itera
MAKE A DIFFERENCE

CONTENTS

INNOVATION

You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete.
- Buckminster Fuller

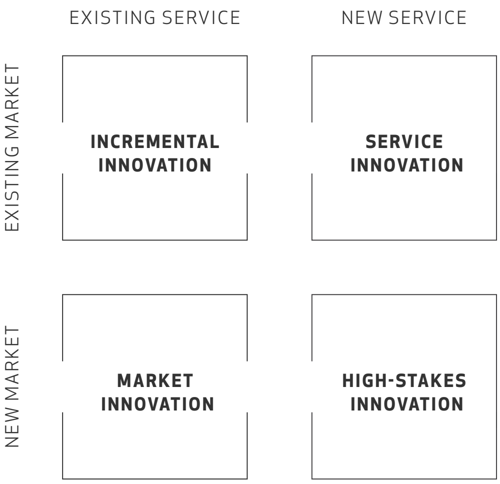
MAKING EXISTING MODELS OBSOLETE

The term "innovation" is often used to refer to sudden changes that deliver dramatic results. The day-to-day reality for most of Itera's customers, however, is much more a question of gradual innovation. Most revolutions appear to be evolutions when you are in the middle of them.

ONE OF THE 25 MOST INNOVATIVE ORGANISATIONS IN NORWAY

In 2016 Norway's leading innovation news magazine, Innovasjonsmagasinet, recognised Itera as one of the 25 most innovative companies in Norway across all sectors, along with companies such as DNV GL, Norwegian, Snøhetta, Telenor, Statoil and Schibsted. We greatly value this recognition.

FOUR APPROACHES TO INNOVATION



It can be said that there are four different approaches to innovation that depend on whether the context is a new or existing service and a new or existing market. Potentially disruptive innovation is located in the bottom right quadrant. This approach is the most talked-about approach, but it is in reality rarely embarked upon. Service innovation and market innovation are more common. The most common approach of all, however, is incremental innovation, which is when an existing service needs improving for a market that the service is already in. This approach involves creating results gradually using a pragmatic approach, preferably with little excitement or elaborate innovation models and programs.

ITERA'S INNOVATION METHODOLOGIES

Itera has worked systematically on innovation for many years. Our customers have a constant need to develop their service and product offerings, and they need to do this quickly. We have therefore developed and refined nimble and pragmatic methodologies that are end-user-focused and that enable us to quickly move from hypotheses to services we can try out in the market. This enables weak ideas and incorrect hypotheses to be weeded out at an early stage, and this can represent significant savings in terms of time and expense relative to this taking place at a later stage in the process. Our mantra is the Agile mantra "fail fast, fail often".

HYBRID SOURCING

In today's disruptive environment, sourcing needs to move away from approaches that are "built to last" to sourcing strategies that are "built to adapt".

CLOSING THE GAP

The disruptive forces that are creating a wave of digital opportunities in business have created a need for a fresh approach to sourcing. Despite this, few organisations are ready for the speed of customer-centric innovation or the myriad technology and business options that will define the next generation of business and market leaders.

ACUTE DIGITAL SKILLS SHORTAGE

Europe faces a shortage of 800,000 IT workers by 2020, and this number will increase once the digital revolution impacts all industries simultaneously. 37,000 people work in IT in Norway across businesses and IT service providers, while the country's universities and technical colleges produce about 1,000 IT graduates each year. According to IKT Norge (the interest group for the Norwegian IT industry), Norway faces a shortage of 10,000 IT workers by 2020. Norway does not on its own have the capacity to educate sufficient numbers of people to meet the fast-growing demand for IT personnel. The other Nordic countries are in the same situation.

It is consequently necessary to use outsourcing to access the labour force of other regions in order to close the skills gap.

HYBRID DELIVERY FOR CUSTOMER-CENTRIC INNOVATION

The three types of outsourcing – onshoring, nearshoring and offshoring – all have specific benefits, and each option is typically associated with expertise in certain skill sets based on the training available in the geography in question. A hybrid solution involving more than one of these outsourcing options often represents the best solution for aligning a customer's business goals and needs with those of its outsourcing provider, while minimizing costs.

Itera believes the best sourcing model is a hybrid nearshoring model that combines both onshoring and nearshoring in order to make it possible to offer the best fit for each customer's precise needs and budget. This model corresponds with our position since it provides the greatest possible agility and speed in relation to customer-centric innovation and the myriad technology and business options that will define the digital businesses of the future.

Itera's hybrid model offers customers outsourcing that is optimized in terms of talent and cost with just a single point of contact. An important quality when looking for a hybrid provider is that the provider ideally needs to have hybridity in its DNA – to have a strong cross-border culture based on using a single methodology and framework for managing its customers, data, processes and employees. Looking at the CVs of potential candidates is only a minor part of a successful selection process.

BUILT TO ADAPT WITH A TWO-SPEED APPROACH

In today's disruptive environment, sourcing needs to move away from approaches that are "built to last" to sourcing strategies that are "built to adapt". At Itera, we have integrated our sourcing model seamlessly into our Nordic organisation.

CLOSING THE GAP

Itera's hybrid capabilities support a two-speed or bimodal approach in order to handle the rapid pace at which digital innovation has to progress with a controlled level of risk. Our nearshore locations are built from scratch as part of single cross-border teams on the basis of the flat organisational structures and self-starting cultures of the Nordic region, and Itera employs the same world-class agile methodology and business framework for managing its customers, data, processes and employees consistently across all locations.

EU DATA PROTECTION AND SECURITY

Because Itera has many customers in the banking and insurance sector, we were the first Nordic vendor to implement Binding Corporate Rules (BCR). This means we are able to make intra-organisational transfers of personal data across borders in compliance with EU Data Protection Law.
We are also certified in accordance with the ISO/IEC 27001 standard, which sets out formal specifications for information security management systems. Last but not least, we engage fully with other international bodies and communities in the countries in which we are present, including with chambers of commerce, European Business Associations (EBAs) and other bodies.

DESIGN SPRINT

Design sprints enable us to work in accordance with the innovation mantra of "Fail fast, fail often".

FAIL FAST, FAIL OFTEN

Creating new products and services is risky and involves a lot of uncertainty. It is extremely rare to get it 100% right at the first attempt and, since time to market is an important success factor, design sprints can be an important framework. Itera uses design sprints as a central activity at the start of the product and service development process in order to steer innovation work in the right direction in collaboration with the customer. This framework enables us to work in accordance with the innovation mantra of "Fail fast, fail often". We start with a broad range of ideas and quickly test out whether they have the potential to solve the problem and whether they would appeal to the target group we are seeking to reach, so that we can decide which of them are worth working on further.
In addition to being an efficient approach to innovation, a design sprint creates a lot of positive energy in the team and in its relationship with customers, and this adds value to the tasks that are to be completed. Design sprints are fun and enable everyone to be involved in working on a positive challenge that also develops their skills.

