor's international mobile commitments were split into two regional areas of responsibility, one for Asia and one for Central and Eastern Europe. The heads of each regional area are members of Telenor's Group Management.

Based on the group's strategy for long-term industrial development, Telenor has given greater priority to the process of extracting synergies and of developing its mobile operations through the Global Coordination programme. In view of the importance attached to this work, the head of Global Coordination joined the Group Management at the start of 2006.

Telenor has made a considerable effort to ensure that all organisational restructuring is implemented in the most considerate way possible in relation to the group's employees, and where workforce reductions have been unavoidable, Telenor has introduced appropriate economic support schemes and offered advisory services.

## RISK FACTORS

Telenor's activities are exposed to a number of regulatory, legal, financial and political risks. If Telenor's growth strategy in emerging markets in Central and Eastern Europe as well as Asia is to be successful and inspire the necessary confidence of shareholders and investors, then risk assessments and risk management must form part of the group's core expertise. From the Board's perspective, it is important that the group takes whatever action is necessary to manage and reduce risk factors, thereby ensuring that the overall risk is always kept within acceptable business limits.

Risk factors of this kind are thoroughly assessed by the Board and management in connection with new investments, and they are an ongoing consideration in relation to existing investments. The group has gradually acquired considerable practical experience relating to the establishment and operation of activities in financially constrained areas. When combined with a broad network of contacts, including the Norwegian authorities at home and abroad, the Board believes that this provides a sound basis for undertaking proper risk assessments. The Board has also subsequently carried out a systematic review and evaluation of the company's investments in order to assess the development of individual projects in the light of an updated risk scenario.

Telenor continues to address issues relating to personal safety in the light of changes in the political threats presented in the different countries where Telenor operates. As a result, the responsibility for personal safety has been placed with HR, effective from 2005, with an enhanced focus on contingency plans and the ability to take the necessary action in areas where this is needed. In connection with the recent unrest in Pakistan, the Board considers that the risk assessments made, and the steps taken to protect personnel and technical installations were adequate and satisfactory. The material damage was not significant.

A major challenge and factor of uncertainty in the Norwegian market is presented by new and amended rules and resolutions adopted by regulatory bodies as well as civil actions based on breaches of telecommunications regulations. Internationally, Telenor is exposed to special risk factors in certain countries. Among these risks are political issues, currency fluctuations, legal issues, regulatory matters, partnership risks in joint ventures, etc.

In its international commitments Telenor has sought to balance the risk associated with investments outside Norway by dividing its portfolio between mature and emerging markets.

Telenor is exposed to financial market risks relating to changes in interest rates and exchange rates. Financial instruments are used to hedge against risks of this kind. Telenor has taken the steps necessary to maintain adequate financial flexibility.

## GOOD CORPORATE GOVERNANCE

The Board considers good corporate governance to be a necessary requirement for value creation and trustworthiness, and for access to capital. Telenor's principles for good corporate governance have been developed independently, within the framework of the regulations, requirements and recommendations that the activities are subject to. Telenor ASA is a Norwegian company, but

Telenor is also an international group. Companies outside Norway have separate governing bodies in accordance with local laws and regulations in individual countries. Special focus is on establishing and implementing internal regulations, procedures and processes. Telenor operates in accordance with the Norwegian recommendation for good corporate governance from 2005. More detailed information about Telenor's corporate governance is available on:
www.telenor.com/about/group/cg/

Telenor's shares are listed on Nasdaq in the US, and this involves full compliance with regulations promulgated by the Securities Exchange Commission and Nasdaq, and the Sarbanes-Oxley Act (SOX). As from 2006, Telenor's CEO and CFO will be required to submit a written assessment of the effectiveness of the company's internal control over financial reporting (SOX Section 404). In order to ensure full compliance with these US requirements within the deadline of 31 December 2006, Telenor has initiated a comprehensive, high-priority SOX project.

All employees and associates of Telenor are subject to regulations and guidelines based on Telenor's values. Telenor's Codes of Conduct are applicable to Board members, managers and employees, hired staff and anyone acting on behalf of Telenor. More detailed information about Telenor's Codes of Conduct is available on:
www.telenor.com/csr/telenors/coc/

## COMPOSITION AND WORK OF THE BOARD

Following the death of Einar Førde in September 2004, the Corporate Assembly appointed Paul Bergqvist to the Board on 7 April 2005. None of the Board members, apart from those elected by the employees, are employed by Telenor or engaged in work on behalf of Telenor. Telenor's Board works in accordance with its own Instructions for Board Members and with guidelines for its work and procedures, and the Board has itself carried out an assessment of its activities and competence. It is a matter of considerable importance to the Board to ensure that Telenor has good corporate governance systems. Eleven Board meetings were held in 2005.

## OUTLOOK FOR 2006

The strong subscriber growth in Telenor's mobile operations in 2005 provides the group with a sound basis for further revenue growth. We expect reported revenues to increase by 25 – 30%, based on the current structure.

We also expect high EBITDA growth, mainly driven by the international mobile operations. Telenor will continue the process of identifying initiatives that can contribute to reduce costs. The EBITDA margin for 2006, before other income and expenses, is expected to be around 33%.

We expect high levels of capital expenditure in the coming period, and the ratio of capital expenditure to operating revenues is expected to be above 20%. Capital expenditure is likely to be driven by rapid subscription growth in Telenor's international mobile operations.

A steadily increasing proportion of Telenor's operating revenues and profits are generated by operations outside Norway. Fluctuations in exchange rates will affect the figures reported in NOK to an increasing extent. Political risks, including regulatory matters, can also affect profits, and seasonal variations can also be reflected in the interim results. The Board will be particularly alert to these challenges.

Bærum, 29 March 2006

Thorleif Enger
Chairman of the Board of Directors

Bjørg Ven
Vice-chairman of the Board of Directors

Hanne de Mora
Board member

Jørgen Lindegaard
Board member

Liselott Kilaas
Board member

John Giverholt
Board member

Harald Stavn
Board member

Per Gunnar Salomonsen
Board member

Irma Tystad
Board member

Paul Bergqvist
Board member

Jon Fredrik Baksaas
President & CEO

# Financial statements

# Consolidated Income Statement

**Telenor Group 1 January–31 December**

| NOK in millions, except per share amounts | Note | 2005 | 2004 |
|---|---|---|---|
| **Revenues** | 2 | 68 927 | 60 591 |
| **Operating expenses** | | | |
| Costs of materials and traffic charges | 4 | 17 711 | 15 924 |
| Own work capitalized | 5 | (704) | (557) |
| Salaries and personnel costs | 6,7 | 10 236 | 9 970 |
| Other operating expenses | 8 | 17 606 | 13 871 |
| Other (income) and expenses | 9 | 242 | (152) |
| Depreciation and amortization | 15 | 11 544 | 10 637 |
| Write-downs | 15, 17 | 587 | 3 531 |
| **Operating profit** | | **11 705** | 7 367 |
| Associated companies | 18 | 1 233 | 986 |
| **Financial income and expenses** | | | |
| Financial income | | 447 | 496 |
| Financial expenses | | (1 639) | (1 561) |
| Net currency gains (losses) | | 84 | (87) |
| Change in fair value of financial instruments | | 243 | |
| Net gains (losses and write-downs) of financial items | | 518 | 2 673 |
| **Net financial items** | 13 | **(347)** | 1 521 |
| **Profit before taxes** | | **12 591** | 9 874 |
| Taxes | 14 | (3 453) | (2 461) |
| **Profit from continuing operations** | | **9 138** | 7 413 |
| Profit (loss) from discontinued operations | 1 | (4) | - |
| **Profit from total operations** | | **9 134** | 7 413 |
| Attributable to: | | | |
| Non-controlling interests (Minority interests) | | 1 488 | 1 320 |
| **Equity holders of Telenor ASA (Net income)** | | **7 646** | 6 093 |
| **Earnings per share in NOK** | | | |
| **From continuing operations** | | | |
| Basic | 25 | 4.47 | 3.49 |
| Diluted | 25 | 4.47 | 3.48 |
| **From total operations** | | | |
| Basic | 25 | 4.47 | 3.49 |
| Diluted | 25 | 4.47 | 3.48 |

# Consolidated Balance Sheet

**Telenor Group at 31 December**

| NOK in millions | Note | 2005 | 2004 |
|---|---|---|---|
| **Assets** | | | |
| Deferred tax assets | 14 | 3 052 | 3 357 |
| Goodwill | 16 | 20 700 | 13 354 |
| Other intangible assets | 16 | 21 245 | 11 076 |
| Property, plant and equipment | 16 | 43 958 | 37 543 |
| Associated companies | 18 | 7 424 | 6 602 |
| Financial non-current assets | 20 | 2 267 | 1 249 |
| **Total non current assets** | | **98 646** | 73 181 |
| | | | |
| Current tax assets | | 110 | 207 |
| Inventories | | 695 | 596 |
| Trade and other receivables | 19 | 13 852 | 11 487 |
| Other financial current assets | 20 | 3 619 | 844 |
| Assets held for sale | 1 | 667 | - |
| Cash and cash equivalents | 29 | 6 806 | 5 081 |
| **Total current assets** | | **25 749** | 18 215 |
| | | | |
| **Total assets** | | **124 395** | 91 396 |
| | | | |
| **Equity and liabilities** | | | |
| Equity attributable to equity holders of Telenor ASA | | 46 399 | 40 122 |
| Non-controlling interests (Minority interests) | | 7 134 | 3 946 |
| **Total equity** | | **53 533** | 44 068 |
| | | | |
| **Liabilities** | | | |
| Non-current interest-bearing financial liabilities | 22 | 27 139 | 20 602 |
| Non-current non-interest-bearing financial liabilities | | 580 | 573 |
| Deferred tax liabilities | 14 | 2 669 | 2 292 |
| Provisions etc. | 21 | 3 368 | 3 188 |
| **Total non-current liabilities** | | **33 756** | 26 655 |
| | | | |
| Current interest-bearing financial liabilities | 22 | 11 908 | 3 991 |
| Trade and other payables | 24 | 20 827 | 15 175 |
| Current tax liabilities | | 853 | 321 |
| Current non-interest bearing financial liabilities | 24 | 2 314 | 431 |
| Liabilities held for sale | 1 | 287 | - |
| Provisions etc. | 21 | 917 | 755 |
| **Total current liabilities** | | **37 106** | 20 673 |
| | | | |
| **Total equity and liabilities** | | **124 395** | 91 396 |

Bærum, 29 March 2006

Thorleif Enger
Chairman of the Board of Directors

Bjørg Ven
Vice-chairman of the Board of Directors

Hanne de Mora
Board member

Jørgen Lindegaard
Board member

Liselott Kilaas
Board member

John Giverholt
Board member

Harald Stavn
Board member

Per Gunnar Salomonsen
Board member

Irma Tystad
Board member

Paul Bergqvist
Board member

Jon Fredrik Baksaas
President & CEO

# Consolidated Cash Flow Statement

**Telenor Group 1 January–31 December**

| NOK in millions | Note | 2005 | 2004 |
|---|---|---|---|
| Proceeds from sale of goods and services | | 69 853 | 61 107 |
| Payments to suppliers of goods and services and of other operating expenses | | (35 461) | (30 639) |
| Payments to employees, pensions, social security tax and tax deductions | | (9 635) | (9 280) |
| Proceeds from interest income | | 347 | 323 |
| Proceeds from other financial income | | 162 | 590 |
| Payments of interest expenses | | (1 563) | (1 361) |
| Payments of other financial expenses | | (49) | (67) |
| Other proceeds and payments related to operating activities | | 4 | (22) |
| Payment of income taxes and public duties | | (1 318) | (1 660) |
| **Net cash flow from operating activities** [1] | | **22 340** | 18 991 |
| Proceeds from sale of property, plant and equipment and intangible assets | | 539 | 263 |
| Purchase of property, plant and equipment and intangible assets | | (14 213) | (11 613) |
| Cash receipts from sale of subsidiaries and associated companies, net of cash sold | 29 | 740 | 849 |
| Cash payments on purchase of subsidiaries and associated companies, net of cash purchased | 29 | (8 128) | (6 281) |
| Proceeds from sale of other investments | | 1 539 | 3 960 |
| Payments for other investments | | (475) | (209) |
| **Net cash flow from investment activities** | | **(19 998)** | (13 031) |
| Proceeds from non-current liabilities | | 5 718 | 2 486 |
| Proceeds from current liabilities | | 6 057 | 55 |
| Payments on non-current liabilities | | (4 724) | (6 044) |
| Payments on current liabilities | | (2 876) | (808) |
| Proceeds from issuance of shares, inclusive from minority interests | | 74 | 47 |
| Shares buy back | | (2 267) | (2 020) |
| Payment of equity and dividends to minorities in subsidiaries | | (219) | (207) |
| Payment of dividends | | (2 595) | (1 764) |
| **Net cash flow from financing activities** | | **(832)** | (8 255) |
| Effect on cash and cash equivalents of changes in foreign exchange rates | | 215 | (268) |
| **Net change in cash and cash equivalents** | | **1 725** | (2 563) |
| Cash and cash equivalents as of 1 January | | 5 081 | 7 644 |
| **Cash and cash equivalents as of 31 December** | 29 | **6 806** | 5 081 |

[1] **Reconciliation**

| | | 2005 | 2004 |
|---|---|---|---|
| Profit after taxes | | 9 134 | 7 413 |
| Profit after taxes from discontinued operations | | 4 | - |
| Taxes | | 3 453 | 2 461 |
| **Profit before taxes** | | **12 591** | 9 874 |
| Income taxes paid | | (1 369) | (1 516) |
| Net (gain) loss including write-downs and change in fair value of financial items | | (929) | (3 161) |
| Depreciation, amortization and write-downs | | 12 131 | 14 168 |
| Associated companies | | (1 233) | (986) |
| Changes in inventories | | (37) | (79) |
| Changes in accounts receivable and prepayments from customers | | 1 659 | 95 |
| Changes in accounts payable and prepaid expenses | | 407 | 237 |
| Difference between expensed and paid pensions | | 211 | 267 |
| Currency (gains) losses not relating to operating activities | | (18) | 57 |
| Change in other accruals | | (1 073) | 35 |
| **Net cash flow from operating activities** | | **22 340** | 18 991 |

Value added tax is regarded as collection of tax on behalf of the authorities and reported net. Received dividends are included in line item “Proceeds from other financial income”.

# Consolidated statements of Changes in Equity

**for the years ended 31 december 2004 and 2005 – Telenor Group**

| NOK in millions | Attributable to equity holders of Telenor ASA | | | | | | |
|---|---|---|---|---|---|---|---|
| | [1] Total paid capital | [1] Other reserves | Retained earnings | [1] Cumulative translation differences | Total | Minority interest | Total equity |
| **Balance as of 1 January 2004 – Restated according to IFRS [*]** | **29 311** | **(732)** | **9 084** | **-** | **37 663** | **3 420** | **41 083** |
| Translation differences | - | - | - | (321) | (321) | (419) | (740) |
| Business combinations and increased ownership interests in subsidiaries | - | 871 | - | - | 871 | - | 871 |
| Equity adjustments in associated companies | - | 62 | - | - | 62 | - | 62 |
| Tax on items taken directly to or transferred from equity | - | (253) | - | (284) | (537) | - | (537) |
| **Net income (loss) recognized directly in equity** | **-** | **680** | **-** | **(605)** | **75** | **(419)** | **(344)** |
| Profit for the year 2004 | - | - | 6 093 | - | 6 093 | 1 320 | 7 413 |
| **Total recognized income and expense for the period** | **-** | **680** | **6 093** | **(605)** | **6 168** | **901** | **7 069** |
| Dividends | - | - | (1 764) | - | (1 764) | (373) | (2 137) |
| Share buy back | (2 020) | - | - | - | (2 020) | - | (2 020) |
| Sale of shares, share issue, and share options to employees | 59 | 16 | - | - | 75 | 3 | 78 |
| Transactions with minorities in subsidiaries | - | - | - | - | - | (5) | (5) |
| **Balance as of 31 December 2004** | **27 350** | **(36)** | **13 413** | **(605)** | **40 122** | **3 946** | **44 068** |
| Total changes in accounting policy (IAS 32 and 39) [*] | - | 661 | (208) | - | 453 | 8 | 461 |
| **Adjusted equity as of 1 January 2005** | **27 350** | **625** | **13 205** | **(605)** | **40 575** | **3 954** | **44 529** |
| Translation differences | - | - | - | 525 | 525 | 441 | 966 |
| Business combinations and increased ownership interests in subsidiaries | - | 1 829 | - | - | 1 829 | - | 1 829 |
| Available-for-sale investments: | | | | | | | |
| – Valuation gains (losses) taken to equity | - | 1 440 | - | - | 1 440 | 20 | 1 460 |
| – Transferred to profit or loss on sale | - | (388) | - | - | (388) | (24) | (412) |
| Cash flow hedges: | | | | | | | |
| – Valuation gains (losses) taken to equity | - | (172) | - | - | (172) | 3 | (169) |
| – Transferred to profit or loss for the period | - | (13) | - | - | (13) | - | (13) |
| – Transferred to initial carrying amount of hedged items | - | 209 | - | - | 209 | - | 209 |
| Equity adjustments in associated companies | - | 1 | - | - | 1 | - | 1 |
| Tax on items taken directly to or transferred from equity | - | (459) | - | (12) | (471) | (1) | (472) |
| **Net income (loss) recognized directly in equity** | **-** | **2 447** | **-** | **513** | **2 960** | **439** | **3 399** |
| Profit for the period | - | - | 7 646 | - | 7 646 | 1 488 | 9 134 |
| **Total recognized income and expenses for the period** | **-** | **2 447** | **7 646** | **513** | **10 606** | **1 927** | **12 533** |
| Dividends | - | - | (2 595) | - | (2 595) | (171) | (2 766) |
| Share buy back | (2 267) | - | - | - | (2 267) | - | (2 267) |
| Sale of shares, share issue, and share options to employees | 74 | 6 | - | - | 80 | 5 | 85 |
| Transactions with minorities in subsidiaries | - | - | - | - | - | 1 419 | 1 419 |
| **Balance as of 31 December 2005** | **25 157** | **3 078** | **18 256** | **(92)** | **46 399** | **7 134** | **53 533** |

[1] See note 36.
[*] See note 37.

| **Dividends** | **2005** | **2004** |
|---|---|---|
| Dividend per share in NOK – paid | 1.50 | 1.00 |
| Dividend per share in NOK – proposed by the Board of Directors | 2.00 | 1.50 |

Total dividends of NOK 2,595 million and NOK 1,764 million was paid in June 2005 and May 2004, respectively.

In respect of 2005, the directors propose that a dividend of NOK 2.00 per share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 23 May 2006, which is the date of the Annual General Meeting. The total estimated dividend to be paid is NOK 3.4 billion. Dividends will not be paid on own shares as of the date of the Annual General Meeting.

Equity available for distribution as dividends from Telenor ASA was NOK 13,259 million as of 31 December 2005.

# Non-controlling (Minority) Interests

| NOK in millions | Minority share in % 31.12.05 | Minority part of net income 2005 | Minority part of net income 2004 | Minority interests in the balance sheet 31.12.05 | Minority interests in the balance sheet 1.1.05 | Minority interests in the balance sheet 31.12.04 |
|---|---|---|---|---|---|---|
| Kyivstar GSM JSC | 43.5 | 827 | 588 | 2 348 | 1 255 | 1 255 |
| DiGi.Com bhd | 39.0 | 288 | 187 | 1 645 | 1 190 | 1 190 |
| GrameenPhone Ltd. | 38.0 | 219 | 410 | 648 | 528 | 528 |
| DTAC/UCOM | 25.0/13.8 | 42 | – | 1 345 | – | – |
| EDB Business Partner ASA | 48.2 | 89 | 111 | 856 | 788 | 788 |
| Telenor Venture IV AS | 49.0 | 5 | – | 155 | 60 | 52 |
| Other | – | 18 | 24 | 137 | 133 | 133 |
| **Total** | | **1 488** | **1 320** | **7 134** | **3 954** | **3 946** |

The change from 31.12.2004 to 1.1.2005 was the implementation of IAS 32 and 39.

In the third quarter of 2005, Telenor sold 29.0% of the shares in the subsidiary Telenor Venture IV AS. During the fourth quarter of 2005, Telenor increased its economic stake in the previous associated companies DTAC/UCOM. See note 1 in the fourth quarter of 2004, Telenor increased its ownership interest in GrameenPhone Ltd. In April 2004, Telenor increased its ownership interest in Kyivstar GSM JSC. At the end of December 2004, Telenor sold 20.0% of the shares in the subsidiary Telenor Venture IV AS.

# Consolidated Statement of Profit and Loss According to Norwegian GAAP

**Telenor Group January 1—December 31**

| NOK in millions, except per share amounts | 2004 | 2003 |
|---|---|---|
| Revenues | 60 752 | 52 889 |
| Gains on disposal of fixed assets and operations | 550 | 232 |
| **Total revenues** | **61 302** | 53 121 |
| **Operating expenses** | | |
| Costs of materials and traffic charges | 16 070 | 13 094 |
| Own work capitalized | (557) | (571) |
| Salaries and personnel costs | 10 021 | 9 561 |
| Other operating expenses | 14 873 | 12 506 |
| Losses on disposal of fixed assets and operations | 74 | 229 |
| Depreciation and amortization | 11 623 | 10 597 |
| Write-downs | 2 596 | 145 |
| **Total operating expenses** | **54 700** | 45 561 |
| **Operating profit (loss)** | **6 602** | 7 560 |
| **Associated companies** | 718 | 1 231 |
| **Financial income and expenses** | | |
| Financial income | 496 | 586 |
| Financial expenses | (1 534) | (2 023) |
| Net currency loss | (87) | (1) |
| Net gain (loss and write-downs) of financial items | 2 651 | 73 |
| **Net financial items** | **1 526** | (1 365) |
| **Profit (loss) before taxes and minority interests** | **8 846** | 7 426 |
| Taxes | (2 244) | (2 376) |
| **Profit (loss) before minority interests** | **6 602** | 5 050 |
| Minority interests | (1 244) | (490) |
| **Net income (loss)** | **5 358** | 4 560 |
| Net income (loss) per share in NOK (basic), excluding treasury shares | 3.07 | 2.57 |
| Net income (loss) per share in NOK (diluted), excluding treasury shares | 3.06 | 2.57 |

# Consolidated Balance Sheet According to Norwegian GAAP

**Telenor Group at December 31**

| NOK in millions | 2004 | 2003 |
|---|---|---|
| **Assets** | | |
| Deferred tax assets | 2 999 | 3 850 |
| Goodwill | 12 963 | 9 224 |
| Other intangible assets | 10 001 | 5 536 |
| Tangible assets | 37 676 | 35 722 |
| Associated companies | 6 428 | 10 166 |
| Other financial assets | 1 292 | 3 848 |
| **Total fixed assets** | **71 359** | 68 346 |
| | | |
| Inventories | 596 | 504 |
| Current receivables, etc. | 10 165 | 9 232 |
| Current investments | 893 | 384 |
| Cash and cash equivalents | 5 081 | 7 644 |
| **Total current assets** | **16 735** | 17 764 |
| | | |
| **Total assets** | **88 094** | 86 110 |
| | | |
| **Equity and liabilities** | | |
| Shareholder's equity | 37 594 | 37 237 |
| Minority interests | 4 074 | 3 646 |
| **Total equity and minority interests** | **41 668** | 40 883 |
| | | |
| **Liabilities** | | |
| **Provisions** | **3 120** | 1 645 |
| | | |
| Non-current interest-bearing liabilities | 20 602 | 22 703 |
| Non-current non-interest-bearing liabilities | 572 | 754 |
| **Total non-current liabilities** | **21 174** | 23 457 |
| | | |
| Current interest-bearing liabilities | 3 991 | 3 059 |
| Current non-interest-bearing liabilities | 18 141 | 17 066 |
| **Total current liabilities** | **22 132** | 20 125 |
| | | |
| **Total equity and liabilities** | **88 094** | 86 110 |
| | | |
| Assets pledged | 8 752 | 8 148 |
| Guarantee liabilities | 2 169 | 2 557 |

# Consolidated Cash Flow Statement According to Norwegian GAAP

**Telenor Group January 1–December 31**

| NOK in millions | 2004 | 2003 |
|---|---|---|
| Proceeds from sale of goods and services | 61 107 | 53 208 |
| Payments to suppliers of goods and services and of other operating expenses | (30 639) | (25 714) |
| Payments to employees, pensions, social security tax and tax deductions | (9 280) | (9 400) |
| Interest etc. received | 913 | 1 318 |
| Interest etc. paid | (1 428) | (2 494) |
| Other proceeds and payments related to operating activities | (22) | (131) |
| Payment of taxes and public duties | (1 660) | (3 111) |
| **Net cash flow from operating activities** [1] | **18 991** | **13 676** |
| | | |
| Proceeds from sale of tangible and intangible assets | 263 | 523 |
| Purchase of tangible and intangible assets | (11 613) | (6 536) |
| Cash receipts from sale of subsidiaries and associated companies, net of cash transferred | 849 | 2 327 |
| Cash payments on purchase of subsidiaries and associated companies, net of cash received | (6 281) | (506) |
| Proceeds from sale of other investments | 3 960 | 1 072 |
| Payments for other investments | (209) | (334) |
| **Net cash flow from investment activities** | **(13 031)** | **(3 454)** |
| | | |
| Proceeds from non-current liabilities | 2 486 | 779 |
| Proceeds from current liabilities | 55 | 311 |
| Payments on non-current liabilities | (6 044) | (4 990) |
| Payments on current liabilities | (808) | (3 122) |
| Proceeds from issuance of shares, inclusive from minority interests | 47 | 32 |
| Shares buy back | (2 020) | (7) |
| Payment of dividends | (1 971) | (890) |
| **Net cash flow from financing activities** | **(8 255)** | **(7 887)** |
| | | |
| Effect on cash and cash equivalents of changes in foreign exchange rates | (268) | 45 |
| **Net change in cash and cash equivalents** | **(2 563)** | **2 380** |
| Cash and cash equivalents as of 1 January | 7 644 | 5 264 |
| **Cash and cash equivalents as of December** | **5 081** | **7 644** |
| | | |
| [1] **Reconciliation** | | |
| Net income | 5 358 | 4 560 |
| Minority interests | 1 244 | (490) |
| Taxes | 2 244 | (2 376) |
| **Profit before taxes and minority interests** | **8 846** | **7 426** |
| Taxes paid | (1 516) | (3 283) |
| Net (gain) loss including write-downs of financial items | (3 127) | (76) |
| Depreciation, amortization and write-downs | 14 219 | 10 742 |
| Associated companies | (718) | (1 231) |
| Changes in inventories | (79) | 3 |
| Changes in accounts receivable and prepayments from customers | 387 | 1 017 |
| Changes in accounts payable and prepaid expenses | 237 | 119 |
| Difference between expensed and paid pensions | 362 | 134 |
| Currency (gains) losses not relating to operating activities | 57 | (78) |
| Change in other accruals | 323 | (1 097) |
| **Net cash flow from operating activities** | **18 991** | **13 676** |

## General information

Telenor ASA (the Company) is a limited company incorporated in Norway on 21 July 2000. The Company is subject to the provisions of the Norwegian Act relating to Public Limited Liability Companies. The Company's principal offices are located at Snarøyveien 30, N-1331 Fornebu, Norway. Telephone number: +47 810 77 000. The principal activities of the Company and its subsidiaries (the Group) are described under segments below.

From 1 January 2005, as required by the European Union's IAS Regulation and the Accounting Act, the Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). IFRS as adopted by the EU differ in certain respects from IFRS as issued by the International Accounting Standards Board ("IASB"). However, the consolidated financial statements for the periods presented would be no different had the Company applied IFRS as issued by the IASB. References to "IFRS" hereafter should be construed as references to IFRS as adopted by the EU. The financial statements have been prepared on the historical cost basis, except for financial assets available for sale (primarily shares owned less than 20%) and derivative financial instruments, which are carried at fair value. The Group has not elected to revalue Property, Plant and Equipment and Intangible assets. The principal accounting principles adopted are set out below.

According to the Stock Exchange Regulations the Group's income statement, balance sheet and Cash Flow statements for 2004 and 2003 according to Norwegian Generally Accepted Accounting Principles (N GAAP) are included as separate statements. The Financial Statements for 2003 are not reconciled to IFRS.

The Group's accounting principles differ, in certain respects, from United States Generally Accepted Accounting Principles (US GAAP). The differences are set forth in note 38.

## Adoption of International Financial Reporting Standards

Regulations of the European Union (EU) require that publicly listed companies within the EU prepare their consolidated financial statements in accordance with "International Financial Reporting Standards" (IFRS) for accounting periods commencing on or after 1 January 2005. Due to the European Economic Area (EEA) agreement, Norwegian listed companies are also required to follow IFRS. Telenor's first IFRS financial statements are for the year ending 31 December 2005 and include the comparative period for 2004.

The main changes in accounting principles when preparing Telenor's financial statements according to IFRS compared to N GAAP are found in note 37.

## Summary of significant accounting policies

At the date of authorisation of these financial statements, the following Standards and Interpretations that could affect Telenor were issued but not effective:

- IAS 19 Employee Benefits – amendments issued in December 2004 (shall be applied from the year beginning on 1 January 2006)
- IAS 1 Amendment (August 2005) – Capital Disclosures (shall be applied from from the year beginning on 1 January 2007)
- IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (shall be applied from the year beginning on 1 January 2006)
- IFRS 7 Financial Instruments – Disclosures (shall be applied from from the year beginning on 1 January 2007)

The management anticipate to adopt these Standards and Interpretations at the dates stated above and anticipate that the adoption in future periods will have no material impact on the financial statements of the Group.

Telenor has implemented IFRIC 4 – Determining whether an Arrangement contains a Lease (shall be applied from the year beginning on 1 January 2006).

### Basis of consolidation and non-controlling interests

The consolidated financial statements incorporate the financial statements of Telenor ASA and entities controlled by Telenor ASA (subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Control normally exists when Telenor has more than 50% voting power through ownership or agreements.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Intercompany transactions, balances, revenues and expenses are eliminated on consolidation.

Non-controlling (minority) interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the business combination (see below) and the non-controlling interests' share of changes in equity since the date of the combination.

### Business combinations

The acquisition of subsidiaries is accounted for using the acquisition method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, in exchange for control of the acquiree, plus any costs directly attributable to the business combination. If parts or whole of the purchase price has been hedged, and cash flow hedge accounting is applicable according to IAS 39, the gain or loss on the hedge instrument is included in the purchase price.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale. Goodwill arising on acquisition is recognised as an asset at the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling shareholders' proportion of the net fair value of the assets (excluding goodwill), liabilities and contingent liabilities recognised.

The increase in value of identifiable assets and liabilities between the time of consolidation and subsequent share purchase is recorded against the shareholders' equity. The increase of goodwill is capitalized for every acquisition.

Increases in non-controlling interests from a subsidiary's equity transactions and sale of shares in a subsidiary are recorded at fair value as non-controlling interests. The difference between the non-controlling interests measured at fair value and the recorded equity in the subsidiary is amortized or written-down through allocating results to the non-controlling interests.

## Investments in associated companies

An associate is an entity over which the Group has significant influence and that is not a subsidiary. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies. Significant influence normally exists when Telenor has 20% to 50% voting power through ownership or agreements.

The results and assets and liabilities of associated companies are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associated companies are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associated companies (i.e. profit or loss and equity adjustments), less any impairment in the value of individual investments. Losses of associated companies in excess of the Group's interest in such companies, including any non-current interests that, in substance, form part of the Group's net investment in the associated companies are not recognised unless the Group has incurred legal or constructive obligations or made payments on behalf of the associated companies.

Any goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Where a Group entity transacts with an associate of the Group, profits or losses are eliminated to the extent of the Group's interest in the relevant associated company.

The net result of associated companies, including amortization and write-downs and gains and losses on disposals, are included as a separate line item in the income statement between operating profit (loss) and financial items. For some associated companies, especially those that are listed (see note 18), financial statements as of the Group's balance sheet date are not available. In such instances, the most recent financial statements (as of a date not more than three months prior to the Group's balance sheet date) are used, and estimates for the last period are made based on publicly available information.

## Goodwill and cash generating units

IFRS 3 has been adopted for business combinations for which the agreement date is on or after 1 January 2004.

Goodwill (see business combinations) is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

A cash-generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In identifying whether cash inflows from an asset (or group of assets) are largely independent of the cash inflows from other assets (or groups of assets), the Group considers various factors including how management monitors the entity's operations (such as by product or service lines, businesses, geographical areas). The Group has identified that a CGU often will be the separate networks in the separate geographical areas (countries), distinguishing between different technologies (mobile, fixed and broadcast).

Goodwill does not generate cash flows independently of other assets or groups of assets and is allocated to the CGUs expected to benefit from the synergies of the combination that gave rise to the goodwill. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount (the higher of fair value less cost to sell and value in use) of the CGU is less than the carrying amount of the unit, the impairment loss does first reduce the carrying amount of any goodwill and then reduce the carrying amount of the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill cannot be reversed in a subsequent period if the fair value of the CGU recovers. Any impairment is included in write-downs in the income statement.

On disposal of businesses, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

## Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups are classified as held for sale according to IFRS 5 if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group that either has been disposed of, or is classified as held for sale, and represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

## Revenue recognition and measurement

Revenues are measured at the fair value of the consideration received or receivable, net of discounts and sales related taxes. Revenues are reported gross with a separate recording of expenses to vendors of products or services. However, when Telenor only acts as an agent or broker on behalf of suppliers of products or services, revenues are reported on a net basis.

Revenues primarily comprise sale of

- Services: traffic fees, subscription and connection fees, interconnection fees, fees for leased lines and leased networks, fees for data network services, fees for TV distribution and satellite services, IT-operations,
- customer equipment: Telephony handsets, PCs, terminals, set-top boxes etc., and
- software

Revenues from subscription fees are recognized over the subscription period while delivery of other services is normally recognized based on actual usage. Revenues from operating services are recognized on the basis of actual use for volume-based contracts, and on a linear basis over the contract period for term-based contracts.

Revenues from sale of customer equipment are normally recognized when products are delivered to customers.

### Connection fees

Revenues from connection that do not represent a separate earnings process are deferred and recognized over the periods that the fees are earned which is the expected period of the customer relationship. The expected period of the customer relationship is based on past history of churn, and expected development based on recent development or experience from other Group companies.

When connection fees are charged in arrangements where discounts is provided on other elements in the transaction (including multiple element transactions) connection fee has been allocated to sale of the rebated equipment or services, limited to the amount of the discount, and therefore recognized as revenue at the same time the equipment or services is recognized as revenue.

Multiple element arrangements
Revenue arrangements with multiple deliverables are divided into separate units of accounting if the delivered item has value to the customer on a standalone basis and there is objective and reliable evidence of the fair value of undelivered items. Arrangement consideration is allocated based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or other specified performance criteria, which most often is the amount received in cash at the time of sale. In most instances the delivered element is equipment, and the equipment is recorded with low revenue, potentially including connection fee, due to discounts provided. The subsequent services are recorded at the normal selling price or at a discounted value, depending on the facts and circumstances.

Sale of software
Revenue from sale of software licenses and software upgrades is deferred and recognized as revenue over the remaining software maintenance period when the customer does not have the right to use the software without software maintenance from the Group. In addition, in conjunction with these contracts, the Group may develop additional applications that are not essential to the use of the software. These development fees are also deferred and recognized as revenue over the remaining software maintenance period.

Discounts
Discounts are often provided in the form of cash discount, free products or services delivered by the Group or by external parties. Discounts are recorded on a systematic basis over the period the discount is earned. Cash discounts or free products are recorded as revenue reductions. Free products or services delivered by external parties are recorded as expenses.

For discount schemes (loyalty programs etc), if the Group has past history to be able to make a reliable estimate the accrued discount is limited to the estimated discount that will actually be earned. The exact amount and earnings period of the discount often must be based on estimation techniques, with potentially changes recorded in the period the estimate changes or the final outcome is known.

Interest and dividend income
Interest income is accrued on a time basis. Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

## Pensions
Defined benefit plans are valued at the present value of accrued future pension benefits at the balance sheet date. Pension plan assets are valued at their fair value. Changes in the pension obligations due to changes in pension plans are recognized over the estimated average remaining service period. Accumulated effects of changes in estimates, changes in assumptions and deviations from actuarial assumptions (actuarial gains or losses) that are less than 10% of the higher of pension benefit obligations and pension plan assets at the beginning of the year is not recorded. When the accumulated effect is above 10% the excess amount is recognized in the income statement over the estimated average remaining service period. The net pension cost for the period is classified as salaries and personnel costs.

Payments to defined contribution plans are expensed as incurred. When sufficient information is not available to use defined benefit accounting for a multi-employer plan that is a defined benefit plan, the plan is accounted for as if it were a defined contribution plan.

The Group recognized all cumulative actuarial gains and losses on pension obligations at the date of transition to IFRS (1 January 2004).

Gains or losses on the curtailment or settlement of a defined benefit plan are recognized when the curtailment or settlement occurs. A curtailment occurs when the Group either is demonstrably committed to make a material reduction in the number of employees covered by a plan; or amends the terms of a defined benefit plan such that a material element of future service by current employees will no longer qualify for benefits, or will qualify only for reduced benefits.

## Leasing
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The evaluation is based on the substance of the transaction. However, situations that individually would normally lead the Group to classify a lease as a finance lease is if the lease term is more than 75% of the estimated economic life or the present value of the minimum lease payments exceeds 90% of the fair value of the leased asset.
According to IFRIC 4 the Group may enter into an arrangement that does not take the legal form of a lease but conveys a right to use an asset in return for a payment or series of payments. Determining whether an arrangement is, or contains, a lease shall be based on the substance of the arrangement and requires an assessment of whether: (a) fulfilment of the arrangement is dependent on the use of a specific asset; and (b) the arrangement conveys a right to use the asset.

The Group as lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease is added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee
Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term. Prepaid lease payments made on entering into operating leases or acquiring leaseholds are amortized over the lease term in accordance with the pattern of benefits provided and included in the line item "depreciation and amortization" in the income statement.

## Foreign currency translation
The consolidated financial statements are presented in Norwegian Krone, which is the Telenor ASA's functional and presentation currency. The Group has foreign entities with functional currency other than Norwegian Krone. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity, or monetary items that are regarded as a part of the net investments. These are taken directly to a separate component of equity until the disposal of the net investment, at which time they are recognised in profit or loss.
Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in equity. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions.

As at the reporting date, the assets and liabilities of foreign entities with functional currencies other than Norwegian Krone are translated into Norwegian Krone at the rate of exchange ruling at the balance sheet date and their income statements are translated at the weighted average exchange rates for the year. The translation differences arising on the translation are taken directly to a separate component of equity until the disposal of the net investment, at which time they are recognised in profit or loss. Cumulative translation differences are deemed to be zero at the date of transition to IFRS, and are kept permanently in equity.

### Derivative financial instruments and hedging

The group uses derivative financial instruments such as forward currency contracts, interest rate swaps, cross currency interest rate swaps and interest rate options to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative, as long as Telenor has no intention or ability to settle the contracts net. Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken to profit or loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risk and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in profit or loss. Currency derivatives embedded in committed purchase or sales contracts are not separated and fair valued if the currency in the contract is either the functional currency of one of the parties to the contract or is a commonly used currency for purchase or sales in the relevant country.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to change in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedge item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation.

The Group use fair value hedge primarily to hedge interest rate risk of fixed-rate interest-bearing liabilities and currency risk for interest-bearing liabilities.

#### Cash flow hedges

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

The Group uses cash flow hedges primarily to hedge interest rate risk of variable-rate interest-bearing liabilities and highly probable transactions such as purchase of a foreign entity and significant investments in foreign currency.

#### Hedges of a net investment

Hedge of a net investment in a foreign entity is accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign entity, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

### Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered or paid to the tax authorities. Deferred tax assets and liabilities are calculated using the liability method with full allocation for all temporary differences between the carrying amount of assets and liabilities in the financial statements and for tax purposes, including tax losses carried forward. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Telenor includes deductions for uncertain tax positions when it is probable that the tax position will be sustained in a tax review. Telenor make provisions to cover in full all changes in Telenor's tax assessments, pending the final outcome of Telenor's appeal against the disallowed deductions. Legal disputes concerning tax positions that are not finally settled in the Group's favour is also fully provided for. Deferred tax assets are recorded in the balance sheet to the extent it is more likely than not that the tax assets will be utilized. The enacted tax rates at the balance sheet date and undiscounted amounts are used.

Deferred tax assets that will be realized upon sale or liquidation of subsidiaries or associated companies are not recorded until a sales agreement has been entered into or liquidation is decided. Deferred taxes are calculated on undistributed earnings in foreign subsidiaries and associated companies based on the estimated taxation on transfer of funds to the parent company, based on the enacted tax rates and regulation as of the date of the balance sheet.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and the Group intends to settle its current tax assets and liabilities on a net basis.

### Current/non-current
An asset/liability is classified as current when it is expected to be realised/settled or is intended for sale or consumption in the Group's normal operating cycle, or it is expected/due to be realised or settled within twelve months after the balance sheet date. Connection revenues and related costs for connection limited to the deferred connection revenues are deferred over the estimated customer relationship. Deferred revenues and costs for connection are classified as current as they relate to the Group's normal operating cycle. Other assets/liabilities are classified as non-current.