Some tips for completing a successful design sprint:
What is "the big challenge"? What problem are you trying to solve? Involve experts in order to shed light on the issue before you start.

Set up an inter-disciplinary team
Ensure the whole team can dedicate 100% of their time to the design sprint for its entire duration. Itera favours completing design sprints with its customers in the course of a single week, frequently on the basis of the following agenda:

Monday – Building a shared understanding of the task
The team discusses and researches the problem area. We begin at the end – what is the overall goal? What commercial opportunity do we want to create? What will success look like?
What do we need answers to from this sprint?
What do we need to confirm or disprove to be on the right track?

Tuesday – Developing ideas
We look for inspiration from good user experiences that have transferable value. Examples can be taken from both the analogue and the digital world, from competitors or from completely different industries.

We then set to work on developing ideas. Be open. At this stage, we are more concerned with quantity than quality. Create sketches and diagrams and explain. Build on each other's ideas. Finish by voting for the best idea. It's a team decision.

Wednesday – focusing on a direction
The aim of this day is to choose the part of the service that it is the most important to prototype in order to quality-assure the idea.

Identify and draw an experience map/overall user journey based on questions such as: How does the user find your service? What will his/her first experience of the product or service be? When and how will it be used? What will the experience be? What will happen afterwards?

Use the experience map to add further details and to refine the idea so there is a good basis for creating a prototype.

Thursday – prototyping
The prototype needs to be simple, focused and testable. It can be paper-based or digital, a role play or a physical object. It does not need to be perfect, just sufficiently realistic for testing it out to be worthwhile.

Friday – user testing
We test out the product on people who are representative of the target audience. The team observes and analyses continuously. A joint summing-up discussion meeting is held to discuss the findings and patterns observed.

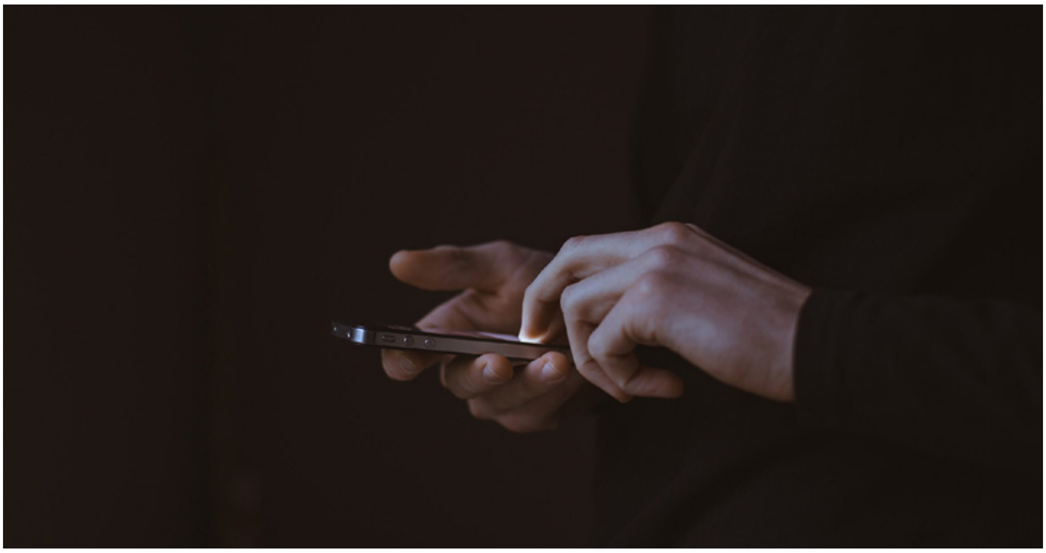
The design sprint ends by using what we have learnt to determine whether the idea can solve "the big challenge" and whether we need to improve the prototype, or whether we should simply discard the idea altogether.

Regardless of the outcome, the design sprint will have been an important learning experience without spending too much money or time.

BANK AND INSURANCE

We will increasingly be seeing robot advisors that offer more personal and more contextual banking services that are ultimately unique to each one of us.

A PERFECT STORM



The finance and insurance sectors are in the middle of a perfect storm caused by a wave of new regulatory requirements, the emergence of fintech and insurtech companies, new technology and high customer expectations.

New technology and new services have already changed our everyday payment habits. For example, after just one year in the market, DNB's Vipps mobile payment app has more than two million registered users.

CHECKING THE ACCOUNT WITH GOOGLE?

The Payment Services Directive 2 (PSD2), which will come into force by 2018, will change banking as we know it. This new regulation will give customers the option of using third-party companies to access and manage their financial services. Will we be using Google or Apple to pay for purchases or to check our account in the near future?

The PSD2 and smart uses of new technology have enabled a whole range of new fintech and insurtech companies to emerge that are seeking to challenge the established banks and insurance companies.

PERSONAL ADVICE FROM ROBOT ADVISORS

New technologies that allow banks and insurance companies to offer service levels more synonymous with hospitality than with financial services and established technologies like artificial intelligence and robotic process automation mean that we will increasingly be seeing robot advisors that offer more personal and more contextual banking services that are ultimately unique to each one of us.

All these changes mean that banks and insurance companies need to rethink their business models and to adopt new technologies faster in order to build new digital services that address high user experience requirements.

A NEW WAY OF THINKING

Itera has over 20 years of experience of completing projects for many of the largest banks and insurance companies in Norway and the Nordic region. We have in-depth knowledge of the sector as well as the latest in design and technology and so are able to build new digital banking and insurance services. Bank and insurance companies have realised that they need to both think and act as tech companies and accordingly to have multidisciplinary expertise and to use the Lean Startup methodology and cloud services in order to build new services more quickly and more successfully. This is the backdrop against which Itera delivers its services.

In a perfect storm of change, new opportunities arise. For the industry - and for Itera.

PUBLIC SECTOR

Digitalization is more about people, processes, and organisational issues than technology itself.

DIGITALIZATION IS CHANGE

Is the public sector in the process of going past its sell-by date when it comes to taking advantage of the opportunities offered by technology? According to the Norwegian Agency for Public Management and eGovernment (Difi), the situation as of 2016 is that progress on digitalization is too slow, and that there are actually some areas where it is going backwards. The public sector is not using the opportunities offered by digitalization, and is not meeting the population's higher expectations.

SLOW PACE

In the local government sector, a lack of capacity and expertise are put forward as reasons for not making the most of digitalization. In addition, a significant amount of time and resources are being spent on maintaining old systems, which hinders modernisation work. Roger Schjerva (Chief Economist at IKT Norge) has written in an article on digital competitiveness that, according to the UN's E-Government Survey (United Nations 2015), which compares e-government across 193 countries, Norway fell from eighth place in 2012 to thirteenth place in 2014. In digital services, Norway fell from first place in 2008 to eighteenth place in 2014, with the Norwegian public administration scoring particularly badly for more advanced services (two-way communication across sectors). In general terms, Norway's score is pushed up by the digitalization of the tax system and the digital services for business and industry provided via Altinn, while it is dragged down by the slow pace of digitalization in the local government sector.

PEOPLE AND PROCESSES

The Centre for Digitization at the Norwegian Business School sees digitalization as more than using IT as a support tool. Digitalization rather involves organisations developing and adapting their organisational structures, operating models and work processes to exploit the opportunities offered by technology. Accordingly, digitalization is more about people, processes, and organisational issues than technology itself, and it is expertise in these areas that is lacking in the public sector. The issue is not helped by the fact that projects around digitalization are in practice change management projects that take a long time to implement.

PASSION AND COMMITMENT

At Itera, we are passionately committed to helping to digitalize the public sector with a complete focus on the users of public services – on users as citizens, employees, pupils, householders and patients. Itera's full range of communication and technology services, in combination with its innovation methodology that features active end-user involvement, create good user experiences and quick results - this is how we are helping to digitalize the public sector, and is something that we will continue to do, to make a difference!

GAME CHANGER

Itera thinks that the winners of the future will need to cultivate three specific qualities.

IDEAS FOR THE FUTURE

2016 was a year of significant change, both globally and closer to home. Trusted forecasting models failed, climate records were set, partnerships were announced that would previously have been thought impossible, established businesses disappeared and new companies won significant market share. One thing is certain, however, which is that the pace of change is increasing. The central question is whether organisations are equipped for such an unknown future. Itera thinks that the winners of the future will need to cultivate three specific qualities, regardless of the industry in which they operate:

Willingness to change: Businesses that fight to preserve the status quo will lose. Regardless. Absolutely all industries are being affected by the wave of digitalisation, old ways of doing things have to be discarded or reinvented, and new business models have to be created. Unless existing companies change, they will be outcompeted by new companies, quickly and unexpectedly. In order to address this challenge, all organisations need to develop a culture of change and flexibility. We need to move from having five-year plans and strategic visions to operating with flexible plans and quick prototypes. Linear projects need to be replaced with iterative sprints. We need to stop focusing on what is behind us and instead focus on talking about the future.

Speed: The advantages of being a first mover are often so significant that being number two is not really an option. It is becoming more and more usual for companies to launch simple solutions quickly which they then improve on a continual basis after their launch. Technology is developing exponentially and open solutions and partnerships are gaining ground, and we need to develop employees and structures that correspond with this. Artificial intelligence, algorithms and voice control will set the agenda much more over the next year than they have over the previous decade.

Closeness to customers: High user expectations in terms of relevance and pace are placing sizeable requirements on providers of services in both the public and private sectors. Competitors are always only one click away, and in order to win the battle for the customer, it is important to know what problem you are trying to solve for him or her in as much detail as possible. This requires a different and more exploratory way of working, as well as continual collaboration with customers and users. Simple prototypes need to be developed quickly and tested out in real-life situations before being either rejected or improved. Real customer journeys need to be optimised in close collaboration with users, and open collaboration models need to be introduced.

Succeeding in the future is going to be demanding. At the same time, the rewards will be sizeable. And we already have numerous examples for inspiration:

Vipps – a daring and efficient development and distribution of services against strong competition from global companies such as Google and Facebook.

IDEAS FOR THE FUTURE

Schibsted – a quick-working, international innovation machine built on gathering and using big data efficiently.

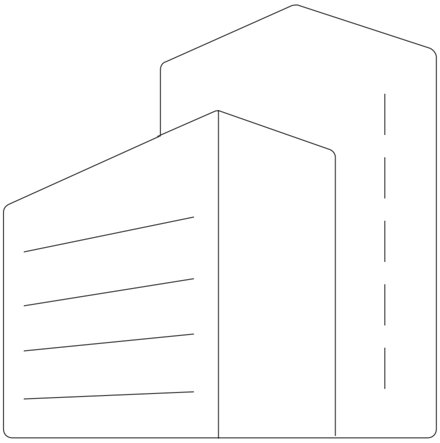
The Norwegian Defences Estates Agency – a public sector organisation that has used smart technology to revolutionise its internal processes.

Nabobil.no – an established start-up that meets a customer need by using technology effectively, while also riding the green wave.

eSmart Systems –technological innovation at the highest international level, using modern technology and methodology.

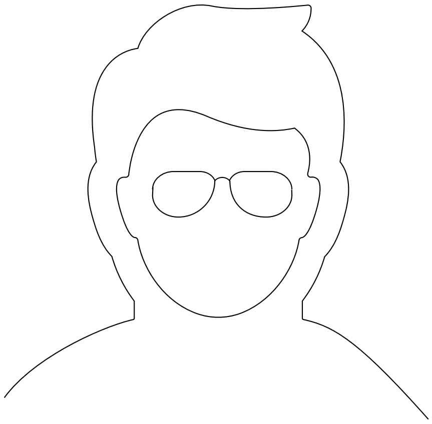
The most important task for executive management teams is ensuring the business they manage is equipped for the future. At Itera, this is a challenge we set out ourselves every day, and our motto, "Make a difference", gives us both a mandate and a duty to do just that. In 2016, we invested significantly in our employees, systems and methods in order to address the challenges of the future. We are a partner to Fintech Factory, to Oslo Medtech and to other exciting specialist organisations. We run weekly specialist evenings, and have recently introduced our internal "game changer program", which consists of all employees being invited to develop ideas for the future of value creation. We play an active role in specialist forums and conferences across the globe. What is of greatest importance, however, is what we learn from delivering demanding and innovative projects together with our customers; doing this is what will enable us to meet and embrace the future that we all want to be part of.