### Trade receivables
Trade receivables are measured on initial recognition at fair value. Appropriate allowances for estimated irrecoverable amounts taking account of the historic evidence of the level of bad debt experienced for customer types are recognized in profit or loss when there is a loss event and objective evidence that the asset is impaired.

### Investments
Investments are initially measured at fair value, plus directly attributable transaction costs.

Investments, primarily shares owned less than 20%, are classified as available-for-sale and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

### Cash and cash equivalents
Cash and cash equivalents include cash, bank deposits, fixed rate bonds and commercial paper with original maturity of three months or less.

### Interest-bearing liabilities
Interest-bearing bonds and commercial paper, bank loans and overdrafts are initially measured at fair value net of transaction costs, and are subsequently measured at amortised cost, using the effective interest-rate method. In addition, where fair value hedge accounting is applied the hedged liability is also adjusted for gains and losses attributable to the risk being hedged. On extinguishment of debt in whole or in part the difference between the carrying amount of the liability extinguished and the consideration paid is recognized in profit or loss.

### Costs related to connection fees
Initial direct costs incurred in earning connection fees are deferred over the same period as the revenue, limited to the amount of the deferred revenue. Costs incurred consist primarily of the first payment of distributor commission, costs for credit check, cost of the SIM card, the cost of the printed new customer information package, costs of installation work and expenses for order handling. In most instances costs associated with connection fees exceed such revenues.

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

### Advertising costs, marketing and sales commissions
Advertising costs, marketing and sales commissions are expensed as incurred, unless they form part of the costs that are deferred in relation to deferral of connection fees.

### Property, plant and equipment
Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated to reduce the cost of assets, other than land, to their estimated residual value, if any, over their estimated useful lives. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised. Depreciation commences when the assets are ready for their intended use.

Assets held under finance leases and leasehold improvements are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the other (income) expense line as part of operating profit or loss.

Estimated useful life, depreciation method and residual value are evaluated at least annually. The straight-line depreciation method is used for most assets as this best reflects the consumption of the assets, which often is the passage of time. Residual value is estimated to be zero for most assets, except for commercial buildings and vehicles that the Group do not expected to use for the remaining economic life.

Repair and maintenance is expensed as incurred. If new parts are capitalized, replaced parts are derecognized and any remaining net book value is charged to operating profit (loss) as loss on disposal.

### Research and development costs
Development costs associated with internal-use software are capitalized and amortized over their expected useful life to the extent that they satisfy the criteria for recognition as assets. Costs incurred during the preliminary project stage, as well as maintenance and training costs are expensed as incurred.

Other research and development costs are expensed as incurred.

### Impairment of property, plant and equipment and intangible assets excluding goodwill
If there are identified indications that property, plant and equipment or intangible assets have suffered an impairment loss, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Intangible assets not yet brought into use (assets under construction) are assessed annually. Where it is not possible to estimate the recoverable amount of an individual asset, the Group determines the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

### Assets retirement obligations
An asset retirement obligation exists where Telenor has a legal or constructive obligation to settle an asset retirement obligation. Where

Telenor is required to settle an asset retirement obligation, Telenor has estimated and capitalized the net present value of the obligations and increased the carrying value of the related long-lived asset, with an amount equal to the depreciated value of the asset retirement obligation. Subsequent to the initial recognition, an accretion expense is recorded relating to the asset retirement obligation, and the capitalized cost is expensed as ordinary depreciation in accordance with the related asset. The effect on net present value of any subsequent changes to gross removal costs or discount rates adjust the carrying value of assets and liabilities, and are expensed over the remaining estimated useful life of the related assets.

### Share options and employee stock ownership program

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The Group also has provided employees with the ability to purchase the Group's ordinary shares at a discount to the current market value. The Board of Directors decides such employee stock ownership grants from time to time. Discounts in the employee stock ownership program are recorded as salaries and personnel costs when the discount is given to the extent that the discount is vested. Non-vested discounts, including bonus shares, are recorded as an expense based on its estimate of the discount related to shares expected to vest, on a straight-line basis over the vesting period.

Social security tax on options and other share-based payments is recorded as a liability and is recognized over the estimated option period.

Payments from employees for shares, which are issued by Telenor ASA under the option plan or the employee stock ownership program, are recorded as an increase in shareholders equity. Payments from employees for shares, which are issued under the non-wholly owned subsidiaries' option plans (EDB Business Partner ASA), are recorded as an increase in non-controlling interests.

### Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

### Cash Flow Statement

The Group present Cash Flow Statement using the Direct method. Cash inflows and outflows are shown separately. Interest received and paid and dividends received are reported as a part of operating activities. Dividends distributed (both by Telenor ASA and by subsidiaries with minority interests) are included as a part of financial activities. Value Added Tax is regarded as collection of tax on behalf of authorities, and is reported net.

### Non-monetary transactions

For transactions subsequent to 1 January 2005, the cost of items of property, plant and equipment acquired in exchange for a non-monetary asset is measured at fair value unless (a) the exchange transaction lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Acquisition of licenses is regarded as intangible assets that should be capitalized and recorded in the balance sheet. The payment plan is a financing arrangement and the fair value of the asset acquired is the discounted value of the cash consideration. The net present value of the installments to be paid subsequent years is recorded in the balance sheet as a liability.

## Critical accounting judgments and key sources of estimation uncertainty

### Critical judgments in applying the entity's accounting policies

In the process of applying the entity's accounting policies, which are described above, judgments made by the management that have the most significant effect on the amounts recognized in the financial statements are discussed in the relevant notes below.

### Key sources of estimation uncertainty – critical accounting estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Certain amounts included in or affecting our financial statements and related disclosure must be estimated, requiring us to make assumptions with respect to values or conditions which cannot be known with certainty at the time the financial statements are prepared. A "critical accounting estimate" is one which is both important to the portrayal of the company's financial condition and results and requires management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We evaluate such estimates on an ongoing basis, based upon historical results and experience, consultation with experts, trends and other methods we consider reasonable in the particular circumstances, as well as our forecasts as to how these might change in the future

#### Revenue recognition

The main part of our revenues is based on usage, such as traffic or periodic subscriptions. We have many subscribers and offer a number of different services with different price plans.

We provide discounts of various types, often in connection with different campaigns. We also sell wholesale products to other operators and vendors within the different countries and across borders. We have to make a number of estimates related to recognizing revenues. To some extent, we have to rely on information from other operators on amounts of services delivered. For some services, the other parties may dispute the prices we charge. We then make estimates of the final outcome. Some revenue is recorded in the balance sheet as deferred revenue, eg some connection fee. We have to estimate the average customer relationship as the deferral period.

#### Impairment

We have made significant investments in property, plant and equipment, intangible assets and goodwill, associated companies and other investments. These assets and investments are tested for impairment when circumstances indicate there may be a potential impairment. Factors we consider important which could trigger an impairment review include the following, significant fall in market values; significant underperformance relative to historical or projected future operating results; significant changes in the use of our assets or the strategy for our overall business, including assets that are decided to be phased out or replaced and assets that are damaged or taken out of use, significant negative industry or economic trends; and significant cost overruns in the development of assets.

Estimating recoverable amounts of assets and companies must in part be based on management evaluations, including estimates of future performance, revenue generating capacity of the assets, assumptions of the future market conditions and the success in marketing of new products and services. Changes in circumstances and in management's evaluations and assumptions may give rise to impairment losses in the relevant periods.

### Depreciation and amortization

Depreciation and amortization is based on management estimates of the future useful life of property, plant and equipment and intangible assets. Estimates may change due to technological developments, competition, changes in market conditions and other factors and may result in changes in the estimated useful life and in the amortization or depreciation charges. Technological developments are difficult to predict and our views on the trends and pace of development may change over time. Some of our assets and technologies, in which we invested several years ago, are still in use and provide the basis for our new technologies. For example, our copper cables and infrastructure in our fixed networks are used as the basis for the rollout of our ADSL technology and lines. In our mobile business, the development and launch of UMTS technology and services have been slower than the telecommunications industry anticipated a few years ago. We review the future useful life of property, plant and equipment and intangible assets periodically taking into consideration the factors mentioned above and all other important factors. Estimated useful life for similar type of assets may vary between different entities in the Group due to local factors as growth rate, maturity of the market, history and expectations for replacements or transfer of assets, climate, quality of components used etc. In case of significant changes in our estimated useful lives, depreciation and amortization charges are adjusted prospectively. As of 1 January 2005 we made some changes in our estimated useful lives for some of our assets especially for some components in our networks, as discussed in note 15.

### Business combinations

We are required to allocate the purchase price of acquired companies to the assets acquired and liabilities assumed based on their estimated fair values. For our larger acquisitions, we have engaged independent third-party appraisal firms to assist us in determining the fair values of the assets acquired and liabilities assumed. Such valuations require management to make significant estimates and assumptions. The significant purchased intangible assets recorded by Telenor include customer contracts, brands, licenses, service concession rights, roaming agreements and software. Critical estimates in the evaluations of useful lives for such intangible include, but are not limited to, estimated average customer relationship based on churn, remaining license or concession period, expected developments in technology and markets. The significant tangible assets include primarily networks. Critical estimates in valuing certain assets include, but are not limited to, future expected cash flows for customer contracts, licenses and roaming agreements replacement cost for brands and property, plant and equipment. Management's estimates of fair value and useful lives are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

### Income taxes

We write down deferred tax assets to an amount that is more likely than not to be realized. Our write-downs related primarily to losses carried forward in some of our foreign operations. While we have considered future taxable income and feasible tax planning strategies in determining the write-downs, any difference in the amount that we ultimately may realize would be included as income in the period in which such a determination is made.

In previous years we have realized significant tax losses on shareholdings, both through liquidation and sale of shares to third parties and between companies in our group. Even though we believe that these tax losses are tax deductible, the tax authorities have challenged our evaluations in connection with some of our transactions. Generally, when new rules are introduced there may be disagreements on the interpretation of the new rules and the transitional rules. You should read note 13 for additional information on the Groups uncertain tax positions.

### Pension costs, pension obligations and pension plan assets

Calculation of pension costs and net pension obligations (the difference between pension obligations and pension plan assets) are made based on a number of estimates and assumptions. Changes in, and deviations from, estimates and assumptions (actuarial gains and losses) affect fair value of net pension liabilities, but are not recorded in our financial statements unless the accumulated effect of such changes and deviations exceed 10% of the higher of our pension benefit obligations and our pension plan assets at the beginning of the year. When implementing IFRS as at 1 January 2004 we recognized all actuarial gains and losses. In note 7 we have included a sensitivity analysis for changes in certain actuarial assumptions.

### Legal proceedings, claims and regulatory discussions

We are subject to various legal proceedings, claims and regulatory discussions, the outcomes of which are subject to significant uncertainty. We evaluate, among other factors, the degree of probability of an unfavourable outcome and the ability to make a reasonable estimate of the amount of loss. Unanticipated events or changes in these factors may require us to increase or decrease the amount we have accrued for any matter or accrue for a matter that has not been previously accrued because it was not considered probable or a reasonable estimate could not be made.

## 01 | Business combinations and disposals

The following significant acquisitions and disposals have taken place in 2005 and 2004. Each business combination is recorded using the acquisition method of accounting. The summary does not include capital increases or other types of financing by Telenor.

**Significant acquisitions in 2005**

| NOK in millions<br>**Company** | **Country** | **Change in interest %** | **Business** | **Purchase price** |
|---|---|---|---|---|
| DTAC/UCOM | Thailand | 3.5%/61.3% | Mobil telecommunications | 2 664 |
| Bredbandsbolaget | Sweden | 100% | Broadband operation | 4 452 |
| Cybercity | Denmark | 100% | Broadband operation | 1 313 |

**Business combinations**
Three significant business combinations have been effected in 2005, while one significant business combination was effected in the beginning of 2006.

**Total Access Communication Ltd (DTAC) / United Communication Industy Pcl (UCOM)**
Prior to 26 October 2005, Telenor owned 29.9% of the issued shares in DTAC. UCOM owned 41.6% of the issued shares in DTAC. On 26 October 2005 Telenor's subsidiary Thai Telco Holding Ltd purchased shares in UCOM and increased Telenor's economic stake in UCOM by 39.9 to 64.7% for a cash consideration of NOK 1.5 billion.

As of 31 December 2005, after the tender offers for DTAC and UCOM shares expired, Telenor's direct and indirect economic stake in UCOM increased by 21.5% to 86.2% and the direct and indirect ownership in DTAC by 18.2% to 75%, for a total cash consideration of NOK 1.2 billion. The only operations in UCOM to be continued are the ownership in DTAC and the holding of interest bearing liabilities. The minority interests in DTAC as of 31 December 2005 were 25% directly and 5.7% indirectly through UCOM.

As of 31 December 2005 net interest-bearing debt in the companies was NOK 7.3 billion. The companies were consolidated from the date of acquisition, and the operations in UCOM, excluding the ownership in DTAC and the holding of interest bearing liabilities, were reported as a discontinued operations in the financial statements as of 31 December 2005.

DTAC is one of the leading mobile operators in Thailand and offers GSM mobile services. The value was set based on a fair value after negotiations between relevant parties and stock exchange regulations in Thailand and Singapore.

The initial purchase price allocation, which is performed by independent financial experts, has been determined to be provisional pending the completion of the final valuation of the fair values of assets acquired and liabilities assumed. The preliminary net assets acquired in the transactions, and the goodwill arising, are as follows:

| | **Estimated fair values** |
|---|---|
| Deferred tax assets | 799 |
| Customer Base | 1 278 |
| Consession Rights | 6 118 |
| Trademarks | 1 030 |
| Software | 247 |
| Roaming agreements | 753 |
| Property, plant & equipment | 738 |
| Non-current financial assets | 147 |
| Currents assets excluding cash and cash equivalents | 1 639 |
| Assets held for sale | 531 |
| Cash and cash equivalents | 200 |
| | |
| Deferred tax liability | 43 |
| Non-current liabilities | 5 752 |
| Current liabilities | 3 473 |
| Liabilities held for sale | 285 |
| Net assets | 3 927 |
| | |
| Goodwill | 2 243 |
| **Total** | **6 170** |
| | |
| Total consideration, satisfied by cash | 2 664 |
| Book value as associated companies at the date of consolidation | 940 |
| Increased values in business combination recorded against equity | 1 274 |
| Minorities at fair values | 1 292 |
| **Total** | **6 170** |

Useful life of intangible assets at the date of consolidation were estimated on average to: customer base of 3 years, concession rights of 13 years, trademarks of 13 years, administrative software systems of 3 years and roaming-agreements of 13 years. The goodwill arising on the acquisition of DTAC is attributable to the anticipated profitability of its operations. DTAC is involved in several disputes, most of which commenced several years ago. Only insignificant values were attributed to these contingent liabilities in the purchase price allocation.

DTAC/UCOM contributed NOK 1,191 million in revenues and NOK 29 million to the Telenor Group's profit from total operations for the period between the date of consolidation and 31 December 2005. This does not include Telenor's interest expenses related to the financing of the acquisition.

In the period 1 January 2005 to the acquisition date, when DTAC/UCOM were accounted for as associated companies, they contributed to a profit from total operations of NOK 94 million.

**Bredbandsbolaget, Sweden**

On 8 July 2005, Telenor acquired 100% of the issued share capital of Bredbandsbolaget (Bredbandsbolaget Holding AB and its subsidiaries) for a cash consideration of NOK 4.5 billion. The value was set based on fair value after negotiations between the parties. The transaction has been accounted for by the acquisition method of accounting.

Bredbandsbolaget offers high-speed broadband for Internet access, telephony, digital-TV and add-on broadband services.

The initial purchase price allocation, which is performed by independent financial experts, has been determined to be provisional pending the completion of the final valuation of the fair values of assets acquired and liabilities assumed. The preliminary net assets acquired in the transaction, and the goodwill arising, are as follows:

| NOK in millions | Estimated fair values |
|---|---|
| Customer Base | 313 |
| Trademarks | 140 |
| Software/Other intangible assets | 321 |
| Property, plant & equipment | 205 |
| Currents assets excluding cash and cash equivalents | 345 |
| Cash and cash equivalents | 239 |
| | |
| Deferred tax liability | 11 |
| Non-current liabilities | 1 050 |
| Current liabilities | 459 |
| | |
| Net assets | 43 |
| **Goodwill** | **4 409** |
| **Total consideration, satisfied by cash** | **4 452** |

Useful lives of intangible assets at the date of consolidation were estimated on average to: customer base of 5 years, trademark of 15 years and administrative software systems of 3 years.

The goodwill included deferred tax assets that did not meet recognition criteria to be capitalized in the balance sheet. In addition the goodwill arising on the acquisition of Bredbandsbolaget is attributable to the anticipated profitability of its operations and to the anticipated synergies.

Bredbandsbolaget contributed NOK 665 million in revenues and NOK 19 million to the Telenor Group's profit from total operations for the period between the date of acquisition and 31 December 2005. This does not include Telenor's interest expenses related to the financing of the acquisition.

**Cybercity, Denmark**

On 5 July, Telenor acquired 100% of the issued share capital of Esplanaden Holding A/S for a cash consideration of NOK 1.3 billion. The value was set based on fair value after negotiations between the parties. Esplanaden Holding A/S owns 100% of the shares in Cybercity A/S. The transaction has been accounted for by the acquisition method of accounting.

Cybercity develops, manages and sells broadband solutions and network-based products such as security and VPN products for residential and business customers in Denmark.

The initial purchase price allocation, which is performed by independent financial experts, has been determined to be provisional pending the completion of the final valuation of the fair values of assets acquired and liabilities assumed. The preliminary net assets acquired in the transaction, and the goodwill arising, are as follows:

| NOK in millions | **Estimated fair values** |
|---|---|
| Customer Base | 235 |
| Trademarks | 90 |
| Software | 91 |
| Property, plant & equipment | 45 |
| Currents Assets excluding cash and cash equivalents | 186 |
| Cash and cash equivalents | 42 |
| | |
| Deferred tax liability | 78 |
| Non-current liabilities | 155 |
| Current liabilities | 200 |
| | |
| Net assets | 256 |
| **Goodwill** | **1 057** |
| **Total consideration, satisfied by cash** | **1 313** |

Useful lives of intangible assets at the date of consolidation were estimated on average to: customer base of 5 years, trademark of 15 years and administrative software systems of 3 years.

The goodwill included deferred tax assets that did not meet recognition criteria to be capitalized in the balance sheet. In addition the goodwill arising on the acquisition of Cybercity is attributable to the anticipated profitability of its operations and to the anticipated synergies.

Cybercity contributed NOK 306 million in revenues and NOK 26 million to the Telenor Group's profit from total operations for the period between the date of acquisition and 31 December 2005. This does not include Telenor's interest expenses related to the financing of the acquisition.

**Vodafone, Sweden**

On 5 January 2006, Telenor acquired 100% of the issued share capital of Vodafone AB Sweden for a cash consideration of approximately NOK7.5 billion. The value was set based on fair value after negotiations between the parties. The transaction is not included in the financial statement of 2005. The transaction will be accounted for by the acquisition method of accounting.

Vodafone offers mobile services to residential and business customers in Sweden.

The initial purchase price allocation, which is performed by independent financial experts, has been determined to be provisional pending the completion of the final valuation of the fair values of assets acquired and liabilities assumed. The preliminary net assets acquired in the transaction, and the goodwill arising, are as follows:

| NOK in millions | **Estimated fair values** |
|---|---|
| Deferred tax assets | 41 |
| Roaming agreements | 584 |
| Terminal supply contracts | 337 |
| Software | 965 |
| Property, plant & equipment | 5 251 |
| Non-current financial assets | 148 |
| Currents assets excluding cash and cash equivalents | 1 808 |
| Cash and cash equivalents | 176 |
| | |
| Deferred tax liabilities | 1 075 |
| Non-current liabilities | 1 168 |
| Current liabilities | 1 142 |
| | |
| Net assets | 5 925 |
| **Goodwill** | **1 612** |
| **Total consideration, satisfied by cash** | **7 537** |

The goodwill arising on the acquisition of Vodafone is attributable to the anticipated profitability of its operations

**Disposals in 2005**

At the end of 2005 the Group entered into agreements to sell 100% of the shares in Fixed Czech and Slovakia for a consideration of Euro 18.1 million in cash. The transactions were effected on 30 January 2006. Losses on disposal of NOK 63 million were recorded in 2005 due to reduction of the disposal group to fair value less costs to sell. The assets and liabilities are reported as current assets and liabilities held for sale as of 31 December 2005. The major classes of assets and liabilities comprising the disposal group classified as held for sale are as follows:

| | |
|---|---|
| Intangible assets | 34 |
| Property, plant & equipment | 71 |
| Current assets excluding cash and cash equivalents | 37 |
| Cash and cash equivalents | 23 |
| **Total assets** | **165** |
| Non-current liabilities | 29 |
| Current liabilities | 3 |
| **Total liabilities** | **32** |

As of 18 September 2005 the Group sold the remaining part of EDB Business Partner ASA's Telecom business for a consideration of NOK 133 million. Gains on disposal of NOK 37 million before taxes were recorded in 2005.

None of these disposals are regarded as discontinued operations according to IFRS 5 as they do not, separately or in aggregate, represent a major line of business or geographical area of operations.

**Discontinued Operations**

At the same time as the Group increased its shareholding in UCOM, UCOM received irrevocable purchase offers for the company's core assets from parties external to the Group. These assets and liabilities are primarily organized in separate subsidiaries of the company, and are regarded as disposal groups that meet the criteria to be classified as held for sale and discontinued operations on acquisition according to IFRS 5. The disposals were approved by the General Meeting of UCOM in January and effected in February 2006.

**Pro forma Information (unaudited)**

The following unaudited pro forma financial information presents results as if the acquisition of DTAC, Bredbandsbolaget and Cybercity had occurred at the beginning of the respective periods

| NOK in millions, except per share data | **2005** | **2004** |
|---|---|---|
| Pro forma revenues | 75 532 | 68 435 |
| Pro forma profit before taxes and minority interest | 12 563 | 9 460 |
| Pro forma net income | 7 473 | 5 900 |
| Pro forma net income per share in NOK | 4.37 | 3.37 |

The pro forma results are adjusted for Telenor's interest expenses and the results in the period prior to acquisition. These pro forma figures have been prepared for comparative purposes only and are not necessarily indicative of the result of operations which actually would have resulted had the acquisitions been in effect in the respective periods or of future results.

**Significant acquisitions in 2004**

NOK in millions

| **Company** | **Country** | **Change in interest %** | **Business** | **Purchase price** |
|---|---|---|---|---|
| Sonofon Holding A/S | Denmark | 46.5 | Mobile Communication | 3 639 |
| European Telecom Luxemburg SA. (ProMonte) | Montenegro | 55.9 | Mobile Communication | 541 |
| GrameenPhone Ltd. | Bangladesh | 11.0 | Mobile Communication | 298 |
| CBB A/S | Denmark | 100.0 | Mobile Communication | 147 |
| GMPCS Personal Communication Inc | USA | 100.0 | Satellite Mobile Communications | 85 |
| Utfors AB [1] | Sweden | 8.3 | Telecommunication | 70 |
| IT-operation [2] | Norway/Sweden | 100.0 | Operation and application services | 738 |

[1] Telenor owned 100% of the shares in the company as of 31 December 2004.

[2] Asset purchased by EDB Business Partner ASA.

**Acquisition of Sonofon Holding A/S in 2004**

On 12 February 2004, Telenor acquired the remaining 46.5% of the outstanding common shares in Sonofon Holding A/S that we did not already own. Prior to the acquisition Sonofon was regarded as a joint venture with BellSouth and was accounted for using the equity method. After completion of the acquisition, Telenor owns 100% of the outstanding common shares and the result of operations has been included in the consolidated financial statements from that date. Sonofon Holding A/S is one of the leading mobile operators in Denmark and offers GSM voice and data communication services on 900 and 1800 MHz frequency in addition to fixed line telephony and Internet access primarily to the business market based on "Fixed Wireless Access (FWA) Technology". This acquisition was part of Telenor's strategy to gain control of operations to take advantage of synergies stemming from coordinated activities in a number of markets. The aggregate cost of the business combination was approximately NOK 4.4 billion of which NOK 3.6 billion was paid in cash and liabilities of NOK 0.8 billion assumed from the former owner of the remaining 46.5% shares. The value was set based on a fair value after negotiations between the parties. The allocation of the purchase price has been based on independent financial experts' estimates of the fair values of assets and liabilities acquired.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of consolidation [1]:

| NOK in millions | **Estimated fair values** |
|---|---|
| Property, plant & equipment | 2 717 |
| Customer base | 1 158 |
| Licences | 48 |
| Trademarks | 801 |
| Software | 1 130 |
| Roaming agreements | 534 |
| Currents assets excluding cash and cash equivalents | 1 137 |
| Cash and cash equivalents | 52 |
| | |
| Deferred tax liability | 990 |
| Non-current liabilities | 3 041 |
| Current liabilities | 1 825 |
| | |
| Net assets | 1 721 |
| **Goodwill** | **6 512** |
| **Total** | **8 233** |
| | |
| Total consideration, satisfied by cash [2] | 3 639 |
| Book value as an associated company at the date of consolidation | 3 985 |
| Increased values in business combination recorded against equity | 609 |
| **Total** | **8 233** |

[1] These figures include consideration for the last acquisition and the carrying value for the prior investment, when the company was accounted for using the equity method. They reflect the final purchase price allocation that differs in some respects from the preliminary allocation.

[2] Does not include assumed liabilities of NOK 0.8 billion from the former owner of the shares.

Useful life of intangible assets at the date of consolidation were estimated on average to: customer base of 4 years, roaming-agreements of 8 years, trademarks of 15 years, licenses of 8 years and administrative software systems of 5 years.

The goodwill arising on the acquisition of Sonofon is attributable to the anticipated profitability of its operations and to the anticipated synergies. See note 17 for information regarding the write-down of goodwill in Sonofon in 2004.

**Pro forma information (unaudited)**

The following unaudited pro forma financial information presents results as if the acquisition of Sonofon Holding A/S, European Telecom Luxemburg SA (ProMonte GSM D.O.O.), CBB A/S, GMPCS Communication Inc and IT operations had occurred at the beginning of 2004:

| NOK in millions, except per share data | **2004** |
|---|---|
| Pro forma revenues | 62 407 |
| Pro forma profit before taxes and minority interests | 9 674 |
| Pro forma net income | 5 964 |
| Pro forma net income per share in NOK | 3.41 |

The pro forma results are adjusted for Telenor's interest expenses and the results in the period prior to the acquisitions. These pro forma figures have been prepared for comparative purposes only and are not necessarily indicative of the results of operations which actually would have resulted had the acquisitions been in effect in the respective periods or of future results.

**Disposals in 2004**

Telenor sold 100% of its shares in Securinet AS, which was owned by Telenor Venture III AS, and at the end of 2004, Telenor sold 100% of its shares in Telenor Venture III AS. Total consideration was NOK 394 million. A gain of NOK 135 million before taxes was recorded. Telenor sold 100% of its shares in Transacty Slovakia j.s.c for a consideration of NOK 133 million and recorded a gain before taxes of NOK 71 million. Telenor's subsidiary EDB Business Partner ASA sold part of its telecom business during 2004 for NOK 400 million and recorded a gain of NOK 295 million.

None of these disposals are regarded as discontinued operations as they do not, separately or in aggregate, represent a major line of business or geographical area of operations.

## 02 | Revenues

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Analog (PSTN)/digital (ISDN, ADSL and BBT) | 14 125 | 14 284 |
| Mobile telephony | 36 972 | 28 775 |
| Leased lines | 959 | 1 015 |
| Satellite and TV-distribution | 7 514 | 7 344 |
| Other network based activities | 2 096 | 2 234 |
| Customer equipment | 1 580 | 1 607 |
| IT operations and sale of software | 4 501 | 4 045 |
| Other | 1 180 | 1 287 |
| **Revenues** | **68 927** | **60 591** |

**Analog (PSTN)/digital (ISDN, ADSL and Broadband telephony (BBT))** includes revenues from traffic, subscription and connection for analog (PSTN), digital (ISDN, ADSL and BBT) and Internet subscriptions. Further, it includes revenues from incoming traffic from other telephone operators.

**Mobile telephony** includes revenues from traffic, subscription and connection for mobile telephones, paging, incoming traffic from other mobile operators, text messages and content.

**Leased lines** include revenues from subscription and connection for digital and analog circuits.

**Satellite** includes revenues from satellite broadcasting, distribution of TV channels to the Nordic market, satellite-based network, and revenues from maritime satellite communication. TV-distribution includes revenues from subscription, connection and distribution of TV channels through cable and satellite, and sale of program cards.

**Other network-based activities** include revenues from leased networks, data network services, etc.

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

**IT operations and sale of software** includes revenues from sales and operation of IT-systems, together with consultancy services and sale of software.

**Other** includes revenues from contracting, lease of properties etc.

Telenor has only limited operating lease revenues. These are primarily lease of some copper accesses and lease of dark fiber to other operators, co-location, lease of equipment, primarily in the satellite business and lease of properties. Telenor has to a very limited extent finance lease revenues (sales-type-lease). These revenues are included in the different revenue categories in the table above and not shown separately due to their immateriality and because they in substance do not differ from the relevant revenue categories. Most agreements have a short minimum lease term, and future minimum lease revenues are immaterial.

## 03 | Key Figures Segment

The segment information for 2004 and 2005 are reported in accordance with Telenor's accounting principles except for the MVNO agreement discussed below and was consistent with the reporting to the chief operating decision-makers in these periods, and was used by the chief operating decision-makers for assessing performance and allocating resources.

The Group's primary format for reporting segment information is business segments. The primary products and services are mobile communication, fixed line communication ("Fixed") and TV-based activities ("Broadcast"). In addition the Group reports Other operations as a separate segment.

The Group's mobile communication business includes voice, data, Internet, content services, customer equipment and electronic commerce. Due to the size of the different operations, the Group's mobile operations in Norway, Denmark, Ukraine, Hungary, Malaysia and Bangladesh are shown as separate segments. At the end of 2005 the Group increased its economic state in the mobile operation in Thailand. In January 2006, the Group increased its mobile operations in Sweden by the purchase of an existing mobile operation. The Group also has mobile operations in Pakistan and Montenegro. In addition the Group has ownership interests in mobile operations in associated companies, especially Vimpelcom in Russia.

Fixed comprises the Group's fixed network operations in Norway, Sweden and Denmark, which deliver services including analog PSTN, digital ISDN, Broadbandtelephony, xDSL, Internet and leased lines, as well as communication solutions. During 2005, the Group increased its operations in Sweden and Denmark through purchase of existing businesses, primarily within Broadband operations. At the beginning of 2006, the Group expanded its operations in Sweden through purchase of Glocalnet AB. At the end of 2005 the Group entered into an agreement to dispose the operations in the Czech Republic and Slovakia.

Broadcast comprises the Group's TV-based activities within the Nordic region. This includes satellite dish, cable TV-networks and satellite master antenna TV-networks systems. Broadcast operate the national terrestrial broadcast network in Norway and provide satellite broadcasting services in the Nordic region, utilizing three geo-stationary satellites.

Other operations consist of several companies and activities that separately are not significant enough to be reported as separate segments. The main companies are EDB Business Partner ASA (51.8%-owned), Satellite Services, Venture and Corporate functions and Group activities. EDB Business Partner ASA is an Oslo Stock Exchange listed IT group, which delivers solutions and operating services. Satellite Services offers satellite-based communications networks and services. The main activity in Venture is Teleservice AS/Opplysningen AS, which is responsible for the Group's Directory Enquiries products in Norway. Corporate functions and Group activities comprise activities such as real estate, research and development, strategic Group projects, Group treasury, international services, the internal insurance company and central staff and support functions.

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

Gains and losses from internal transfer of businesses, group contribution and dividends are not included in the profit and loss statements for the segments. Segment revenue and expense includes transactions eliminated on consolidation, including fixed payments under the Mobile Virtual Network Operator (MVNO) agreements with the same counterparty but entered into by different segments, Telenor Mobile Norway and Telenor Mobile Sweden (included in Other mobile operations). For segment reporting, the fixed prepayments were recognized in the balance sheet and amortized to revenue and expense, respectively, based upon the actual to expected usage. During 2004 and 2005, impairment losses were recorded on the prepayments (onerous contracts) in Sweden due to revised expectations of the usage of capacity of the MVNO agreement. For the consolidation, the fixed prepayments were eliminated and related amortization and loss provisions were reversed. Telenor Mobil Norway segment revenues of NOK 210 million in 2005 and NOK 110 million in 2004 were eliminated to reach consolidated revenues. Other mobile operations segment expenses (including onerous contracts) of NOK 293 million and NOK 688 million in 2005 and 2004, respectively, were also eliminated on consolidation.The large amounts for assets and liabilities in Corporate functions and Group activities were due to Group internal receivables and payables. Balance sheet eliminations are primarily Group internal receivables and payables.

**Profit and loss 2005**

| NOK in millions | Revenues | External revenues | EBITDA [1] | Deprecia-tion, amor-tization and write-downs | Operating profit (loss) [2] | Associated companies | Net financial items | Profit (loss) before taxes |
|---|---|---|---|---|---|---|---|---|
| Telenor Mobil – Norway | 12 243 | 11 072 | 4 471 | 905 | 3 566 | 32 | 65 | 3 663 |
| Sonofon – Denmark | 5 191 | 5 059 | 1 176 | 1 285 | (109) | 1 | (175) | (283) |
| Kyivstar – Ukraine | 7 272 | 7 266 | 4 050 | 1 224 | 2 826 | - | (144) | 2 682 |
| Pannon GSM – Hungary | 6 061 | 6 051 | 2 185 | 1 178 | 1 007 | - | 107 | 1 114 |
| DiGi.Com – Malaysia | 4 932 | 4 928 | 2 142 | 1 043 | 1 099 | - | (24) | 1 075 |
| GrameenPhone – Bangladesh | 2 970 | 2 969 | 1 559 | 439 | 1 120 | - | (109) | 1 011 |
| Other mobile operations | 2 219 | 2 076 | (343) | 611 | (954) | 1 355 | (68) | 333 |
| Fixed | 19 313 | 17 140 | 5 885 | 3 823 | 2 062 | (142) | (517) | 1 403 |
| Broadcast | 5 649 | 5 518 | 1 516 | 501 | 1 015 | 73 | 190 | 1 278 |
| Other operations | 9 967 | 7 060 | 1 091 | 1 043 | 48 | (87) | 123 | 84 |
| Eliminations | (6 890) | (212) | 104 | 79 | 25 | 1 | 205 | 231 |
| **Total** | **68 927** | **68 927** | **23 836** | **12 131** | **11 705** | **1 233** | **(347)** | **12 591** |

[1] See table below for definition and reconciliation of EBITDA.

[2] The segment result is the operating profit (loss)

**Definition and reconciliation of EBITDA**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Profit after taxes | 9 134 | 7 413 |
| Profit after taxes from discontinued operations | (4) | - |
| **Profit after taxes from continuing operations** | **9 138** | **7 413** |
| Taxes | (3 453) | (2 461) |
| **Profit before taxes** | **12 591** | **9 874** |
| Net financial items | (347) | 1 521 |
| Associated companies | 1 233 | 986 |
| **Operating profit** | **11 705** | **7 367** |
| Depreciation and amortization | 11 544 | 10 637 |
| Write-downs | 587 | 3 531 |
| **EBITDA** | **23 836** | **21 535** |

### Balance sheet items and investments as of 31 December 2005

| NOK in millions | Other non-current assets | Associated companies | Current assets | Total assets | Non-current liabilities incl. provisions | Current liabilities | Invest-ments |
|---|---|---|---|---|---|---|---|
| Telenor Mobil – Norway | 3 611 | 38 | 4 618 | 8 267 | 1 036 | 3 436 | 1 218 |
| Sonofon – Denmark | 7 688 | 5 | 1 090 | 8 783 | 5 585 | 856 | 1 063 |
| Kyivstar – Ukraine | 8 459 | - | 2 313 | 10 772 | 3 578 | 1 728 | 3 654 |
| Pannon GSM – Hungary | 8 672 | - | 2 951 | 11 623 | 164 | 1 184 | 763 |
| DiGi.Com – Malaysia | 5 758 | - | 2 519 | 8 277 | 1 253 | 2 334 | 1 170 |
| GrameenPhone – Bangladesh | 4 277 | - | 698 | 4 975 | 1 520 | 1 828 | 2 596 |
| Other mobile operations | 17 821 | 5 250 | 3 361 | 26 432 | 5 341 | 8 885 | 14 334 |
| Fixed | 16 961 | 1 374 | 9 100 | 27 435 | 15 770 | 5 777 | 9 525 |
| Broadcast | 7 061 | 625 | 5 247 | 12 933 | 8 849 | 2 184 | 453 |
| Other operations | 40 723 | (1) | 3 664 | 44 386 | 18 017 | 20 920 | 1 014 |
| Eliminations | (29 809) | 133 | (9 812) | (39 488) | (27 357) | (12 026) | (67) |
| **Total** | **91 222** | **7 424** | **25 749** | **124 395** | **33 756** | **37 106** | **35 723** |

### Profit and loss 2004

| NOK in millions | Revenues | External revenues | EBITDA [1] | Deprecia-tion, amor-tization and write-downs | Operating profit (loss) [2] | Associated companies and joint ventures | Net financial items | Profit (loss) before taxes |
|---|---|---|---|---|---|---|---|---|
| Telenor Mobil – Norway | 11 730 | 10 504 | 4 305 | 1 077 | 3 228 | 10 | 64 | 3 302 |
| Sonofon – Denmark | 4 404 | 4 351 | 681 | 4 480 | (3 799) | - | (164) | (3 963) |
| Kyivstar – Ukraine | 4 219 | 4 217 | 2 581 | 555 | 2 026 | - | (159) | 1 867 |
| Pannon GSM – Hungary | 5 907 | 5 901 | 2 093 | 1 316 | 777 | - | 50 | 827 |
| DiGi.Com – Malaysia | 3 946 | 3 943 | 1 732 | 901 | 831 | - | (110) | 721 |
| GrameenPhone – Bangladesh | 2 186 | 2 186 | 1 313 | 218 | 1 095 | - | 1 | 1 096 |
| Other mobile operations | 423 | 335 | (712) | 191 | (903) | 789 | (61) | (175) |
| Fixed | 19 256 | 17 433 | 6 338 | 3 613 | 2 725 | 69 | (442) | 2 352 |
| Broadcast | 5 346 | 5 211 | 1 498 | 748 | 750 | 46 | (475) | 321 |
| Other operations | 9 540 | 6 611 | 1 114 | 1 018 | 96 | 70 | 4 084 | 4 250 |
| Eliminations | (6 366) | (101) | 592 | 51 | 541 | 2 | (1 267) | (724) |
| **Total** | **60 591** | **60 591** | **21 535** | **14 168** | **7 367** | **986** | **1 521** | **9 874** |

[1] See table above for definition and reconciliation of EBITDA.
[2] The segment result is the operating profit (loss).

### Balance sheet items and investments as of 31 December 2004

| NOK in millions | Other non-current assets | Associated companies | Current assets | Total assets | Non-current liabilities incl. provisions | Current liabilities | Invest-ments |
|---|---|---|---|---|---|---|---|
| Telenor Mobil – Norway | 3 748 | 6 | 3 997 | 7 751 | 439 | 6 165 | 1 029 |
| Sonofon – Denmark | 8 184 | 1 | 1 099 | 9 284 | 4 529 | 783 | 13 237 |
| Kyivstar – Ukraine | 4 936 | - | 1 109 | 6 045 | 1 636 | 1 465 | 2 612 |
| Pannon GSM – Hungary | 9 669 | - | 2 041 | 11 710 | 338 | 1 364 | 1 166 |
| DiGi.Com – Malaysia | 4 998 | - | 1 337 | 6 335 | 1 079 | 1 809 | 920 |
| GrameenPhone – Bangladesh | 2 074 | - | 620 | 2 694 | 511 | 853 | 1 318 |
| Other mobile operations | 2 546 | 4 469 | 301 | 7 316 | 1 335 | 687 | 2 853 |
| Fixed | 12 284 | 1 411 | 9 639 | 23 334 | 10 412 | 8 684 | 1 832 |
| Broadcast | 6 289 | 534 | 4 386 | 11 209 | 8 428 | 2 895 | 862 |
| Other operations | 33 441 | 70 | 9 967 | 43 478 | 17 974 | 13 676 | 1 829 |
| Eliminations | (21 590) | 111 | (16 281) | (37 760) | (20 026) | (17 708) | (168) |
| **Total** | **66 579** | **6 602** | **18 215** | **91 396** | **26 655** | **20 673** | **27 490** |

**Geographic distribution of revenues based on customer location**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Norway | 31 574 | 31 157 |
| Other Nordic | 10 906 | 9 469 |
| Western Europe | 1 268 | 1 194 |
| Central Europe | 7 170 | 6 714 |
| The Ukraine | 6 975 | 4 236 |
| Other Eastern Europe | 307 | 189 |
| Asia | 9 531 | 6 343 |
| Other countries | 1 196 | 1 289 |
| **Total revenues** | **68 927** | **60 591** |

**Geographic distribution of revenues based on company location**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Norway | 33 556 | 33 397 |
| Other Nordic | 10 482 | 8 954 |
| Western Europe | 640 | 638 |
| Central Europe | 6 823 | 6 397 |
| The Ukraine | 7 266 | 4 217 |
| Asia | 9 339 | 6 131 |
| Other countries | 821 | 857 |
| **Total revenues** | **68 927** | **60 591** |

**Assets by geographical location of the company**

| | Property, plant and equipment | | Total assets | | Investments | |
|---|---|---|---|---|---|---|
| NOK in millions | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Norway | 19 171 | 21 178 | 14 263 | 22 965 | 4 241 | 4 949 |
| Other Nordic | 3 612 | 3 303 | 20 809 | 13 780 | 8 827 | 13 480 |
| Western Europe | 56 | 45 | 13 938 | 13 957 | 52 | 17 |
| Central Europe | 2 604 | 2 911 | 13 469 | 13 733 | 837 | 2 174 |
| The Ukraine | 6 580 | 3 597 | 10 772 | 6 045 | 3 654 | 2 612 |
| Other Eastern Europe | - | - | 4 214 | 4 312 | - | - |
| Asia | 11 662 | 6 238 | 46 135 | 15 735 | 18 058 | 4 136 |
| Other countries | 273 | 271 | 795 | 869 | 54 | 122 |
| **Total assets** | **43 958** | **37 543** | **124 395** | **91 396** | **35 723** | **27 490** |

## 04 | Cost of materials and traffic charges

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Traffic charges – network capacity | 10 634 | 8 875 |
| Traffic charges – satellite capacity | 1 066 | 1 191 |
| Costs of materials etc. | 6 011 | 5 858 |
| **Total costs of materials and traffic charges** | **17 711** | **15 924** |

Traffic charges includes some operating lease costs, primarily lease of some dedicated network and satellite capacity. These costs are included in the different cost categories in the table above and not shown separately because they in substance do not differ from the relevant cost categories.