AWARDS



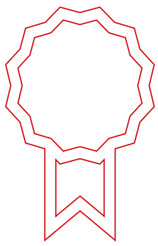
TOP 25

TOP 25
ONE OF NORWAY'S 25 MOST INNOVATIVE COMPANIES ACROSS INDUSTRIES
(Innovasjonsmagasinet)



TOP EXECUTIVE

ITERA'S CEO ARNE MJØS VOTED TOP IT EXECUTIVE OF THE YEAR



AWARDS

GSA GLOBAL AWARDS 2016

Finalist in the European Service Provider of the Year category

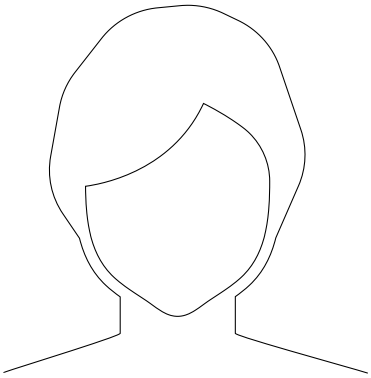
THE EUROPEAN SOFTWARE TESTING AWARDS 2016

Finalist in the Best Agile Project, and Best Overall Testing Project - Finance

SSON EXCELLENCE AWARDS 2016

Finalist in Excellence in Transformation category

FACTS



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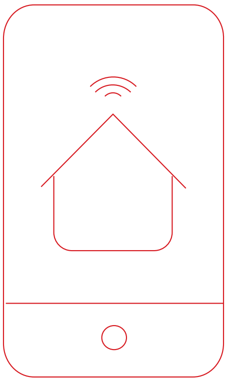
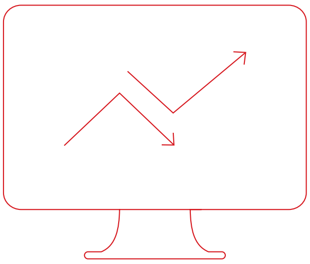
WITH COLLEAGUES FROM 20 NATIONALITIES, OUR DIVERSITY IS UNIQUE



1989

28 YEARS OF DIGITAL EXPERIENCE



13 683

HOURS SPENT ON TRAINING TO SECURE WORLD-CLASS COMPETENCE

PRESENT IN 5 COUNTRIES: NORWAY, SWEDEN, DENMARK, UKRAINE AND SLOVAKIA

IN BRIEF

Itera executed well against its strategy in 2016, resulting in targeted customer development, increased employee satisfaction and strong financial results, with a shareholder return of 61 percent.

- Itera distinguished itself among Europe's IT consulting companies by being nominated as a finalist in two categories of the European Software Testing Awards 2016.
- Itera's 30 largest customers accounted for 75% of its total revenue, up from 70% in 2015.
- Itera entered into its first agreement with a customer in Iceland, Islandsbanki. The agreement is for Testing as a Service (TaaS) and will be delivered using nearshoring.
- Itera delivered a total annual return to shareholders (including dividends) of 61% in 2016, which compares with 12% for the Oslo Stock Exchange Benchmark index (OSEBX).

WHAT THIS MEANS FOR

Q1

Itera continued the strong trend from the end of 2015 and achieved good growth and profitability improvements, with Itera growing by 5% in the first quarter. Key delivery agreements were signed with customers such as Nets, Handelsbanken, Aon Norway, KS, the Norwegian Defence Estates Agency, Norsk Tipping, Lovisenberg Diakonale Hospital, Norconsult, Animalia, Santander and yA Bank.

Q2

Itera moved its head office in Oslo to new, contemporary premises in Nydalen that have been completely adapted to Itera's specifications and requirements to facilitate interdisciplinary collaboration. The expected benefits include increased employee satisfaction, a stronger corporate culture and greater efficiency.

An ordinary dividend of NOK 0.15 per share was paid to the shareholders on the basis of the Group's 2015 results.

Q3

Itera was recognized as one of the 25 most innovative organizations in Norway across all sectors by Innovation Forum Norway.

Itera entered into a large contract with Gemalto in connection with the development of a new national ID card featuring eID based on biometric technology and a new generation of Norwegian passports.

Q4

Itera achieved revenue growth of 10% in the fourth quarter relative to the same period in 2015. An additional dividend of NOK 0.15 per share was paid.

The proportion of Itera's capacity located nearshore (nearshore ratio) was 37%, an increase of 1 percentage point from the previous quarter. Cash flow from operational activities was NOK 36.9 million.

KEY FIGURES

425
OPERATING REVENUES (MNOK)

14%
GROWTH 10 TOP CUSTOMERS

37%
NEARSHORE RATIO

61%
SHAREHOLDER RETURN

52% BANKING & INSURANCE

18% PUBLIC, HEALTHCARE, ORG.

9% PROFESSIONAL SERVICES

6% RETAIL & CONSUMER PRODUCTS

4% ENERGY AND MARINE

11% OTHER

KEY FIGURES

	Definitions	2016	2015
Profit and loss			
Operating revenue		424 787	435 393
EBITDA		55 582	39 924
EBIT		35 797	20 145
Profit before tax		32 793	19 654
Profit for the year		25 309	13 064
Financial position			
Total fixed assets		45 715	47 800
Total bank deposits		71 092	68 351
Total current assets		163 382	167 318
Total assets		209 098	215 118
Shareholders' equity		54 315	54 401
Total liabilities		154 782	160 717
Equity ratio	1	26 %	25 %
Current ratio	2	1.06	1.04
Share information			
Number of shares		82 186 624	82 186 624
Average number of outstanding shares		81 640 174	82 186 624
Equity per share	3	0.67	0.66
EBITDA per share	4	0.68	0.49
Earnings per share	5	0.31	0.16
Dividend per share	6	0.27	0.15
Employees			
Number of employees at year-end		395	400
Average number of employees		385	425

Definitions

1. Share equity divided by total assets
2. Most liquid assets and short-term receivables divided by current liabilities
3. Equity divided by number of shares
4. Profit/loss before tax plus depreciation divided by average numner of outstanding shares
5. Net profit/loss for the year divided by average number of outstanding shares
6. Dividend divided by average number of outstandig shares

CEO COMMENT

ARNE MJØS, CEO

Our annual report shows that Itera has had a strong development in all important areas during the course of 2016. We have delivered strong results in all the aspects that matter the most - to us, our customers, our employees and our shareholders. I would like to emphasize four areas in which we are particularly satisfied:

1. SHAREHOLDER RETURN: 61%
2016 was a strong year with healthy operational performance, providing our shareholders with a return on their investments of more than 60 percent.

2. 7% GROWTH OF OUR 20 LARGEST CUSTOMERS
An important part of Itera's strategy is to develop strong, long-term relations with our customers, providing a full spectrum of life-cycle services from design to development and operations. A growth of 7 percent in our largest relations demonstrates that more and more of our customers utilize our total range of services and trust us as a strategic partner in their running business development.

3. TOP 25 IN INNOVATION
In 2016, Norway's leading publication in innovation with more than 25.000 readers, named Itera one of Norway's most innovative companies across industries. This was really one of our highlights in 2016, leaving us immensely proud!

4. EMPLOYEE SATISFACTION
Last, but not least, I am very happy to see that our employee satisfaction is at a strong level. Our employees are our most valuable asset, and I am so proud of the great work they all do, always walking the extra mile with great ambitions on behalf of our customers. Thank you!

Itera is well positioned for further growth in a market where digitalization brings disruption to all industries, where time-to-market is key and where great user experiences separate winners from the rest.

I hope you will enjoy the report.

DELIVERING IN 2016

Itera delivered strong financial results in 2016, demonstrating that we are very well-positioned in the digital marketplace and that we executed well against our strategy. I am particularly pleased that Itera was recognised as one of the 25 most innovative companies in any sector in Norway.

Our operating profitability improved by more than 50% in 2016. We also entered into numerous new agreements, improved our operating margins and delivered excellent shareholder value. Itera shares produced a total return, including dividends, of 61% in 2016, which compares with a return of 12% for the Oslo Stock Exchange Benchmark index (OSEBX).

We remain focused on our strategic proposition of creating great experiences for our customers' customers. We leveraged our unique communication and technology proposition in the Nordics, providing innovative solutions and services for businesses and people.

We have good reason to be satisfied with the fact that we improved our profitability in 2016. I am very proud of how our committed employees, our executive management team and our Board of Directors are striving to be in a winning position in the rapidly scaling digital marketplace.

TOWARDS THE INTELLIGENT ENTERPRISE

The world is increasingly becoming an intelligent, digitally enabled mesh of people, things and services. Technology will be embedded in every aspect of the digital business of the future, blurring the lines between what is real and what is digital.

We are increasingly living in a platform economy in which companies that support large ecosystems of technologies, services and developers set the standards for digital transformation. Digital platforms have always been at the core of Itera; they provide the basic building blocks for all fast-growing digital businesses and are a critical enabler for our customers to become digital businesses.

Artificial intelligence, machine learning, and smart things promise an intelligent future. These technologies have reached a critical tipping point and will extend into virtually every service, thing and application. Digital assets that can be manipulated through algorithms are being created, and once these algorithms become smart, the whole game changes. The future is evolving towards an intelligent world of human-machine cooperation.

RUNNING AT TWO SPEEDS

Understanding and leading digital change in isolation from within an organisation's four walls is an almost impossible task. Without a hard look at the radical changes taking place in the outside world first, attempts at digital change will be incremental and weak.

Increasing digital competition can require a new organisational architecture in which emerging digital processes coexist with traditional ones. This has been termed two-speed or bimodal development: 'Mode 1' focuses on predictability, and 'Mode 2' on exploration.

Mode 1 represents the traditional way of operating and requires systems to be reliable, predictable and safe. Mode 2 is non-sequential and emphasises innovation, agility and speed. Both modes are essential to creating substantial value and driving significant organisational change, and neither is static. Both play an essential role in the digital transformation.

Itera is a genuine two-speed or bimodal company. Mode 2 is our DNA, but we also manage the two separate but coherent styles of work. We are leaders in innovation that helps customers – and Itera itself – to imagine and embrace the future. Our unique approach, which is based on service design and Lean

DELIVERING IN 2016

Startup, enables us to combine capabilities from across Itera to develop and deliver disruptive innovative solutions – and to scale them faster.

DRIVING DIFFERENTIATION

We have implemented bold strategic measures over the last few years in order to drive differentiation and to make Itera the leading communication and technology service provider in the new digital landscape in the Nordics. The breadth of capabilities we now provide – we are a genuine end-to-end provider – is unique in the marketplace.

Our vision is to make a difference. We solve challenges differently because we combine our multidisciplinary strengths to gain deeper insight and to explore new opportunities. Our aim is for the solutions we create to make a difference for businesses and people.

We are highly relevant to senior executives, deliver great experiences for our customers' customers, create new concepts and revenue streams, provide digital platforms and cutting-edge technologies, and operate services on behalf of customers that deliver real-life outcomes.

With our broad range of services and in-depth digital expertise, Itera remains the partner of choice in the area of digital transformation for many of the Nordic region's leading companies and public organisations. In addition, our two niche companies, Cicero Consulting and Compendia, provide the marketplace with packaged solutions and services, and 60-80% of their revenue is recurring revenue.

We also continue to build strong, long-term relationships with our customers. Our 30 largest customers accounted for 75% of our total revenue in 2016, an increase of 5 percent points from 2015. The amount of revenue we earn from our largest customer is increasing steadily year by year and will soon approach our target of NOK 50 million per year.

HYBRID DELIVERY FOR CUSTOMER-CENTRIC INNOVATION

In today's disruptive environment in which many companies in various industries have even publicly admitted that they will become software or IT companies in the future, the IT sector is facing an acute shortage of digital skills. Europe faces a shortage of 800,000 IT workers by 2020, and this number will increase once the digital revolution impacts all industries simultaneously.

Using outsourcing to access workforces located in other regions is therefore needed to close the skills gap. Outsourcing has traditionally involved selecting the cheapest location for a given service, and this resulted in many companies flying around multiple different locations in order to meet potential providers and to view their CVs. Our hybrid model that combines onshoring and nearshoring provides customers with the same capabilities with the same level of optimisation in terms of talent and cost, but with just a single point of contact.

We are hybrid in our DNA, have a strong cross border culture, and employ one methodology and framework for managing our customers, data, processes and employees. We help customers adapt their IT sourcing to respond more quickly to changes in customer demand and to harness opportunities in new markets. Our hybrid delivery capabilities are very scalable and provide access to a much larger workforce than that available in the Nordic region, with an attractive price tag.

A NORDIC ONE ITERA COMPANY

We have a strong portfolio of customers from multiple locations in the Nordics. We also serve customers that are based in the Nordics in over 15 countries elsewhere in Europe and the rest of the world.

Our strategy is to maintain and develop our largest and most strategic relationships across borders and areas of expertise. Nearshoring, cloud services and mobile personnel are enabling us to build our position as a Nordic company with capabilities across borders.

Our business framework facilitates knowledge sharing and enables resources to be reallocated across borders. We have never previously been such an integrated company, not least because our customers are less and less concerned about how our services are actually produced.