## 05 | Own work capitalized

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Costs of materials etc. | 216 | 161 |
| Salaries and personnel costs | 349 | 311 |
| Other operating expenses | 139 | 85 |
| **Total own work capitalized** | **704** | **557** |

## 06 | Salaries and personnel costs

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Salaries and holiday pay | 7 794 | 7 554 |
| Social security tax | 1 138 | 1 142 |
| Pension costs including social security tax | 771 | 837 |
| Share-based payments, excluding social security tax [1] | 20 | 28 |
| Other personnel costs | 513 | 409 |
| **Total salaries and personnel costs** | **10 236** | **9 970** |

[1] Include share options and employee share ownership program, excluding social security tax on these.

The average number of employees measured in man-years was 23,200 in 2005 and 20,350 in 2004.

## 07 | Pension obligations

The Group provides defined benefit pension plans for substantially all employees in Norway. In addition, the Norwegian government provides social security payments to all retired Norwegian citizens. Such payments are calculated by reference to a base amount annually approved by the Norwegian parliament (G-regulation). Benefits are determined based on the employee's length of service and compensation. The cost of pension benefit plans is expensed over the period that the employee renders services and becomes eligible to receive benefits.

11,332 of the Group's employees were covered through Telenor Pension Fund as of 31 December 2005. In addition the Telenor Pension Fund paid out pensions to 1,681 persons. The Group has a few group pension schemes with independent insurance companies and a separate pension plan for executive employees. Plan assets consisting primarily of bonds, shares and properties fund these pension plans. For employees outside of Norway, contribution plans are dominant.

In Norway, the Group has agreement-based early retirement plans (AFP) which are defined benefit multi-employer plan. In 2004, Telenor ASA and most Norwegian subsidiaries changed their employers' organization membership from NAVO to NHO. Consequently, the agreement-based early retirement plan (AFP) was transferred to NHO. For this plan, the administrator is not able to calculate the Group's share of assets and liabilities and this plan is consequently accounted for as a defined contribution plan and in 2004 NOK 14 million (excluding social security tax) was expensed as previously unrecognized prior service costs. For 2005 and 2004, pension contributions of NOK 49 million and NOK 18 million respectively, were expensed in this plan.

Actuarial gains in 2005 were primarily due to higher turnover and higher actual return on plan assets than estimated. The changes in assumptions in 2005 had a minor net effect on the pension obligations.

In 2005, the Group decided that a part of the defined benefit plan (spouse pension) in Norway should be terminated with effect from 1 January 2006. The Group revised its risk tables for death and disability, when it measured the effect of the termination of the part of the plan that was terminated as the risk tables used were interrelated to a large extent. The increased pension obligations due to the revision of the risk tables for death and disability were more than offset by reduced pension obligations due to the termination of parts of the plan. The net effect of the settlement and curtailment was recorded in 2005 with a gain of NOK 63 million (excluding social security tax) to the income statement. It was also decided that the employees in 2006 may chose to change their pension plan to a defined contribution plan. The effect, if any, will be recorded in 2006.

The risk tables for death and disability are based on commonly used tables in Norway, observations for Telenor and for the population in Norway. The average expected lifetime in the risk tables as of 31 December 2005 are 80 years for men and 84 years for women. Below is shown a selection from the risk tables as of 31 December 2005. The table below shows the probability of an employee in a certain age group becoming disabled or dying, within one year, as well as expectedlifetime.

| | Disability % | | Death % | | Expected lifetime | |
|---|---|---|---|---|---|---|
| **Age** | **Men** | **Women** | **Men** | **Women** | **Men** | **Women** |
| 20 | 0.13 | 0.16 | - | - | 79.69 | 83.81 |
| 40 | 0.21 | 0.35 | 0.09 | 0.11 | 80.18 | 84.05 |
| 60 | 1.48 | 1.94 | 0.57 | 0.47 | 81.57 | 85.18 |
| 80 | | | 6.20 | 4.54 | 87.33 | 88.85 |

The plan assets were measured at 31 December 2005 and 2004. The projected benefit obligations (PBO; net present value of pension benefits earned at the balance sheet date based on expected pension qualifying income at the time of retirement) were measured at 30 September 2005 and 2004 and adjusted for the best estimate of the financial assumptions at 31 December 2005 and 2004, respectively. The actuarial calculations for the Telenor Pension Fund obligations were carried out by independent actuaries. The present value of the projected defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method. The discount rate for the defined benefit plan in Norway was estimated based on the interest rate on Norwegian government bonds. Average time before the payments of earned benefits was calculated at 28 years, and the discount rate was projected to a 28-year rate based on reference to European non-current interest rates, as the longest duration in Norway is 10 years. The assumption for salary increase, increase in pension payments and G-regulation are tested against historical observations and the relationship between different assumptions.

Employees that leave the company before the age of retirement receive a paid-up policy. Telenor Pension Fund administers some of these policies. This is at the discretion of the Telenor Pension Fund and does not affect Telenor. At the time of issuance of paid-up policies Telenor is relieved of any further obligations towards the related employees. The Funds and obligations are valued at the time of issuance of paid-up policies, and are derecognized from pension obligations and plan assets.

At the time when Telenor AS (now Telenor ASA) was incorporated in 1995, the employees received paid-up policies in the Norwegian Public Service Pension Fund. Employees which have been members of the Norwegian Public Service Pension Fund will have an accrued pension right covered by this fund as a part of total payments. The payments from this pension fund will be adjusted by the increase of the base amount annually approved by the Norwegian parliament.The Norwegian Public Service Pension Fund has a project for updating the correct values of these paid-up policies, and the values have not been adjusted in the period up to 2004. Telenor expecst that the outcome of the updating and adjustments may reduce Telenor's share of pension benefits for the affected employees, which may reduce Telenor's liabilities at the time of the adjustments.

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Change in projected benefit obligation** | | |
| Projected benefit obligation at the beginning of the year | 5 835 | 5 323 |
| Service cost | 581 | 538 |
| Interest cost | 257 | 263 |
| Actuarial (gains) and losses | (218) | (80) |
| Curtailments and settlements | (438) | - |
| Acquisitions and sale | (78) | (43) |
| Benefits paid/paid-up policies | (150) | (166) |
| **Benefit obligations at the end of the year** | **5 789** | **5 835** |
| | | |
| **Change in plan assets** | | |
| Fair value of plan assets at the beginning of the year | 3 811 | 3 288 |
| Actual return on plan assets | 312 | 239 |
| Curtailments and settlements | (375) | - |
| Acquisitions and sale | (56) | 20 |
| Pension contribution | 350 | 426 |
| Benefits paid/paid-up policies | (146) | (162) |
| **Fair value of plan assets at the end of the year** | **3 896** | **3 811** |
| **Funded status** | **1 893** | **2 024** |
| Unrecognized net actuarial gains (losses) [1] | 285 | (6) |
| Accrued social security tax [1] | 263 | 278 |
| **Total provision for pensions including social security tax** | **2 441** | **2 296** |
| | | |
| **Total provision for pensions as of 01.01** | **2 296** | **2 147** |
| Acquisitions and sale | (43) | (59) |
| Net periodic benefit costs | 591 | 696 |
| Pension contribution | (350) | (426) |
| Benefits paid paid-up policies | (4) | (4) |
| Social security tax on pension contribution | (49) | (58) |
| **Total provision for pensions as of 31.12. including social security tax (note 21)** | **2 441** | **2 296** |

[1] Social security tax is the funded status multiplied with the average social security tax rate. Unrecognized net actuarial gains (losses) include social security tax.

The accumulated benefit obligation, which is the net present value of pension obligations earned at the balance sheet date based on the current salary (pension qualifying income) for all defined benefit pension plans was NOK 4,839 million and NOK 4,615 million as of 31 December 2005 and 2004, respectively.

**Information for pension plans with an accumulated benefit obligation in excess of plan assets**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Projected benefit obligation | 5 722 | 5 706 |
| Accumulated benefit obligation | 4 839 | 4 546 |
| Fair value of plan assets | 3 879 | 3 714 |

| **Assumptions used to determine benefit obligations as of 31 December** | **2005** | **2004** |
|---|---|---|
| Discount rate in % | 3.9 | 4.5 |
| Future salary increase in % | 3.0 | 3.0 |
| Future increase in the social security base amount in % | 3.0 | 3.0 |
| Future turnover in % | 10.0 | 6.0 |
| Expected average remaining service period in years | 9.0 | 12.0 |
| Future pension increases in % | 2.5 | 3.0 |

| Assumptions used to determine net periodic benefit costs for years ended 31 December | 2005 | 2004 |
|---|---|---|
| Discount rate in % | 4.5 | 5.1 |
| Expected return on plan assets in % | 5.4 | 6.1 |
| Future salary increase in % | 3.0 | 3.4 |
| Future increase in the social security base amount in % | 3.0 | 3.4 |
| Future turnover in % | 6.0 | 6.0 |
| Expected average remaining service period in years | 12.0 | 12.0 |
| Future pension increases in % | 3.0 | 3.4 |

Future turnover has been increased as of 31 December 2005 based on observations over the later years that turnover has been higher than previously expected. This change also affected estimated remaining service period.

**Components of net periodic benefit cost**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Service cost | 581 | 538 |
| Interest cost | 257 | 263 |
| Expected return on plan assets | (197) | (189) |
| Losses/gains on curtailments and settlements | (63) | (4) |
| Amortization of actuarial gains and losses | (73) | (10) |
| Social security tax | 86 | 98 |
| **Net periodic benefit costs** | **591** | **696** |
| | | |
| Contribution plan costs | 180 | 141 |
| **Total pension costs charged to profit (loss) for the year** | **771** | **837** |

Telenor Pension Fund's weighted average asset allocations as of 31 December 2005 and 2004, by asset category were as follows:

| Asset category | 2005 | 2004 |
|---|---|---|
| Bonds % | 53 | 70 |
| Equity securities % | 32 | 26 |
| Properties % | 12 | - |
| Other % | 3 | 4 |
| **Total** | **100** | **100** |

The plan assets are invested in bonds issued by the Norwegian government, Norwegian municipals, financial institutions and corporations. Bonds held in foreign currencies are to a large extent currency hedged. Investments in equity securities are restricted to a maximum of 35% of the plan assets. The plan assets are invested both in Norwegian and foreign equity securities. The currency hedging policy for foreign equity securities is evaluated per investment.

In 2005, land and buildings were sold from the Group to Telenor Pension Fund. The value was set based on evaluations made by an independent Project and Construction Management Company. Parts of the buildings are leased back from the Pension Fund.

The expected non-current return on plan assets as of 31 December 2005 was 4.7%. Expected returns on plan assets are calculated based on the estimated Norwegian government bond yield at the balance sheet date, adjusted for the different investment categories of the plan assets. The expected long term yield above government bonds is based on historical long term yields.

Telenor expects to contribute approximately NOK 455 million to the Telenor Pension Fund in 2006.

| NOK in millions | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 to 2015 |
|---|---|---|---|---|---|---|
| Expected pension benefit payments from the Telenor Pension Fund | 88 | 102 | 119 | 138 | 153 | 1 176 |

Telenor AB (including Utfors AB) and EDB Business Partner AB, have multi-employer plans. The plan is currently accounted for as a defined contribution plan and the cost was NOK 63 million in 2005 and NOK 58 million in 2004.

As of 31 December 2005, the estimated pension expenses for 2006 for the Norwegian defined benefit plans was approximately NOK 562 million, before any effect of change in pension plan to a defined contribution plan, if any, as discussed above.

The table below shows an estimate of the potential effects of changes in the key assumptions for the defined benefit plans in Norway, and below is also discussed effects of changes in some risk tables.

The following estimates and the estimated pension expense for 2006 are based on facts and circumstances as of 31 December 2005. Actual results may materially deviate from these estimates.

| NOK in millions | Discount rate | | Future salary increase | | Social Security base amount | | Annual adjustments to pensions | | Turnover | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(Change in % is percentage point)** | **+1%** | **-1%** | **+1%** | **-1%** | **+1%** | **-1%** | **+1%** | **-1%** | **+4%** | **-4%** |
| **Changes in pension:** | | | | | | | | | | |
| Obligations | (751) | 1 094 | 758 | (639) | (275) | 261 | 635 | (521) | (234) | 307 |
| Unrecognized actuarial losses | (856) | 1 249 | 865 | (729) | (314) | 297 | 724 | (594) | (267) | 350 |
| Expenses due to amortization of actuarial losses | (91) | 15 | - | (76) | (25) | - | - | (59) | (20) | - |
| Net periodic benefit cost including effect due to amortization of actuarial losses (as shown above) | (193) | 163 | 103 | (162) | (63) | 35 | 86 | (130) | (52) | 42 |

Changes in other assumptions may also materially affect the liabilities and expenses. These include tables for death and disability. Based on the tables for death and disability as of 31 December 2005, if death probability increases on average by 10%, the pension obligation will decrease by 2.7%. A corresponding increase in disability probability will only have a minor effect the pension obligation. However, an increase by 50% will increase the pension obligation by 4.2%.

## 08 | Other operating expenses

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Operating leases of building, land and equipment | 1 248 | 1 070 |
| Other cost of premises, vehicles, office equipment etc | 860 | 793 |
| Operation and maintenance | 4 315 | 3 628 |
| Travel and travel allowances | 489 | 482 |
| Postage freight, distribution and telecommunication | 389 | 296 |
| Concession fees | 862 | 582 |
| Marketing and sales commission | 4 873 | 3 735 |
| Advertising | 2 019 | 1 416 |
| Bad debts [1] | 311 | 248 |
| Consultancy fees and external personnel | 1 757 | 1 350 |
| Other | 483 | 271 |
| **Total other operating expenses** | **17 606** | **13 871** |

[1] See note 10.

## 09 | Other income and expenses

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Gains on disposals of fixed assets and operations | 320 | 562 |
| Losses on disposals of fixed assets and operations | 152 | 74 |
| Expenses for workforce reduction and onerous (loss) contracts [1] | 410 | 336 |
| **Total other (income) and expenses** | **242** | **(152)** |

[1] See note 12.

Gains on disposals in 2005 were primarily sale of properties, as well as some businesses. Gains on disposals in 2004 were primarily the sale of parts of the Telecom business of EDB Business Partner ASA and the sale of the subsidiaries Venture III AS, Securinet AS and Transacty AS.

Losses on disposal in 2005 were primarily related to disposal of properties and equipment and Fixed Czech and Slovakia.

Expenses for workforce reduction and onerous (loss) contracts in 2005 were primarily related to the MVNO contract in Sweden and expenses for workforce reductions in Fixed. Expenses in 2004 were primarily workforce reductions related to the IT-operations, Fixed and the Nordic mobile operations. See note 12.

## 10 | Bad debts

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Provisions as of 1 January | 720 | 592 |
| Provisions as of 31 December | 950 | 720 |
| **Change in provisions for bad debts** | **230** | **128** |
| Other changes in provisions for bad debts [1] | (143) | (110) |
| Realized losses for the year | 308 | 297 |
| Recovered amounts previously written off | (84) | (67) |
| **Total bad debt** | **311** | **248** |

[1] Includes effects of disposal and acquisition of businesses and translation adjustments. The increase in 2005 was primarily related to consolidation of DTAC.

## 11 | Research and development costs

Research and development costs amounted to NOK 401 million in 2005 and NOK 372 million in 2004. Research and development activities relate to new technologies, new products, security in the network and new usages of the existing network.

## 12 | Workforce reductions, onerous contracts and legal disputes

The following tables display roll forward of the provisions from 1 January 2004:

| NOK in millions | Provisions in the balance sheet 1.1. 2004 | 2004 Additions in income statement | 2004 Additions recorded directly in balance [2] & Interest | 2004 Amounts utilized | Provisions reversed in 2004 income statement | Provisions in the balance sheet 31.12 2004 |
|---|---|---|---|---|---|---|
| **Workforce reductions** | | | | | | |
| Mobile operations [3] | 10 | 66 | - | (35) | (5) | 36 |
| Fixed | 110 | 61 | - | (76) | - | 95 |
| Broadcast | 19 | 5 | - | (20) | - | 4 |
| Other operations and eliminations | 145 | 176 | 12 | (162) | (6) | 165 |
| **Total workforce reductions** | **284** | **308** | **12** | **(293)** | **(11)** | **300** |
| **Onerous (loss) contracts** | | | | | | |
| Mobile operations [3] | - | 569 | (3) | (275) | - | 291 |
| Fixed | 19 | 25 | (10) | (21) | - | 13 |
| Broadcast | 13 | - | - | (4) | - | 9 |
| Other operations and eliminations | 322 | (540) | 25 | 153 | (15) | (55) |
| **Total onerous (loss) contracts** | **354** | **54** | **12** | **(147)** | **(15)** | **258** |
| **Total workforce reductions and onerous (loss) contracts** | **638** | **362** | **24** | **(440)** | **(26)** | **558** |
| | | | | | | |
| Legal disputes [1] | 30 | 126 | - | (6) | (2) | 148 |

| NOK in millions | Provisions in the balance sheet 31.12. 2004 | 2005 Additions in income statement | 2005 Additions recorded directly in balance [2] & Interest | 2005 Amounts utilized | Provisions reversed in 2005 income statement | Provisions in the balance sheet 31.12. 2005 |
|---|---|---|---|---|---|---|
| **Workforce reductions** | | | | | | |
| Mobile operations [3] | 36 | 20 | (1) | (36) | (3) | 16 |
| Fixed | 95 | 151 | 1 | (73) | - | 174 |
| Broadcast | 4 | - | - | (2) | - | 2 |
| Other operations and eliminations | 165 | 48 | (1) | (121) | - | 91 |
| **Total workforce reductions** | **300** | **219** | **(1)** | **(232)** | **(3)** | **283** |
| **Onerous (loss) contracts** | | | | | | |
| Mobile operations [3] | 291 | 417 | (24) | (509) | - | 175 |
| Fixed | 13 | 8 | - | (3) | - | 18 |
| Broadcast | 9 | - | - | (3) | - | 6 |
| Other operations and eliminations | (55) | (208) | 1 | 442 | (23) | 157 |
| **Total onerous (loss) contracts** | **258** | **217** | **(23)** | **(73)** | **(23)** | **356** |
| **Total workforce reductions and onerous (loss) contracts** | **558** | **436** | **(24)** | **(305)** | **(26)** | **639** |
| | | | | | | |
| Legal disputes [1] | 148 | 23 | 11 | (21) | (34) | 127 |

[1] Does not include disputes relating to tax issues, see note 14.

[2] Additions recorded directly to the balance principally relate to acquisitions and currency translation effects.

[3] Mobile operations consist of Telenor Mobil, Sonofon, Kyivstar, Pannon GSM, DiGi.Com, GrameenPhone and other mobile operations.

**Provisions as of 31 December:**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Expected to be paid within 1 year** | | |
| Workforce reductions | 268 | 219 |
| Onerous contracts | 222 | 111 |
| Legal disputes | 127 | 146 |
| **Total short term (note 21)** | **617** | **476** |
| | | |
| **Expected to be paid after 1 year** | | |
| Workforce reductions | 15 | 81 |
| Onerous contracts | 134 | 147 |
| Legal disputes | - | 2 |
| **Total long term (note 21)** | **149** | **230** |
| | | |
| **Total** | **766** | **706** |

Onerous contracts relate mainly to estimated losses on the MVNO contract in Sweden and estimated losses on property leases. It also includes liabilities related to transfer of activity in the Telemuseum to a foundation in 2001 and estimated losses on delivery contracts. Estimated losses on property leases are based on assumptions of future subleases based on facts and circumstances as of the balance sheet dates. The actual outcome may differ from the estimates.

Telenor Mobil Norway and Telenor Mobile Sweden have entered into two Mobile Virtual Network Operator (MVNO) agreements, see note 3. In 2004 Mobile Sweden estimated a loss of NOK 562 million on the fixed prepayments of the MVNO-contract in Sweden due to reduced expectations of the future earnings potential. The loss was estimated as the difference between expected future economic benefits and unavoidable costs in the contract. In 2005 the estimated loss for Mobile Sweden was increased by NOK 239 million. These losses were eliminated in the Group accounts and included in "other operations and eliminations" in the tables above. In addition, it was decided that Mobile Sweden should enter into a service provider agreement with Vodafone Sweden due to the acquisition of this company. As a consequence, Telenor does not expect to utilize the MVNO agreement in Sweden. However, as Telenor is required to make minimum variable payments under the contract, Telenor recorded an additional loss of NOK 175 million as of 31 December 2005 which impacts the Group accounts. This loss is the net present value of payments up to and including the first quarter of 2008.

Provisions for workforce reductions as of 31 December 2005 included approximately 850 employees and more than 800 employees as of 1 January 2004 and 31 December 2004.

Provisions for legal disputes represent the management's best estimates of the actual outcome. The actual outcome of amount and timing may differ significantly from the estimates.

Amounts taken to income in 2005 were primarily due to favorable development for property leases and legal disputes.

## 13 | Financial income and expenses

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Interest income on liquid assets | 287 | 383 |
| Other financial income | 160 | 113 |
| **Total financial income** | **447** | **496** |
| | | |
| Interest expenses on interest-bearing liabilities | (1 665) | (1 582) |
| Other financial expenses | (120) | (96) |
| Capitalized interest | 146 | 117 |
| **Total financial expenses** | **(1 639)** | **(1 561)** |
| | | |
| **Net foreign currency (loss)** | **84** | **(87)** |
| | | |
| Total change in fair value of financial instruments | 243 | - |
| Gains on disposal of financial assets | 521 | 2 652 |
| Losses on disposal of financial assets | (2) | (17) |
| Write-downs and reversal of write-downs of financial assets *) | (1) | 38 |
| **Net gains (losses and write-downs) of financial assets** | **518** | **2 673** |
| | | |
| **Net financial items** | **(347)** | **1 521** |

*) As from 1 January 2005, impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss.

As of 1 January 2005 Telenor implemented IAS 39, see note 37.

Borrowing costs included in the cost of qualifying assets (capitalized interest) during the year arose in Norway on the general borrowing pool and outside Norway based on the relevant subsidiaries' borrowing costs. Wholly owned subsidiaries are financed by Telenor. See note 22 for more information about interest rates on external borrowings.

Gains on disposal in 2005 were primarily gain on sale of Telenor's shares in Intelsat. Gains on disposal in 2004 were primarily the gain on sale of Telenor's remaining shareholding in Cosmote SA.

## 14 | Taxes

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Profit before taxes and minority interests** | | |
| Norway | 6 704 | 9 404 |
| Outside Norway [1] | 5 887 | 470 |
| **Total profit before taxes and minority interests** | **12 591** | **9 874** |
| | | |
| **Current taxes [2]** | | |
| Norway | 445 | 4 |
| Outside Norway | 1 587 | 1 128 |
| **Total current taxes** | **2 032** | **1 132** |
| | | |
| **Deferred taxes** | | |
| Norway | 977 | 1 421 |
| Outside Norway | 444 | (92) |
| **Total deferred taxes** | **1 421** | **1 329** |
| | | |
| **Total income tax expense** | **3 453** | **2 461** |

1) Includes associated companies and subsidiaries outside Norway. Gains and losses from disposal of companies are related to the countries in which the disposed companies were located. The gains and losses were, however, to a large extent liable to tax in Norway. In 2004 new tax regulations were introduced in Norway related to gains and losses on realization of shareholdings, as explained below.

2) Up to, and including 2005 current taxes were primarily related to mobile companies outside Norway, due to tax losses carried forward in Norway. Current taxes did not include significant adjustments recognized in the periods for current tax of prior periods. However, in 2005, current taxes in Norway included the payment of NOK 334 million following the non-recognition of a tax loss derived from the liquidation of a wholly owned subsidiary. This is further discussed below.

**Effective tax rate**

The table below reconciles the reported income tax expense to the expected income tax expense according to the corporate income tax rate of 28% in Norway. It also shows major components of tax expense (income).

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Expected income taxes according to corporate income tax rate in Norway (28%) | 3 525 | 2 765 |
| Tax rates outside Norway different from 28% | (81) | (34) |
| Associated companies | (350) | (267) |
| Net loss in subsidiaries outside Norway for which deferred tax assets have not been established | 618 | 181 |
| Previously not recognized deferred tax assets in business combinations | (162) | (30) |
| Non-taxable income | (128) | (102) |
| Non-deductible expenses | 265 | 195 |
| Write-downs of goodwill that are not tax deductible | 12 | 842 |
| Other deferred tax assets not recognized previously | (18) | (461) |
| Non-taxable gain on sale of shares | (30) | (152) |
| Changes in tax law – previously recognized tax assets not realized | - | 257 |
| Deferred taxes on retained earnings in subsidiaries and associated companies | 292 | (375) |
| Other tax assets not recognized current year | 16 | 39 |
| Previously recognized tax assets – not realized or written-down (valuation allowance) current year | 6 | 27 |
| Conversion of inter-company debt | (249) | - |
| Liquidation of Dansk Mobil Holding AS | 438 | (438) |
| Sale of Telenor Business Solutions AS | (701) | - |
| Other | - | 14 |
| **Income tax expense (income)** | **3 453** | **2 461** |
| **Effective tax rate in %** | **27.4** | **24.9** |

In December 2004, the Norwegian Parliament enacted new tax rules. The major change for corporations was the introduction of the "Exemption Method". According to this new legislation, capital gains deriving from the sale of shares and dividends received from subsidiaries will be tax exempt. However, any loss deriving from the sale or other disposal of shares will no longer be tax deductible. The new rules in respect of dividends received became effective as of 1 January 2004, while the capital gains rules regarding non deducibility of capital losses came into effect as of 26 March 2004.

**Comments on selected line items in the preceding table**

Tax rates outside Norway different from 28%

The net effects of different tax rates for subsidiaries outside Norway were small for 2005 and 2004. However, this was influenced by tax rates that are both higher and lower than the Norwegian 28% tax rate. The most significant effects were that Pannon GSM Rt. (Hungary) and Kyivstar GSM JSC (Ukraine) had tax rates lower than 28% and GrameenPhone Ltd. (Bangladesh) and Telenor Pakistan had higher tax rates. For 2005, it also included an effect of changes in tax rates in Denmark and for ProMonte.

Associated companies

Results from associated companies are reflected after tax and therefore do not impact the Group level taxes. Tax on undistributed earnings, if any, is included in a separate line item (deferred taxes on retained earnings in subsidiaries and associated companies). Gains or losses on sale or liquidation of Telenor's ownership shares have been taxable in previous years. As a consequence of the new tax rules in Norway in 2004, gains or losses on sale or liquidation of shares will no longer have a tax effect in Norway, but may be subject to tax or give rise to tax loss abroad.

Net loss in subsidiaries outside Norway for which deferred tax assets have not been established

Deferred tax asset are not recognized for deductible temporary differences, primarily carry forward of unused tax losses in subsidiaries outside Norway. This because we cannot demonstrate probable taxable profits that will be available against such deductible temporary differences. In 2004 and 2005 this issue was primarily related to activities in Sweden and Pakistan, except for Mobile Sweden, a branch operation that is taxable both to Norway and Sweden.

Previously not recognized tax assets in business combinations

In 2004 and 2005 Telenor realized taxable income and recorded deferred tax assets previously not recognized in business combinations for Canal Digital Group and Utfors AB (only 2004). The tax assets did not previously satisfy the criteria for separate recognition, but parts were recognized in 2004 and 2005. The corresponding tax income was recognized in the income statement. As a result, the carrying amount of goodwill was reduced to the amount that would have been recognized if the deferred tax asset had been recorded at the acquisition date. In 2005, previously not recognized tax assets on Canal Digital Sweden and Denmark were recorded in excess of the related write-downs of goodwill.

Non-taxable income and non-deductible expenses

The large amounts related primarily to mobile companies outside Norway, especially GrameenPhone in Bangladesh and Kyivstar in the Ukraine.

Write-downs of goodwill that are not tax deductible

Write-downs of goodwill deriving from purchase of shares are generally not tax deductible. In 2004 this primarily related to write-down of goodwill on Sonofon. For 2005 and 2004, goodwill of NOK 75 million and NOK 50 million, respectively was expensed due to recognition of tax assets previously not recognized in business combinations, see above.

### Other deferred tax assets not recognized previously

This line primarily relates to losses on subsidiaries and associated companies on which deferred tax assets had not been previously recognized, as well as adjustments to the taxable basis of shares. These deferred tax assets were recognized when the sale or liquidation of shares or loans allowed for the realization of tax losses on these shareholdings or loans, or when Telenor can demonstrate probable taxable profits that will be available against such deductible temporary differences.

In 2004, Telenor realized a taxable capital gain on the sale of shares in Cosmote SA. According to the transition rules to the "Exemption Method", this gain was offset by tax losses deriving from sale or liquidation of shares in the period 26 March 2004 to 31 December 2004. This also included a tax loss following from to the liquidation of Dansk Mobil Holding AS, which is shown on a separate line in the table and discussed below.

### Non-taxable gain on sale of shares

In 2004, the Norwegian Parliament enacted the Exemption Method, see above.

### Changes in tax laws in Norway – previously recognized tax assets not realized

Following the introduction of the Exemption Method, Telenor reversed some previously recognized deferred tax assets in 2004. These were primarily related to the future liquidation of dormant subsidiaries of EDB Business Partner ASA, which had not been formally decided by the appropriate corporate body prior to 26 March 2004.

### Deferred taxes on retained earnings in subsidiaries and associated companies

Telenor has recognized deferred tax liability (primarily withholding tax) for undistributed earnings in subsidiaries and associated companies because it is expected that dividends will be distributed in the foreseeable future or, for associated companies, Telenor is not able to control the timing of the distribution of dividends.

Deferred taxes are calculated to the extent dividends will be subject to taxation, either in Norway or as withholding taxes at source. Due to introduction of the Exemption Method and the abolishment of withholding taxes in Hungary for dividends that will be distributed to companies resident within the EEA area subsequent to 1 January 2006, Telenor reversed NOK 639 million of deferred taxes on undistributed earnings. The major changes were related to future distributions from Pannon GSM.

### Conversion of inter-company debt

In 2005, following a conversion of inter-company debt, Telenor ASA recognized a tax loss and correspondingly reduced income tax expense.

### Liquidation of Dansk Mobil Holding AS

During the regular tax assessment of Dansk Mobil Holding II AS in the fourth quarter of 2005, the tax authorities challenged the company's tax return for the fiscal year 2004 by disallowing a tax loss derived from the liquidation of its wholly owned subsidiary, Dansk Mobil Holding AS. The tax authorities disagreed with Telenor's position, that the loss is tax deductible under the transition rules to the Exemption Method that were enacted in 2004. Telenor has appealed the decision. However, the related tax was expensed in 2005, of which NOK 334 million was current taxes.

### Sale of Telenor Business Solutions AS

In 2003, Telenor Eiendom Holding AS realized a tax loss of approximately NOK 2.8 billion in connection with the sale of shares in Telenor Business Solutions AS to Telenor Business Solutions Holding AS. This sale was carried out as part of the overall restructuring of the Telenor Group. Due to the challenge of Telenor's tax return regarding the tax loss in connection with the sale of shares in Sonofon in 2001, as discussed below, Telenor did not reflect the tax benefit derived from loss on the sale in the financial statements for 2003. In March 2006, the tax authorities accepted a tax deduction of approximately NOK 2.5 billion. Consequently, Telenor recorded a tax benefit and deferred tax asset in 2005.

### **Other uncertain tax positions not recognized**

In 2002, the tax assessment authorities in Norway disallowed the tax loss from the disposal of the shares in Sonofon Holding A/S claimed by Telenor Communication AS (now Telenor Eiendom Holding AS) for the fiscal year 2001. As a result of this change, the current tax expense for 2001 was increased by NOK 2.4 billion, which was recorded in 2002. Telenor originally recognized this tax loss due to the disposal of shares in Sonofon Holding A/S to Dansk Mobil Holding AS, a sister company of Telenor Eiendom Holding AS. The disposal was carried out as an integral part of the overall restructuring of the Group. In January 2003, Telenor initiated proceedings against the Norwegian Tax Authorities, before Oslo District Court ("Oslo Tingrett") see note 26. In June 2004, Oslo District Court ruled in favour of Telenor. The Tax Authorities appealed this decision. On 21 December 2005 a Norwegian Court of Appeal (Borgarting Lagmannsrett) ruled in favour of Telenor in respect of this proceeding. The tax appealed the decision, to the Norwegian Supreme Court, and Telenor has consequently not taken the tax reduction to income.

In connection with Telenor B-Invest AS's calculation of the gain on sale of shares in Cosmote SA in 2003 and 2004, a RISK adjustment of the tax base values of the shares with NOK 184 million and NOK 386 million respectively was claimed by Telenor based on the EEA Agreement. Such RISK adjustments would reduce the taxable gain on sale of shares in Cosmote SA. On 23 November 2004 the EEA-court ruled in favor of a Finnish tax payer (the "Manninin case") in a case that Telenor believes is similar to its RISK adjustment case. However, the Norwegian Ministry of Finance has stated that they are of the opinion that the EEA-court ruling should only have effect from the time of the ruling. This statement has been challenged by a number of tax payers, including Telenor. It is unclear what the final outcome will be. The Norwegian tax authorities did not accept such RISK adjustment for 2003. Telenor appealed the decision to the "Appeal assessment board" (Overlignings-nemnda). At the end of 2005, the Appeal assessment board accepted the RISK adjustment for 2003. The Norwegian tax authorities may until the end of April 2006 bring this decision before the County Assessment Board, that may reach a different conclusion. Telenor has therefore not recorded the potential tax benefit. If Telenor should win the case regarding the liquidation of Dansk Mobil Holding AS, RISK adjustment on the Cosmote SA shares for 2004 will not have any effect under the transition rules to the Exemption Method, as discussed above.

For Canal Digital Denmark, the tax authorities in Denmark has challenged the tax assessment for 2004 and did not recognize a transaction where the previous tax losses were realized and a corresponding increased depreciable tax base in assets were established. The tax authorities disagreed with the valuation of the assets in this transaction. Consequently, the tax authorities have disallowed the step up in depreciable tax basis and also claim that the previous tax losses have expired and cannot be brought forward.

**Tax losses carried forward**

Tax losses carried forward in selected countries expire as follows:

| NOK in millions | Norway | Sweden | Other Nordic | Pakistan | Other | Total |
|---|---|---|---|---|---|---|
| 2006 | – | – | 208 | – | 102 | 310 |
| 2007 | – | – | 16 | – | 45 | 61 |
| 2008 | – | – | 26 | – | 17 | 43 |
| 2009 | – | – | 28 | – | 21 | 49 |
| 2010 | – | – | 47 | 30 | 7 | 84 |
| 2011 and later | – | – | 94 | 577 | 135 | 806 |
| Not time-limited | 3 393 | 3 326 | 227 | 1 337 | – | 8 283 |
| **Total tax losses carried forward** | **3 393** | **3 326** | **646** | **1 944** | **327** | **9 636** |
| Of which not recognized as deferred tax assets (Valuation allowance) | 231 | 3 104 | 636 | 926 | 324 | 5 221 |
| **Tax losses on which deferred tax asset has been recognized** | **3 162** | **222** | **10** | **1 018** | **3** | **4 415** |

The tax effect of tax losses in the Telenor tax Group in Norway (Telenor ASA and subsidiaries owned 90% or more) are recognized as tax assets because it is probable that these tax losses will be utilized in the future. Significant tax losses have been realized in Norway due to a step up in the tax base of shares in 2000 and subsequent sales or liquidation of companies. Due to the introduction of the Exemption Method, this will not impact future realization of shares. At the same time the Telenor tax Group in Norway have produced significant taxable profits from its other operations. This evidences that it is probable that sufficient taxable profits will be available to utilize all the tax losses carried forward. Other tax losses recognized as deferred tax assets are where the relevant company has other taxable temporary differences that give rise to deferred tax liabilities.

Deferred tax asset are not recognized for carry forward of unused tax losses when Telenor cannot demonstrate that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized.

**Deferred taxes as of 31 December**

| NOK in millions | Assets 2005 | Liabilities 2005 | Of which assets no recognized (valuation allowance) 2005 | Assets 2004 | Liabilities 2004 | Of which assets not recognized (valuation allowance) 2004 |
|---|---|---|---|---|---|---|
| Tangible and intangible assets | 4 405 | (4 718) | (698) | 2 464 | (2 866) | (216) |
| Associated companies | – | – | – | – | – | – |
| Undistributed earnings in foreign subsidiaries and associated companies | – | (606) | – | – | (373) | – |
| Other non-current items | 1 637 | (1 245) | (1) | 898 | (695) | (49) |
| **Total non-current assets and liabilities** | **6 042** | **(6 569)** | **(699)** | **3 362** | **(3 934)** | **(265)** |
| | | | | | | |
| **Total current assets and liabilities** | **1 406** | **(1 078)** | **(47)** | **330** | **(55)** | **(12)** |
| | | | | | | |
| **Tax losses carried forward** | **2 871** | **–** | **(1 543)** | **3 047** | **–** | **(1 408)** |
| Deferred taxes | 10 319 | (7 647) | (2 289) | 6 739 | (3 989) | (1 685) |
| **Net deferred tax assets** | **383** | **–** | **–** | **1 065** | **–** | **–** |
| Of which deferred tax assets | 3052 | – | – | 3 357 | – | – |
| Of which deferred tax liabilities | (2 669) | – | – | (2 292) | – | – |

Some deferred tax assets on the foreign subsidiaries of Canal Digital AS were not recognized as of 31 December 2005 and 2004 (valuation allowance). In 2005 and 2004, these companies showed net income and realized parts of the tax losses. However, as of 31 December 2004 no deferred tax assets were recognized related to these companies (a full valuation allowance), due to accumulated losses for previous years, including 2004. As of 31 December 2005, Telenor recorded parts of the deferred tax assets for Canal Digital Sweden due to the development in the company evidencing that it is probable that sufficient taxable profits will be available to utilize parts of the tax losses carried forward. For Canal Digital Denmark, the tax authorities in Denmark has challenged the tax assessment for 2004, as discussed above. Telenor is of the opinion that the values used in the transaction reflected the fair values at the time of the transaction. However, as a consequence of the disallowance, Telenor has not recognized deferred tax assets related to Canal Digital Denmark for 2005, and for 2004 deferred tax assets and tax assets not rcognized are shown in the preceeding table. As of 31 December 2005, approximately NOK 0.7 billion of net recognized deferred tax assets (valuation allowances) came from business combinations where any subsequently recognized tax benefits will be reallocated to reduce goodwill. These were primarily related to the business combinations in Fixed Sweden and Denmark in 2005.

**Change in net deferred tax assets (liabilities)**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **As of 1 January** | **1 065** | **3 626** |
| Recorded to equity [1] | 57 | (284) |
| Recorded to profit or loss | (1 421) | (1 329) |
| Exchange differences | (92) | 63 |
| Acquisition of subsidiaries | 707 | (999) |
| Disposal of subsidiaries | 67 | (12) |
| **As of 31 December** | **383** | **1 065** |

[1] The effect of the implementation of IAS 32 and 39 at 1 January 2005 was NOK (16) million.

At the balance sheet date, Telenor has recognized deferred tax liabilities on undistributed earnings of subsidiaries and associated companies for which a tax charge will occur at the time dividends are distributed. The calculation is based on enacted tax rates and tax rules at the balance sheet dates.

**Changes in deferred tax assets not recognized (valuation allowances)**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Balance at the beginning of the year** | **1 685** | **6 900** |
| Changes in opening balance | (160) | (752) |
| Net losses from associated companies and subsidiaries outside Norway | 618 | 151 |
| Associated companies – changes in tax rules in Norway | - | (4 605) |
| Other not recognized tax assets this year | 16 | 71 |
| Acquisitions and disposals | 177 | (55) |
| Currency adjustments | (47) | (25) |
| **Balance at the end of the year** | **2 289** | **1 685** |

The significant change in deferred tax assets not recognized (valuation allowances) during 2004 was related to associated companies, due to the Exemption Method being introduced in Norway, as explained above. This change implied that the deferred tax assets are no longer present because losses on realization of shares are no longer tax deductible in Norway.