INVESTING IN OUR PEOPLE AND COMMUNITIES

As a talent-led organisation, one of Itera's highest priorities is attracting, developing and inspiring the very best people in the industry. This is critical to Itera's ability to meet the evolving needs of its customers and to grow as a business.

Each business unit has a unique talent strategy that focuses on the highly specialised and differentiated skills it needs to serve its customers. We are dedicating our full attention to building up top-notch skills in artificial intelligence, machine learning, robotics, drones and the internet of things, as well as in virtual and augmented reality for the next generation of user interfaces.

Our social and sports activities are organised by Itera's Employee Culture Department, and regular social events called MAD nights (Make A Difference) are held for all employees in order to build a strong ONE Itera culture guided by our core values: Innovative, Passionate, Skilled.

In 2016 we carried out both our annual customer experience and employee engagement surveys, and we were pleased to see continual improvements that confirmed that Itera is making good progress. We were also very pleased to be recognised in 2016 as one of the 25 most innovative companies in any sector in Norway, and were also nominated for several international awards, including the European Software Testing Award for 2016.

Our commitment to diversity makes us stronger, smarter and more innovative. We have an inclusive working environment and we work hard to increase the proportion of women in our technology teams. We think it is particularly important to promote women's interest in computer science and digital expertise, as this creates a more diverse pipeline of talent for our industry and beyond. One of the various initiatives we are involved with is the ODA talent and leadership program for woman run by IKT Norge, and we are also organising several events in collaboration with Lær Kidsa Koding, a voluntary organisation that works to introduce children to programming in a fun way.

We also remain focused on reducing the environmental impact of our offices and operations, including our carbon emissions and waste. We are Eco-Lighthouse certified, which is the most widely used certification scheme for enterprises seeking to document their environmental efforts and to demonstrate social responsibility.

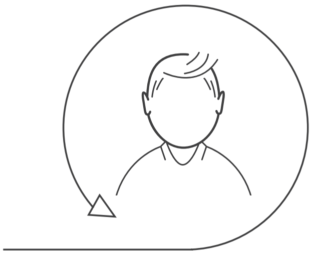
OUR JOURNEY CONTINUES

To conclude, I would like to warmly thank everyone at Itera for their continued hard work and dedication to our customers and our business. I also would like to thank our customers and strategic partners for their support on our journey. It was also a great honor and privilege to be voted top IT Executive of the Year in 2016 (the Rosing Award). This award would not have been possible without our great management team and Board of Directors. Thank you so much everyone for all your unending support.

We have a lot of momentum behind us at Itera and are well-positioned in the marketplace. Thanks to our highly differentiated capabilities and range of end-to-end services for guiding customers through their digital transformations, I am very confident in our ability to continue to gain market share and to drive sustainable, profitable growth.

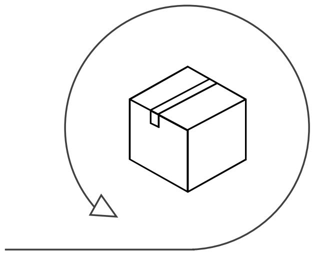
INPUTS

Our strong and diversified customer portfolio makes us well qualified to understand our customers' challenges.



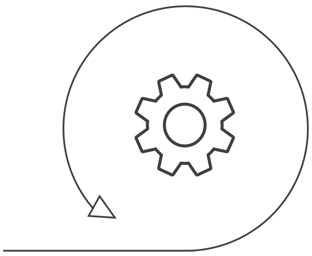
CUSTOMERS

Increase loyalty through great user experiences, optimized customer dialogue and user orientention in developing new products and services.



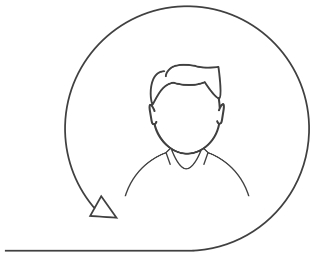
PRODUCTS & SERVICES

Adapt to customer expectations through user centric methodologies, agile development, high-end technologies and efficient methodologies for innovation.



OPERATIONS

Increase efficiency through digitalization of processes and optimizing infrastructure.

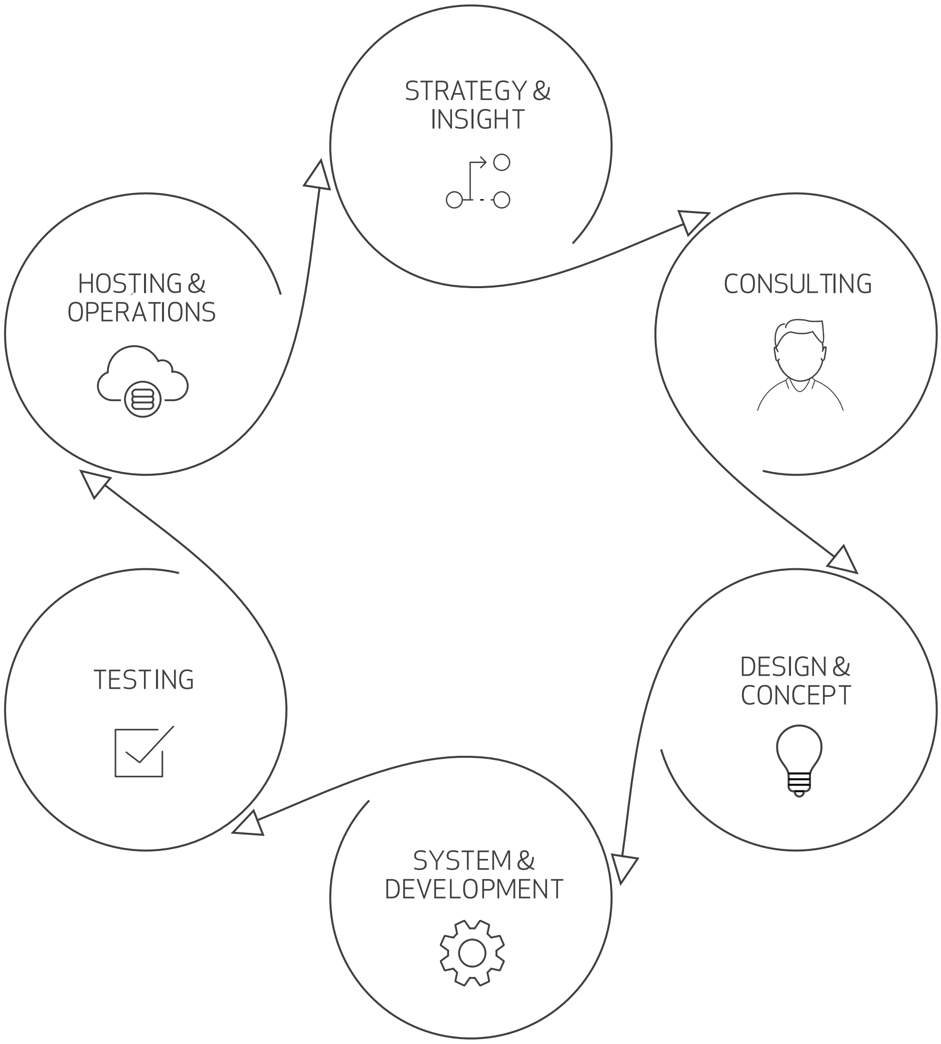


EMPLOYEES

Encourage employee engagement, enable collaboration and mobile productivity.