Preliminary 2005 RISK adjustment (adjustment of shares' tax base) for Telenor ASA is calculated to be negative with NOK 1.95 per share, including proposed dividends to be paid in 2006 based on the 2005 financial statements. However, implementation of new tax rules for the shareholders taxation, together with the use of the IFRS accounting principles, has made it somewhat uncertain whether the RISK adjustment should take into consideration the proposed dividends.

## 15 | Amortization, depreciation and write-downs

**Details of amortization, depreciation and write-downs:**

| | Property, plant and equipment | | Goodwill | | Other intangible assets | | Prepaid leases | |
|---|---|---|---|---|---|---|---|---|
| NOK in millions | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| Amortization and depreciation | 8 083 | 7 737 | - | - | 3 407 | 2 900 | 54 | - |
| Write-downs | 488 | 282 | 46 | 3 129 | 53 | 120 | - | - |
| **Total** | **8 571** | **8 019** | **46** | **3 129** | **3 460** | **3 020** | **54** | **-** |

Prepaid leases are payments made on entering into leases or acquiring leaseholds that are accounted for as operating leases. These prepaid lease payments are amortized over the lease term in accordance with the pattern of benefits provided. They relate primarily to access charges for lease of the copper cables of other operators (local loop unbundling etc), primarily in the Fixed operations in Sweden and Denmark that were acquired during 2005. The amortization period for access charges are the estimated customer relationship, based on past history.

Estimated useful lives of property, plant and equipment and other intangible assets are reviewed annually to insure consistency with the expected economic recovery period for these assets based on current facts and circumstances. As of 1 January 2005 some changes were made in estimated useful lives, especially for some components in the different networks.

Various components of the networks were affected, including switches, radio and transmission equipment in the mobile operations, masts, towers and network buildings in the mobile, fixed and broadcast operations, fibre cables in the fixed transportation network and digital transmission equipment for ADSL in Norway. As of 1 January 2005 the estimated useful lives for some of these assets were increased and others were decreased. The reasons for increasing useful lives were primarily based on recent experience that some assets are now being utilized over a longer economic life than previously expected because they are not as affected by changes in technological developments as previously expected and for some assets because Telenor now expected a slower pace of changes in the network than in previous years. On the other hand Telenor decreased its expected useful lives for some assets, primarily due to a higher pace of replacements than previously expected, due to company or asset specific reasons.

The change in useful lives as of 1 January 2005 is estimated to have increased depreciation and amortization by approximately NOK 270 million, of which the highest impact was for Kyivstar.

**Details of write-downs:**

| | 2005 | | | 2004 | | |
|---|---|---|---|---|---|---|
| NOK in millions | Property, plant and equipment | Goodwill [1] | Other intangible assets | Property, plant and equipment | Goodwill [1] | Other intangible assets |
| Telenor Mobil – Norway | 14 | 2 | – | 6 | – | 9 |
| Sonofon – Denmark | – | – | – | 208 | 3 074 | 8 |
| Kyivstar – Ukraine | 15 | – | – | – | – | – |
| Pannon GSM – Hungary | 6 | – | 1 | 21 | – | – |
| DiGi.Com – Malaysia | 5 | – | – | – | – | – |
| GrameenPhone – Bangladesh | – | – | – | 3 | – | – |
| Other mobile operations | – | – | – | 14 | – | 61 |
| Fixed | 571 | (36) | 52 | 13 | 27 | – |
| Broadcast | (128) | 75 | – | 12 | 25 | 7 |
| Other operations | 5 | 5 | – | 5 | 3 | 35 |
| **Total** | **488** | **46** | **53** | **282** | **3 129** | **120** |

[1] See note 16 and 17.

The write-downs of property, plant and equipment and intangible assets in 2005 were primarily related to Fixed Sweden to its estimated recoverable amount based on fair value less cost to sell. The write-down was due to increased competition and a general shift in product demand to lower priced products. The assessment of the fair value was based on various valuation methods, with assistance of an external valuation expert. In 2005 Broadcast reversed a previous write-down of satellites by NOK 133 million. The write-downs of goodwill was primarily due to previously not recognized deferred tax assets at acquisition of companies, partially offset by the excess of fair value of net assets over the cost of a business combination that was recognized immediately to income.

The write-downs of property, plant and equipment in 2004 were primarily on the transmission network in Sonofon Holding A/S due to the market situation. The recoverable amount was determined on the basis of the value in use. Write-downs of goodwill primarily related to Sonofon, see note 17. Write-downs were also made due to previously not recognized deferred tax assets at acquisition of companies.

# 16 | Property, plant, equipment and intangible assets

| NOK in millions<br>Cost | Local, regional & trunk networks | Mobile telephone network and switches | Subscriber equipment | Switches & equipment | Radio installa-tions | Cable TV equipment | Buildings | Land | Support systems | Satellites | Work in progress [1] | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **As of 1 january 2004** | **33 354** | **10 759** | **1 370** | **16 286** | **4 606** | **1 575** | **10 692** | **697** | **7 446** | **1 790** | **1 573** | **90 148** |
| Additions | 1 184 | 4 169 | 73 | 596 | 256 | 50 | 141 | 60 | 912 | 630 | 681 | 8 752 |
| Acquisition of subsidiaries | 2 | 1 742 | - | - | 5 | - | 674 | 10 | 183 | - | 226 | 2 842 |
| Exchange differences | (148) | (1 012) | 4 | (3) | - | (1) | (3) | (7) | (104) | - | (76) | (1 350) |
| Disposal | (185) | (64) | (220) | (185) | (269) | (95) | (197) | (10) | (1 018) | - | - | (2 243) |
| **As of 1 january 2005** | **34 207** | **15 594** | **1 227** | **16 694** | **4 598** | **1 529** | **11 307** | **750** | **7 419** | **2 420** | **2 404** | **98 149** |
| Additions | 1 642 | 7 838 | 111 | 660 | 431 | 104 | 419 | 61 | 1 298 | - | 1 174 | 13 738 |
| Acquisition of subsidiaries | - | 266 | - | 220 | - | 34 | 118 | 183 | 193 | - | 4 | 1 018 |
| Exchange differences | 72 | 1 260 | (2) | (4) | - | (5) | (19) | 8 | 9 | - | 53 | 1 372 |
| Disposal | (102) | (189) | (196) | (238) | (604) | (15) | (989) | (116) | (1 366) | - | (2) | (3 817) |
| Reclassified as held for sale | (213) | - | (13) | - | - | - | (2) | - | (99) | - | (14) | (341) |
| **As of 31 December 2005** | **35 606** | **24 769** | **1 127** | **17 332** | **4 425** | **1 647** | **10 834** | **886** | **7 454** | **2 420** | **3 619** | **110 119** |
| | | | | | | | | | | | | |
| **Accumulated depreciation and write-downs** | | | | | | | | | | | | |
| **As of 1 january 2004** | **23 112** | **2 555** | **996** | **13 280** | **2 819** | **704** | **4 188** | **4** | **6 015** | **1 173** | **-** | **54 846** |
| Depreciation | 2 122 | 2 029 | 195 | 1 270 | 246 | 133 | 404 | 2 | 1 208 | 128 | - | 7 737 |
| Write-downs | 12 | 243 | - | - | 2 | 11 | 6 | - | 8 | - | - | 282 |
| Exchange differences | (41) | (247) | 3 | (2) | - | - | 1 | - | (49) | - | - | (335) |
| Eliminated on disposal | (160) | (25) | (109) | (170) | (270) | (93) | (99) | - | (998) | - | - | (1 924) |
| **As of 1 january 2005** | **25 045** | **4 555** | **1 085** | **14 378** | **2 797** | **755** | **4 500** | **6** | **6 184** | **1 301** | **-** | **60 606** |
| Depreciation | 2 026 | 2 981 | 99 | 958 | 275 | 139 | 360 | 4 | 1 088 | 153 | - | 8 083 |
| Write-downs | 540 | 20 | 3 | 13 | 4 | 1 | - | - | 40 | (133) | - | 488 |
| Exchange differences | 24 | 231 | (1) | 2 | - | (1) | (5) | - | (48) | - | - | 202 |
| Eliminated on disposal | (65) | (160) | (196) | (229) | (600) | (14) | (406) | - | (1 319) | - | - | (2 989) |
| Reclassifed as held for sale | (126) | - | (11) | - | - | - | (1) | - | (91) | - | - | (229) |
| **As of 31 December 2005** | **27 444** | **7 627** | **979** | **15 122** | **2 476** | **880** | **4 448** | **10** | **5 854** | **1 321** | **-** | **66 161** |
| | | | | | | | | | | | | |
| **Carrying amount** | | | | | | | | | | | | |
| **As of 31 December 2005** | **8 162** | **17 142** | **148** | **2 210** | **1 949** | **767** | **6 386** | **876** | **1 600** | **1 099** | **3 619** | **43 958** |
| **As of 31 December 2004** | **9 162** | **11 039** | **142** | **2 316** | **1 801** | **774** | **6 807** | **744** | **1 235** | **1 119** | **2 404** | **37 543** |

[1] Net additions

The Group has entered into Cross Border QTE arrangements for telephony switches, GSM Mobile network and fixed-line network with a book value as of 31 December 2005 of NOK 609 million (NOK 991 million as of 31 December 2004). The transactions have the legal form of leases. However, Telenor has according to SIC 27 determined that the substance of the transactions is that these are not leases as defined in IAS 17. The arrangements were entered into in 1998, 1999 and 2003 respectively. Their terms are for approximately 15 years with early termination options for Telenor. Telenor has defeased all amounts due by us under these agreements with highly rated financial institutions and US Government related securities. The financial institutions then release the payments over agreement periods in accordance with their contractual terms. During the agreement periods, Telenor maintains the legal rights and economic benefits in Norway of ownership of the equipment. During the agreement periods, Telenor cannot dispose of the equipment but may make replacements. Telenor has received benefits of NOK 530 million since the parties can depreciate the equipment for tax purposes. The amounts are deferred over the periods for which the benefits are expected to be earned, and NOK 43 million was recorded as other financial income in 2005 and 2004. See note 38 for further information.

Telenor had finance leases with book values of NOK 1 207 million as of 31 December 2005, primarily fibre optic Network in GrameenPhone in Bangladesh (NOK 475 million), properties in Sonofon Denmark (NOK 187 million) and satellites in Broadcast (NOK 518 million),

As of 31 December 2005, future minimum annual rental commitments under finance leases were as follows:

| NOK in millions | **Within 1 year** | **2–5 years** | **More than 5 years** |
|---|---|---|---|
| Future minimum lease payments | 402 | 1 330 | 815 |
| Less amount representing interest | 105 | 310 | 284 |
| **Present value Finance lease obligations** | **297** | **1 020** | **531** |

The lease of fibre optic network in Bangladesh has a term to 2017 and was classified as finance lease as of 1 January 2005. According to the agreement, future lease payments may increase based on negotiations, inflation and business growth (contingent rent).

The Group has buildings that have been acquired for the use by the Group. However, some space is vacant or rented to external parties. In evaluating if these parts of buildings are investment properties, the Group has evaluated if the floor in the building which is no longer used by the Group is separate or discrete from the rest of the building, and if the building is held for its investment potential and if this is not a short-term strategy. The Group has not identified any investment properties.

**Intangible assets (excl. goodwill)**

| **Cost**<br>NOK in millions | **Customer base** | **Licenses** | **Trade-marks** | **Software aquired** | **Internal generated software** | **Other** | **Work in progress** [1] | **Total** |
|---|---|---|---|---|---|---|---|---|
| **As of 1 january 2004** | **2 721** | **2 040** | **580** | **3 500** | **1 968** | **558** | **341** | **11 708** |
| Additions | 23 | 2 637 | - | 908 | 88 | 124 | 75 | 3 855 |
| Internal generated | - | - | - | - | 58 | 13 | 22 | 93 |
| Acquisition of subsidiaries | 1 634 | 97 | 889 | 1 454 | - | 662 | 7 | 4 743 |
| Exchange differences | (84) | (341) | (39) | (148) | (2) | (20) | (3) | (637) |
| Disposal | (3) | - | - | (114) | (4) | (26) | (20) | (167) |
| **As of 1 january 2005** | **4 291** | **4 433** | **1 430** | **5 600** | **2 108** | **1 311** | **422** | **19 595** |
| Additions | 15 | 787 | - | 1 117 | 202 | 57 | 266 | 2 444 |
| Internal generated | - | - | - | 25 | 81 | - | 20 | 126 |
| Acquisition of subsidiaries | 1 849 | 6 133 | 1 256 | 469 | - | 958 | - | 10 665 |
| Exchange differences | (20) | 385 | 8 | 133 | (4) | (29) | 2 | 475 |
| Disposal | (2) | (23) | - | (31) | (2) | (103) | - | (161) |
| Reclassified as held for sale | (1) | (59) | - | (11) | - | (13) | (3) | (87) |
| **As of 31 December 2005** | **6 132** | **11 656** | **2 694** | **7 302** | **2 385** | **2 181** | **707** | **33 057** |
| | | | | | | | | |
| **Accumulated amortization and write-downs** | | | | | | | | |
| **As of 1 january 2004** | **989** | **1 068** | **101** | **1 812** | **1 208** | **473** | **-** | **5 651** |
| Amortization | 834 | 189 | 103 | 1 163 | 342 | 269 | - | 2 900 |
| Write-downs | - | 42 | - | 11 | - | 67 | - | 120 |
| Exchange differences | (15) | (6) | (4) | (10) | (1) | 4 | - | (32) |
| Eliminated on disposal | (4) | - | - | (89) | (1) | (26) | - | (120) |
| **As of 1 january 2005** | **1 804** | **1 293** | **200** | **2 887** | **1 548** | **787** | **-** | **8 519** |
| Amortization | 1 073 | 336 | 132 | 1 430 | 258 | 178 | - | 3 407 |
| Write-down | 16 | - | - | 1 | 36 | - | - | 53 |
| Exchange differences | (12) | 15 | 1 | 38 | (1) | (31) | - | 10 |
| Eliminated on disposal | - | (23) | - | (13) | - | (103) | - | (139) |
| Reclassifed as held for sale | (1) | (18) | - | (6) | - | (13) | - | (38) |
| **As of 31 December 2005** | **2 880** | **1 603** | **333** | **4 337** | **1 841** | **818** | **-** | **11 812** |
| | | | | | | | | |
| **Carrying amount** | | | | | | | | |
| **As of 31 December 2005** | **3 252** | **10 053** | **2 361** | **2 965** | **544** | **1 363** | **707** | **21 245** |
| **As of 31 December 2004** | **2 487** | **3 140** | **1 230** | **2 713** | **560** | **524** | **422** | **11 076** |

[1] Net additions

Additions of intangible assets in 2005 from acquisition of subsidiaries were primarily related to DTAC, Bredbandsbolaget and Cybercity, see note 1. For 2004, the additions were it primarily due to the acquisition of Sonofon Holding A/S and Promonte. See note 1 for further information. The additions of licenses were primarily mobile licenses in Mobile Norway and Sonofon Denmark in 2005 and Pakistan and Pannon GSM in Hungary in 2004.

The intangible assets included above have finite useful lives, over which the assets are amortized. Customer base, trademarks and roaming agreements (the major part of "other") were acquired as part of business combinations. Licenses consist primarily of mobile licenses that were acquired separately or as part of business combinations. The amortization period for customer base is the expected customer relationships based on historic experience of churn for the individual businesses, and varies primarily between 3 to 5 years. Licenses and roaming agreements are amortized over the license periods. Trademarks are amortized over their estimated useful lives, which is on average 15 years. Software is amortized over their estimated useful lives. Given the history of rapid changes in technology, computer software are susceptible to technological obsolescence. Therefore, their estimated useful life is normally 3 to 5 years.

**DTAC's concession right**

DTAC has a concession right to operate and deliver mobile services. The Communication Authority of Thailand (CAT) granted the concession to DTAC. CAT allows DTAC to arrange, expand, operate and provide the cellular system radio communication services in various areas in Thailand. The concession originally covered a 15 year period but the agreement was amended on 23 July 1993 and 22 November 1996, with the concession period being extended to 22 and 27 years, respectively.

The service rates and fees charged to customers are subject to approval by CAT. DTAC is obliged to pay fees in accordance with the concession. Fees are based on the greater of a minimum annual payment and a percentage of revenues from services:

| Year | Percentage of revenues per annum | Minimum annual payment (NOK in millions [1]) |
|---|---|---|
| 1 to 4 | 12 | 4 to 25 |
| 5 | 25 | 58 |
| 6 to 15 | 20 | 63 to 99 |
| 16 to 20 | 25 | 123 to 127 |
| 21 to 27 | 30 | 124 to 198 |

[1] Converted from Baht to NOK based on exchange rates as of 31 December 2005.

DTAC commenced commercial operations on 16 September 1991.

DTAC shall provide, at its own expense, all devices and equipment which must be sufficient for provision of the services at all times. All such devices and equipment becomes the property of CAT when they are put into use. At the end of the concession period, or if the contract is terminated earlier DTAC must deliver all devices and equipment to CAT in a good working condition.

The service concession of DTAC accounted for under the Intangible Asset Model according to IFRIC Draft interpretation D14. The intangible asset is amortized on a straight line basis over the concession period. Enhancements and extensions are capitalized as incurred. Repair, maintenance and replacements are expensed as incurred. The concession in DTAC was valued based on an income approach under the assumption that DTAC would sell its concession to a hypothetical operator.

**Estimated future amortization expenses**

The estimated aggregated amortization expenses for other intangible assets (excluding goodwill) for the next five years are as follows:

| NOK in millions | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| Customer Base | 1 367 | 999 | 593 | 159 | 81 |
| Licences | 753 | 766 | 757 | 755 | 754 |
| Trademarks | 204 | 204 | 204 | 204 | 204 |
| Software acquired | 1 308 | 929 | 591 | 131 | 59 |
| Software – internally generated. | 196 | 157 | 137 | 50 | 5 |
| Other | 242 | 175 | 158 | 146 | 110 |
| Construction in progress | 51 | 82 | 82 | 66 | 52 |
| **Total other intagible assets** | **4 121** | **3 312** | **2 522** | **1 511** | **1 265** |

**Goodwill**

| | Sonofon Denmark | Pannon Hungary | Digi.com Malaysia | Kyivstar Ukraine | Other mobile operations | Fixed | Broad-cast | Other/ elimi-nations | Total Telenor Group |
|---|---|---|---|---|---|---|---|---|---|
| **As of 1 January 2004 – NGAAP** | **-** | **5 623** | **2 897** | **337** | **-** | **157** | **2 470** | **4 031** | **15 515** |
| IFRS adjustments | - | (598) | (2 329) | (49) | - | (157) | (404) | (2 394) | (5 931) |
| **As of 1 January 2004 IFRS** | **-** | **5 025** | **568** | **288** | **-** | | **2 066** | **1 637** | **9 584** |
| Exchange differences | (403) | 203 | (54) | (28) | (2) | 5 | 16 | 68 | (195) |
| Arising on acquisition of a subsidiaries | 6 636 | - | - | 4 | 104 | 25 | (23) | 459 | 7 205 |
| Eliminated on disposal of a subsidiaries | - | - | - | - | - | - | - | (111) | (111) |
| **As of 31 December 2004** | **6 233** | **5 228** | **514** | **264** | **102** | **30** | **2 059** | **2 053** | **16 483** |
| Exchange differences | (209) | (300) | 66 | 47 | 42 | 68 | (9) | (6) | (301) |
| Arising on acquisition of a subsidiaries | 1 | - | - | - | 2244 | 5431 | 4 | 52 | 7 732 |
| Eliminated on disposal of subsidiaries | - | - | - | - | - | (43) | - | (99) | (142) |
| **As of 31 December 2005** | **6 025** | **4 928** | **580** | **311** | **2 388** | **5 486** | **2 054** | **2 000** | **23 772** |
| | | | | | | | | | |
| **Amortization and impairment** | | | | | | | | | |
| **As of 1 January 2004 – NGAAP** | **-** | **598** | **2 329** | **49** | **-** | **501** | **404** | **2 394** | **6 275** |
| Negative goodwill taken to income | - | - | - | - | - | (344) | - | - | (344) |
| Elimination of amortization & impairment loss accumulated prior to the adoption of IFRS | - | (598) | (2 329) | (49) | - | (157) | (404) | (2 394) | (5 931) |
| **As of 1 January 2004 IFRS** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Impairment 2004 | 3 074 | - | - | - | - | 27 | 24 | 4 | 3 129 |
| Impairment as of 31 December 2004 | 3 074 | - | - | - | - | 27 | 24 | 4 | 3 129 |
| Exchange differences | (103) | - | - | - | - | - | - | - | (103) |
| Impairment 2005 | - | - | - | - | - | (36) | 75 | 7 | 46 |
| Impairment as of 31 December 2005 | 2 971 | - | - | - | - | (9) | 99 | 11 | 3 072 |
| **Carrying amount of goodwill 2005** | **3 054** | **4 928** | **580** | **311** | **2 388** | **5 495** | **1 955** | **1 989** | **20 700** |
| **Carrying amount of goodwill 2004** | **3 159** | **5 228** | **514** | **264** | **102** | **3** | **2 035** | **2 049** | **13 354** |

## 17 | Impairment testing of goodwill

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The test is performed at year end. Telenor has not identified any other intangible assets with an indefinite life.

Telenor has identified its mobile and fixed operations in different countries as its cash generating units, in addition to its IT operating company EDB Business Partner, Broadcast DTH operations as well as other units. Goodwill acquired through business combination has been allocated to individual cash-generating units for impairment testing as follows:

**Carrying amount of goodwill**

| NOK in millions | 2 005 | 2 004 |
|---|---|---|
| Pannon, Hungary | 4 928 | 5 228 |
| Sonofon, Denmark | 3 054 | 3 159 |
| DTAC, Thailand | 2 288 | - |
| Bredbandsbolaget, Sweden | 4 433 | - |
| Cybercity, Denmark | 1 066 | - |
| Broadcast, DTH operation, Nordic | 1 632 | 1 707 |
| EDB Business Partner, Norway | 1 897 | 1 981 |
| Other [1] | 1 402 | 1 279 |
| **Total carrying amount of goodwill** | **20 700** | **13 354** |

[1] Other includes primarily DiGi.Com – Malaysia and Kyivstar – Ukraine

Telenor has used a combination of value in use and fair value less cost to sell to determine the recoverable amounts of the cash generating units.

Fair value less cost to sell has been derived from quoted market prices where available. DTAC is listed on the Stock Exchange in Singapore, UCOM, which owns shares in DTAC, is listed on the Stock Exchange in Thailand and EDB Business Partner on the Oslo Stock Exchange and the fair value have been derived from the quoted market prices as of 31 December 2005. Currently, we have not included any control premium to determine the fair value less cost to sell, as there is significant headroom between the recoverable and carrying amount.

For the other entities we have used a discounted cash flow analysis based to determine the value in use. Value in use is based on cash flow projections reflecting the financial business plans approved by senior management covering a three-year period. In addition, the calculation includes estimated cash flows for the years 4 to 9 because some of the operations are in a growth phase and will not reach a stable cash flow within three years. Key assumptions are growth rates, markets shares, EBITDA-margins, capital expenditure and discount rates. Cash flows beyond the nine-year period are extrapolated with a long-term growth rate.

The recoverable amounts have been determined for the cash generating units based on the following key assumptions for the years ending 31 December 2004 and 2005:

| | Discount (nominal) rate after tax (WACC) | | Long-term growth rate (includes inflation) | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| Pannon – Hungary | 10.8% | 12.5% | 2% | 2% |
| Sonofon – Denmark [1] | 7.3% | 8.2% | 2% | 2% |
| Bredbandsbolaget – Sweden | 7.9% | - | 2% | - |
| Cybercity – Denmark | 7.9% | - | 2% | - |
| Broadcast. DTH operation | 8.4% | 8.8% | 2% | 2% |

[1] The valuation in 2004 of Sonofon was performed with assistance from external financial experts based on various valuation methods.

In the calculation we have used estimated cash flows after tax and discount rate after tax. The 2005 pretax discount rates were: Pannon; 11.4%, Sonofon 8.1%, Bredbandsbolaget 8.6%, Cybercity 8.6% and Broadcast DTH 9.3%. The recoverable amounts would not changed if we had used a pre tax rate.

The long term growth rates relates to the periods beyond nine years.

**Discount rates** – Discount rates are based on Weighted Average Cost of Capital (WACC).The cost of a company's debt and equity capital, weighted accordingly to reflect its capital structure, gives its weighted average cost of capital. The WACC rates used to discount the future cash flows are based on 7 to 15 years risk free interest rates in the relevant markets and take into account the debt premium, market risk premium, gearing, corporate tax rate and asset beta.

**Growth rates** – Average growth rates in revenues in the period 4 to 9 years, are based on Telenor`s expectation to the market development, but are not higher than expected growth in the relevant line of business based on public available sources. Telenor uses steady growth rates to extrapolate the cash flows beyond nine years. The long-term growth rate beyond nine years is not higher than the expected long-term growth in the economy in which the business operates. For the different business units the expected growth rates converges from its current level experienced over the last few years to the long-term growth level.

**Average EBITDA margin** – The EBITDA margin represents the operating margin before depreciation and amortization and is estimated based on the margin achieved in the period immediately before the budget period and on estimated future development in the market Committed operational efficiency programs are taken into consideration. Changes in the outcome of these initiatives may affect future estimated EBITDA margin.

**Capital expenditure (Capex)** – A normalised capex to sales ratio (capital expenditure as a percentage of revenues) is assumed in the long run. In the years 1 to 9 it is taken into consideration capital expenditure necessary to meet the expected growth in revenues. Changes in traffic volumes and the number of subscriptions in the growth phase will also result in a change in future capex to sales ratio. The Broadcast DTH operation leases satellite capacity and capex to sales ratio is not a key assumption for the valuation. To the best of management judgement estimated capital expenditures does not include capital expenditures that enhances the current performance of assets and related cash flows have been treated consistently.

**Market shares** during the nine-year period are estimated based on average market shares achieved in the periods prior to the start of the period and estimated future development. A change in number of market players may affect future estimated market shares, average price levels and level of usage/number of subscriptions. This may in turn affect future revenue growth.

These values have been compared with external valuation reports and multiples for peers in the telecom business for reasonableness.

**Cash generating units were a reasonable possible change in a key assumption could result in an impairment charge:**

Bredbandsbolaget

We have estimated the recoverable amount to be in the interval 0–30% above the carrying amount of the cash generating unit as of 31 December 2005. The EBITDA margin is assumed to be the most critical key assumption in the estimation of the recoverable amount. A decrease in the EBITDA margin of 5.4 percentage points, other things being equal, will reduce the recoverable amount to be the same as the carrying amount.

Cybercity
We have estimated the recoverable amount to be in the interval 0–30% above the carrying amount of the cash generating unit as of 31 December 2005. The EBITDA margin is assumed to be the most critical key assumption in the estimation of recoverable amount. A decrease in the EBITDA margin of 3.3 percentage points, other things being equal, will reduce the recoverable amount to be the same as the carrying amount.

**Impairment**
As of 31 December 2004, Telenor wrote down goodwill in Sonofon Holding A/S by NOK 3,074 million. In 2004 the Danish market was characterized by intense competition and price reductions. Telenor's assessment of the write-down of goodwill in Sonofon was due to Sonofon's slower than expected growth and a review of the expectations of the company's growth potential as of 31 December 2004. The assessment of the fair value was based on various valuation methods, with assistance of external valuations experts. The valuation was based on discounted cash flow analysis, calculation of value based on multiples for peers in the mobile industry and comparison with external valuation reports.

## 18 | Associated companies

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Balance as of 1 January** | **6 500** | **9 870** |
| Additions | 93 | 166 |
| Transferred to/from other investments | (1 092) | (3 938) |
| Disposals | (29) | (41) |
| Net income | 1 406 | 954 |
| Gains (losses) on disposal | (1) | 32 |
| Write-down of Golden Telecom Inc. [1] | (172) | - |
| Equity adjustments | (46) | (7) |
| Translation adjustments | 624 | (536) |
| **Balance as of 31 December** | **7 283** | **6 500** |
| Of which investments carried with a negative value (classified as provisions) (note 21) [2] | 141 | 102 |
| **Total associated companies** | **7 424** | **6 602** |

[1] In 2005, the value of Golden Telecom was written down to the fair value, which was based on the quoted market price as of 31 December 2005.
[2] Associated companies are carried at negative values where Telenor has a corresponding liability above and beyond the capital invested.

Undistributed earnings of associated companies are approximately NOK 2.3 billion, which represents the amount of associated companies' earnings less amortization and write-downs of fair value adjustments and goodwill (only those with positive results) that has been recognized by Telenor less dividends received and deferred tax on undistributed earnings.

**Specifications of investments in associated companies**

| NOK in millions<br>Company | Share owned in % | Book value 31.12.04 | Investments/ disposals during 2005 | Share of net income [1) 2)] | Equity and translation adjustments | Book value 31.12.05 |
|---|---|---|---|---|---|---|
| VimpelCom [3) 7)] | 29.9 | 3 015 | - | 1 305 | 452 | 4 772 |
| DTAC [4)] | - | 586 | (710) | 85 | 39 | - |
| UCOM [4)] | - | 235 | (259) | 9 | 15 | - |
| ONE GmbH [5)] | 17.5 | 606 | (110) | (51) | (26) | 419 |
| Wireless Matrix Corporation [7)] | 25.2 | 27 | - | 4 | 5 | 36 |
| Kjedehuset AS | 49.0 | 1 | - | 30 | - | 31 |
| Glocalnet AB [6), 7)] | 37.2 | 96 | 26 | (56) | (4) | 62 |
| Golden Telecom Inc [7)] | 20.3 | 1 272 | - | (80) | 111 | 1 303 |
| APR Media Holding AS | 44.8 | 426 | - | 66 | - | 492 |
| Otrum Electronics ASA [7)] | 33.1 | 96 | - | 9 | - | 105 |
| World Wide Mobile Communications AS | 45.0 | 56 | - | 6 | (1) | 61 |
| Bravida ASA | 46.9 | (93) | - | (45) | - | (138) |
| The Mobile Media Company AS | 40.6 | 23 | - | (17) | - | 6 |
| Maritime Communications Partner AS | 38.7 | 21 | 17 | (7) | - | 31 |
| Others | - | 133 | 8 | (25) | (13) | 103 |
| **Total** | | **6 500** | **(1 028)** | **1 233** | **578** | **7 283** |

1) Includes Telenor's share of net income after taxes and pretax gains and losses on disposal.
2) For some associated companies, financial statements as of the Group's balance sheet date are not available. In such instances, the most recent financial statements (as of a date not more than three months prior to the Group's balance sheet date) are used, and estimates for the last period are made based on publicly available information. Actual figures may differ from the preliminary figures.
3) The other main shareholder of VimpelCom has a put option over its shares in VimpelCom that could require Telenor to acquire its shares if Telenor takes control in VimpelCom. In addition, if one shareholder acquires more than 45% of the shares in VimpelCom, according to the statutes this shareholder will have to make a mandatory offer on the remaining shares. VimpelCom reports their contingent liabilities in their public filings and may provide additional information in their 2005 financial statements. In VimpelCom's 2004 financial statement and subsequent filings they have mentioned disputes/cases, in particular the competitive tender acquiring KaR-Tel with limited due

diligence. Vimpelcom provided information that the acquisition has caused additional inquiry revealing a number of non-compliance issues pertaining to questionable payments to government authorities, debt, other contractual obligations and other matters. VimpelCom states that on 10 January 2005, KaR-Tel received an "order to pay" issued by the Savings Deposit Insurance Fund (the "Fund"), a Turkish state agency, in the amount of approximately US$5.5 billion. VimpelCom stated that in the event of an adverse resolution of this matter, and any others that may arise in connection therewith, could have a material adverse effect on VimpelCom's business, financial condition and results of operations, including an event of default under some or all of VimpelCom's outstanding indebtedness

[4] As of 26 October 2005 UCOM and DTAC became subsidiaries, see note 1.

[5] ONE GmbH is accounted for as an associated company because of Telenor's significant influence due to a shareholder's agreement.

[6] Glocalnet AB became a subsidiary in 2006.

[7] Market values of listed associated companies as of 31 December 2005: VimpelCom: NOK 18,363 million, Wireless Matrix Corporation: NOK 54 million, Glocalnet AB: NOK 305 million, Golden Telecom Inc.: NOK 1,300 million, Otrum Electronics ASA: NOK 196 million.

The following table sets forth summarized unaudited financial information of Telenor's share of associated companies on a combined basis.

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Income Statement Data** | | |
| Revenues | 18 360 | 17 703 |
| **Net income** | **1 233** | **986** |
| | | |
| **Balance Sheet Data** | | |
| Total assets | 16 932 | 18 992 |
| Total liabilities | 9 649 | 12 492 |
| **Net assets** | **7 283** | **6 500** |

## 19 | Trade and other receivables

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Accounts receivables** | | |
| Accounts receivables | 8 716 | 6 819 |
| Provision for bad debt | (938) | (715) |
| **Total accounts receivables** | **7 778** | **6 104** |
| | | |
| **Other current receivables** | | |
| **Interest-bearing** | | |
| Receivables on associated companies | 124 | 232 |
| Other receivables | 35 | 20 |
| **Non-interest-bearing** | | |
| Receivables on associated companies | 68 | 132 |
| Receivables on employees | 62 | 32 |
| Other current receivables | 803 | 639 |
| Provision for bad debt | (2) | (2) |
| **Total other current receivables** | **1 090** | **1 053** |
| | | |
| **Prepaid expenses and accrued revenues** | | |
| Deferred costs for connection [1] | 1 639 | 1 612 |
| Prepaid leases that are amortized [2] | 340 | - |
| Prepaid expenses | 819 | 662 |
| Accrued revenues | 2 186 | 2 056 |
| **Total prepaid expenses and accrued revenues** | **4 984** | **4 330** |
| **Total trade and other receivables** | **13 852** | **11 487** |

Due to the large volume and diversity of the Group's customer base, there are no concentrations of credit risk with respect to trade accounts receivables. Receivables on associated companies in 2005 and 2004 were primarily related to One and Glocalnet.

[1] Costs for connection limited to the deferred connection revenues, are deferred over the estimated customer relationship. Deferred costs for connection are classified as current as they relate to the Group's normal operating cycle.

[2] For prepaid leases that are amortized, see note 15.

## 20 | Other financial assets

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Available-for-sale investments – non-current [1] | 490 | 739 |
| Other financial non-current assets [3] | 1 777 | 510 |
| **Financial non-current assets** | **2 267** | **1 249** |
| | | |
| Available-for-sale investments – current [1] [2] | 1 852 | 527 |
| Bonds and commercial paper | 385 | 317 |
| **Financial derivatives – non-interest-bearing current assets (note 23)** | **1 382** | **-** |
| **Other financial current assets** | **3 619** | **844** |

[1] Available-for-sale investments – The estimated fair values of these investments are based on quoted market prices where available, or valuation techniques.

[2] Inmarsat Plc. is included in available-for sale – current with an estimated fair value of NOK 1 731 million as of 31 December 2005. Inmarsat Plc. became listed on the London Stock exchange during 2005, and as of 31 December 2005 the value was based on the quoted stock price. At the time of implementation of IAS 32 and 39 as of 1 January 2005, the value was set based on multiple analysie of comparable companies. Telenor recorded an increased value to equity both at January 2005 and at the time Inmarsat Plc. became listed.

[3] Other financial non-current assets

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Interest-bearing** | | |
| Receivables on associated companies [4] | 279 | 326 |
| Loans to employees | 5 | 10 |
| Fair value hedge instruments – interest-bearing non-current assets (note 23) | 998 | - |
| Other non-current receivables [5] | 103 | 16 |
| Provision for bad debt | (4) | (3) |
| **Non-interest-bearing** | | |
| Financial derivatives – non-interest-bearing non-currents assets (note 23) | 123 | - |
| Receivables on associated companies | 5 | 5 |
| Loans to employees | 7 | 6 |
| Other non-current receivables | 267 | 150 |
| Provision for bad debt | (6) | - |
| **Other financial non-current assets** | **1 777** | **510** |

[4] In 2005 and 2004, interest-bearing receivables on associated companies were primarily Bravida ASA.

[5] Other non-current interest bearing receivables as of 31 December 2005 consisted primarily of the net amount recognized on a receivable that DTAC had on Digital Phone Company Limited (DPC). DTAC has filed claims against DPC in the Thai Arbitration Court in June and August 2003 for the DPC breach of contract of more than NOK 241 million pursuant to the terms of an agreement to unwind the service provider agreement dated 7 January 1997. The receivable recognized is classified as interest-bearing, but no net interest income has been recognized as of 31 December 2005.

## 21 | Provisions etc.

**Long term**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Provisions for pensions (note 7) | 2 441 | 2 296 |
| Provisions for workforce reduction and onerous (loss) contracts (note 12) | 149 | 230 |
| Negative values associated companies (note 18) | 141 | 102 |
| Asset retirement obligations | 545 | 454 |
| Other provisions | 92 | 106 |
| **Total long term provisions** | **3 368** | **3 188** |

**Short term**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Provisions for workforce reduction and onerous (loss) contracts (note 12) | 617 | 476 |
| Asset retirement obligations | 4 | - |
| Other provisions | 296 | 279 |
| **Total short term provisions** | **917** | **755** |

**Asset retirement obligations**
Telenor have asset retirement obligations relating primarily to equipment and other leasehold improvements installed on leased network sites and in administrative and network buildings. Those leases generally contain provisions that require Telenor to restore the sites to their original condition at the end of the lease term. The following table describes all changes in Telenor's assets retirement obligation liability:

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Asset retirement obligation at beginning of year | 454 | 366 |
| Liabilities incurred | 67 | 28 |
| Liabilities settled | (12) | - |
| Accretion expense | 28 | 27 |
| New subsidiaries | 12 | 33 |
| **Asset retirement obligation at end of year** | **549** | **454** |

In most situations, the timing of the assets removals will be a long time into the future and result in significant uncertainty as to whether the obligation actually will be paid. The actual gross removal costs that the Group incurs may be significantly different from the estimated costs, for example due to negotiation of prices for a large amount of removals or agreements that reduce or relief the Group from its the liabilities. The actual timing of the removals may also differ significantly from the estimated timing.

## 22 | Interest-bearing liabilities

| NOK in millions | Limit | 2005 | 2004 |
|---|---|---|---|
| Euro Commercial paper program (ECP) | USD 500 | - | - |
| US Commercial paper program (USCP) | USD 1 000 | - | - |
| Revolving credit facility EUR | EUR 1 500 | - | - |
| Revolving credit facility EUR | EUR 1 000 | - | - |
| EMTN program | USD 6 000 | 13 689 | 14 109 |
| Norwegian Bonds | | 2 045 | 2 064 |
| | | | |
| Derivatives related to long term interest-bearing liabilities Telenor ASA [1] | | - | (645) |
| Other long term interest bearing liabilities Telenor ASA | | 77 | - |
| | | | |
| **Total non-current interest-bearing liabilities Telenor ASA** | | **15 811** | **15 528** |
| Non-current interest-bearing liabilities in subsidiaries [2] | | 11 178 | 5 074 |
| Derivatives related to long term interest-bearing liabilities in subsidiaries [1] | | 150 | - |
| | | | |
| **Total non-current interest-bearing liabilities Telenor Group** | | **27 139** | **20 602** |
| Current interest-bearing liabilities Telenor ASA | | 7 726 | 2 592 |
| Derivatives related to short term interest-bearing liabilities Telenor ASA [1] | | 133 | (14) |
| Current interest-bearing liabilities subsidiaries [2] | | 4 049 | 1 413 |
| | | | |
| **Total current interest-bearing liabilities Telenor Group** | | **11 908** | **3 991** |
| | | | |
| **Total interest-bearing liabilities Telenor Group** | | **39 047** | **24 593** |

[1] Foreign currency derivatives used to convert the cash flows of a debt instrument into another currency that fulfill requirements for fair value hedging. As from 1 January 2005 these derivatives are classified gross as interest-bearing financial assets (see note 20), or interest-bearing liabilities according to IAS 39.
[2] Specified below.

**Non-current interest-bearing liabilities Telenor ASA**
The revolving credit facilities of EUR 1.5 billion and EUR 1.0 billion matures in 2012 and 2007 respectively. According to Telenor's Finance Policy, this committed credit facility (ECP and USCP) should at any time serve as refinancing source for all outstanding commercial paper.

All borrowings in Telenor ASA are unsecured. The financing agreement except commercial paper, contain provisions restricting the pledge of assets to secure future borrowings without granting a similar secured status to the existing lenders (negative pledge) and also contain covenants limiting disposals of significant subsidiaries and assets.

The table below shows the debt instruments issued by Telenor ASA. Hedging instruments related to these borrowings are not included in the table.

| | Average interest rate 31 December 2005 | Millions<br>Amount in currency 31 December 2005 | Amount in NOK 31 December 2005 | Amount in NOK 31 December 2004 |
|---|---|---|---|---|
| **EMTN program** | | | | |
| AUD | – | – | – | 174 |
| CHF | 4.38% | 160 | 824 | 801 |
| EUR | 5.11% | 1 525 | 12 175 | 9 873 |
| JPY | 1.58% | 12 000 | 690 | 1 148 |
| USD | – | – | – | 2 113 |
| **Norwegian Bonds** | | | | |
| NOK | 5.14% | 2 045 | 2 045 | 2 064 |
| **Total Telenor ASA** | | | **15 734** | **16 173** |

The table below includes debt instruments, cross currency swaps and interest rate swaps. When the currency or interest rate exposure of the underlying borrowings has been altered through the use of derivatives, this is reflected in the figures in the table.

| | Average interest rate 31 December 2005 | Millions<br>Amount in currency 31 December 2005 | Amount in NOK 31 December 2005 | Amount in NOK 31 December 2004 |
|---|---|---|---|---|
| **Basis swaps** | | | | |
| EUR / NOK | – | – | (115) | (93) |
| **EMTN program** | | | | |
| CZK | 3.32% | 491 | 135 | 125 |
| EUR | 3.56% | 631 | 5 037 | 4 822 |
| GBP | 5.09% | 2 | 27 | 151 |
| NOK | 6.62% | 4 784 | 4 784 | 5 980 |
| SEK | 4.44% | 557 | 473 | 460 |
| JPY | 0.96% | (430) | (25) | – |
| USD | 5.37% | 355 | 2 403 | 2 013 |
| **Norwegian Bonds** | | | | |
| NOK | 4.85% | 2 034 | 2 034 | 2 070 |
| **Total Telenor ASA** | | | **14 753** | **15 528** |

**Non-current interest-bearing liabilities in subsidiaries**

| NOK in millions<br>Company | Debt instrument | Currency | Average interest rate 31 December 2005 | 31 December 2005 | 31 December 2004 |
|---|---|---|---|---|---|
| DiGi.Com | Borrowings from financial institutions | MYR | 4.90% | 537 | 711 |
| GrameenPhone | Borrowings from financial institutions | USD | 7.12% | 287 | 111 |
| GrameenPhone | Borrowings from financial institutions | NOK | 2.51% | 16 | 18 |
| GrameenPhone | Borrowings from NORAD | NOK | 3.40% | 32 | 39 |
| GrameenPhone | Finance lease | BDT | 15.00% | 466 | – |
| Kyivstar | Borrowings from financial institutions | USD | 6.91% | 508 | – |
| Kyivstar | Bonds | USD | 9.32% | 2 884 | 1 510 |
| Sonofon | Finance lease | DKK | 6.31% | 187 | 196 |
| Sonofon | UMTS Licenses [3] | DKK | 3.67% | 323 | – |
| Cybercity A/S | Finance lease | DKK | 2.44% | 16 | – |
| Utfors konsern | Finance lease | SEK | – | 11 | – |
| Telenor Pakistan | GSM License [3] | USD | 4.56% | 700 | 622 |
| Pannon | UMTS License [3] | HUF | 8.52% | 50 | 154 |
| DTAC | Borrowings from financial institutions | USD | 7.85% | 596 | – |
| DTAC | Borrowings from financial institutions | THB | 5.82% | 330 | – |
| DTAC | Bonds | THB | 7.14% | 2 202 | – |
| UCOM | Borrowings from financial institutions | THB | 6.75% | 682 | – |
| EDB Business Partner | Borrowings from financial institutions | NOK | 2.96% | 250 | 440 |
| EDB Business Partner | Borrowings from financial institutions | SEK | 2.15% | 252 | 160 |
| EDB Business Partner | Finance lease | NOK | 4.60% | 40 | 55 |
| Satellite Services AS | Finance lease [1] | NOK | 1.70% | 815 | 763 |
| Canal Digital | Finance lease [2] | – | – | 16 | 104 |
| Miscellaneous | | – | – | 128 | 191 |
| **Total non-current interest-bearing liabilities in subsidiaries** | | | | **11 328** | **5 074** |

[1] Satellite leases (Thor II and III). Telenor ASA guarantees this financing.

[2] Telenor ASA guarantees this financing. Denominated in DKK, EUR, NOK and SEK.

[3] Net present value of future payments for mobile licenses.

The interest-bearing liabilities in subsidiaries are generally not guaranteed by Telenor ASA and are subject to standard financial covenants, some of which limit the ability to transfer funds to Telenor ASA in the form of dividends or loans. We have covenants on the lease of satellites that grant the other party the right, if Telenor ASA is downgraded, to require Telenor to choose one of two options: 1) pledge assets, or 2) terminate the leases. As of 31 December 2005 we had a waiver that the change made by one of the rating agencies at the end of 2005 to A- with negative outlook was not regarded to be a breach.

Telenor entered into Cross Border QTE Leases for telephony switches, GSM Mobile network and fixed-line network in 1998, 1999 and 2003. Telenor has provided a defeasance of all amounts due by us under these agreements with highly rated financial institutions and US Government related securities. The leasing obligations and the defeased amounts are shown net on the balance sheet, and are not reflected in the tables. See notes 16, 23, 34 and 38.

Approximately 20 percent of Telenor's debt is with floating interest rate. The interest rate curves used as a basis for the floating rate fixings are LIBOR, NIBOR, EURIBOR, BIBOR, SIBOR, PRIBOR, CIBOR and STIBOR.

**Current interest-bearing liabilities in Telenor Group**

| NOK in millions<br>Company | | Average interest rate 31 December 2005 | 31 December 2005 | 31 December 2004 |
|---|---|---|---|---|
| Pannon | UMTS Licenses | 8.52% | 95 | 251 |
| DiGi.Com | Vendor financing and term loans | - | - | 346 |
| Telenor Pakistan | GSM License | - | - | 88 |
| Kyivstar | Bonds and borrowing from financial institutions | - | - | 271 |
| GrameenPhone | Borrowings from financial institutions | 7.12% | 84 | 37 |
| GrameenPhone | Borrowings from financial institutions | 2.51% | 4 | 4 |
| GrameenPhone | Borrowings from NORAD | 3.40% | 8 | 8 |
| GrameenPhone | Finance lease | 15.00% | 19 | - |
| Sonofon | Finance lease | 6.29% | 3 | - |
| Sonofon | UMTS Licenses | 3.67% | 30 | - |
| Cybercity A/S | Finance lease | 2.44%% | 26 | - |
| DTAC | Bonds | 8.63% | 2 391 | - |
| DTAC | Borrowings from financial institutions | 4.82% | 931 | - |
| UCOM | Borrowings from financial institutions | 6.75% | 119 | - |
| Business Solution | Finance lease | - | - | 14 |
| Satellite Services AS | Finance lease [1] | 1.70% | 137 | 125 |
| EDB Business Partner | Finance lease | 4.61% | 16 | 28 |
| Canal Digital | Finance lease [2] | - | 96 | 164 |
| Telenor ASA Bonds | Borrowings from financial institutions | 5.27% | 2 995 | 2 592 |
| Telenor ASA CP | Borrowings from financial institutions | 2.56% | 4 731 | - |
| Telenor ASA other | Borrowings from financial institutions | - | 133 | (14) |
| Miscellaneous | | - | 90 | 77 |
| **Total current interest-bearing liabilities** | | | **11 908** | **3 991** |

[1] Satellite leases (Thor II and III). Telenor ASA guarantees this financing

[2] Telenor ASA guarantees this financing. Denominated in DKK, EUR, NOK and SEK.

**Maturity profile of interest-bearing liabilities as of December 31, 2005 [1]**

| NOK in millions | Total as of 31.12.05 | 2006–2007 | 2007–2008 | 2008–2009 | 2009–2010 | 2010–2011 | 2011–2012 | 2012–2013 | 2013–2014 | After 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| EMTN program | 16 807 | 3 119 | 3 177 | 3 507 | 2 448 | - | 402 | 4 154 | - | - |
| Domestic bonds | 2 046 | - | 1 848 | - | - | - | - | - | 198 | - |
| ECP | 431 | 431 | - | - | - | - | - | - | - | - |
| Domestic commercial papers | 4 300 | 4 300 | - | - | - | - | - | - | - | - |
| Other short-term debt | 86 | 9 | 6 | 6 | 6 | 6 | 7 | 7 | 7 | 32 |
| **Telenor ASA, total** | **23 670** | **7 859** | **5 031** | **3 513** | **2 454** | **6** | **409** | **4 161** | **205** | **32** |
| | | | | | | | | | | |
| Subsidiaries, short-term | 4 049 | 4 049 | - | - | - | - | - | - | - | - |
| Subsidiaries, long-term | 11 328 | - | 949 | 1 952 | 3 778 | 1 526 | 608 | 1 403 | 221 | 891 |
| **Subsidiaries, total** | **15 377** | **4 049** | **949** | **1 952** | **3 778** | **1 526** | **608** | **1 403** | **221** | **891** |
| | | | | | | | | | | |
| **Telenor Group** | **39 047** | **11 908** | **5 980** | **5 465** | **6 232** | **1 532** | **1 017** | **5 564** | **426** | **923** |

[1] Derivatives designated as hedging instruments in fair value hedges are classified as interest-bearing in the balance sheet. All other derivatives are classified as non-interest-bearing and are therefore not included in this table.

## 23 | Financial instruments and risk management

**Financial risk factors**

Telenor uses derivative financial instruments to partly hedge its exposure to foreign exchange and interest rate risk arising from operational, financing and investment activities.

Telenor ASA's treasury function is responsible for funding, foreign exchange risk, interest rate risk and credit risk management for the parent company and for companies owned more than 90%. Subsidiaries owned less than 90% normally have standalone financing.

Telenor has limited activity related to interest rate and currency trading. As of 31 December 2005, Telenor did not have any outstanding open trading positions.

Our management emphasizes financial flexibility. An important part of this emphasis is to minimize liquidity risk through ensuring access to a diversified set of funding sources. Telenor ASA issues debt in the domestic and international capital markets mainly in the form of commercial paper and bonds. We use our Euro commercial paper program, US commercial paper program, Euro medium term note program and three Norwegian "open bond programs" with different maturities. To secure satisfactory financial flexibility, Telenor ASA have established committed syndicated revolving credit facilities of EUR 1.5 billion with maturity in 2012 and a EUR 1 billion with maturity in 2007.

**Interest rate risk**
Telenor is exposed to interest rate risk through funding and cash management activities. Changes in market interest rates affect the fair value of assets and liabilities. Interest income and interest expense in the profit and loss statement, as well as interest payments, are influenced by interest rate changes.

The objective for interest rate risk management is to minimize interest cost and at the same time hold the volatility of future interest payments within acceptable limits. To achieve this, Telenor use a simulation model that takes into account market variables and the portfolio composition. The average duration band of the liability portfolio is 0.5–2.5 years. As of 31 December 2005, the average duration was 1.4 (1.9 as of 31 December 2004) years.

Telenor applies interest rate derivatives to manage the interest rate risk of the debt portfolio. This typically involves interest rate swaps, whereas forward rate agreements and interest rate options are used to a lesser extent.

Below is a sensitivity analysis that shows the change in fair value due to a one-percentage point increase in interest rates. The matrix is divided into time intervals. The interest rate risk is allocated to the next rate fixing date for floating rate instruments, and to the maturity date for fixed rate instruments. Consequently, the matrix shows the interest rate risk distribution of the portfolio.

The table below includes interest-bearing liabilities, interest rate derivatives and currency derivatives.

| NOK in millions equivalent as of 31 December 2005 | | Decrease in fair value due to a 1%-point increase in interest rates | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Currency** | **Face value** | **0–1 year** | **1–2 years** | **2–3 years** | **3–4 years** | **4–5 years** | **5–6 years** | **6–7 years** | **7–8 years** | **Beyond 8 years** |
| CZK | 170 | 0.44 | - | - | - | - | - | - | - | - |
| DKK | (145) | 0.24 | 4.53 | - | - | - | - | - | - | 28.83 |
| BDT | 516 | - | (5.72) | - | - | - | - | - | - | - |
| EUR | 10 535 | 14.26 | 13.70 | 0.80 | 1.81 | 2.67 | 3.25 | 3.59 | 101.67 | - |
| GBP | - | 0.02 | - | - | - | - | - | - | - | - |
| HUF | (1 489) | (1.03) | 1.43 | - | - | - | - | - | - | - |
| MYR | 573 | - | - | - | - | - | 30.12 | - | - | - |
| NOK | 11 955 | 19.46 | 40.99 | 4.86 | 15.29 | 2.66 | - | 88.46 | 15.26 | - |
| SEK | 502 | 1.01 | 0.50 | - | 5.23 | - | - | - | - | - |
| THB | 6 575 | 6.86 | 16.90 | (28.80) | 27.12 | (22.51) | 26.97 | - | - | - |
| USD | 10 010 | (9.70) | 72.51 | 5.87 | 3.11 | - | - | 71.54 | 23.92 | - |
| **Interest-bearing liabilities [1)]** | **39 202** | **31.12** | **144.84** | **(17.27)** | **52.56** | **(17.18)** | **60.34** | **163.59** | **140.85** | **28.83** |

[1)] The figure differs from note 22, due to the inclusion of derivatives not classified as interest-bearing liabilities (i.e. derivatives that are not accounted for as hedge of interest-bearing liabilities).

**Exchange rate risk**
Telenor is exposed to changes in the value of the Norwegian Krone relative to other currencies. Telenor has invested in companies that have other functional currencies than Norwegian Krone. In addition, companies that mainly operate in Norwegian Krone will have transactions denominated in currencies other than Norwegian Krone.

The book value of Telenor's net investments in foreign entities varies with changes in the value of Norwegian Krone compared to other currencies. The net income of the Telenor Group is also affected by changes in exchange rates, as the profit and loss contributions of foreign entities are translated to Norwegian Krone using the average exchange rate for the period. If these companies pay dividends, it will typically be done in their local currency. Management's strategy to handle exchange rate exposures related to net investments is to partly issue financial instruments in the currencies involved. Combinations of money market instruments (commercial paper and bonds) and derivatives (foreign currency forward contracts and currency swaps) are typically used for this purpose.

Norwegian entities will also be exposed to exchange rate risk rising from revenues or operating expenses in foreign currencies. This exchange rate risk is normally not hedged by Telenor.

Exchange rate risk also arises when Norwegian entities enter into other transactions denominated in foreign currency, or when agreements are made to acquire or dispose of investments outside Norway. Committed cash flows in foreign currency equivalent to NOK 50 million or higher are hedged economically using forward contracts. Exchange rate risk related to debt instruments in foreign entities is also a part of the risk exposure of the Telenor Group.

Hedging as described above is only carried out in currencies that have well-functioning capital markets.

The table below shows the currency distribution of the Telenor Group's interest-bearing assets, liabilities and derivatives in other currencies than Norwegian Krone as of 31 December 2005:

| | AUD | BDT | CHF | CZK | DKK | EUR | GBP | HUF | JPY | MYR | SEK | THB | USD |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Interest-bearing assets | - | - | - | - | - | - | - | 3 885 | - | 1 246 | - | 1 165 | 256 |
| Interest-bearing liabilities | (37) | (4 830) | (150) | - | (573) | (1 554) | (12) | (3 030) | (19 500) | (316) | (422) | (28 734) | (1 567) |
| Currency swaps | 37 | - | 150 | (460) | - | 613 | - | - | 19 500 | - | (503) | (107) | 17 |
| Forward contracts | - | - | - | (307) | - | (338) | - | 51 750 | - | - | (230) | 3 | (232) |
| **Total** | **-** | **(4 830)** | **-** | **(767)** | **(573)** | **(1 279)** | **(12)** | **52 605** | **-** | **930** | **(1 155)** | **(27 673)** | **(1 526)** |

**Credit risk**

Credit risk is the loss that the Group would suffer if a counterpart failed to perform its financial obligations. There is limited credit risk related to account receivables due to the high number of customers.

Telenor has entered into Cross Border QTE Leases for telephony switches, GSM Mobile network and fixed-line network. Telenor has defeased all amounts due by us under these agreements in highly rated financial institutions and US Government related securities. The leasing obligations and the defeased amounts are shown net on the balance sheet, see notes 16, 22, 34 and 38. The defeased amounts payment were NOK 6.1 billion as of 31 December 2005 (NOK 6.0 billion as of 31 December 2004).

Telenor invests surplus liquidity in current interest-bearing assets. Credit risk is inherent in such instruments. Financial derivatives with positive replacement value for Telenor, taking into account legal netting agreements, also represent a credit risk.

Credit risk arising from financial transactions is reduced through diversification, through accepting counterparts with high credit ratings only and through setting strict limits on aggregated credit exposure towards each counterpart. Telenor ASA has legal netting agreements (ISDA agreements), which allows gains to be offset against losses in a bankruptcy situation with the 16 banks that are counterparts in derivative transactions. As of 31 December 2005, Telenor ASA had collateral agreements with three banks in derivative transactions. Both ISDA agreements and collateral agreements are means to reduce overall credit risk. Counterparty risk in subsidiaries in emerging markets is higher due to lack of counterparties with high credit ratings. This counterparty risk is monitored on a current basis.

Fair value of derivatives with positive replacement value for Telenor was equivalent to NOK 1,800 million as of 31 December 2005, taking into account legal netting agreements (NOK 1,578 million as of 31 December 2004). Credit exposure for Telenor is monitored on a daily basis.

Consequently, Telenor does not consider itself exposed to a significant concentration of credit risk.

**Fair values of financial instruments**

The estimated fair values of the company's financial instruments are based on market prices and the valuation methodologies described below. However, prudence is recommended in interpreting market data to arrive at an estimated fair value. Accordingly, the estimates presented herein may only be indicative of the amounts the company could realize at this date.

Fair values of debt instruments issued by Telenor ASA have been calculated using an interest rate curve, which incorporates estimates of the Telenor ASA credit spreads as of 31 December 2005 and 2004, respectively. The credit curve has been extrapolated from trades observed in the secondary market of Telenor ASA debt instruments with different maturities.

Fair value of debt instruments issued by subsidiaries has been determined by market quotes where such are available. For all other interest-bearing liabilities fair values have been estimated using the specific subsidiary's relevant credit curve.

Fair values of currency swaps, foreign currency forward contracts and interest rate swaps are estimated by the present value of future cash flows, calculated by using quoted swap curves and exchange rates as of 31 December 2005 and 2004, respectively. Options are revalued using appropriate option pricing models.

Fair values for listed shares are based on quoted prices at the end of the relevant years. From 1 January 2005, shares are recorded at estimated fair value in the financial statements. Listed companies consolidated in the Telenor Group or accounted for by using the equity method, are not included in the table below.

The table below shows book value and fair value of all derivatives, interest bearing liabilities, cash and shares owned less than 20% in the Telenor Group as of 31 December 2005 and 2004.

| NOK in millions | Book value 2005 | Fair value 2005 | Book value 2004 | Fair value 2004 |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Listed shares owned less than 20% | 1 866 | 1 866 | 82 | 97 |
| Cash and short term money market investments | 7 191 | 7 191 | 5 398 | 5 398 |
| | | | | |
| **Financial Liabilities** | | | | |
| Long term interest bearing liabilities | (26 989) | (27 771) | (21 247) | (22 528) |
| Short term interest liabilities | (11 775) | (11 775) | (4 005) | (4 050) |
| | | | | |
| **Derivatives used for interest and exchange rate risk management** | | | | |
| Gain interest rate swaps | 553 | 553 | 7 | 437 |
| Loss interest rate swaps | (725) | (725) | – | (432) |
| Gain cross currency interest rate swaps | 1 672 | 1 672 | 54 | 28 |
| Loss cross currency interest rate swaps | (860) | (860) | (7) | (7) |
| Gain foreign currency forward contracts | 165 | 165 | 1 731 | 2 023 |
| Loss foreign currency forward contracts | (447) | (447) | (1 072) | (1 124) |
| Interest rate options assets | 18 | 18 | 122 | 122 |
| Interest rate options liability | (16) | (16) | (54) | (54) |
| **Total net derivatives** | **360** | **360** | **781** | **993** |

| Classification of derivatives in the balance sheet [1] [2] | Book value 2005 |
|---|---|
| Financial derivatives – non-interest-bearing non-currents assets [3] | 123 |
| Fair value hedge instruments – interest-bearing non-current assets [3] | 998 |
| Financial derivatives – non-interest-bearing currents assets [4] | 1 382 |
| Fair value hedge instruments – non-current interest-bearing liabilities [5] | (150) |
| Financial derivatives – non-current non-interest-bearing liabilities [6] | (138) |
| Fair value hedge instruments – current interest-bearing liabilities [7] | (133) |
| Financial derivatives – current non-interest-bearing liabilities [8] | (1 722) |
| **Total net derivatives** | **360** |

[1] Derivatives designated as hedging instruments in fair value hedges are classified as interest-bearing in the balance sheet. All other derivatives are classified as non-interest-bearing.

[2] Comparable numbers as pf 31 December 2004 are not applicable since IAS 39 was implemented as of 1 January 2005.

[3] Included in Financial non-current assets in the balance sheet (note 20).

[4] Included in Other financial current assets in the balance sheet (note 20).

[5] Included in Non-current interest-bearing financial liabilities in the balance sheet (note 22).

[6] Included in Non-current non-interest-bearing financial liabilities in the balance sheet.

[7] Included in Current interest-bearing financial liabilities in the balance sheet (note 20).

[8] Included in Current non-interest bearing financial liabilities in the balance sheet (note 24).

## Hedging activities

From 1 January 2005 IAS 32 and 39 was implemented in Telenor. Below is Telenor's hedging strategies and quantitative information related to these strategies described.

### Derivative instruments designated as fair value hedging instruments

A significant portion of the debt issued by Telenor is fixed rate bonds (80% of outstanding bonds as of 31 December 2005 and 87% at 31 December 2004). Fixed rate bonds with long maturities impose a greater interest rate risk than management wishes to maintain. Accordingly the interest rate exposure on these bonds is often altered by entering into a derivative instrument that allows Telenor to receive an amount based upon fixed interest rate and pay an amount determined by a specified floating interest rate. Telenor designates these derivative instruments as fair value hedges.

Telenor employs two strategies that qualify for hedge accounting. The first is to issue a fixed rate bond in the currency in which funding is to be raised and consequently enter into a "receive fixed/pay floating" interest rate swap.

The second is to hedge a fixed rate bond issued in currency other than Norwegian Krone with a "receive fixed non base/pay floating" base cross currency interest rate swap. In these cases the hedged risks would be benchmark interest rates and exchange rates.

| NOK in millions | |
|---|---|
| **Fair value hedging relationships** | |
| Net loss recognized in 2005 income statement on hedged items: | (676) |
| Net gain recognized in 2005 income statement on hedging instruments | 686 |
| Amount of hedge ineffectiveness | 10 |

No components of the derivative instruments' gain or loss have been excluded from the assessment of hedge effectiveness.

### Derivative instruments designated as cash flow hedging instruments

Future expected transactions in foreign currencies impose a foreign exchange rate risk that management often wishes to eliminate. In these situations Telenor can mitigate the foreign exchange rate risk and fix the functional currency equivalent cash flows from the hedged item by entering into a derivative instrument.

As of 31 December 2005 five forecasted capital expenditure outflows denominated in foreign currency have been hedged for foreign currency risk using forward contracts. Interest risk for one floating rate bond has been hedged using an interest rate swap, and some future purchase of electricity has been hedged using energy futures.

Committed investment in a satellite, primarily to be paid during 2006, amounted to the substantial part of these cash flow hedges. The net result of the hedge items will be included in the purchase price of the satellite, and will be reversed through the profit or loss during the lifetime of the satellite.

In January 2005 Telenor terminated hedge accounting for two cash flow hedges of future capital expenditure outflows denominated in foreign currency because the estimated delivery dates were postponed substantially.

### Derivative (and nonderivative) instruments designated as hedging instruments of a net investment in a foreign operation

Telenor partly hedge net investments in foreign currency by issuing debt in the various currencies or through entering into derivative transactions. Material hedging positions have been designated as net investment hedges. In 2005, the instruments involved have been bonds and forward contracts.

### Derivatives not designated as hedging instruments

Telenor has a duration-based target for interest rate risk management. Interest rate swaps are used to periodically rebalance the portfolio in order to be in line with the duration target. These derivatives do not qualify as hedging instruments according to IAS 39.

Foreign currency swaps are frequently used for liquidity management purposes. No hedging relationships are designated in relation to these derivatives.

## 24 | Trade and other payables and Current non-interest bearing financial liabilities

**Trade and other payables**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Accounts payable | 6 215 | 3 806 |
| Government taxes, tax deductions etc. | 2 286 | 2 071 |
| Accrued expenses | 6 181 | 4 342 |
| Deferred connection revenues [1] | 1 741 | 1 692 |
| Prepaid revenues | 4 404 | 3 264 |
| **Total trade and other current liabilities** | **20 827** | **15 175** |

[1] Connection revenues are deferred over the estimated customer relationship. Deferred connection revenues are classified as current as they relate to the Group's normal operating cycle.

**Current non-interest bearing financial liabilities**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Financial derivatives (see note 23) | 1 722 | - |
| Other current non-interest bearing financial liabilities | 592 | 431 |
| **Total current non-interest bearing financial liabilities** | **2 314** | **431** |

## 25 | Earnings per share

**From total operations**
The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of Telenor ASA is based on the following data:

NOK in millions

| **Earnings** | **2005** | **2004** |
|---|---|---|
| Net income for the purposes of basic earnings per share (profit for the year attributable to the equity holders of Telenor ASA) | 7 646 | 6 093 |
| Effect of dilutive potential ordinary shares | – | – |
| **Earnings for the purposes of diluted earnings per share** | **7 646** | **6 093** |

In thousands

| **Number of shares** | **2005** | **2004** |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic earnings per share | 1 710 502 | 1 747 865 |
| **Effect of dilutive potential ordinary shares:** | | |
| Share options | 1 340 | 1 462 |
| **Weighted average number of ordinary shares for the purposes of diluted earnings per share** | **1 711 842** | **1 749 327** |

The denominators for the purposes of calculating both basic and diluted earnings per share have been adjusted for the buyback of shares held by the Kingdom of Norway from the time of approval at the Annual General Meeting.

**From continuing operations**
The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of Telenor ASA is based on the following data.

NOK in millions

| **Earnings** | **2005** | **2004** |
|---|---|---|
| Profit for the year attributable to the equity holders of Telenor ASA | 7 646 | 6 093 |
| **Less:** | | |
| Profit for the year from discontinued operations | (4) | – |
| **Net income for the purposes of basic earnings per share from continuing operations** | **7 650** | **6 093** |
| Effect of dilutive potential ordinary shares | – | – |
| **Net income for the purposes of diluted earnings per share from continuing operations** | **7 650** | **6 093** |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

## 26 | Commitments and Contingencies

Telenor is involved in a number of legal proceedings within various forums. Some of these proceedings involve administrative agencies, arbitrations, court cases within the governing jurisdiction and matters before governmental bodies which include minor and material issues that arise out of activities related to Telenor's business. While acknowledging the uncertainties of litigation, Telenor is of the opinion that based on the information available to date, these matters will be resolved without any material negative significant effects individually or in the aggregate on Telenor's financial position. Provisions have been made to cover unfavorable rulings, judgments, decisions or foreseeable deviations in tax assessments, pending the outcome of appeals by Telenor against these decisions. Furthermore, provisions have been made to cover the expected outcome of the other proceedings to the extent that negative outcomes are likely and that reliable estimates can be made.

Telenor Eiendom Holding AS (previously Telenor Communication AS) claim against the Norwegian tax authorities was upheld in the Appeals Court on 21 December 2005 relating to the non-recognition of a tax loss for the fiscal year 2001 deriving from the sale of shares in Sonofon Holding A/S from Telenor Eiendom Holding AS to Dansk Mobil Holding AS. The disputed amount is approximately NOK 8.6 billion, corresponding to a tax charge of approximately NOK 2.4 billion that was expensed in 2002. On or about 30 January 2006, the Norwegian tax authorities appealed the ruling of the Appeals Court to the Supreme Court of Norway. See note 14.

Sense Communication ASA initiated legal proceedings against Telenor Mobil AS before the Oslo District Court claiming that prices set forth in a service provision agreement for the period 2000–2003 had been excessive and not in accordance with the requirements for cost-oriented pricing. Sense gave notice to the effect that the claim might be recalculated in order to include other relevant years. The Asker and Bærum District Court gave judgment in favor of Telenor Mobil on 2 November 2004 and Sense appealed to the Court of Appeal. Sense (Reitan Gruppen AS, the Sense assignee) presented the claim to the Appeals Court during the 8th through the 16th of February 2006 estimating its claim for NOK 261 million plus interest and legal costs. Telenor expects the Appeals Court to render judgment in the month of April 2006. Additionally, Tele2 has asserted a request for reimbursement of more than NOK 113 million alleging prices charged by Telenor Mobil for resale of mobile telephone services under the service provider agreement with Tele2 has not been in accordance with the requirements for cost-oriented pricing. The parties have agreed to suspend the case until clarification of some of the issues determined in the Sense Communication case.

The Bangladesh Telecommunication Regulatory Commission has requested that GrameenPhone pay royalty and license fees (GRLF) pursuant to the license requirements. The legitimacy and amounts payable have not yet been clarified. Many uncertainties exist for mobile operators in Bangladesh that pertain to the actual basis used for establishing the GRLF. Telenor is of the opinion that necessary provisions have been made.

Over the past year, Storm has in a number of instances failed to have at least one representative from Storm attend Kyivstar's shareholder and board meetings. For a valid quorum to be present at Kyivstar's shareholder meetings, Ukrainian law requires the attendance of shareholders holding more than 60% of a company's share capital and, for a valid quorum to be present at board meetings, Kyivstar's charter and shareholder agreement require the attendance of at least one director from Storm. Storm and certain of their affiliates have also filed a number of related lawsuits in the Ukrainian courts contesting, among other things, the validity of parts of Kyivstar's shareholder agreement and charter. These lawsuits contest the ability of Kyivstar's chief executive officer to carry out his delegated duties, and the validity of previous decisions made by members of Kyivstar's board of directors. Telenor believes that these lawsuits are without merit and is vigorously contesting all of the claims that are currently pending in Ukrainian courts. In accordance with Kyivstar's shareholder agreement, Telenor also commenced in February 2006 an arbitration proceeding in New York against Storm for violating Kyivstar shareholders agreement. Telenor has also proposed technical changes to Kyivstar's charter to ensure that the Kyivstar board continues to function in accordance with the shareholder agreement, but the actions of Storm described above, including the failure of Storm or its nominees to attend meetings, could still adversely affect the ability of Kyivstar to operate and compete effectively.

**Disputes mentioned in note 24 to the Telenor's financial statements for 2004, in which a final decision or verdict has been reached:**
The liquidators of Enitel AS initiated legal proceedings against Telenor Telecom Solutions AS and Telenor Mobil AS before the Asker and Bærum District Court. The claim asserted was for more than NOK 121 million based on alleged overcharging for leased lines and traffic terminated in our fixed and mobile networks for the period of 1997 to 2001. The Asker and Bærum District Court on 14 March 2005 dismissed the plaintiff's action against Telenor Telecom Solutions AS and Telenor Mobil AS and the parties settled out of court on 14 April 2005.

## 27 | Contractual obligations

The Group has entered into agreements with fixed payments in the following areas as of 31 December 2005:

| NOK in millions | 2006 | 2007 | 2008 | 2009 | 2010 | After 2010 |
|---|---|---|---|---|---|---|
| **Minimum lease payments under non-cancelable operating leases** | | | | | | |
| Lease of premises | 858 | 729 | 627 | 557 | 482 | 2409 |
| Lease of cars, office equipment, etc. | 70 | 42 | 22 | 7 | 3 | 1 |
| Lease of satellite- and net-capacity | 435 | 263 | 195 | 113 | 65 | 114 |
| **Contractual purchase Obligations** | | | | | | |
| Purchase of satellite- and net-capacity | 803 | 47 | 28 | 10 | 8 | 8 |
| IT-related agreements | 407 | 165 | 140 | 131 | 31 | 13 |
| Other contractual obligations | 599 | 370 | 211 | 101 | 45 | 30 |
| **Committed investments** | | | | | | |
| Property plant and equipment | 1 447 | 9 | - | - | - | - |
| Other contractual investments | 722 | 148 | 18 | - | - | - |
| **Total contractual obligations** | **5 340** | **1 773** | **1 241** | **919** | **634** | **2 574** |

The table does not include agreements under which Telenor has no committed minimum purchase obligations. Future non-committed investments due to the UMTS licenses in Norway, Denmark and Hungary are not included.

Canal Digital has exclusive Nordic distribution rights on DTH to CMore's premium film and sport channels until June 13, 2006, in addition to exclusive content rights on other channels. Furthermore, in June 2005, Telenor Broadcast, together with Norwegian broadcaster TV2, acquired the rights for distribution of Norwegian football on TV, broadband Internet and 3G mobile for NOK 1 billion. The rights cover the period from 2006 through 2008 for the Norwegian premier league and the Norwegian first division, and 2006 through 2009 for Norway's international matches (home matches only) for men, women and youth, the national cups for men and women and women's national premier league. The NOK 1 billion commitment for the rights will be paid over four years, with NOK 300 million per year for the period 2006 through 2008 and NOK 100 million for 2009. The financial commitment is a joint liability owed to the Norwegian Football Association by TV2 and Telenor Broadcast. Telenor Broadcast and TV2 have agreed that the material part of the free to air TV rights will be managed by TV2, while the Pay-TV rights and certain free TV rights have been assigned to, and will be governed by, the television channel TV2 Zebra, in which Telenor Broadcast and TV2 will have an ownership interest of 45% and 55%, respectively. The broadband Internet football broadcast rights will be managed by Telenor Fixed and TV2 Interaktiv, while the 3G mobile rights will be managed by Telenor Mobile.

Committed investments in property plant and equipment in 2006 are primarily mobile networks in Pakistan, Malaysia (DiGi.Com) and Bangladesh (GrameenPhone)

Payments related to investment in a new satellite are included in Other contractual investments.

## 28 | Related parties

As of 31 December 2005 Telenor ASA was 54.0% owned by the Norwegian state, through the Ministry of Trade and Industry (including own shares).

The Norwegian telecommunications market is governed by the Electronic Communications Act of 25 June 2003 and other regulations issued pursuant to this Act. Until it expired 1 September 2004, Telenor had to provide and maintain Universal Service Obligations (USO) according to the concession on fixed network. Thereafter it was carried on through an agreement between Telenor and the Norwegian Ministry of Transport and Communications. The USO obligation entails among other things the provision of PSTN telephony to all households and companies, public pay phones, services for the disabled, emergency services. In addition, Telenor was in 2005 subject to Special Service Obligations (SSO) – the defense of Norway, coastal radio, services concerning Svalbard, wire services for ships, provisions of emergency lines for the police, fire department and ambulances. Telenor receives no compensation from the state for the provision of USO services, whereas compensation is given to Telenor for the provision of SSO. In 2005 and 2004 Telenor received NOK 73 million and NOK 72 million, respectively, under this agreement.

One of Telenor's GSM 900 licences in Norway was renewed by the Ministry of Transport and Communications in November 2005 until 31 December 2017. The net present value of the payments for this license was NOK 186 million, of which NOK 100 million was paid in 2005 and the remaining to be paid annually as a frequency fee. In 2004 Telenor was awarded some of the Wimax licenses for NOK 13.5 million. In 2005 Telenor purchased a frequency in the radio frequency band 11 GHz for NOK 10 million.
Telenor pays an annual fee to the Norwegian Post and Telecommunications Authority ("PT") for delivering telephony and mobile services. The fee was NOK 97 million and NOK 108 million in 2005 and 2004, respectively.

Telenor provides mobile and fixed telephony services, leased lines, customer equipment, Internet connections, TV distributions, IT operations/services and sale of software to the state and companies controlled by the state in the normal course of business and at arm's-length prices. Telenor also purchases services, such as postal services, in the normal course of business and at arm's-length prices. Details of such transactions are not included in this note.

**Transactions with associated companies**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| NOK in millions | **Sales to** | **Purchases from** | **Sales to** | **Purchases from** |
| | 544 | 177 | 703 | 1 323 |

Purchases from and sales to the associated company Bravida were considerably reduced in 2005 due to Bravida's sale of its Telecom and IKT businesses at the end of 2004. Purchases from associated companies were also reduced due to Telenor's disposal of its associated company Telenor Renhold & Kantine AS as of 28 June 2005. Of the sales in 2005 and 2004, NOK 442 million and NOK 494 million, respectively was to the associated company Glocalnet AB.

Telenor had provided guarantees related to Bravida ASA with a frame of approximately NOK 851 million as of 31 December 2005 (approximately NOK 917 million as of 31 December 2004). This was primarily related to a fulfilment guarantee regarding Bravida's deliveries to the project Södra Länken, which is an engineering contract in Sweden. The guarantee was provided by Telenor in 2000 when Bravida was a subsidiary. The guarantee was terminated in January 2006.

For information of receivables on associated companies – see note 19 and 20. Telenor had no payables or debt to associated companies as of 31 December 2005 and 2004.

GrameenPhone Ltd. borrowed NOK 50 million from the Norwegian Agency for Development Cooperation (NORAD). As of 31 December 2005, the remaining loan amounted to NOK 40 million. NORAD is part of the Minstry of Foreign Affairs. The fixed rate loan has an interest of 3.4% and was an interest-only loan until 30 June 2004, and is thereafter paid down until 31 December 2010.

As of 1 April 2005, Telenor sold 9 properties to Telenor Pension Fund. The properties are buildings for general administrative purposes and buildings for technical purposes. The administrative buildings constitute in value the larger part, and are used by Telenor and other external parties. Telenor Pension Fund has entered into agreements with Telenor where Telenor lease back parts of these properties for 10 years. The sales prices and lease payments were based on valuations by independent external parties. Total sales price was NOK 559 million. Telenor recorded a net gain on the sales of NOK 51 million. Total annual lease payments are NOK 42 million, adjusted annually with the consumer price index.

For compensation of key management personnel, see note 30.

## 29 | Additional information about cash flow

**Purchase and sale of subsidiaries and associated companies**
The table below shows how the main items in the consolidated balance sheet are effected of purchase and sale of subsidiaries and associated companies and is reconciled against the items in the consolidated cash flow statement which show the cash payments on purchase and cash receipts from sale of subsidiaries and associated companies net of cash received and transferred. Please see note 1 for further information on significant purchases and sales.

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Purchase of subsidiaries and associated companies** | | |
| Associated companies | 235 | 112 |
| Total other fixed assets | 20 399 | 13 773 |
| Total current assets | 3 175 | 1 353 |
| Total liabilities | (11 533) | (5 883) |
| Minority interests | (1 292) | - |
| Book value of associated companies at the time of acquisition | (941) | (4 215) |
| Recorded directly to equity | (1 274) | - |
| **Purchase price** | **8 769** | **5 140** |
| | | |
| Of which cash paid [1] | (8 594) | (6 421) |
| Cash in subsidiaries purchased | 466 | 140 |
| **Cash payment on purchase of subsidiaries and associated companies, net of cash purchased** | **(8 128)** | **(6 281)** |
| | | |
| **Sale of subsidiaries and associated companies** | | |
| Associated companies | 29 | 98 |
| Total other fixed assets | 599 | 124 |
| Total current assets | 95 | 553 |
| Total liabilities | (97) | (217) |
| Minority interests | 76 | (28) |
| Gain (loss) and translation adjustments of sales | 39 | 502 |
| **Sales price** | **741** | **1 032** |
| | | |
| Of which cash received | 821 | 953 |
| Cash in subsidiaries sold | (81) | (104) |
| **Cash received on sale of subsidiaries and associated companies, net of cash sold** | **740** | **849** |

[1] In 2004, cash payments include a shareholder's loan that Telenor took over at the time of purchase of the remaining shares in Sonofon Holding A/S.

### Restricted bank accounts

| NOK in millions | 2005 | 2004 |
|---|---|---|
| For employees' tax deduction | 7 | 6 |
| Other | 19 | 17 |
| **Total** | **26** | **23** |

With the exception of certain companies, the Group has purchased bank guarantees for payment of the employees' tax deductions.

### Cash and cash equivalents

| NOK in millions | 31.12.2005 | 31.12.2004 |
|---|---|---|
| Cash and cash equivalents in the Group's cash pool systems | 1 705 | 3 028 |
| Cash and cash equivalents not in the Group's cash pool systems [*] | 5 101 | 2 053 |
| **Total cash and cash equivalents** | **6 806** | **5 081** |

[*] Subsidiaries in which Telenor owns less than 90 percent of the shares are normally not participating in the Group's cash pool systems, held by Telenor ASA. As of 31 December 2005, these cash and cash equivalents primarily related to Kyivstar and DiGi.

The Group has established cash pool systems with two banks. Under these agreements, Telenor ASA 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 favor against deposits, so that the net position represents the net balance between the bank and the Group account holder.

### Significant non-monetary transactions

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Investments in licenses – part not paid in the year of grant | 461 | 1 091 |
| Finance leases – part not paid in the year of initial recognition | 484 | - |
| **Total** | **945** | **1 091** |

Investments in licenses in 2005 were related to the renewal of the GSM 900 license in Norway and the acquisition of UMTS license in Denmark. Investments in licenses in 2004 were related to the acquisition of a UMTS license in Hungary and a mobile license in Pakistan. A finance lease in 2005 was related to the fibre optical network in GrameenPhone, see note 16.