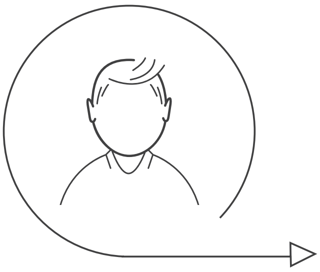
CORE ACTIVITIES

We work in multidisciplinary teams to tailor our solutions to our customers' needs.



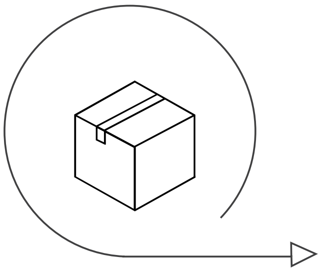
OUTPUTS

Our high quality solutions provide great user experience through smart technology, great design and relevant content.



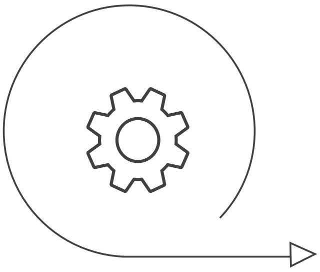
CUSTOMERS

Tailored solutions and programs built to strengthen the relation between the customer and the customer's customers through active involvement and user centricity.



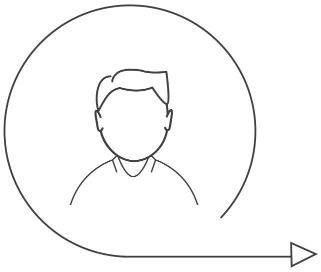
PRODUCTS & SERVICES

Efficient and lean processes for innovation, resulting in high quality solutions through great design, relevant content and smart technology.



OPERATIONS

Secure, optimized and compliant infrastructure, supporting optimal business support through efficient processes.



EMPLOYEES

Solutions offering agile, always-connected collaboration and working platforms, enabling efficiency, active participation and engagement in the working place.

OUR APPROACH

Our strategic platform for lean innovation

DIVERSIFIED INSIGHT

We seek insight from a wide range of sources to help us better understand the factors affecting the challenge we are trying to solve.

BOLD IDEAS

Abstract or concrete, visual or textual – we take an ambitious and open-minded approach to generating ideas in order to produce novel solutions.

UNIQUE CONCEPT

A concept has to meet exacting requirements to be chosen: uniqueness, simplicity, potential and scalability.

LEAN DEVELOPMENT

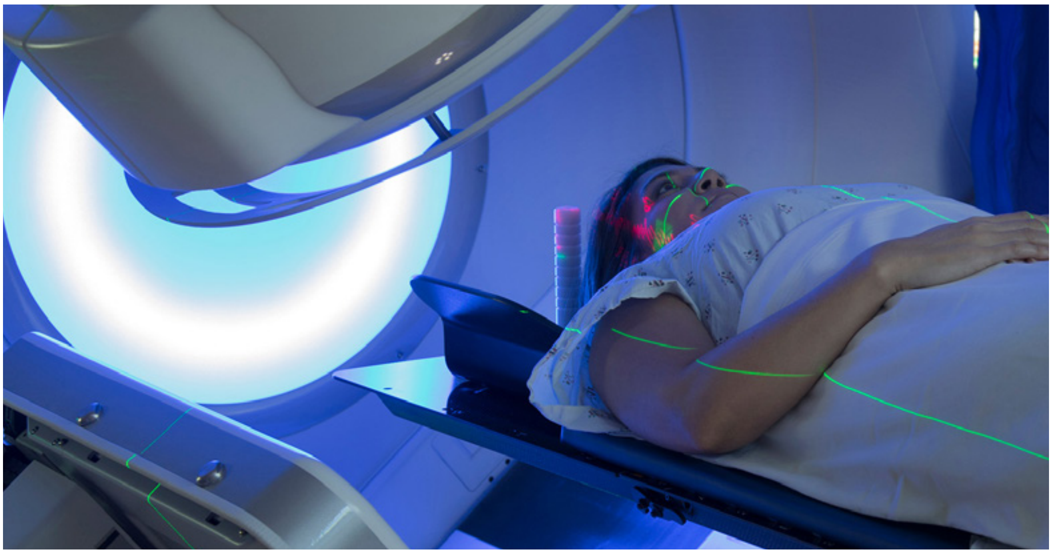
We make the concept a reality using a lean approach, smart technology, great design and relevant content.

CONTINUOUS IMPROVEMENT

We optimize the solution to changing conditions as well as to new technology and market opportunities. We foster continuous improvement to secure long-term business value.

DIGITAL TRANSFORMATION

MODERNISING FOR A BETTER USER EXPERIENCE



Lovisenberg Diakonale Hospital (LDH) is Norway's largest private hospital and a local hospital for around 176,000 people living in central Oslo. The hospital has around 1,300 full-time equivalent employees, and reports annual turnover of NOK 1.8 billion.

Digitisation is having a big impact on the health-care sector. The hospital, which has been in operation since 1868, has decided to respond to this proactively and has worked with Itera to take its first steps towards digitising its activities.

The hospital's old telephone system made some internal procedures awkward, and the user experience for external users was also less than optimal:

- The telephone solution was not properly integrated with the hospital's system for managing employee absence and its employees' calendars, which meant that neither the central switchboard nor employees had an overview of who was at work and who was not. Because of this, up to half of all calls were returned to the switchboard.
- Up to 40% of the hospital's patients and their relatives had to wait on hold for long periods when trying to contact the hospital's polyclinics by phone. After 20 minutes, the calls were automatically cut off, with the callers having to call back.
- Valuable capacity was used for unnecessary work: the old telephone system offered weak support for finding colleagues' telephone numbers, so many employees were making calls via the central switchboard. This meant that lines were often engaged, with no-one able to get through before a call was completed. The same problem applied to the emergency department, which could be potentially challenging for patient safety.
- There is reason to think that some appointment no-shows at the hospital were due to patients having problems getting through to the hospital by telephone. This may have impacted the hospital's efficiency.