## 30 | Management compensation etc.

The Group Management consists of Jon Fredrik Baksaas, Arve Johansen, Trond Westlie, Jan Edvard Thygesen, Stig Eide Sivertsen, Morten Karlsen Sørby, Ragnar Korsæth and Bjørn Magnus Kopperud. The last two joined the group in January 2006. As of 15 September 2005, Senior Executive Vice President and CFO, Torstein Moland retired and Trond Ø. Westlie became Executive Vice President and CFO. Aggregate remuneration, taxable income, for 7 persons of the Group Management for 2005 was NOK 21,283,636. Torstein Moland is included until 15 September and Trond Westlie is included from 15 September 2005. In addition Telenor also had NOK 6,831,000 in pension cost for the Group Management. The aggregate remuneration for the Board of Directors and the Corporate Assembly for 2005 was NOK 2,216,027 and NOK 461,641 respectively. In addition, remuneration for the audit, compensation and nomination committees was in total NOK 267,000. The members of the Board of Directors have no agreements which entitles them to extraordinary remuneration in the event of termination or change of office or agreement for bonus, profit sharing, options or similar. In 2005 there has not been any option program or other non-current incentive plans.

| | Base salary | Share options reported as taxable income in the year [1] | Bonuses paid in the year | Other benefits [2] | Total taxable income | Pension benefit earned/ cost to company [3] |
|---|---|---|---|---|---|---|
| **Group Management [4]** | | | | | | |
| Jon Fredrik Baksaas | 4 000 000 | - | 1 039 333 | 130 171 | 5 169 504 | 1 309 000 |
| Arve Johansen | 2 800 000 | - | 911 408 | 386 595 | 4 098 003 | 1 724 000 |
| Morten Karlsen Sørby | 2 600 000 | - | 583 738 | 172 871 | 3 356 609 | 460 000 |
| Jan Edvard Thygesen | 2 000 000 | - | 449 653 | 255 359 | 2 705 012 | 1 240 000 |
| Stig Eide Sivertsen | 2 000 000 | - | 601 846 | 247 282 | 2 849 128 | 990 000 |
| Trond Ø. Westlie [5] | 670 833 | - | - | 40 426 | 711 260 | 116 000 |
| Torstein Moland [5] | 1 558 333 | - | 542 570 | 293 217 | 2 394 120 | 992 000 |

| | Board Compensation | Compensation for board elected committee's |
|---|---|---|
| **Board of Directors [6]** | | |
| Thorleif Enger | 400 000 | 5 000 |
| Bjørg Ven | 270 000 | 20 000 |
| Harald Stavn | 200 000 | 10 000 |
| Per Gunnar Salomonsen | 200 000 | - |
| Irma Tystad | 200 000 | 10 000 |
| John Giverholt | 200 000 | 80 000 |
| Hanne de Mora | 200 000 | 80 000 |
| Liselott Kilaas | 200 000 | 5 000 |
| Paul Bergqvist | 146 027 | 5 000 |
| Jørgen Lindegaard | 200 000 | - |

All amounts exclude social security tax.

None of the persons in the table received compensation from any other Group companies, except for the employee representatives that received salary as employees of Telenor ASA.

[1] For number of options granted and outstanding and their terms, see below and note 31.

[2] Include items as company car, telephone, ADSL and other minor benefits.

[3] The calculations of pension benefits earned are based on the same actuarial and other assumptions as used in the pension benefits calculation in note 7, excluding social security tax. The amounts are higher than the amounts that the persons earned as paid-up policy if the employment was terminated as of 31 December 2005.

[4] Ragnar H. Korsæth and Bjørn Magnus Kopperud joined the Group Management mid-January 2006 hence they are not included here.

[5] Torstein Moland retired from his position as Senior Executive Vice President and CFO as of 15 September 2005 and was replaced by Trond Ø. Westlie. The compensation is based on their respective period as members of the Group Management.

[6] Torstein Moland exercised options in November 2005, after he retired as CFO. Hence taxable income from this is not included in the note.

[7] Includes Board Compensation and compensation for Board elected committees.

Telenor's compensation committee consists of the chairman of the Board of Directors and two members from the other shareholder-elected board members. Our president and CEO, Jon Fredrik Baksaas is invited to attend the meetings of the committee. The primary responsibility of the committee is to discuss and make proposals to the board of directors in respect of compensation practice and policy for the CEO and the Group Management, as well as the general compensation policy for other employees. The committee meets at least twice a year, and when needed.

The bonus frame for the members of the Group Executive Management was 6 months of base salary in 2005. If the target level is reached (under any given bonus criterion), 50% of the bonus is paid. 100% of the bonus may only be paid as a result of exceptional financial performance.

Jon Fredrik Baksaas had a bonus agreement for 2005 with a maximum payment of 6 months of fixed salary. In 2003, he was granted 250,000 share options with a maturity of 7 years. In 2002, when he was appointed President and CEO he was granted 150,000 share options and another 100,000 in the share option program in 2002. Telenor's pension plan gives Mr. Baksaas the right to retire at the age of 60 with a supplementary pension, resulting in a total pension equal to 66% of pension-qualifying income. Pension-qualifying income is limited to NOK 3,000,000, adjusted annually with the Consumer Price Index. The first adjustment occurred on 1 January 2003. Mr. Baksaas has the right to receive salary for a period of 24 months if Telenor terminates the employment, provided that he does not undertake any other employment during such period, in which case the payment would be reduced by 75% of the salary for the new employment. There will be no holiday payment on this amount. The agreed period of termination notice is six months.

The table below shows information for each member of the current Group Management, except for Jon Fredrik Baksaas, which is mentioned above.

| Name/title | Agreed period of notice | Severance Pay | Pension benefits |
|---|---|---|---|
| Senior Executive Vice President Arve Johansen [2] | 6 months | 6 months | 66% of Pension-qualifying income at the date of retirement with the right to retire at the age of 60. The Pension-qualifying income will be equal to the salary of 31 December 2004, with an annual regulation according to the consumer price index. |
| Executive Vice President and CFO Trond Ø. Westlie | 6 months | 6 months | Defined contribution plan with 30% of salary above 12G with right to retire at the age of 65 |
| Executive Vice President Stig Eide Sivertsen | 6 months | No | 66% of Pension-qualifying income at the date of retirement with the right to retire at the age of 62. The Pension-qualifying income will be equal to the salary of 31 December 2004, with an annual regulation according to the consumer price index. |
| Executive Vice President Jan Edvard Thygesen | 6 months | 6 months | 66% of Pension-qualifying income at the date of retirement with the right to retire at the age of 62. The Pension-qualifying income will be equal to the salary of 31 December 2003, with an annual regulation according to the consumer price index. |
| Executive Vice President Morten Karlsen Sørby | 6 months | 6 months | 66% of Pension-qualifying income at the date of retirement with the right to retire at the age of 62. The Pension-qualifying income will be equal to the salary of 31 December 2002, with an annual regulation according to the consumer price index. |
| Executive Vice President Ragnar H Korsæth | 6 months | 6 months | 66% of Pension-qualifying income at the date of retirement with the right to retire at the age of 65. The Pension-qualifying income will be equal to the salary of 31 December 2002, with an annual regulation according to the consumer price index. |
| Executive Vice President Bjørn Magnus Kopperud | 6 months | 6 months | 66% of Pension-qualifying income at the date of retirement with the right to retire at the age of 62. The Pension-qualifying income will be equal to the salary of 31 December 2002, with an annual regulation according to the consumer price index. |

[1] The share option programs for 2002, 2003 and 2004 are described in note 31. No share options were granted in 2005.

[2] Arve Johansen has an agreement which entitle him to a possible transfer to other tasks within the organization with the right to compensation of half his salary. These agreements relate to a specified time period up to the age of retirement. The future pension benefits are based on the salary at the time of transfer to other work.

Total loans to employees were NOK 36 million as of 31 December 2005. NOK 18 million of this is related to the employee share program, in which 3,590 employees in the Nordic countries participated in 2005. The loans for purchase of shares were limited to NOK 5,962 per employee after discount. Loans for purchase of shares are non-interest-bearing and are repaid over 12 months. The rest of the loans were mainly related to the financing of cars purchased by the employees as an alternative to company cars and to loans for house purchase in two of the foreign subsidiaries. None of the members of the Board of Directors or the Group Management have loans in the company.

The number of shares and share options owned by the members of the Board of Directors, Deputy Board Members, the Corporate Assembly and the Group Management as of 31 December 2005 is shown below. Shares owned by the Board of Directors, Deputy Board Members and the Group Management include closely related parties.

| The Board of Directors | Number of shares as of 31.12.2005 | Number of options as of 31.12.2005 |
|---|---:|---:|
| Thorleif Enger | 12 000 | – |
| Bjørg Ven | 10 000 | – |
| Harald Stavn | 3 844 | – |
| Per Gunnar Salomonsen | 1 896 | – |
| Irma Tystad | 813 | – |

| Deputy Board Members | Number of shares as of 31.12.2005 |
|---|---|
| Helge Enger | 1 737 |
| Roger Rønning | 1 137 |
| Ragnhild Hundere | 275 |
| Hjørdis Henriksen | 275 |

| The Corporate Assembly | Number of shares as of 31.12.2005 |
|---|---|
| Arne Jenssen | 407 |
| Berit Kopren | 275 |
| Stein Erik Olsen | 1 151 |
| Inger-Grethe Solstad | 682 |

| The Group Management | Number of shares as of 31.12.2005 | Number of options as of 31.12.2005 | Options from Feb 2002 program | Options from June 2002 program | Options from Feb 2003 program |
|---|---|---|---|---|---|
| Jon Fredrik Baksaas | 34 852 | 500 000 | 100 000 | 150 000 | 250 000 |
| Trond Ø. Westlie | - | - | - | - | - |
| Arve Johansen | 51 462 | 200 000 | 100 000 | - | 100 000 |
| Morten Karlsen Sørby | 7 794 | 145 000 | 70 000 | - | 75 000 |
| Jan Edvard Thygesen | 56 278 | 150 000 | 75 000 | - | 75 000 |
| Stig Eide Sivertsen | 28 765 | 150 000 | 75 000 | - | 75 000 |
| Ragnar H. Korsæth | 5 670 | 50 000 | 20 000 | - | 30 000 |
| Bjørn Magnus Kopperud | 2 777 | 100 000 | 50 000 | - | 50 000 |

**Fees to the auditors**

The table below summarizes suggested audit fees for 2005 and 2004 and fees for audit related services, tax services and other services invoiced to Telenor during 2005 and 2004. Fees include both Norwegian and foreign subsidiaries.

| | Audit fees | | Audit related fees | | Fees for tax services | | Other fees | |
|---|---|---|---|---|---|---|---|---|
| NOK in millions excluding VAT | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| **Telenor ASA** | | | | | | | | |
| Group Auditor | 3.1 | 2.6 | 5.0 | 2.9 | 0.5 | 1.2 | - | - |
| Other Auditors | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| **Other Group companies** | | | | | | | | |
| Group Auditor | 38.6 | 26.4 | 4.3 | 7.1 | 5.1 | 4.0 | 1.0 | 0.7 |
| Other Auditors | 0.1 | 0.2 | 0.1 | - | 0.1 | 0.1 | 0.1 | 0.1 |

Fees for audit services include fees associated with the required statutory audits and the reviews of the Company's quarterly reports. Audit-related fees principally include due diligence in connection with acquisitions and dispositions, information system audits and regulatory reporting audits. Tax fees include review of tax compliance and tax advice, mainly outside Norway.

## 31 | Share option plans

In the Telenor Group there are two share options programs: One for shares in Telenor ASA and one for the listed subsidiary company EDB Business Partner ASA.

The share option plans are considered equity-settled plans. Telenor ASAs option plan includes the option for Telenor to settle in cash.

**Option program for shares in Telenor ASA**

85 managers and key personnel were granted options in 2002 and 110 managers and key personnel were granted options in 2003. 12 new managers and key personnel were granted options in 2004. In 2005 there were no options granted. One third of the options vest each of the three years subsequent to the date of grant. The latest possible exercise date is seven years subsequent to the grant date. The options may only be exercised four times a year, during a ten-day period after the publication of the company's quarterly results.

For options granted in 2002: The exercise price corresponds to the average closing price at Oslo Stock Exchange five trading days prior to the grant date, increasing with an interest per commenced month corresponding to 1/12 of 12 months NIBOR (Norwegian Interbank interest rate). For options granted in 2003 and 2004: The options are exercisable if the stock price at the time of exercise is higher than the average closing price at Oslo Stock Exchange five trading days prior to the date of grant, adjusted with 5.38% per year. The exercise price corresponds to the average closing price on the Oslo Stock Exchange five trading days prior to the grant date, which was NOK 26.44 for options granted in 2003 and NOK 48.36 for options granted in 2004.

| Share Options Telenor ASA | Share options | Estimated fair value at grant date (per share option) | Average exercise price at the end of option life [1] |
|---|---|---|---|
| **Balance as of 31 December 2003** | **5 103 333** | **-** | **38.06** |
| Options granted in 2004 | 380 000 | 11.89 | 48.36 |
| Options forfeited in 2004 | 45 000 | - | 26.98 |
| Options exercised in 2004 | 1 027 994 | - | 33.44 |
| **Balance as of 31 December 2004** | **4 410 339** | **-** | **33.97** |
| Options granted in 2005 | - | - | - |
| Options forfeited in 2005 | 145 000 | - | 44.98 |
| Options exercised in 2005 | 1 237 675 | - | 33.11 |
| **Balance as of 31 December 2005** | **3 027 664** | **-** | **34.11** |

The weighted average share price at the date of exercise for share options exercised during 2005 was NOK 58.95 (NOK 49.64 in 2004 and NOK 38.50 in 2003).

The table below details Telenor's options outstanding by related option exercise price as of 31 December 2005 and is based on the latest exercise price. All options may be exercised prior to the termination of the plan.

| Weighted Average Exercise Price (in NOK) | Options Outstanding | Weighted Average Remaining Life as of 31 December 2005 | Options Exercisable as of 31 December 2005 [1] | Options Exercisable as of 31 December 2004 [1] |
|---|---|---|---|---|
| 41.67 [1] [2] | 937 667 | 3.1 years | 937 667 | 913 667 |
| 33.32 [1] [3] | 150 000 | 3.1 years | 150 000 | 100 000 |
| 26.44 [4] | 1 706 664 | 4.1 years | 906 674 | 583 328 |
| 48.36 [5] | 233 333 | 4.8 years | 53 333 | - |

[1] Exercise price for the share option programs of 2002 are calculated at the latest possible date of exercise, and based on 12 month NIBOR, implied forward rates calculated of the spot curve (20 February 2006, and 20 June, 2005). For the share option programs of 2003 and 2004, the exercise prices are fixed throughout the options' terms.

[2] First possible exercise was February 2003 for 1/3 of the options.

[3] First possible exercise was July 2003 for 1/3 of the options.

[4] First possible exercise was February 2004 for 1/3 of the options.

[5] First possible exercise was February 2005 for 1/3 of the options.

At the exercise of the options, Telenor maintains the right to redeem options by paying an amount in cash corresponding to the difference between the exercise price and closing price on the day the notification reached the company. The options may be exercised earlier than the end of the options term, as long as they are exercisable.

The fair value of share-based compensation at the grant date is expensed over the vesting period. Telenor uses a Black & Scholes valuation model to calculate the fair value. According to the transitional rules in IFRS 1 only options granted subsequent to 7 November 2002 that had not vested as of 1 January 2005 are included. This amounted to 1,516,668 options with an average estimated fair value at grant date per share option of NOK 8.92.

**Option program for shares in EDB Business Partner ASA**

600,000 options at an exercise price of NOK 15.94 per share were granted to the CEO for EDB Business Partner ASA at the time of appointment in 2003. One third of the options vest each of the three years subsequent to the grant date and are exercisable if the stock price at time of exercise is higher than the exercise price adjusted with 5.38% per year. The options may only be exercised four times a year, during a ten-day period after the publication of the company's quarterly results. The latest possible exercise date is seven years after the grant.

In connection with the 2004 Annual General Meeting an option plan, consisting of a maximum of 1,300,000 options, was granted to the rest of the management and key employees. Of these options 989,994 were granted in April 2004 at an exercise price of NOK 45.55 and 25,000 options were granted in November 2004 at an exercise price of NOK 44.83. Another 345,000 options were granted in 2005: 220,000 in January 2005 at an exercise price of NOK 48.27, 100,000 on 1 October 2005 at an exercise price of NOK 49.04 and 25,000 on 10 October 2005 at an exercise price of NOK 49.06. Options are granted at an exercise price corresponding to the average stock price five days before the options are granted. Half of the options vest each of the two years subsequent to the grant date and are exercisable the following year if the stock price at the time of exercise is higher than the exercise price adjusted with 5.38% per year. Options which have vested may only be exercised subsequent to an approval from the Annual General Meeting. In addition, the options may only be exercised four times a year, during a 3 to 10 day period after the publication of the company's quarterly results.

| | Share options | Estimated fair value at grant date (per share option) | Average exercise price at the end of option life |
|---|---|---|---|
| **Balance as of 31 December 2003** | **9 884 997** | **-** | **117.7** |
| Options granted in 2004 | 1 014 994 | 9.43 | 45.5 |
| Options exercised in 2004 | - | - | - |
| Options forfeited in 2004 | 9 284 997 | - | 118.7 |
| **Balance as of 31 December 2004** | **1 624 994** | **-** | **34.5** |
| Options granted in 2005 | 345 000 | 8.42 | 48.5 |
| Options exercised in 2005 | 34 117 | - | 45.5 |
| Options cancelled in 2005 | 98 484 | - | 45.4 |
| Options forfeited in 2005 | - | - | - |
| **Balance as of 31 December 2005** | **1 837 393** | **-** | **36.3** |

The weighted average share price at the date of exercise for share options exercised during 2005 was 45.55.

The table below details EDB Business Partner's options outstanding by related option exercise price and is based on the latest exercise dates. Some options may be exercised prior to the termination of the plan.

| Weighted Average Exercise Price (in NOK) | Options Outstanding | Weighted Average Remaining Life (in years) | Options Exercisable as of 31 December 2005 | Options Exercisable as of 31 December 2004 |
|---|---|---|---|---|
| 15.94 | 600 000 | 4.3 | 400 000 | 200 000 |
| 45.55 | 892 393 | 0.7 | 429 138 | - |
| 48.27 | 220 000 | 1.5 | - | - |
| 49.05 | 125 000 | 2.8 | - | - |

The fair value of share-based compensation at the grant date is expensed over the vesting period. According to the transitional rules in IFRS 1 only options granted subsequent to 7 November 2002 that had not vested as of 1 January 2005 are included. This amounted to 1,637,393 options with an average estimated fair value at grant date per share option of NOK 10.30.

**Option program for shares in Telenor ASA and EDB Business Partner ASA**
The programs 2002–2005

| | Risk free rate | Dividend yield | Volatility factor | Weighted average life |
|---|---|---|---|---|
| Telenor ASA 2002 programs | 6.40% | 2.0% | 31.3% | 4.5 years |
| Telenor ASA 2003 program | 4.80% | 2.0% | 32.3% | 4.5 years |
| Telenor ASA 2004 program | 3.13% | 2.0% | 36.5% | 4.5 years |
| EDB Business Partner ASA 2003 program | 5.05% | 0.0% | 66.9% | 4.5 years |
| EDB Business Partner ASA 2004 programs | 2.50% | 0.0% | 54.4% | 1.5 years |
| EDB Business Partner ASA 2005 programs | 3.66% | 0.0% | 53.3% | 1.5 years |

For fair value calculations the share price at grant date are used. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options. However, the number of share options granted is limited compared to the size of the Group, and the effects of applying a more flexible model is not expected to have a material impact on the Group's financial statements.

## 32 | Number of shares, ownership etc.

As of 31 December 2005, Telenor ASA had a share capital of NOK 10,239,421,758 divided into 1,706,570,293 ordinary shares with a nominal value of NOK 6 each. All shares have equal voting rights and the right to receive dividends. As of 31 December 2005, the company had 12,846,514 own shares.

In accordance with the authority given by the Annual General Meeting on 20 May 2005 Telenor reduced its share capital with NOK 263,186,550 in July 2005. This was done through the cancellation of 20,191,700 own shares and through redemption of 23,672,725 shares from the Ministry of Trade and Industry.

At the Annual General Meeting on 20 May 2005, approval was given for the Board of Directors to acquire 170,500,000 own shares with a nominal value totaling NOK 1,023,000,000. The amount paid per share shall be a minimum of NOK 6 and a maximum of NOK 200. The Board is free to decide how the acquisition and transfer of shares takes place. Own shares could be used as means of payment in connection with acquisitions of businesses or in order to fulfill obligations relating to option programs for key employees or to share program for employees. This authorization is valid until 1 July 2006.

In 2005 Telenor acquired 13,844,000 own shares in accordance with this authorization. In August and in November 2005 164,335 and 335,669 respectively of these shares were used to fulfill obligations related to the stock option programs for key employees. In November 2005, an additional 81,042 of these shares were used for bonus shares related to the share ownership program for employees of 2004. In December 2005, an additional 416,440 of these shares were used related to a share ownership program for employees of 2005.

In May 2005, Telenor entered into an agreement with its largest shareholder, the Kingdom of Norway, represented through the Ministry of Trade and Industry. According to the agreement the Board of Directors will propose to the Annual General Meeting in 2006 that the shares that were bought back are cancelled. The Board will also propose a redemption and cancellation of shares from the Ministry of Trade and Industry. As a consequence the Kingdom of Norway's ownership percentage in Telenor remains unchanged. The Ministry of Trade and Industry has obliged itself to vote for the reduction of the share capital at the Annual General Meeting in 2006.

The following shareholders had 1% or more of the total number of 1,706,570,293 outstanding shares (including 12,846,514 own shares) as of 31 December 2005.

| Name of shareholders | Number of shares | % |
|---|---|---|
| Ministry of Trade and Industry | 920 954 183 | 53.97 |
| State Street Bank (nominee) | 70 678 407 | 4.14 |
| National Insurance Scheme Fund | 58 457 361 | 3.43 |
| JPMorgan Chase Bank (nominee) | 36 835 870 | 2.16 |
| Mellon Bank (nominee) | 23 704 040 | 1.39 |
| JPMorgan Chase Bank (nominee) | 21 078 068 | 1.24 |

## 33 | Licenses

The table below summarizes the main operating licenses held by Telenor ASA and its subsidiaries:

| Company | Licenses | Network Type | License Valid From | License Expiration |
|---|---|---|---|---|
| Telenor ASA/Telenor Mobil AS | GSM 900 | GSM/GPRS/EDGE | 1992 | 2017 [1] |
| | GSM 900 | | 2001 | 2013 |
| | GSM 1800 | | 1998 | 2010 |
| | UMTS | W-CDMA | 2000 | 2012 |
| Sonofon Holding A/S [2] | GSM 900 | GSM/GPRS | 1997 | 2012 |
| | GSM 1800 | | 1997 | 2007 |
| | GSM 1800 | | 2001 | 2011 |
| | UMTS | W-CDMA | 2005 | 2021 |
| Kyivstar GSM JSC [3] | GSM 900 | GSM/GPRS | 1997 | 2012 |
| | GSM 1800 | | 2001 | 2016 |
| Pannon GSM Rt. | GSM 900 | GSM/GPRS/EDGE | 1993 | 2008 |
| | GSM 1800 | | 1999 | 2014 |
| | UMTS | W-CDMA | 2004 | 2019 |
| Total Access Communications PCL [4] | AMPS 800 | GSM | 1990 | 2018 |
| | GSM 1800 | | 1990 | 2018 |
| DiGi.Com bhd [5] | GSM 1800 | GSM/GPRS/EDGE | 1995 | 2015 |
| | EGSM | | | |
| GrameenPhone Ltd. | GSM 900 | GSM | 1996 | 2011 |
| | GSM 1800 | | | |
| Telenor Pakistan (Private) Ltd. | GSM 900 | GSM/GPRS/EDGE | 2004 | 2019 |
| | GSM 1800 | | 2004 | 2019 |
| | Long Distance International | | 2004 | 2024 |
| ProMonte GSM D.O.O. | GSM 900 | GSM/GPRS | 2002 | 2017 |
| | GSM 1800 | | 2002 | 2017 |
| Telenor Telecom Solutions AS | Radio frequency band, 11 GHz | Fixed networks | 2005 | 2022 |
| | Wimax | | 2004 | 2022 |
| | Radio links [6] | | 1988 | Not time limited |

1) The license was extended in 2005.

2) In addition to the mobile operating licenses, Sonofon holds licenses for fixed radio links as well as a national FWA/Wimax network license in the 3,5GHz band, which expires in 2011.

3) In addition to the operating licenses, Kyivstar holds a number of regional frequency licenses.

4) Rather than a license, DTAC has the right to operate a mobile network pursuant to a concession.

5) Rather than a license, DiGi.Com holds the right to operate a mobile network ("Spectrum allocation"). This was extended in 2001.

6) Telenor is dependent on a number of radio links in the fixed network business, both in and outside Norway, that to a large extent require licenses.

The satellite business is subject to regulations, both in and outside Norway. The most important are rights to orbit positions, where Telenor is at 1-degree west, and frequencies that are administered by ITU (International Telecommunication Union). Furthermore, Telenor holds uplink licenses in Norway, Sweden, Denmark, Finland, Bulgaria and United Kingdom (UK). Uplink licenses provide rights for transmission of signals from earth stations to satellites.

Telenor also holds licenses for terrestrial broadcasting in Norway.

In addition associated companies hold a number of licenses, which are important for their operations.

## 34 | Pledges and guarantees

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Interest-bearing liabilities secured by assets pledged | 1 384 | 2 184 |
| **Book value of assets pledged** | **5 013** | **8 752** |

Pledged assets and the liabilities secured by pledged assets as of 31 December 2005 related primarily to GrameenPhone and the satellite leases (Thor II and Thor III).

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Guarantees | 2 498 | 2 169 |

Guarantees provided where the related liability is included in the balance sheet are not shown in the table. Furthermore, purchased bank guarantees are not included.

Guarantees provided in connection with entering into the Cross Border QTE Leases are not included in the preceding table. See notes 16, 22, 23 and 38. These guarantees are provided for the payment of all lease obligations. As of 31 December 2005 and 2004 these guarantees amounted to NOK 7,240 million (USD 1,070 million) and NOK 6,459 million (USD 1,070 million), respectively.

The table above includes a guarantee liability of approximately NOK 851 million related to Bravida ASA (NOK 917 million as of 31 December 2004), in connection with Bravida ASA's deliveries to a project in Sweden, see note 26. This guarantee was terminated in January 2006.

In 2004, Telenor provided guarantees for the purchase of mobile network equipment in Pakistan, amounting to NOK 981 million as of 31 December 2005 (NOK 876 millions as of 31 December 2004). In addition Telenor provided a performance guarantee of NOK 161 millions as of 31 December 2005 (NOK 151 millions as of 31 December 2004) for the fulfillment of the license requirements in 2008.
Telenor has provided a guarantee for a termination fee of the satellite leases (Thor II and Thor III) of NOK 116 million per 2005 (NOK 151 million as of 31 December 2004). The leasing periods end in 2009 and 2010, respectively.

In addition, Telenor has provided performance and payment guarantees to external parties of an aggregate amount of approximately NOK 389 million as of 31 December 2005 (NOK 74 million as of 31 December 2004).

## 35 | Events after the balance sheet date

On 5 January 2006, the acquisition of Vodafone's mobile business in Sweden was effectuated. See note 1 for more information.

During the first quarter of 2006, Telenor sold its remaining ownership interest in Inmarsat PLC. 4.8% of the share capital in Inmarsat was sold on 12 January and the remaining 4.6% of the share capital was sold on 14 March. The total sales proceeds received were approximately GBP 155 million (NOK 1,802 million), and the total financial gain before taxes was approximately NOK 1,786 million.

# 36 Equity – notes

### Total paid capital

| | Number of shares | Share capital (NOK mill.) | Other paid capital (NOK mill.) | Own shares (NOK mill.) | Total paid capital (NOK mill.) |
|---|---|---|---|---|---|
| **Balance as of 1 January 2004** | **1 804 021 281** | **10 824** | **18 656** | **(169)** | **29 311** |
| Share buy back | – | – | – | (2 020) | (2 020) |
| Cancellation of shares | (55 444 964) | (332) | (1 152) | 1 484 | – |
| Share option granted | 1 027 994 | 6 | 28 | – | 34 |
| Employee share program | – | – | 2 | 18 | 20 |
| Bonus shares | 92 736 | – | 5 | – | 5 |
| **Balance as of 31 December 2004** | **1 749 697 047** | **10 498** | **17 539** | **(687)** | **27 350** |
| Share buy back | – | – | – | (2 267) | (2 267) |
| Cancellation of shares | (43 864 425) | (263) | (1 937) | 2 200 | – |
| Share option granted | 737 671 | 4 | 21 | – | 25 |
| Employee share program | – | – | (6) | 50 | 44 |
| Bonus shares | – | – | 1 | 4 | 5 |
| **Balance as of 31 December 2005** | **1 706 570 293** | **10 239** | **15 618** | **(700)** | **25 157** |

Nominal value per share is NOK 6.

### Other reserves

| NOK in millions | Investment revaluation reserve | Hedging reserve | Business combina-tions and increased ownership interests in sub-sidiaries | Equity adjust-ments in associ-ated com-panies | Share options reserve | Tax | Total other reserves |
|---|---|---|---|---|---|---|---|
| **Balance as of 1 January 2004 – Restated according to IFRS *)** | **–** | **–** | **(732)** | **–** | **–** | **–** | **(732)** |
| Changes during 2004 | – | – | 871 | 62 | 16 | (253) | 696 |
| **Balance as of 31 December 2004** | **–** | **–** | **139** | **62** | **16** | **(253)** | **(36)** |
| Implementation of IAS 32 and 39 | 746 | 13 | – | – | – | (98) | 661 |
| **Adjusted as of 1 January 2005** | **746** | **13** | **139** | **62** | **16** | **(351)** | **625** |
| Changes during 2005 | 1 052 | 24 | 1 829 | 1 | 6 | (459) | 2 453 |
| **Balance as of 31 December 2005** | **1 798** | **37** | **1 968** | **63** | **22** | **(810)** | **3 078** |

*) See note 37.

In 2005, Telenor increased the ownership in the previous associated companies UCOM and DTAC. Fair value adjustments were calculated for 100% of the shares, and the fair value adjustments on the shares Telenor already owned were recorded directly against the shareholders' equity.

In 2004, Telenor increased its ownership interests in the subsidiary GrameenPhone Ltd. Net excess values were allocated to other intangible assets and recorded directly against the shareholders' equity. In 2004, the acquisition of the remaining shares of the previous associated companies Sonofon Holding A/S and European Telecom Luxembourg S.A. (the owner of ProMonte GSM), was completed. Fair value adjustments were calculated for 100% of the shares, and the fair value adjustments on the shares Telenor already owned were recorded directly against the shareholders' equity.

### Cumulative translation differences

| NOK in millions | Foreign currency translation of net investment | Net investment hedge | Tax | Total Translation differences |
|---|---|---|---|---|
| **Balance as of 1 January 2004 – Restated according to IFRS *)** | **–** | **–** | **–** | **–** |
| Changes during 2004 | (1 136) | 815 | (284) | (605) |
| **Balance as of 31 December 2004** | **(1 136)** | **815** | **(284)** | **(605)** |
| Changes during 2005 | 827 | (302) | (12) | 513 |
| **Balance as of 31 December 2005** | **(309)** | **513** | **(296)** | **(92)** |

*) See note 37.

## 37 | Adoption of International Financial Reporting Standards (IFRS)

Regulations of the European Union (EU) require that publicly listed companies within the EU prepare their consolidated financial statements in accordance with "International Financial Reporting Standards" (IFRS) by 2005. Due to the European Economic Area (EEA) agreement, Norwegian listed companies are also required to follow IFRS. Telenor's first IFRS financial statements is for the year ending 31 December 2005 and include the comparative period for 2004.

Up to, and including 31 December 2004, Telenor prepared its financial statements according to Norwegian Generally Accepted Accounting Principles (N GAAP). The main changes in accounting principles when preparing Telenor's financial statements according to IFRS are found below.

In general, IFRS 1 "First-Time Adoption of International Financial Reporting Standards" provides that accounting policies applied in the comparative period of 2004 must be consistent with IFRS standards effective at the reporting date for its first IFRS financial statements, which is 31 December 2005 for Telenor. However, there are certain voluntary and mandatory exemptions in IFRS 1 of which the most important to Telenor are:

a) Business combinations: IFRS 3 has been adopted for business combinations for which the agreement date is on or after 1 January 2004. The option of limited retrospective application of the Standard has not been used, thus avoiding the need to restate business combinations prior to 1 January 2004.

The first transaction to which IFRS 3 has been applied was the acquisition of Sonofon Holding A/S. On 12 February 2004, the remaining 46.5% shares of the associated company, Sonofon, were acquired increasing Telenor's ownership interest to 100%. The purchase was restated and the assets and liabilities assumed were recognized at fair value as of 12 February 2004 (the date of consolidation) according to IFRS. For N GAAP, only 46.5% of the fair values were recognized at the date of consolidation and the carrying values for the original investment in Sonofon were carried forward. The purchase price allocation according to IFRS increased net excess values and therefore increased the group's equity at the time of consolidation compared with N GAAP. Due to a different depreciation and amortization profile of the identified assets under IFRS, the depreciation and amortization expense for 2004 was reduced. At year-end 2004, an impairment review was necessary for Sonofon and the resulting write-down of goodwill according to IFRS was higher than that according to N GAAP due to a higher equity value according to IFRS.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 Impairment of Assets (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortization of goodwill. Previously, under N GAAP, the Group carried goodwill in its balance sheet at cost less accumulated amortization and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill. In accordance with IFRS 1, the Group has applied the revised accounting policy for goodwill prospectively from 1 January 2004, to goodwill acquired in business combinations for which the agreement date was before 1 January 2004. Therefore, from 1 January 2004, the Group has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At 1 January 2004, the carrying amount of amortization and impairment charges accumulated before that date has been eliminated, with a corresponding decrease in the cost of goodwill.

b) Employee benefits: Telenor has elected to recognize all cumulative actuarial gains and losses on pension obligations at the date of transition to IFRS. This decreased Telenor's equity as of 1 January 2004, and decreased pensions expenses for 2004 compared to N GAAP. Telenor has used the corridor approach for actuarial gains and losses subsequent to 1 January 2004 under IFRS. The cumulative actuarial losses as of 1 January 2004 for IFRS were higher than those according to N GAAP. This was primarily due to the use of a lower discount rate for IFRS which increased the pension obligations and due to the calculation of social security tax on the actuarial gains and losses according to IFRS.

c) Share-based payments: The fair value of share-based compensation at the grant date is expensed over the vesting period according to IFRS. Telenor uses a Black & Scholes valuation model to calculate the fair value. According to the transitional rules only options granted subsequent to 7 November 2002 that had not vested as of 1 January 2005 are included. In accordance with N GAAP, no expense was recognized for stock options, except for the social security tax payable on exercise of the options.

d) Cumulative translation differences that existed at the date of transition to IFRS for all foreign operations and the corresponding translation differences on financial instruments used to hedge such investments are deemed to be zero at the date of transition to IFRS, and are kept permanently in equity. As a consequence, the gain or loss on a subsequent disposal of an entity reported in currency other than Norwegian Krone shall exclude translation differences that arose before the date of transition to IFRS. This had no effect on the total equity as of 1 January 2004, but has a positive effect on the gains on sale in 2004 according to IFRS compared to N GAAP. Telenor's cumulative translation differences as of 1 January 2004 were NOK 2 billion in accordance with N GAAP.

e) IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" was implemented 1 January 2005. Up to and including 31 December 2004, Telenor accounted for Financial Instruments according to N GAAP.

For financial instruments, the comparative figures for the income statements for 2004 are not restated to the principles in IAS 32 and 39. Equity as of 31 December 2004 is reconciled to equity as of 1 January 2005. This is shown below, with comments to the changes.

**Reconciliation of net income and shareholders' equity for the Telenor Group from N GAAP to IFRS**
The tables below show the estimated effects on net income and equity of implementing IFRS as from 1 January 2004. Comments to the various effects on net income and equity are provided below the tables.

**Consolidated Income Statement as of 31 December 2004**

| NOK in millions except per share amounts | Note | N GAAP Reported | IFRS Reclassi-fications | Adjustments | Adjusted |
|---|---|---|---|---|---|
| **Revenues** | 1a),1b),14) | **60 752** | **-** | **(161)** | **60 591** |
| Gains on disposal of fixed assets and operations | 2) | 550 | (550) | - | - |
| **Total revenues** | | **61 302** | **(550)** | **(161)** | **60 591** |
| **Operating expenses** | | | | | |
| Costs of materials and traffic charges | 1b) | 16 070 | - | (146) | 15 924 |
| Own work capitalized | | (557) | - | - | (557) |
| Salaries and personnel costs | 1b),3),4) | 10 021 | - | (51) | 9 970 |
| Other operating expenses | 1b),2),5) | 14 873 | (898) | (104) | 13 871 |
| Losses on disposal of fixed assets and operations | 2) | 74 | (74) | - | - |
| Other income and expenses | 2),10),11) | - | 422 | (574) | (152) |
| Amortization of goodwill | 7) | 939 | - | (939) | - |
| Depreciation and amortization – other | 5),6) | 10 684 | - | (47) | 10 637 |
| Write-downs | 8) | 2 596 | - | 935 | 3 531 |
| **Total operating expenses** | | **54 700** | **(550)** | **(926)** | **53 224** |
| **Operating profit** | | **6 602** | **-** | **765** | **7 367** |
| | | | | | |
| **Associated companies** | 9) | **718** | **-** | **268** | **986** |
| | | | | | |
| **Financial income and expenses** | | | | | |
| Financial income | | 496 | - | - | 496 |
| Financial expenses | 5) | (1 534) | - | (27) | (1 561) |
| Net currency loss | | (87) | - | - | (87) |
| Net gain (loss) and write-downs of financial items | 10) | 2 651 | - | 22 | 2 673 |
| **Net financial items** | | **1 526** | **-** | **(5)** | **1 521** |
| **Profit before taxes and minority interests** | | **8 846** | **-** | **1 028** | **9 874** |
| Taxes | 11) | (2 244) | - | (217) | (2 461) |
| **Profit before minority interests** | | **6 602** | **-** | **811** | **7 413** |
| Minority interests | 13) | (1 244) | - | (76) | (1 320) |
| **Net income** | | **5 358** | **-** | **735** | **6 093** |
| | | | | | |
| Net income per share in NOK (basic) | | 3.07 | - | 0.42 | 3.49 |
| Net income per share in NOK (diluted) | | 3.06 | - | 0.42 | 3.48 |

**Profit and loss 2004**

| NOK in millions | Note | |
|---|---|---|
| **Net income – NGAAP** | | **5 358** |
| Amortization of goodwill, negative goodwill | 7) | 939 |
| Depreciation and amortization – other | 6) | 63 |
| Write-down of goodwill | 8) | (935) |
| Pensions | 3) | 95 |
| Asset Retirement Obligations | 5) | (46) |
| Share-based compensation | 4) | (19) |
| Sale of software | 1a) | 51 |
| Associated companies | 9) | 268 |
| Adjusted gains | 10) | 34 |
| MVNO | 11) | 578 |
| Tax on IFRS adjustments | 12) | (217) |
| Minority interests | 14) | (76) |
| **Total adjustments** | | **735** |
| **Net income – IFRS** | | **6 093** |

**Equity**

| NOK in millions | Note | 01.01.04 | 31.12.04 |
|---|---|---|---|
| **Shareholders equity – NGAAP** | | **37 237** | **37 594** |
| Amortization of goodwill, negative goodwill | 7) | 343 | 1 282 |
| Depreciation and amortization – other | 6) | - | 63 |
| Write-down of goodwill | 8) | - | (935) |
| Business Combinations | 8) | - | 875 |
| Pensions | 3) | (1 809) | (1 714) |
| Asset Retirement Obligations | 5) | (296) | (342) |
| Share-based compensation | 4) | - | - |
| Sale of software | 1a) | (267) | (216) |
| Associated companies | 9) | (139) | 129 |
| Adjusted gains and translation differences | 10) | - | (66) |
| MVNO | 11) | - | 578 |
| Tax on IFRS adjustments | 12) | 592 | 122 |
| Dividends | 13) | 1 776 | 2 602 |
| Minority interests | 14) | 226 | 150 |
| **Total adjustments** | | **426** | **2 528** |
| **Shareholders equity – IFRS** | | **37 663** | **40 122** |

**Notes**

**1a)** Telenor is a provider of full service application and IT operating systems services. Under N GAAP, revenue from sale of software licenses and software upgrades was recognized upon their delivery. For revenue recognition related to software, according to the hierarchy in IAS 8 Telenor uses US GAAP principles to apply the general principles of IFRS to its specific circumstances. Revenue from sale of software licenses and software upgrades is deferred and recognized as revenue over the remaining software maintenance period as the customer does not have the right to use the software unless Telenor provides software maintenance. In addition, in conjunction with these contracts, Telenor may develop additional applications that are not essential to the use of the software. Under N GAAP, the fees for the development of the additional software were recognized based on the percentage of completion method of accounting. Under IFRS, these development fees are also deferred and recognized as revenue over the remaining software maintenance period.

This reduced equity as of 1 January 2004, while revenues and profit before taxes and minority interest for 2004 increased.

**1b)** Under N GAAP, revenue from telecommunications installation fees and connection fees were recognized in revenue at the time of the sale and all initial related costs were expensed as incurred. Under IFRS, such connection and installation fees that do not represent a separate earnings process are deferred and recognized over the periods that the fees are earned which is the expected period of the customer relationship. Initial related costs to the extent of the deferred revenue are also deferred over the same period.

For allocation of the consideration for revenue recognition for arrangements that involve the delivery or performance of multiple products or services, according to the hierarchy in IAS 8 Telenor uses US GAAP principles to apply the general principles of IFRS to its specific circumstances. Revenue arrangements with multiple deliverables are divided into separate units of accounting if the deliverables in the arrangement meet the following criteria: (1) the delivered item has value to the customer on a standalone basis; (2) there is objective and reliable evidence of the fair value of undelivered items; and (3) delivery of any undelivered item is probable. Arrangement consideration is allocated among the separate units of accounting based on their relative fair values, with the amount allocated to the delivered item being limited to the amount that is not contingent on the delivery of additional items or other specified performance criteria. Part of the connection fee has been allocated to sale of equipment and therefore recognized as revenue at the same time the equipment is recognized as revenue.

Telenor has reduced revenues for the year 2004 for deferred connection fees by NOK 102 million. Deferred connection fees and related costs recorded in the balance sheet amounted to NOK 1.5 billion as of 1 January 2004. This has no effect on equity or net income because the related costs are also deferred, limited to the amount of deferred revenues. Costs deferred for the year 2004 include a reduction of materials and traffic costs of NOK 20 million; an increase in salaries and personnel expenses of NOK 24 million; and a reduction of other operating expenses of NOK 106 million.

**2)** Gains and losses on disposals of fixed assets and operations, expenses for workforce reductions and loss contracts are reclassified to a separate line item included in operating expenses according to IFRS.

**3)** Under IFRS, cumulative unrecognized actuarial losses on pension obligations are recorded to equity as of 1 January 2004. As a result, the N GAAP amortization of actuarial losses recorded to salaries and personnel expenses is reversed for IFRS.

**4)** Share-based compensation increases salary and personnel expenses according to IFRS. This had no effect on equity.

**5)** According to IFRS, an asset retirement obligation exists where Telenor has a legal or constructive obligation to settle an asset retirement obligation. Where Telenor is required to settle an asset retirement obligation, Telenor has estimated and capitalized the net present value of the obligations and increased the carrying value of the related long-lived asset, with an amount equal to the depreciated value of the asset retirement obligation. Subsequent to the initial recognition, an accretion expense is recorded relating to the asset retirement obligation, and the capitalized cost is expensed as ordinary depreciation in accordance with the related asset. Under N GAAP, asset retirement obligations were limited to expenses to material known and planned removals within a reasonable timeframe.

The accumulated effects of asset retirement obligations were recorded to equity as of 1 January 2004. Net income is affected by the subsequent depreciation of fixed assets and interest expenses.

**6)** Adjustment of the fair value for the acquisition of Sonofon results in lower amortization and depreciation expense related to other intangible assets and tangible fixed assets in 2004 according to IFRS compared with N GAAP, see "(a) business combinations" above.

**7)** Goodwill is no longer amortized under IFRS, beginning from 1 January 2004 but is tested for impairment on an annual basis and whenever indicators of impairment arise.

In accordance with the transitional rules in IFRS 1, negative goodwill on Utfors AB was recorded to equity as of 1 January 2004.

**8)** Compared with N GAAP, write-downs for the year 2004 increased under IFRS primarily due to a larger write-down of goodwill for Sonofon as of 31 December 2004. The book value of Sonofon was higher than N GAAP because goodwill was not amortized for IFRS in 2004 and due to the restatement of the acquisition as discussed in "(a) business combinations" above.

In addition, in the fourth quarter of 2004, NOK 50 million related to write-downs of goodwill on Utfors AB and Canal Digital Group due to previously not recognized deferred tax assets at acquisition of these companies. The tax assets did not satisfy the criteria for separate recognition when the business combinations were initially accounted for, but parts were realized in 2004. Both in N GAAP and IFRS the realized tax income was recognized in the profit or loss statement. According to IFRS, in addition, the acquirer shall reduce the carrying amount of goodwill and recognize the reduction as an expense. According to N GAAP, the carrying amount of goodwill was reduced and the carrying amount of deferred tax asset was increased, and the subsequent reduction in the carrying amount of deferred tax asset was recorded as a tax expense. However, according to both sets of accounting principles this procedure shall not result in negative goodwill, nor shall it increase negative goodwill previously recognized.

In principle, the adjustment for IFRS compared to N GAAP in the profit and loss statement should be a reclassification between write-down of goodwill and tax expense. However, due to different carrying amount of goodwill according to N GAAP compared to IFRS, the IFRS adjustment resulted in a write-down of goodwill of NOK 50 million for the fourth quarter of 2004, and a tax income of only NOK 25 million.

**9)** Telenor's share of equity of associated companies decreased by NOK 139 million as of 1 January 2004, of which the adjustment for the cumulative unrecognized actuarial losses on pension obligations accounted for NOK 104 million.

According to N GAAP, investments in entities in which Telenor has an ownership that was considered to be temporary in nature were recorded at cost or written down to fair value. Under IFRS, temporary investments in which Telenor have significant influence, normally an ownership of 20% to 50% are accounted for under the equity method. As of 1 January 2004, this decreased equity by NOK 27 million.

The accumulated effect of NOK 8 million for asset retirement obligations in associated companies was recorded to equity according to IFRS as of 1 January 2004.

For the year 2004, the results from associated companies increased by NOK 268 million according to IFRS compared to N GAAP mainly due to the reversal of N GAAP amortization of goodwill of NOK 254 million.

**10)** According to IFRS, gains on disposals of operations and financial assets increase compared to N GAAP for 2004, due to the effects of changes in pension obligations and translation differences. Translation differences also affected the IFRS adjustments for 2004.

**11)** Telenor entered into Mobile Virtual Network Operator (MVNO) agreements, which includes sale of traffic in Telenor's GSM and UMTS network in Norway. At the same time similar agreements for purchase of traffic in GSM and UMTS network in Sweden was made with the same counterpart. The agreements contain a fixed nonrefundable prepayment and a variable element based on the actual use of the services. In accordance with N GAAP the fixed and the variable element was recognized as revenues and cost of traffic based on the actual usage, and the prepayments between the parties were recognized in the balance sheet. During 2004 and 2005 Telenor recorded impairment losses on the prepayments in Sweden on this contract due to revised expectations of the usage of capacity of the MVNO agreement.

Under IFRS the fixed prepayments between the parties have been nullified since these fixed payments are on equal terms and are non refundable. Consequently, the prepayments and the revenue and traffic costs and the loss provisions in 2004 and 2005 have been eliminated on the Group level.

Compared to N GAAP, Telenor has reduced revenues for 2004 by NOK 110 million, reduced cost of goods sold an traffic charges by NOK 126 million, reduced other expenses (onerous contracts) by NOK 562 million and increased income tax expense by NOK 162 million, resulting in an increase in net income of NOK 416 million.

**12)** Tax on IFRS adjustments relate primarily to pensions, business combinations, asset retirement obligations, the MVNO agreement and the sale of software. In addition a tax income of NOK 25 million was recorded for IFRS compared to N GAAP, see 8) above.

**13)** Under N GAAP, dividends payable reduced shareholders' equity for the year in which it related. Under IFRS, dividends payable is recorded as a reduction of shareholders' equity in the year it is approved.

**14)** Minority interests for IFRS adjustments relate primarily to EDB Business Partner ASA.

IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" were implemented as of 1 January 2005. Up to and including 31 December 2004, Telenor accounted for Financial Instruments according to N GAAP.

Reconciliation of shareholders' equity for the Telenor Group from 31 December 2004 to 1 January 2005 due to the implementation of IAS 32 and 39

| NOK in millions | Note | Sharolders' equity |
|---|---|---|
| **Shareholders' equity 31 December 2004** | | **40 122** |
| Derivative instruments at fair value | 15) | |
| – cash flow hedges | | 13 |
| – derivatives not qualifying as hedges | | (289) |
| Shares held-for-sale at estimated fair value | 16) | 753 |
| Tax on the changes | | (16) |
| Minority's share | | (8) |
| **Total adjustments** | | **453** |
| **Shareholders' equity 1 January 2005** | | **40 575** |

**15)** As of 1 January 2005, Telenor records all derivative instruments, as well as interest-bearing liabilities that qualify for hedge accounting, at fair value. As of 1 January 2005, interest rate derivatives used to manage the overall risk of Telenor's debt portfolio do not qualify for hedge accounting according to IFRS. These derivatives are now being treated as stand-alone financial instruments at fair value and constituted the main part of the implementation effect. Gains or losses from fair value adjustments subsequent to 1 January 2005 are recorded to the income statement.

Up to and including 31 December 2004, Telenor did not recognize changes in fair value of interest-bearing liabilities due to changes in interest rates. Correspondingly, for interest rate derivatives that qualified for hedge accounting, Telenor did not recognize unrealized changes in fair value due to changes in interest rates. From 1 January 2005, interest-bearing liabilities and derivatives designated as hedge objects and hedge instruments, respectively, for fair value hedges are presented gross in the balance sheet. Changes in fair value of both the hedged object (interest-bearing liabilities) and the hedge instrument (interest rate derivatives) are recorded to the income statement.

Up to and including 31 December 2004, gains and losses on foreign exchange contracts that were designated as hedges of firm commitments (cash flow hedges) were deferred and recognized in income at the same time as the related transactions, provided that the hedged transaction is eligible for hedge accounting. From 1 January 2005, such contracts are recorded in the balance sheet at fair value with changes in fair value through equity until the hedge transactions are made.

**16)** Up to and including 31 December 2004, shares available-for-sale were valued at the lower of cost and estimated fair value. From 1 January 2005, Telenor record shares available -for-sale at estimated fair value. Changes in the fair values of investments in shares are recorded in a separate component of equity until impaired or sold.

For financial instruments, the comparative figures for the profit and loss statements for 2004 are not restated to the principles in IAS 32 and 39. Equity as of 31 December 2004 is reconciled to equity as of 1 January 2005. The nature of the main adjustments would have been the same for equity at other points of time in 2004. However, as of 1 January 2004 the fair value adjustments for shares available-for-sale would have been significantly higher, as it would have included the listed companies Cosmote, New Skies and Q Free ASA. Cosmote and New Skies were sold in 2004. The fair value adjustments of listed shares as of 1 January 2004 would have been NOK 1,676 million after taxes, of which Cosmote was NOK 1,598 million. The nature of the main adjustments on the profit and loss statement and on the balance sheet items would have been as described above.

**Cash flow statement**

Telenor presents the cash flow statement using both the direct and indirect method. Telenor has not identified differences between the principles for the cash flow statement according to N GAAP and IFRS. However, since the net income for 2004 is different for IFRS compared to N GAAP, the starting point and items reconciling between net income and net cash flow from operating activities change. Net cash flow from operating activities is the same according to both sets of accounting principles.

**Balance sheet**

The changes described above impact the balance sheet and its classification and total assets and liabilities increase in accordance with IFRS.

Total assets increased in the IFRS balance sheet for 2004, compared to N GAAP. As of 31 December 2004, the increase was NOK 3.5 billion. The changed allocation of excess values on Sonofon had the most significant effect. Beside this, the increase was primarily due to the implementation effects of: deferred expenses related to deferred connection fees; capitalization of the remaining book value of asset retirement obligations; and deferred tax assets on the implementation effects, primarily on pension liabilities. This was partially offset by the recording of negative goodwill directly to equity as of 1 January 2004. Non-amortization of goodwill according to IFRS increased the book value of goodwill compared to N GAAP, offset by the write-downs that were made in the fourth quarter of 2004.

Equity increased, as shown in the table above.

Provision including deferred tax liabilities, increased as of 31 December 2004, primarily due to recognition of actuarial losses on pensions, asset retirement obligations and increased deferred tax liabilities.

Short term liabilities decreased by NOK 1.5 billion as of 31 December 2004 compared to N GAAP, due to the reversal of the accrual for dividends payable compared to N GAAP and the MVNO agreement, which was partially offset by the deferred connection fees and the deferred revenues from the sale of software.

The balance sheet as of 1 January 2005 was affected by the implementation of IAS 32 and 39. In addition to the increased equity as shown above, fair value of derivatives and bonds increased financial assets by NOK 2.0 billion and increased liabilities by NOK 2.3 billion. Net interest-bearing liabilities were not affected. Fair value of shares available-for-sale increased the value of shareholdings by NOK 0.8 billion.

## 38 | United States Generally Accepted Accounting Principles (US GAAP)

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS), which differs in certain respects from US GAAP.

The principal differences between the Group's accounting principles under IFRS and US GAAP are set out below:

**Reconciliation of net income (loss) from IFRS to US GAAP**

| NOK in millions, except per share amounts | Note | 2005 | 2004 |
|---|---|---|---|
| Net income (loss) in accordance with IFRS | | 7 646 | 6 093 |
| **Adjustments for US GAAP:** | | | |
| Pensions | 1 | (312) | (140) |
| Stock based compensation | 4 | (37) | (35) |
| Sale and lease back of properties | 5 | (39) | 10 |
| Derivative financial instruments | 6 | (129) | (58) |
| Goodwill | 7 | (112) | (22) |
| Negative goodwill and impairment | 8 | 288 | - |
| Reversal of IFRS impairment and impact on disposal | 9 | (106) | 58 |
| Subsequent acquisitions: amortization of fair values | 10 | 122 | (100) |
| Translation difference sold business | 16 | 29 | (14) |
| Sale of business with extension of service contract | 14 | 40 | (256) |
| Lease arrangements | 17 | (152) | - |
| Provisions | 18 | 175 | - |
| Other differences | | (26) | (116) |
| Tax effect of US GAAP adjustments | 11 | 62 | 114 |
| Minority interests | | (22) | 106 |
| **Net income in accordance with US GAAP** | | **7 427** | **5 639** |
| **Earnings per share in NOK in accordance with US GAAP** | | | |
| – Basic earnings per share in accordance with US GAAP | | 4.34 | 3.22 |
| – Diluted earnings per share in accordance with US GAAP | | 4.34 | 3.22 |
| Revenues in accordance with US GAAP | 19 | 70 352 | 67 801 |
| Operating profit in accordance with US GAAP | | 11 805 | 6 422 |
| Profit (loss) before taxes and minority interests | | 12 466 | 9 303 |
| Loss from discontinued operations | | (4) | - |
| Taxes in accordance with US GAAP | | (3 492) | (2 658) |
| Minority interest in accordance with US GAAP | | (1 543) | (1 006) |

### Reconciliation of shareholders' equity from IFRS to US GAAP

| NOK in millions | Note | 2005 | 2004 |
|---|---|---|---|
| Shareholders' equity in accordance with Norwegian GAAP | | 46 399 | 40 122 |
| **Adjustments for US GAAP:** | | | |
| Pensions | 1 | 1 448 | 1 760 |
| Gains on subsidiaries' equity transactions and disposal of shares in subsidiary | 2 | 700 | 700 |
| Equity securities — net of tax | 3 | (20) | 15 |
| Stock based compensation | 4 | (305) | (268) |
| Sale and lease back of properties | 5 | (100) | (61) |
| Derivative financial instruments | 6 | – | (298) |
| Goodwill | 6, 7 | 2 619 | 2 882 |
| Negative goodwill | 8 | – | (309) |
| Reversal of write-downs | 9 | (208) | (102) |
| Subsequent acquisitions: amortization of fair value | 10 | (1 877) | (820) |
| Sale of business with extension of service contract | 14 | (216) | (256) |
| Translation differences | 16 | 5 | 86 |
| Lease arrangements | 17 | (152) | – |
| Provisions | 18 | 175 | – |
| Other differences | | 92 | 123 |
| Tax effect of US GAAP adjustments | 11 | (397) | (459) |
| Minority interests | 2 | (706) | (685) |
| **Shareholders' equity in accordance with US GAAP** | | **47 457** | **42 430** |
| Total non-current assets in accordance with US GAAP | | 106 042 | 84 180 |
| Current assets in accordance with US GAAP | | 25 342 | 16 991 |
| Total assets in accordance with US GAAP | | 131 384 | 101 171 |
| Non-current liabilities and provision in accordance with US GAAP | | 38 643 | 34 882 |
| Current liabilities in accordance with US GAAP | | 37 315 | 19 438 |
| Minority interest in accordance with US GAAP | | 7 969 | 4 759 |

### The following table reconcile the difference between long-term liabilities and provisions under IFRS compared to US GAAP

| NOK in millions | Note | 2005 | 2004 |
|---|---|---|---|
| Non-current liabilities and provision under IFRS | | 33 756 | 26 655 |
| Pensions | 1 | (1 371) | (1 713) |
| Cross Border QTE Lease | 12 | 6 266 | 5 469 |
| Derivative financial instruments | 6 | – | 2 787 |
| Connection Fee | | – | 1 434 |
| Sale of business with extension of service contract | 14 | 216 | 256 |
| Deferred tax on minority share of excess value recorded net under US GAAP | 9 | – | (84) |
| Sale and leaseback of properties | 5 | 100 | 61 |
| Other differences | | (328) | 12 |
| Consolidation of variable interest entities | 13 | (4) | 5 |
| **Non-current liabilities and provisions under US GAAP** | | **38 643** | **34 882** |

### The following table reflects the components of comprehensive income (loss) under US GAAP

Statement of Financial Accounting Standard (SFAS) 130 "Reporting Comprehensive Income" established standards for the reporting and display of comprehensive income (loss) and its components. Comprehensive income includes net income and all changes in equity during a period that arise from non-owner sources, such as foreign currency items and unrealized gains and losses on securities classified as available for sale.

| | | 2005 | | | 2004 | |
|---|---|---|---|---|---|---|
| NOK in millions | Pretax | Tax | Net | Pretax | Tax | Net |
| Unrealized gain (loss) on securities | 1 762 | – | 1 762 | (2 311) | 647 | (1664) |
| Net investment hedge | (4) | 85 | 81 | (751) | 151 | (600) |
| Minimum pension liability adjustment | – | – | – | 113 | (32) | 81 |
| Foreign currency translation | 737 | (97) | 640 | 92 | 9 | 101 |
| Cash flow hedge | (252) | 70 | (182) | – | – | – |
| **Other comprehensive income** | **2 243** | **58** | **2 301** | **(2 857)** | **775** | **(2 082)** |

In 2005, NOK 15 million after tax was reclassified out of other comprehensive income to earnings. In 2004, NOK 1,668 million after tax was reclassified out of other comprehensive income to earnings.

### Reconciliation

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Net income in accordance with US GAAP | 7 427 | 5 639 |
| Other comprehensive income (loss) | 2 301 | (2 082) |
| **Total comprehensive income** | **9 728** | **3 557** |

**Components of equity in accordance with US GAAP:**

| | December 31, 2005 | December 31, 2004 |
|---|---|---|
| Share capital | 10 239 | 10 498 |
| Other paid capital | 15 618 | 17 539 |
| Other equity | 22 499 | 17 580 |
| Treasury shares | (700) | (687) |
| Accumulated other comprehensive income | | |
| – unrealized gain (loss) on securities after tax | 1 777 | 15 |
| – net investment hedge | 2 651 | 2 655 |
| – foreign currency adjustments | (3 729) | (4 466) |
| – cash flow hedge | (252) | - |
| – deferred taxes | (646) | (704) |
| **Total** | **47 457** | **42 430** |

**1) Pensions**

Under IFRS all cumulative unrecognized actuarial gains and losses for pension obligations at the date of transition to IFRS have been recognized directly against the Shareholders Equity as of 1 January 2004. Under US GAAP unrecognized actuarial gains and losses before 1 January 2004 remained unrecognized on the balance sheet. Unrecognized actuarial gains and losses amortized to the pension obligation as part of net periodic pension cost to the extent they exceed the corridor or are recognized to the income statement when we sell a business. Under US GAAP, the transition effect of adopting SFAS 87 is also amortized over the remaining average service period.

At the end of 2005, we used the same discount rate for both IFRS and US GAAP (see Note 7 for a discussion of the discount rate). At the end of 2004, we used a lower discount rate under IFRS than for US GAAP. For US GAAP the discount rate included an assumed risk premium for corporate rate bonds over the Norwegian government bond rate. At the end of 2005, we concluded that the more conservative government bond rate could also be used as the discount rate for US GAAP. Application of a more conservative approach to determining the US GAAP discount rate is regarded as a change in estimate. The change increased the pension obligation as of 31 December 2005.

In 2005, the Group terminated part of the defined benefit plan (spouse pension) which was treated as a curtailment and settlement for IFRS. For US GAAP the gain was deferred as part of prior service costs and a part of the actuarial losses were expenses in 2005.

In accordance with US GAAP, an adjustment for an additional minimum pension liability is made when the accumulated benefit obligation (ABO) exceeds the fair value of pension plan assets and this difference also exceeds the book value of net pension obligations. Pension obligations and intangible assets are increased by this difference, to the extent of unrecognized net actuarial losses. Any remaining difference is recorded, net of tax, to the other comprehensive income component of shareholders' equity.

There are no similar additional minimum liability requirements in accordance with IFRS

The table below set out the assumptions under IFRS and US GAAP.

| | 2005 | | 2004 | |
|---|---|---|---|---|
| **Assumptions used to determine benefit obligations at 31 December** | **IFRS** | **US GAAP** | **IFRS** | **US GAAP** |
| Discount rate in % | 3.9 | 3.9 | 4.5 | 5.0 |
| Rate of compensation increase in % | 3.0 | 3.0 | 3.0 | 3.0 |
| Expected increase in the social security base amount in % | 3.0 | 3.0 | 3.0 | 3.0 |
| Expected turnover in % | 10 | 10 | 6 | 6 |
| Expected average remaining service period in years | 9 | 9 | 12 | 12 |
| Annual adjustments to pensions in % | 2.5 | 2.5 | 3.0 | 3.0 |

Due to the differences explained above we have a difference in total provisions for pensions under US GAAP compared to IFRS. Below is an overview of benefit obligation plan assets, the total provision for pension and the pension cost under US GAAP:

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Benefit obligations at the end of the year | 5 795 | 5 333 |
| Fair value of plan assets at the end of the year | 3 896 | 3 811 |
| Funded status | 1 899 | 1 522 |
| Unrecognized prior service costs | 52 | (10) |
| Unrecognized net obligations at transition | (45) | (67) |
| Unrecognized net actuarial gains (losses) | (999) | (983) |
| **Total provision for pensions** | **907** | **462** |

**Presented as:**

| | 31 December 2005 | 31 December 2004 |
|---|---|---|
| Benefit obligation | 984 | 531 |
| Plan assets | – | (22) |
| Intangible assets | (77) | (47) |

**Total pension costs under US GAAP are as follows:**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Service cost | 535 | 482 |
| Interest cost | 263 | 263 |
| Expected return on plan assets | (187) | (189) |
| Losses/gains on curtailments and settlements | (1) | 16 |
| Amortization of actuarial gains and losses | 128 | 124 |
| Amortization of unrecognized net obligation | 22 | 25 |
| **Net periodic benefit costs** | **760** | **721** |
| Contribution plan costs | 180 | 141 |
| **Total pension costs charged to profit for the year** | **940** | **862** |

**2) Subsidiaries' equity transactions**

Under IFRS, no gains from subsidiaries' equity transactions and sales of ownership interests in a subsidiary that increases minority interests are recognised. The resulting minority interest is measured at fair value of the consideration paid from the minority. The difference between the recorded equity in the subsidiary and value of the consideration paid by the minority will be amortized or written down through allocating results to minority.

Under US GAAP, the Group records gains from subsidiary equity transactions (SAB 51 Transactions) and sales of ownership interests in a subsidiary that increases the minority interest through income.

**3) Equity securities**

Under IFRS up to and including 31 December 2004, equity securities classified as available-for-sale were valued at the lower of cost and estimated fair value. From 1 January 2005, the Group implemented IAS 39 and subsequently records available-for-sale shares at estimated fair value and unrealized gains and losses, net of tax, are recorded directly to a separate component of equity until impaired or sold.

Under US GAAP, only marketable equity securities classified as available for sale are valued at their fair value in accordance with FAS 115. For marketable equity securities classified as available-for-sale, unrealized gains and losses, net of tax, are recorded directly to shareholders' equity.

As of 31 December, 2004 and 2005, available for sale securities at cost amounted to NOK 82 million and NOK 51 million, respectively, with unrealized gains before tax of NOK 15 million as of 31 December, 2004 and NOK 1,726 million for December 31, 2005, respectively. For the years ended December 31, 2004 and 2005, proceeds from the sale of available-for-sale securities were NOK 3,304 million and NOK 76 million, respectively. The gross realized gains from such saleswere NOK 2,586 million and NOK 26 million respectively.

**4) Stock based compensation**

According to IFRS, the fair value of share-based compensation at the grant date is expensed over the vesting period. According to the transitional rules in IFRS 1 only options granted subsequent to 7 November 2002 that had not vested as of 1 January 2005 are included.

Under US GAAP Telenor has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and related interpretations in accounting for its employee stock options. In accordance with APB 25, the measurement date for determining compensation costs for stock options is the first date at which the number of shares the employee is entitled to receive and the exercise price of the options are known. Due to the features of the plans for Telenor ASA and EDB Business Partner ASA, variable plan accounting for these options would apply under US GAAP and the intrinsic value of the options at the end of each reporting period, based on the presumed exercise price and the quoted market price of respective stocks, would be calculated and recorded as compensation expense over the vesting period.

A summary of Telenor ASA's and EDB Business Partner ASA's stock option programs and related information is given in note 31.

Under IFRS social security tax related to the exercise of the shared options is expensed over the vesting period for share options granted. Under US GAAP such social security tax is expensed at the date of the exercise of the share options.

Disclosure of pro forma information regarding net income and earnings per share for US GAAP is required by SFAS 148, "Accounting for Stock-Based Compensation", and has been determined as if Telenor and EDB Business Partner ASA had accounted for its employee stock options under the fair value method of that Statement. Had compensation cost for these plans been determined based upon fair value, the Group's net income according to US GAAP would have been the following:

| NOK in millions execpt per share amounts | 2005 | 2004 |
|---|---|---|
| **Net income as reported in accordance with US GAAP** | **7 427** | **5 639** |
| Deduct stock based employee compensation expense included in reported net income | 33 | 75 |
| Add stock based employee compensation expense determined under fair value based method for all awards | (14) | (15) |
| **Pro forma net income in accordance with US GAAP** | **7 446** | **5 699** |
| **Earnings per share in accordance with US GAAP** | | |
| Basic earnings per share as reported in accordance with US GAAP | 4.34 | 3.22 |
| Basic pro forma earnings per share in accordance with US GAAP | 4.35 | 3.26 |
| Diluted earnings per share as reported in accordance with US GAAP | 4.34 | 3.22 |
| Diluted pro forma earnings per share in accordance with US GAAP | 4.35 | 3.26 |

The stock options may have a dilutive effect. See Note 25 for number of shares used in the calculation of the basic and diluted earnings per share.

**5) Sale and lease back of properties**

Under IFRS, the Group recognizes gains from the sale and lease back of properties when the lease back agreements qualify as operating lease.

Under US GAAP, only gains from sale and lease back of properties that exceed the net present value of the future lease payments can be recognized as gains. The remaining gains must be deferred over the lease periods.

**6) Derivative financial instruments**

Due to the implementation of IAS 32 and 39 as of 1 January 2005, the only remaining difference between IFRS and US GAAP as of 31 December 2005 related to cash flow hedges as described below.

Cash flow hedges

IFRS allows hedge accounting of foreign exchange risk related to a firm commitment to acquire a business in a business combination. The currency risk related to the firm commitment to acquire Bredbandsbolaget AB in July 2005 was therefore treated as a cash flow hedge under IFRS on Group level and the loss was recorded as part of the purchase price and goodwill.

Under US GAAP, the foreign exchange risk in a firm commitment to acquire a business does not qualify as a hedged item. As a result, the purchase price for Bredbandsbolaget was lower for US GAAP than for IFRS which resulted in a lower goodwill and the loss on the hedge was included in income under US GAAP.

**7) Intangibles and goodwill including amortization and impairment**

Effective 1 January 2004 goodwill is no longer amortized under IFRS. Goodwill is tested at least annually for impairment under IFRS and whenever impairment indicators arise. The recoverable amount of a cash generating unit (CGU) is the higher of (a) fair value less costs to sell and (b) value in use. If the recoverable amount is less than the carrying amount of the CGU, the book value of goodwill will be written down to the recoverable amount.

The carrying value of goodwill for IFRS differs compared to US GAAP because of

- the different timing for discontinuing amortization of goodwill, and
- the differences in historical impairments arising from the two-step methodology for impairment testing in US GAAP compared to IFRS as described below.

Under SFAS No. 142, goodwill was no longer amortized effective from 1 January 2002, but is tested for impairment on an annual basis and whenever indicators of impairment arise. SFAS No. 142 prescribes a two-step process for impairment testing of goodwill. In the first phase Telenor identifies reporting units where goodwill must be tested for impairment by comparing net assets of each reporting unit to the respective fair value. In the second step (if necessary), the the fair value of each of the unit's assets and liabilities are determined. The excess of the fair value of the reporting unit over the combined fair value of its other assets and liabilities is the implied fair value of goodwill.

Telenor completed its first step impairment analysis at the end of 2004 and 2005. In 2004, Telenor found one reporting unit with a carrying value in excess of the fair value, based on valuation methods determined with the assistance of external valuations experts. Accordingly, the second testing step was necessary and was performed with assistance of the same valuation experts. This resulted in an impairment loss on goodwill of NOK 2,902 million under US GAAP compared to an impairment loss of NOK 3,074 million under IFRS.

Below is a summary of goodwill and intangible assets under US GAAP.

Intangible assets:

| | Accumulated Cost | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Cost as of 1 January 2005 | Additions 2005 | Exchange differences and reclassifications 2005 | Disposals 2005 | Cost as of 31 December 2005 | Acc. amortizations and write-downs as of 1 Jan. 2005 | Amortizations and write-downs 2005 | Acc. amortizations and write-downs as of 31 Dec. 2005 | Carrying amount as of 31 December 2005 | Carrying amount as of 1 January 2005 |
| **Goodwill** | **21 381** | **8 157** | **(281)** | **(153)** | **29 104** | **(5 257)** | **29** | **(5 228)** | **23 874** | **16 124** |
| **Intangible assets** | | | | | | | | | | |
| Customer base | 4 511 | 971 | (164) | (9) | 5 309 | (1 891) | (1 125) | (3 016) | 2 293 | 2 620 |
| licenses | 4 506 | 595 | 199 | (23) | 5 277 | (1 293) | (238) | (1 531) | 3 746 | 3 213 |
| Trade marks | 1 014 | 536 | (17) | | 1 533 | (200) | (96) | (296) | 1 237 | 814 |
| Other | 7 985 | 2 462 | 81 | (136) | 10 392 | (5 220) | (1 608) | (6 828) | 3 564 | 2 765 |
| work in progress | 422 | 286 | (1) | | 707 | | | | 707 | 422 |
| **Intangible assets (excl goodwill)** | **18 438** | **4 850** | **98** | **(168)** | **23 218** | **(8 604)** | **(3 067)** | **(11 671)** | **11 547** | **9 834** |
| **Total intangible assets** | **39 819** | **13 007** | **(185)** | **(321)** | **52 320** | **(13 861)** | **(3 038)** | **(16 899)** | **35 421** | **25 958** |

Changes in book value of goodwill:

| | Sonofon | Pannon | DiGi.Com | Kyivstar | Other Mobile | Fixed | Broadcast | Other/ eliminations | Total Group |
|---|---|---|---|---|---|---|---|---|---|
| **As of 31 December 2003** | **-** | **5 623** | **744** | **347** | **-** | **-** | **3 029** | **2 287** | **12 030** |
| Exchange differences | (421) | 227 | (71) | (36) | (2) | 13 | 19 | 68 | (203) |
| Arising on acquisition of a subsidiaries | 6 792 | - | - | 4 | 104 | 25 | (23) | 459 | 7 361 |
| Eliminated on disposal of subsidiaries | - | - | - | - | - | - | - | (111) | (111) |
| Amortization and impairment | (2 902) | - | - | - | - | - | - | (4) | (2 906) |
| Previously not recognised deferred tax assets in business combinations | - | - | - | - | - | (23) | (24) | - | (47) |
| **As of 31 December 2004** | **3 469** | **5 850** | **673** | **315** | **102** | **15** | **3 001** | **2 699** | **16 124** |
| Exchange differences | (116) | (335) | 86 | 56 | 52 | 68 | (14) | (5) | (208) |
| Arising on acquisition of a subsidiaries | 1 | - | - | - | 2 544 | 5 556 | 4 | 52 | 8 157 |
| Eliminated on disposal of subsidiaries | - | - | - | - | - | (43) | - | (110) | (153) |
| Amortization and impairment | - | - | - | - | - | 36 | - | (7) | 29 |
| Previously not recognised deferred tax assets in business combinations | - | - | - | - | - | - | (75) | - | (75) |
| **As of 31 December 2005** | **3 354** | **5 515** | **759** | **371** | **2 698** | **5 632** | **2 916** | **2 629** | **23 874** |

**8) Negative goodwill and impairment of fixed assets**

Under IFRS negative goodwill (the difference when fair value assigned to assets acquired and liabilities assumed exceeds the purchase price of the acquired entity) was recorded directly against equity at the time of implementation of IFRS. Under US GAAP negative goodwill was allocated as a pro rata reduction to assets.

The entity that had a negative goodwill difference was tested for impairment at year end 2005 both under IFRS and US GAAP. The impairment test resulted in a write down of fixed assets to fair values both under IFRS and US GAAP. Since the USGAAP book value of the property, plant and equipment was lower than under IFRS due to the allocation of negative goodwill the impairment was NOK 288 million lower for US GAAP than for IFRS.

**9) Reversal of impairment and impact on disposals**

Under IFRS, impairments of property, plant and equipment and intangible assets (excluding goodwill) must be reversed if the factors that triggered the impairment are no longer valid and the underlying asset have recovered its value. The same applied to impairment losses on financial instruments available-for-sale before implementing IAS 39.

Under US GAAP, the reversal of impairments is not permitted.

When such assets are sold, the resulting gain or loss will be different for IFRS and US GAAP due to the variance in the carrying value of the assets.

**10) Subsequent acquisitions of ownership interest in subsidiaries and amortization of fair values**

Under IFRS, when a less than 100% owned subsidiary is initially acquired, the fair value of identifiable assets and liabilities are estimated and recorded at 100% basis at the date Telenor obtains control. A portion of the fair value of identifiable assets and liabilities are allocated to the minority interests. If ownership is subsequently increased in a consolidated subsidiary the carrying value of the identifiable assets and liabilities in the group accounts will not change. Only goodwill will be adjusted. Goodwill is calculated and recorded for each transaction based on the difference between the purchase price and the estimated fair value of identifiable assets and liabilities at the time of purchase. However, any difference between the consolidated carrying value and estimated fair value of the other identifiable assets and liabilities is not recorded to individual assets or liabilities but is adjusted directly against shareholders' equity.

Under US GAAP each transaction is treated separately for the purposes of determining the pro rata allocation of fair value of identifiable assets and liabilities based upon the ownership interest acquired and any resulting goodwill. The minority interest is valued at the historical carrying value of the assets and liabilities in the subsidiary.

As a result of the different values assigned to identifiable assets, amortization and depreciation under IFRS and US GAAP will not be the same.

**11) Taxes**

Income taxes for US GAAP differ from income taxes for IFRS because the income tax effects of the US GAAP adjustments are recorded as deferred taxes.

**12) Cross border QTE leases**

The Group has entered into Cross Border QTE Leases for telephony switches, the GSM Mobile network and the fixed-line network. Telenor has defeased all amounts due by us under these agreements. The leasing obligations and the defeased amounts are shown net on the balance sheet.

Under both IFRS and US GAAP Telenor has deferred the gain from the transactions since there is more than a remote possibility of loss of the gain due to indemnification or the outcome of other contingencies.

Under US GAAP, assets and liabilities may not be offset except when there exists the legal right to offset the asset and liability. The right to offset the defeased amounts against the future lease obligations does not legally exist. Therefore, under US GAAP, the defeased amounts and the Group's future obligations under the QTE Leases are recorded gross on the consolidated balance sheet as financial assets and non-current interest-bearing liabilities. This increased financial assets and non-current interest-bearing liabilities by approximately NOK 6,266 million for the year ended 31 December 2005 and NOK 5,469 million for the year ended 31 December 2004. This did not affect the income statement or shareholder's equity.

At 31 December 2005, future minimum lease payments under finance leases were as follows under US GAAP:

| NOK in millions | **As of 31 December 2005** |
|---|---|
| 2006 | 953 |
| 2007 | 897 |
| 2008 | 1 039 |
| 2009 | 930 |
| Later years through 2016 | 6 193 |
| **Total future minimum lease payments** | **10 011** |
| Less amount representing interest | 1 599 |
| Finance lease obligation under US GAAP | 8 412 |
| Finance lease obligation under IFRS | 1 838 |
| Deferred gain (both IFRS and US GAAP) | 308 |

**Book value of finance lease included in property, plant and equipment**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Telephony switches | 12 | 52 |
| GSM mobile network | 55 | 135 |
| Fixed-line network | 542 | 804 |
| Fiber optic Networks | 475 | - |
| Satellites | 518 | 501 |
| Set top boxes | - | 110 |
| Buildings | 187 | 189 |
| Other | - | 36 |
| **Total** | **1 789** | **1 827** |

**13) Consolidation of variable interest entities**

On 31 March 2004, Telenor implemented FASB Financial Interpretation (FIN) No. 46R, an interpretation which requires Telenor to consolidate an entity which is subject to the guidance in FIN 46R (a VIE) and in which it holds a variable interest. A variable interest is a contractual arrangement which entitles the holder to absorb a portion of the entity's future losses and/or receive a portion of the entity's residual returns and can take a variety of forms. The more common of which are holdings in equity or debt securities a guarantee issued by Telenor and even service control. The party which is exposed to the majority of future losses or entitled to a majority of the residual returns through a single variable interest (a combination of interests) is referred to as the primary beneficiary and must consolidate.

As a result of its adoption of FIN 46R Telenor concluded that Bravida ASA was a VIE and that it was the primary beneficiary. Hence, Telenor had to consolidate the company. Bravida was previously accounted for using the equity method of accounting and its operations consisted primarily of Telecom, Information Technology, Electricity, Plumbing and Ventilation and Geomatics. The consolidation of Bravida did not require an adjustment to reflect the cumulative effect of our change in accounting principle.

FIN 46R contains provisions that require consolidated or unconsolidated entities to be re-evaluated when certain events occur that could alter an entity's VIE status or which could result in a change to the entity's primary beneficiary. In October 2004 certain of Telenor's holdings in Bravida were sold through sale of its shareholders' loans. In addition, on 30 December 2004 Telenor further reduced its holdings in Bravida through its sale of a significant part of its shareholders loan in Bravida. Following these transactions Telenor concluded that it no longer absorbs a majority of Bravida's expected losses, or receive a majority of Bravida's expected residual returns. Telenor ceased consolidating Bravida on 30 December 2004. Bravida had net assets of NOK 4.9 billion at year end 2004. Telenor included revenues of NOK 7,129 million and operating profit of NOK 95 million in the period Bravida was consolidated. Telenor's maximum exposure to any potential losses, should they occurassociated with Bravida is limited to the equity investments and shareholders loans of total NOK 134 million in addition to receivables in the normal course of business and guarantees given to Bravida. See note 34 to the consolidated financial statements.

In connection with its FIN 46R analysis in 2004, Telenor also identified variable interests it holds in two entities, DTAC and UCOM which Telenor qualitatively concluded were at high risk of being deemed a VIE, but in which Telenor determined would not be considered the primary beneficiary, and consequently did not consolidate the VIEs.

In 2005 Telenor acquired additional economic stakes in DTAC and UCOM and had controlling interests of the companies as of year end 2005. As a result. Telenor consolidated DTAC and UCOM from the date of aquisition for both IFRS and US GAAP. See Note 1 for more information.

At the end of 2004 , Telenor sold a 51% stake in Kjedehuset (previously wholly owned) to independent third parties and at the same time entered into certain franchise and service agreements with theseparties. Kjedehuset is a trade association for independent mobile phone dealers in Norway and acts as a conduit for marketing support and receives a bonus from Telenor. Telenor concluded that Kjedehuset is a VIE and that it was the primary beneficiary. Hence Telenor consolidated the company in 2004 and 2005.

Under IFRS, consolidation is based on the concept of control and the concept of FIN 46R does not apply. Therefore entities consolidated based on variable interest under FIN 46R will generally not be consolidated under IFRS.

**14) Sale of business with extension of service contract**

In 2004 EDB Business Partner ASA entered into an agreement to sell parts of the Telecom area. At the same time Telenor entered into a service agreement with the buyer for the same services Telenor previously purchased from EDB Business Partner ASA. Under the agreement, Telenor is committed to a minimum purchase of application management and maintenance. The agreement is on marketable terms and under IFRS a gain of NOK 283 million was recorded in 2004 on the sale of the parts of the Telecom area.

In accordance with US GAAP, the gain on the transaction is deferred and recognized over the term of the purchase agreement.

**15) Non-consolidated investees – 100 percent basis**

The following table sets forth summarized unaudited financial information of Telenor's non-consolidated investees on a 100 percent combined basis. Telenor's share of these investments is accounted for using the equity method.

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Income Statement Data** | | |
| Revenues | 42 336 | 41 643 |
| Operating Profit | 7 383 | 6 800 |
| Income before taxes and minority interest | 6 737 | 5 094 |
| Net income | 4 513 | 6 341 |
| **Balance Sheet Data** | | |
| Total non-current assets | 47 652 | 49 007 |
| Total current assets | 11 791 | 13 494 |
| **Total assets** | **59 443** | **62 501** |
| Shareholders' equity | 25 215 | 24 516 |
| Minority interests | 1 478 | 428 |
| Total non-current liabilities | 23 373 | 21 095 |
| Total current liabilities | 9 377 | 16 462 |
| **Total equity and liabilities** | **59 443** | **62 501** |

**16) Cumulative translation differences**

At the date of transition to IFRS all cumulative transition differences which related to foreign operations and financial instruments used to hedge such investments were nullified and are kept permanently in equity. As a consequence the gain or loss on a subsequent disposal of an entity reported in currency other than Norwegian Krone shall exclude translation differences that arose before the date of transition to IFRS. This had no effect on the total equity as of 1 January 2004.

For US GAAP, the historical cumulative translation differences as of 1 January 2004 were NOK 2 billion. These differences are reversed from equity and included in the computation of the gain or loss on sales when entities are sold that reported in a currency other than Norwegian Krone.

**17) Lease arrangements**

Under IFRS, prepaid leases payments made on entering into leases or acquiring leaseholds that are accounted for as operating leases are amortized over the lease term in accordance with the pattern of benefits provided as part of depreciation and amortization expense. They relate primarily to access charges for lease of the copper cables of other operators (local loop unbundling etc). The amortization period for access charges is the estimated life of the customer relationship based upon past history.

Under US GAAP prepaid leases are amortized over the shorter of the useful life or the lease term and included in operating expenses. Since most of these agreements do not have a minimum lease term, the prepaid leases are expensed as incurred.

**18) Provisions**

Under IFRS, provisions are recognised when Telenor has a minimum payment obligation from an agreement (onerous contract) and has decided not to use the services under the agreement in future periods.

Under US GAAP a liability cannot be recognized before the contract is terminated or Telenor stop using the benefits from the contract.

**19) Revenue recognition**

Telenor complies with the requirements for revenue recognition, as provided by the SEC Staff Accounting Bulletin (SAB) 104, follows guidance of EITF 00-21 regarding contracts with multiple deliverables and utilizes Statement of Position (SOP) 97-2 for software related sales. For the periods presented, no differences have been identified between Telenor's IFRS accounting policies adopted for revenue recognition and US GAAP.

However, as a result of consolidating certain entities under FIN 46 and lease arrangements (see above) revenues for US GAAP are higher than for IFRS.

**20) New US Accounting Standards**

SFAS 123 (Revised 2004)

On December 16 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), Share-Based Payment which is a revision of FASB Statement No. 123 Accounting for Stock-Based Compensation. Statement 123(R) supersedes APB Opinion No. 25 Accounting for Stock Issued to Employees and amends FASB Statement No. 95 Statement of Cash Flows.

Generally the approach to accounting for share-based payments in Statement 123(R) is similar to the approach described in Statement 123. However Statement 123(R) requires all share-based payments to employees including grants of employee stock options to be recognized in the financial statements based on their fair values (i.e., pro forma disclosure is no longer an alternative to financial statement recognition). Statement 123(R) is effective for annual period beginning after 15 June 2005. Implementation of SFAS 123(R) will not have a material effect on revenues, total assets or net income.

# Statement of Profit and Loss

**Telenor ASA 1 January–31 December**

| NOK in millions | Note | 2005 | 2004 |
|---|---|---|---|
| **Revenues** | | **681** | 683 |
| **Operating expenses** | | | |
| Cost of materials | | (16) | (14) |
| Salaries and personnel costs | 2, 3 | (603) | (627) |
| Other operating expenses | 4 | (758) | (685) |
| Depreciation and amortization | | (50) | (60) |
| **Total operating expenses** | | **(1 427)** | (1 386) |
| **Operating (loss)** | | **(746)** | (703) |
| Financial income | 6 | 5 711 | 5 707 |
| Financial expenses | 6 | (1 509) | (1 519) |
| Net currency gain (loss) | 6 | 158 | (70) |
| Net gain (loss and write-down) of financial assets | 6 | (672) | 2 171 |
| **Net financial items** | | **3 688** | **6 289** |
| **Profit before taxes** | | **2 942** | 5 586 |
| Taxes | 7 | (754) | (917) |
| **Net income** | | **2 188** | 4 669 |
| Proposed dividends | | 3 387 | **2 603** |

# Balance Sheet

## Telenor ASA as of 31 December

| NOK in millions | Note | 2005 | 2004 |
|---|---|---|---|
| **Assets** | | | |
| Deferred tax assets | 7 | 505 | 1 179 |
| Goodwill | 8 | 20 | 20 |
| Other intangible assets | 8 | 470 | 254 |
| Property, plant and equipment | 9 | 17 | 12 |
| Shares in subsidiaries | 15 | 22 661 | 22 404 |
| Non-current interest-bearing receivables on Group companies | | 71 183 | 64 672 |
| Other financial assets | 10 | 1 427 | 439 |
| **Total non-current assets** | | **96 283** | 88 980 |
| Trade receivables on Group companies | | 75 | 198 |
| Trade receivables external | | 18 | 10 |
| Other current financial assets | 10 | 1 566 | 281 |
| **Total current assets** | | **1 659** | 489 |
| **Total assets** | | **97 942** | 89 469 |
| **Equity and Liabilities** | | | |
| **Equity** | | **40 818** | 43 614 |
| **Pension obligations** | 3 | **286** | 249 |
| Non-current interest-bearing liabilities | 11 | 15 982 | 15 528 |
| Non-current non-interest-bearing liabilities | 11 | 145 | 171 |
| **Total non-current liabilities** | | **16 127** | 15 699 |
| Current interest-bearing liabilities | 12 | 38 661 | 29 166 |
| Current non-interest-bearing liabilities | 12 | 2 050 | 741 |
| **Total current liabilities** | | **40 711** | 29 907 |
| **Total equity and liabilities** | | **97 942** | 89 469 |

# Cash Flow Statement

**Telenor ASA 1 January–31 December**

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Profit before taxes** | **2 942** | 5 586 |
| Net losses | 425 | - |
| Depreciation and amortization | 50 | 60 |
| Write-down of shares and reversal of previous write-downs | 61 | (2 207) |
| Currency (gains) losses not relating to operating activities | (159) | 70 |
| Changes in interest accruals against Group companies | (2 921) | (2 593) |
| Changes in other accruals | (66) | 76 |
| **Net cash flow from operating activities** | **332** | **992** |
| | | |
| Cash receipts from sale of property, plant and equipment and intangible assets | 55 | - |
| Purchase of property, plant and equipment and intangible assets | (184) | (80) |
| Cash receipts from sale of subsidiaries | 404 | - |
| Cash receipts from sale of other investments | 30 | 303 |
| Purchase of other investments | (191) | (882) |
| **Net cash flow from investment activities** | **114** | **(659)** |
| | | |
| Proceeds from non-current liabilities | 2 396 | - |
| Proceeds from current liabilities | 8 466 | 2 135 |
| Payments of non-current liabilities | (2 464) | (1 084) |
| Payments of current liabilities | (1 500) | (72) |
| Net change in Group internal drawing rights [1] | (2 542) | 1 971 |
| Proceeds from issuance of shares | 49 | 43 |
| Share buy back | (2 267) | (2 020) |
| Payments of dividend | (2 595) | (1 764) |
| **Net cash flow from financing activities** | **(457)** | **(791)** |
| | | |
| Effect on cash and cash equivalents of changes in foreign exchange rates | 11 | (75) |
| **Net change in cash and cash equivalents** | **-** | **(533)** |
| Cash and cash equivalents as of 1 January | - | 533 |
| **Cash and cash equivalents as of 31 December** | **-** | **-** |

[1] Net change in Group internal drawing rights are loans to and placements from Group companies. These loans and placements have high turnover and are presented net.

# Statement of Shareholders' Equity
**Telenor ASA**

| NOK in millions (except for number of shares) | Number of shares | Share capital | Other paid capital | Own shares | Other equity | Retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| **Equity as of 01.01.2004 – adjusted to IFRS** | **1 804 021 281** | **10 824** | **18 656** | **(169)** | **6 148** | **7 205** | **42 664** |
| Profit for the year 2004 | – | – | – | – | – | 4 669 | 4 669 |
| Dividends | – | – | – | – | – | (1 764) | (1 764) |
| Share based payment | – | – | – | – | 6 | – | 6 |
| Sale of shares, share issue, and share options to employees | 1 027 994 | 6 | 35 | 18 | – | – | 59 |
| Cancellation of shares | (55 444 964) | (332) | (1 152) | 1 484 | – | – | – |
| Share buy back | – | – | – | (2 020) | – | – | (2 020) |
| Bonus shares | 92 736 | – | – | – | – | – | – |
| **Equity as of 31.12.2004** | **1 749 697 047** | **10 498** | **17 539** | **(687)** | **6 154** | **10 110** | **43 614** |
| Total change in accounting policies (IAS 32 & 39) | – | – | – | – | – | (197) | (197) |
| **Adjusted equity as of 01.01.2005** | **1 749 697 047** | **10 498** | **17 539** | **(687)** | **6 154** | **9 913** | **43 417** |
| Profit for the year 2005 | – | – | – | – | – | 2 188 | 2 188 |
| Dividends | – | – | – | – | – | (2 595) | (2 595) |
| Share based payment | – | – | – | – | 1 | – | 1 |
| Sale of shares, share issue, and share options to employees | 737 671 | 4 | 16 | 54 | – | – | 74 |
| Cancellation of shares | (43 864 425) | (263) | (1 937) | 2 200 | – | – | – |
| Share buy back | – | – | – | (2 267) | – | – | (2 267) |
| **Equity as of 31.12.2005** | **1 706 570 293** | **10 239** | **15 618** | **(700)** | **6 155** | **9 506** | **40 818** |

Nominal value per share is NOK 6.
As of 31 December 2005 Telenor ASA had 12,846,514 own shares.

| **Dividends** | **2005** | **2004** |
|---|---|---|
| Dividend per share in NOK – paid | 1.50 | 1.00 |
| Dividend per share in NOK – proposed by the Board of Directors | 2.00 | 1.50 |

Total dividends of NOK 2,595 million and NOK 1,764 million was paid in June 2005 and May 2004, respectively.

In respect of 2005, the directors propose that a dividend of NOK 2.00 per share will be paid to shareholders. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders of the company by 23 May 2006, which is the date of the Annual General Meeting. The total estimated dividend to be paid is NOK 3.4 billion. Dividends will not be paid on own shares.

Equity available for distribution as dividends from Telenor ASA was NOK 13,259 million as of 31 December 2005.

## 01 | Summary of significant accounting principles and general

Telenor ASA is a holding company and contains the Group Management, corporate functions and Telenor's internal bank (Telenor Finans). In addition there are some strategic Group projects, including Telenor's program for improving efficiency of operations. As of 1 April 2005 some activities, with 112 employees, were transferred from the Human Resources, Group Communication and IT functions to the company Telenor Telecom Solutions AS in the Nordic region.

Revenues are mainly sale of Group services (Business Service Cost) to other Telenor entities, sale of research and development services and sale of other consultancy services. Purchases from other companies within the Group consist mainly of consultancy fees in strategic Group projects, property lease, IT-operations and maintenance.

Telenor ASA conducts the main part of the external debt financing in Telenor, and provides loan to, and receives placements of liquid assets from Group companies. See note 22 to the consolidated financial statements.

Shares in subsidiaries and loans provided to these are evaluated at the lower of cost and fair value. Any adjustments in values are classified as financial items in the profit and loss statement.

Telenor ASA's accounting principles are similar to the accounting principles for the Telenor Group, as described above. Where the notes for the parent company are substantially different from the notes for the Group, these are shown below. Otherwise, refer to the notes to the consolidated financial statements for the Group.

The financial statements have been prepared in accordance with IFRS rules and the Accounting Act § 3–9. See note 16 for the implementation effect on the equity and net income for 2004. The comparable figures for 2004 have been restated to comply with IFRS. IAS 32 and 39 were implemented as of 1 January 2005.

## 02 | Salaries and personnel costs

The Group's Chief Executive Officer and the Board of Directors have the same position in Telenor ASA. We refer to note 30 to the consolidated financial statements for the Group for further information on the compensation to the Board of Directors, management, auditor etc. for the year 2005.

**Salaries and personnel costs**

| NOK in millions | **2005** | **2004** |
|---|---|---|
| Salaries and holiday pay | 400 | 319 |
| Social security tax | 65 | 73 |
| Pension cost including social security tax | 73 | 188 |
| Employee stock option costs | 1 | 7 |
| Other personnel costs | 64 | 40 |
| **Total salaries and personnel costs** | **603** | **627** |

## 03 | Pension obligations

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Change in projected benefit obligation** | | |
| Projected benefit obligation at the beginning of the year | 864 | 537 |
| Service cost | 76 | 60 |
| Interest cost | 38 | 38 |
| Actuarial (gains) and losses | 23 | 3 |
| Curtailments and settlements | (7) | - |
| Acquisitions and sale [3] | (17) | 252 |
| Benefits paid/paid-up policies | (81) | (26) |
| **Benefit obligations at the end of the year** | **896** | **864** |
| | | |
| **Change in plan assets** | | |
| Fair value of plan assets at the beginning of the year | 630 | 428 |
| Actual return on plan assets | 67 | 30 |
| Acquisitions and sale [3] | (8) | 143 |
| Pension contribution | 43 | 53 |
| Benefits paid/paid-up policies | (79) | (24) |
| **Fair value of plan assets at the end of the year** | **653** | **630** |
| | | |
| **Funded status** | | |
| Unrecognized prior service costs | 243 | 234 |
| Unrecognized net actuarial gains (losses) [1] | 10 | (18) |
| Accrued social security tax [1] | 33 | 33 |
| **Total provision for pensions including social security tax** | **286** | **249** |
| | | |
| **Total provision for pensions at 01.01.** | 249 | 7 |
| Acquisitions and sale | 17 | 103 |
| Net periodic benefit costs | 71 | 203 |
| Pension contribution | (43) | (55) |
| Benefits paid paid-up policies | (2) | (2) |
| Social security tax on pension contribution and benefits paid | (6) | (7) |
| **Total provision for pensions at 31.12. including social security tax** | **286** | **249** |
| | | |
| **Components of net periodic benefit cost** | | |
| Service cost | 76 | 60 |
| Interest cost | 38 | 38 |
| Expected return on plan assets | (33) | (31) |
| Losses/gains on curtailments and settlements [2] | (7) | 100 |
| Amortization of actuarial gains and losses | (13) | 13 |
| Social security tax | 10 | 23 |
| **Net periodic benefit costs** | **71** | **203** |
| | | |
| Internal liabilities related to AFP recorded to income [2] | - | (16) |
| Contribution plan costs | 2 | 1 |
| **Total pension costs charged to profit for the year** | **73** | **188** |

For information of assumptions used and description of pension plans see note 7 in the Group consolidated financial statements.

[1] Social security tax has been calculated on net funded status multiplied with the average rate for social security tax for Telenor ASA. Unrecognized prior service costs are inclusive of social security tax.

[2] In 2004 Telenor ASA and a most of the Norwegian subsidiaries changed their employer's organization membership from NAVO to NHO. The implementation effect was up to and including 2003 expensed over estimated remaining service periods. The effects for Telenor ASA of the change to the AFP-scheme in NHO were expensing of prior service costs of NOK 100 million and reduced internal liabilities of NOK 16 million related to AFP recorded to income.

[3] Transfer of business in 2004 was primarily related to transfers from Telenor Mobile Holding AS and the transfer of the research and development division from Telenor Communication II AS to Telenor ASA. In 2005 the major transfer of employees was from Telenor ASA to Telenor Telecom Solution AS.

## 04 | Other operating expenses

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Cost of premises, vehicles, office equipment etc. | 86 | 66 |
| Operation and maintenance | 62 | 81 |
| Travel and travel allowances | 54 | 24 |
| Postage, freight, distribution and telecommunications | 20 | 13 |
| Marketing, representation and sales commission | 89 | 40 |
| Consultancy fees and costs for external personnel | 336 | 322 |
| Workforce reductions | 4 | 19 |
| Bad debt [1] | - | 1 |
| Other | 107 | 119 |
| **Total other operating expenses** | **758** | **685** |

[1] Telenor ASA has insignificant losses on accounts receivables. Realized losses are primarily on loans provided by Telenor ASA's internal bank (Telenor Finans) which undertakes a large portion of the financing of subsidiaries. Losses on loans have been included in financial income and expense (Net gains (losses) on financial assets). For 2004 this implied a reclassification of NOK 36 million.

## 05 | Research and development expenses

Research and development expenses in Telenor ASA were NOK 168 million in 2005 and NOK 164 million in 2004. The work is related to development of user friendly services and efficient network and delivery systems.

## 06 | Financial income and expenses

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Dividends from subsidiaries | 4 | - |
| Interest income from Group companies | 3 513 | 3 628 |
| Interest income external | 8 | 79 |
| Total change in fair value of financial instruments [1] | 186 | - |
| Group contribution from Group companies [2] | 2 000 | 2 000 |
| **Total financial income** | **5 711** | **5 707** |
| | | |
| Interest expenses to Group companies | (595) | (616) |
| Interest expenses external | (907) | (902) |
| Other financial expenses | (7) | (1) |
| **Total financial expenses** | **(1 509)** | **(1 519)** |
| | | |
| **Net foreign currency gains (losses)** | **158** | **(70)** |
| | | |
| Losses on loans to Group companies [3] | (425) | (27) |
| Write-downs of loans to Group companies and associated companies [4] | (22) | 2 191 |
| Write-downs of shares in Group companies | (225) | 7 |
| **Net gains (losses and write-downs) on financial assets** | **(672)** | **2 171** |
| | | |
| **Net Financial items** | **3 688** | **6 289** |

[1] IAS 32 and 39 were implemented on 1 January 2005 and the comparative figures for 2004 have not been changed.

[2] Group contribution received from Group companies during the relevant years are recorded as financial income. Group contribution to be received and recorded as financial income in 2006 based on the Group companies' 2005 financial statements is estimated to approximately NOK 1,500 million.

[3] In 2005, Telenor ASA converted its receivable on the subsidiary Dansk Mobil Holding II AS to share capital. The receivable of NOK 1,092 million was granted as loan from Telenor Finans and had a fair value of NOK 203 million at the time of the conversion. Telenor ASA expensed the difference between the nominal value and fair value at the time of the conversion by NOK 889 million, of which NOK 501 million was written-down in 2004, resulting in a net loss in 2005 of NOK 388 million.
In 2005, Telenor ASA's subsidiary, Telenor Eiendom Holding AS has sold two property companies to Telenor Pensjonskasse. At the same time Telenor ASA/Telenor Finans has sold loans which have been granted to these companies to Telenor Pensjonskasse. The transaction resulted in a loss of NOK 58 million due to lower value realized on the property companies sold.

[4] In 2002, write-downs of Telenor ASA's foreign investments was performed in order to reflect actual values in the Group accounts. In 2003 and 2004 the write-downs were adjusted as a consequence of increase in values. In 2005, write-downs of some investments were made.

## 07 | Taxes

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Profit before taxes in Norway** | **2 942** | **5 586** |

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Current taxes in Norway | - | - |
| Adjustment to current taxes previous years | 2 | - |
| Deferred taxes in Norway | 752 | 917 |
| **Total income tax expense** | **754** | **917** |

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Effective tax rate** | | |
| Expected income taxes according to statutory tax rate (28 %) | 823 | 1 564 |
| Non-taxable income | (19) | (653) |
| Non-deductible expenses [1] | 88 | 4 |
| Realized loss on accounts receivable [1] | (140) | - |
| Over/under estimation of taxes calculated previous years | 2 | 2 |
| **Tax expense** | **754** | **917** |
| **Effective tax rate in %** | **25.6%** | **16.4%** |

[1] Telenor ASA has claimed tax deduction for the loss on a loan to the subsidiary Dansk Mobil Holding II AS, see note 6. Tax deductible loss is NOK 889 million. NOK 501 million of this amount was written-down in 2004 without treating this as deferred tax on the write-down. Realization of this part of the loss implies a reduction in the tax expense for 2005 of NOK 140 million.

| NOK in millions | 2005 | 2004 | Change |
|---|---|---|---|
| **Deferred taxes as of 31 December** | | | |
| Non-current assets | 93 | 1 | (92) |
| Non-current receivables and debt in foreign currency | 78 | 207 | 129 |
| Financial assets | 846 | 462 | (384) |
| Accounts receivable | - | (9) | (9) |
| Other accruals for liabilities | (97) | (10) | 87 |
| Pension liabilities | (196) | (196) | - |
| Group contribution | (1 500) | (2 000) | (500) |
| Tax losses carried forward [2] | (1 026) | (2 666) | (1 640) |
| **Total** | **(1 802)** | **(4 211)** | **(2 409)** |
| **Net deferred tax assets (28 %)** | **504** | **1 179** | **(675)** |
| Deferred tax effect from implementation of IAS 32/39 as of 1 January 2005 (see note 16) | | | (77) |
| **Change in deferred tax** | | | **(752)** |

[2] There is no time limit on deferral of tax deductible losses as of 31 December 2005. Group contributions are expected in later years to utilize the tax losses in Telenor ASA.

## 08 | Intangible assets

| NOK in millions | Accumu-lated cost 01.01.05 | Net additions 2005 | Net disposals 2005 | Amortizations and write downs 2005 | Acc. Amortizations and write downs 2005 | Book value 31.12.05 |
|---|---|---|---|---|---|---|
| Goodwill (no depreciation) | 20 | - | - | - | - | 20 |
| Licenses and legal rights (12 years) | 226 | 185 | - | (21) | (79) | 332 |
| Software purchased (5 years) | 121 | 33 | - | (19) | (89) | 65 |
| Work in progress | 38 | 40 | - | (5) | (5) | 73 |
| **Total intangible assets** | **405** | **258** | **-** | **(45)** | **(173)** | **490** |

Intangible assets are related to UMTS- and GSM-licenses and investments in administrative systems in the Telenor Group.

Telenor ASA renewed one of the GSM-900 licenses in 2005. The acquisition cost for the license is a one-time fee of NOK 100 million and a annual fee of NOK 9.6 million for 12 years. The future liability has been discounted to a net present value of NOK 85 million and capitalized as a part of the license in the balance sheet. The corresponding liability has been recorded as interest-bearing liabilities.

As of 1 January 2005, the amortization period for software licenses was extended from 3 to 5 years, by amortizing the remaining carrying value of NOK 27 million over the remaining 3 years. This reduced amortization expense in 2005 by NOK 11 million.

## 09 | Property, plant and equipment

| | Accumulated cost | | | | | |
|---|---|---|---|---|---|---|
| NOK in millions | Accumu-lated cost 01.01.05 | Net additions 2005 | Net disposals 2005 | Depreciation and write downs 2005 | Accumulated depreciation and write downs 2005 | Book value 31.12.05 |
| IT-equipment (3–5 years) | 26 | 9 | (1) | (3) | (27) | 7 |
| Other equipment | 19 | 3 | (2) | (2) | (10) | 10 |
| **Total** | **45** | **12** | **(3)** | **(5)** | **(37)** | **17** |

## 10 | Financial assets

Interest-bearing receivables on Group companies are loans from Telenor ASA's internal bank (Telenor Finans) to subsidiaries.

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Receivables on associated companies [1] | 273 | 278 |
| Other non-current shares and other investments | 162 | 149 |
| Other non-current financial assets [2] | 992 | 12 |
| **Total other financial non-current assets** | **1 427** | **439** |
| | | |
| Current interest bearing receivables | 26 | - |
| Receivables on Group companies | 170 | 122 |
| Other liquid financial assets [2] | 1 370 | 159 |
| **Total financial assets** | **1 566** | **281** |

[1] Receivables on associated companies and joint ventures are primarily loans to Bravida ASA in the form of preference capital. According to the agreement Telenor ASA is guaranteed a dividend of 13 % on paid in capital. Redemption clauses exist, and according to IFRS these have been presented as receivables. Interest income has been recorded by NOK 35 million in 2005.

[2] Derivative instruments designated as fair value hedging instruments are presented as interest-bearing. Other derivatives are presented as non-interest-bearing. IAS 39 was implemented on 1 January 2005 and the comparative figures have not been changed. As of 31 December 2005 unrealized gains on derivatives are included in the table above with NOK 992 million as non-current financial assets and NOK 1,269 million as current financial assets.

## 11 | Non-current liabilities

| NOK in millions | 2005 | Due date > 5 years | 2004 | Due date > 5 years |
|---|---|---|---|---|
| **Interest-bearing** | | | | |
| Liabilities to Group companies | 171 | - | - | - |
| Liabilities to external parties | 15 811 | 4 807 | 15 528 | 3 972 |
| **Total non-current interest-bearing liabilities** | **15 982** | **4 807** | **15 528** | **3 972** |
| | | | | |
| **Non-interest-bearing** | | | | |
| Liabilities to Group companies | 141 | - | 166 | - |
| Liabilities to external parties | 4 | - | 5 | - |
| **Total non-interest -bearing liabilities** | **145** | **-** | **171** | **-** |
| **Total non-current debt** | **16 127** | **4 807** | **15 699** | **3 972** |

See note 22 to the consolidated financial statements for more detailed information regarding external interest-bearing liabilities.

## 12 | Current liabilities

| NOK in millions | 2005 | 2004 |
|---|---|---|
| **Interest-bearing** | | |
| Liabilities to Group companies | 26 440 | 24 453 |
| Drawing on Group bank account | 4 362 | 2 135 |
| Fair value of financial instruments | 133 | (14) |
| Liabilities to external parties | 7 726 | 2 592 |
| **Total current interest-bearing liabilities** | **38 661** | **29 166** |
| | | |
| **Non-interest-bearing** | | |
| Accounts payable to Group companies | 11 | 10 |
| Accounts payable to external parties | 24 | 44 |
| Other liabilities to Group companies | 102 | 40 |
| Government taxes, tax deductions, vacation allowance etc. | 88 | 104 |
| Accrued expenses | 615 | 451 |
| Accruals for workforce reductions and allowance for losses on contracts | 6 | 18 |
| Prepaid revenues | 23 | 24 |
| Financial derivatives [1] | 1 144 | - |
| Other current liabilities | 37 | 50 |
| **Total current non-interest-bearing liabilities** | **2 050** | **741** |
| **Total current liabilities** | **40 711** | **29 907** |

[1] Derivative instruments designated as fair value hedging instruments are presented as interest-bearing. Other derivatives are presented as non-interest-bearing. IAS 39 was implemented on 1 January 2005 and the comparative figures have not been changed.

## 13 | Guarantees

| NOK in millions | 2005 | 2004 |
|---|---|---|
| Guarantee liabilities | 3 549 | 3 766 |

The table does not include purchased bank guarantees or guarantees where the corresponding liabilities are recorded in the company's balance sheet. At 31 December 2005 and 2004, guarantees of NOK 7,240 million and NOK 6,459 million related to "Cross Boarder QTE Lease" agreements were not included in the table above, see note 34 to the consolidated financial statements.

Reference is made to note 28 in the consolidated financial statements regarding guarantee liabilities for Bravida with approximately NOK 851 million (NOK 917 million as of 31 December 2004) mainly related to an entrepreneurial contract in Sweden. The guarantee was terminated in January 2006.

Telenor ASA has submitted guarantees of NOK 981 million to suppliers of mobile network equipment in Pakistan. (NOK 876 million as of 31 December 2004). In addition, Telenor ASA has submitted fulfillment guarantees of NOK 161 million for license conditions in Pakistan in 2008 (NOK 151 million as of 31 December 2004).

Telenor ASA submitted guarantee of NOK 253million for accrued interests related to a tax claim in Sonofon, see note 14 and 26 to the consolidated financial statements.

As of 31 December 2005 Telenor ASA has submitted guarantees of NOK 1,015 million for the satellite-leases Thor II and Thor III (NOK 1,141 million as of 31 December 2004) including termination fees of NOK 116 million as of 31 December 2005 (NOK 151 million as of 31 December 2004). The leasing agreements end in 2008 and 2010. The leasing liability as of 31 December 2005 was recorded in subsidiaries by NOK 952 million (NOK 888 million as of 31 December 2004).

Telenor ASA has submitted guarantees, limited up to recorded liabilities of NOK 112 million as of 31 December 2005 (NOK 268 million as of 31 December 2004) for finance lease liabilities in Canal Digital. These leasing agreements end in the period of 2006–2007.

In 2000, a fulfillment guarantee for deliveries between subsidiaries was provided. As of 31 December 2005, the guarantee values were NOK 69 million (NOK 116 million as of 31 December 2004). Furthermore, fulfillment guarantees of approximately NOK 107 million as of 31 December 2005 (NOK 44 million as of 31 December 2004) for deliveries and payments by subsidiaries to external parties have been provided.

## 14 | Contractual obligations

As of 31 December 2005 Telenor ASA had committed purchase obligations. These obligations were primarily agreements that Telenor ASA had entered into on behalf of the Telenor Group.

| NOK in millions | 2006 | 2007 | 2008 | 2009 | 2010 | After 2010 |
|---|---|---|---|---|---|---|
| Committed purchase obligations | 762 | 77 | 58 | 51 | 44 | 25 |

This table includes purchase agreements where Telenor ASA has a minimum purchase liability only.

## 15 | Shares in subsidiaries as of 31 December 2005

The table below sets forth Telenor ASA's ownership interest in its subsidiaries. These subsidiaries will mainly be holding companies and their directly owned subsidiaries. Several of the subsidiaries named in the second part, own shares in other subsidiaries as described in their respective annual reports.

| NOK in millions | Office | Share owned in % | Book value |
|---|---|---|---|
| Telenor Networks Holding AS [1] | Norway | 100 | 2 771 |
| Telenor International Centre AS | Norway | 100 | - |
| Telenor Intercom Holding AS | Norway | 100 | 1 279 |
| Telenor Key Partner AS | Norway | 100 | 19 |
| Telenor Communication II AS | Norway | 100 | 199 |
| Telenor Satellite Services AS [2] | Norway | 100 | 509 |
| Telenor Mobile Holding AS | Norway | 100 | 7 352 |
| Telenor Satellite Networks Holding II AS | Norway | 100 | - |
| Itworks Holding AS | Norway | 100 | - |
| Telenor Installasjon Holding AS [3] | Norway | 100 | 84 |
| Dansk Mobil Holding II AS [4] | Norway | 100 | 203 |
| Telenor Business Partner Invest AS | Norway | 100 | 1 150 |
| Telenor Teleservice Holding AS | Norway | 100 | 28 |
| Telenor Broadcast Holding AS | Norway | 100 | 4 607 |
| Telenor Eiendom Holding AS | Norway | 100 | 4 160 |
| Telenor KB AS | Norway | 100 | - |
| Telenor Forsikring AS | Norway | 100 | 300 |
| **Total** | | | **22 661** |

Ownership interest corresponds to voting interest if not otherwise stated.

[1] Telenor Business Solution Holding AS was merged with Telenor Networks Holding AS in 2005.
[2] Telenor Satellite Services Holding AS changed name to Telenor Satellite Services AS in 2005.
[3] The shares in Telenor Installation Holding AS have been written down by NOK 225 million in 2005.
[4] Telenor ASA converted its receivable on the subsidiary Dansk Mobil Holding II AS into share capital. The receivable of NOK 1,092 million was granted as a loan from the internal bank, Telenor Finans, and had a fair value at the time of conversion of NOK 203 million. Telenor ASA recorded the difference between the nominal value of the loan and fair value as a loss at the time of conversion and recorded NOK 203 million as the value of the shares.

**Shares in subsidiaries owned through subsidiaries**

| | Office | Share owned in % |
|---|---|---|
| **Telenor Networks Holding AS** | | |
| Telefonselskapet AS | Norway | 100.0 |
| Telenor Global Services AS | Norway | 100.0 |
| Telenor Svalbard AS | Norway | 100.0 |
| | | |
| Telenor Privat AS | Norway | 100.0 |
| Telenor Telecom Solutions AS | Norway | 100.0 |
| Telenor Bedrift AS | Norway | 100.0 |
| Nye Telenor East Invest AS | Norway | 100.0 |
| TBS Infrastructure AB | Norway | 100.0 |
| Telenor Jara AS | Norway | 100.0 |
| Telenor Direkte AS | Norway | 100.0 |
| Nextra SARL | France | 100.0 |

| | Office | Share owned in % |
|---|---|---|
| **Telenor International Centre AS** | | |
| Telenor Magyarorszag KFT | Hungary | 99.3 |
| Telenor Russia AS | Norway | 100.0 |
| | | |
| **Telenor Intercom Holding AS** | | |
| Nye Telenor Mobile Communications I AS | Norway | 100.0 |
| | | |
| **Telenor Key Partner AS** | | |
| Telenor Key Partner Danmark AS | Denmark | 100.0 |
| | | |
| **Telenor Communication II AS** | | |
| Argos Take Care of It S.A | Marocco | 99.9 |
| TTYL AS | Norway | 100.0 |
| Telenor Venture IV AS | Norway | 80.0 |
| Telenor Venture II ASA | Norway | 50.1 |
| Telenor Kapitalforvaltning ASA | Norway | 100.0 |
| Telenor Mobile Aviation AS | Norway | 100.0 |
| Telenor Cinclus AS | Norway | 66.0 |
| Smartcash AS | Norway | 100.0 |
| | | |
| **Telenor Satellite Services AS** | | |
| Telenor Satellite Networks AS | Norway | 100.0 |
| Telenor Satellite Services Asia Holding AS | Norway | 100.0 |
| Telenor Satellite Mobile Venture AS | Norway | 100.0 |
| Marlink AS | Norway | 100.0 |
| Marlink SA | Belgium | 100.0 |
| | | |
| **Telenor Mobile Holding AS** | | |
| Nye Telenor Mobile Communications III AS | Norway | 100.0 |
| Telenor Mobile Communications AS | Norway | 100.0 |
| Telenor East Invest AS | Norway | 100.0 |
| Telenor Mobile Sweden AS | Norway | 100.0 |
| Telenor Greece AS | Norway | 100.0 |
| Nye Telenor Mobile Communications II AS | Norway | 100.0 |
| Telenor Mobil AS | Norway | 100.0 |
| Wireless Mobile International AS | Norway | 100.0 |
| Commit AS | Norway | 100.0 |
| MobilData Kjeden AS | Norway | 100.0 |
| Telenor Telehuset AS | Norway | 100.0 |
| Sonofon Holding AS | Denmark | 100.0 |
| Nordialog AS | Norway | 100.0 |
| OYO AS | Norway | 100.0 |
| ProMonte GSM | Montenegro | 100.0 |
| | | |
| **Telenor Business Partner Invest AS** | | |
| EDB Business Partner ASA | Norway | 51.8 |
| | | |
| **Telenor Broadcast Holding AS** | | |
| Telenor Satellite Broadcasting AS | Norway | 100.0 |
| Telenor Inma AS | Norway | 100.0 |
| Telenor UK Ltd. | Great Britain | 100.0 |
| Telenor Bulgaria o.o.d. | Bulgaria | 100.0 |
| Telenor Plus AB | Sweden | 100.0 |
| Canal Digital AS | Norway | 100.0 |
| Canal Digital Kabel TV AS | Norway | 100.0 |
| Norkring AS | Norway | 100.0 |
| Telenor Vision International AB | Sweden | 100.0 |
| Pecheur AS | Norway | 100.0 |
| Conax AS | Norway | 90.0 |
| | | |
| **Telenor Eiendom Holding AS** | | |
| Telenor Eiendom Fornebu Kvartal 1 AS | Norway | 100.0 |
| Telenor Eiendom Fornebu Kvartal 2 AS | Norway | 100.0 |
| Telenor Eiendom Fornebu Kvartal 3 AS | Norway | 100.0 |
| Telenor Eiendom Fornebu Kvartal 4 AS | Norway | 100.0 |
| Telenor Eiendom Drift AS | Norway | 100.0 |

| | Office | Share owned in % |
|---|---|---|
| Telenor Eiendom Fornebu Fjordpark Nord AS | Norway | 100.0 |
| Telenor Eiendom Hareløkken AS | Norway | 100.0 |
| Telenor Eiendom Vest AS | Norway | 100.0 |
| Telenor Hellas SA | Greece | 99.0 |

## 16 | Adoption of International Financial Reporting Standards

See note 37 to the consolidated financial statements for further description of the effects of the transition from Norwegian generally accepted accounting principles (N GAAP) to International Financial Reporting Standards (IFRS).

**IFRS implementation effects on equity as of 01.01.2004**

| NOK in million | |
|---|---|
| **Equity as of 01.01. 2004 according to N GAAP** | **42 567** |
| | |
| **Implementation effects of the introduction of IFRS:** | |
| Unrecognized net actuarial losses – pension plans | (292) |
| Reversal of dividends accrued in 2003 | 1 776 |
| Reversal of Group contribution taken to income in 2003 | (2 000) |
| Deferred taxes | 613 |
| **Total implementation effects** | **97** |
| | |
| **Equity as of 01.01. 2004 according to IFRS** | **42 664** |

**IFRS implementation effects on equity as of 31.12.2004**

| | |
|---|---|
| **Equity as of 31.12. 2004 according to N GAAP** | **42 671** |
| | |
| **Implementation effects of the introduction of IFRS:** | |
| Unrecognized net actuarial losses – pension plans | (292) |
| After tax result | 13 |
| Share based compensation | 6 |
| Reversal of dividends accrued in 2004 | 2 603 |
| Reversal of Group contribution taken to income in 2004 | (2 000) |
| Deferred taxes | 613 |
| **Total implementation effects** | **943** |
| | |
| **Equity as of 31.12. 2004 according to IFRS** | **43 614** |

**IFRS implementation effects on profit and loss in 2004**

| | |
|---|---|
| **Net income for 2004 according to N GAAP** | **4 656** |
| | |
| Pension expenses | 17 |
| Share based compensation | (6) |
| Amortization of goodwill | 4 |
| Change in deferred taxes | (2) |
| **Total effect on net income for 2004** | **13** |
| | |
| **Net income for 2004 accoring to IFRS** | **4 669** |

**Implementation effects IAS 32 and 39**

| NOK in million | |
|---|---|
| **Equity as of 31.12. 2004 according to IFRS** | **43 614** |
| | |
| Actual value derivatives which do not comply with criteria for hedging | |
| – assets | 224 |
| – liabilities | (498) |
| Deferred taxes | 77 |
| **Total implementation effects IAS 32 and 39** | **(197)** |
| | |
| **Equity as of 01.01. 2005 according to IFRS** | **43 417** |

# Auditor's report for 2005

To the General Meeting of Telenor ASA

**Auditor's report for 2005**

We have audited the annual financial statements of Telenor ASA as of 31 December 2005, showing a profit of NOK 2,188 million for the parent company and a profit of NOK 9,134 million for the group. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the financial statements for the parent company and the group. The financial statements of the parent company comprise the balance sheet, the statements of income and cash flows, the statement of equity and the accompanying notes. The financial statements of the group comprise the balance sheet, the statements of income and cash flows, the statement of equity and the accompanying notes. Simplified IFRSs pursuant to the Norwegian Accounting Act § 3-9 have been applied in the preparation of the financial statements of the parent company. IFRSs as adopted by the EU have been applied in the preparation of the financial statements of the group. These financial statements and the Directors' report are the responsibility of the Company's Board of Directors and Chief Executive Officer. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. These auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. To the extent required by law and auditing standards, an audit also comprises a review of the management of the company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements of the parent company are prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the company as of 31 December 2005, and the results of its operations and cash flows and the changes in equity for the year then ended, in accordance with simplified IFRSs pursuant to the Norwegian Accounting Act § 3-9
- the financial statements of the group are prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the group as of 31 December 2005, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with IFRSs as adopted by the EU
- the company's management has fulfilled its duty to properly record and document the accounting information as required by law and bookkeeping practice generally accepted in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with law and regulations.

Oslo, 4 April 2006
ERNST & YOUNG AS

Erik Mamelund (sign.)
State Authorised Public Accountant (Norway)

Note: The translation to English has been prepared for information purposes only.

**STATEMENT FROM THE CORPORATE ASSEMBLY OF TELENOR**

On April 4, 2006 the Corporate Assembly of Telenor ASA passed the following resolution:

The Corporate Assembly recommends that the General Meeting approves the Board of Directors' proposal for profit and loss statement and balance sheet for Telenor ASA and for the Telenor Group for 2005, by transferring NOK 2,188 million to other equity. The Corporate Assembly also recommends that the General Meeting approves the Board's proposed dividend of NOK 2 per share, to be paid in 2006.

## FINANCIAL CALENDAR 2006

| | |
|---|---|
| Thursday 4 May | Results for the 1st quarter 2006 |
| Tuesday 23 May | Annual General Meeting |
| Wednesday 24 May | Capital Markets Day |
| Friday 21 July | Results for the 2nd quarter 2006 |
| Thursday 26 October | Results for the 3rd quarter 2006 |

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