Introducing new technology often involves new ways of working, and so it should be seen as a change project and not exclusively as a technology project. Itera led the hospital through introducing the new telephony system in close collaboration with the management team and the rest of the hospital. With the help of a lean approach, frequent releases, testing, continuous training and methodology inspired by service design, the hospital now has a modern telephony system. This is a strong platform for making internal collaboration as well as external contact with patients and their relatives simpler, and it also provides secure solutions in the event of any coverage problems or downtime.

All employees with personal phones now have a smart phone on which they can view their email and calendar. Useful apps are available for looking up things in the Norwegian Pharmaceutical Compendium (Felleskatalogen) or for correctly calculating drug dosages. Call queues are now much shorter or have disappeared entirely, and no-one is cut off or has to wait on hold for a long time.

Itera is proud to have contributed to this important step in Lovisenberg Diakonale Hospital's digitisation journey. The hospital's ambitions and the results it has achieved have been noticed in the healthcare sector, which is one of the areas of society that will undergo the largest changes in the years ahead. Itera aims to contribute to this with its expertise. After all, our vision is to make a difference.

USER ORIENTATION

GREAT EXPERIENCES. FAST RESULTS.

With customers from a broad range of industries across the globe, Sapa is the world's largest supplier of aluminium. To help ensure good customer communications and a high-quality user experience on digital channels, Sapa asked Itera to assist it with developing a new portal solution.

As Sapa has offices in 40 countries and needs to communicate in 23 languages, it was clear from the start that the solution that was to be developed would be more than average in scope. Itera and Sapa therefore established two main guidelines for the project:

- Customer focus: creating a good user experience by focusing on the customer's industry and making it simpler for customers to contact Sapa.
- Lean approach: testing the concept out as early as possible to avoid resource-consuming alterations and changes later in the process.

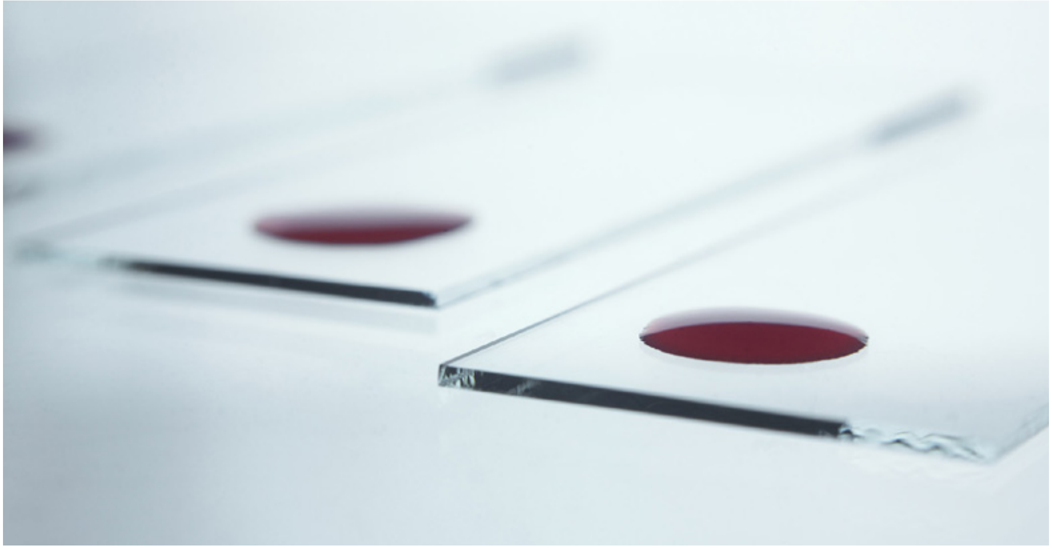
The new solution was built around the day-to-day activities and industries of Sapa's customers rather than around Sapa's organisational structure or products. The solution is navigated on the basis of the customer's industry and geographic location, and it accordingly presents customers with content in their local language. Significant emphasis was attached to ensuring the content was relevant and that it was easy to contact Sapa.

The concept was quality-checked using an efficient method to avoid the need for difficult alterations later in the process. Thanks to the use of a flexible project approach, a functional beta-version of the solution was ready in a remarkable three months, and only four months later the full solution was complete, with the content translated into 23 languages. With only six people, the delivery team was very efficient in terms of set up.

The project is a good illustration of how being a complete provider that offers a full range of services in communication and technology enables Itera to create value. Itera delivered the preliminary project, strategy, design, development (EpiServer), content strategy and communications profile for the solution, and also set up Google Analytics, working at all times in close collaboration with Sapa.

The same week that the service was launched Sapa noticed that displaying the 'Contact us' option clearly across the whole solution had a major effect on lead generation.

eHEALTH



STRATEGY SPRINT: TARGET VISION FOR 2021

The newly established Norwegian Directorate of eHealth is tasked with ensuring national coordination and direction in the ehealth area, as well as with setting up and managing standards that simplify and improve the healthcare and care sectors. All the Directorate's employees have a target of driving forward high-quality ehealth solutions. The Directorate's vision is to make the Norwegian healthcare system simpler, and it asked Itera to facilitate a week's strategy sprint to develop the framework for a long-term product strategy for helsenorge.no, the online portal for healthcare in Norway.

The Norwegian healthcare service is facing major upheaval as welfare technology will inevitably be an important part of future solutions. The current situation is characterised by the existence of many manual processes as well as old and awkward systems that are incapable of talking to each other. There is also a challenge associated with agreeing on a common language and target vision, both in relation to direction and resource use.

By making extensive use of creative methods, Itera facilitated a process that lasted five working days during which we systematically reviewed the current situation, sketched out and obtained buy-in for a target vision for 2021, and developed an overall plan to deliver this. Individual tasks were used to secure a wide range of inputs, while group discussions and exercises led to buy-in for the results and extended their reach. Methods for mapping areas of agreement and disagreement were introduced with the result that the group was able to focus its energy and discussions on those areas that we agreed were the most important. Checklists for product development were drawn up and conclusions written down and refined. And, based on the week's input and conclusions, Itera developed a recommended implementation strategy with the following basic points:

- Obtain buy-in for the target vision internally and externally
- Build a culture that permits more agile development
- Balance 'heavy' and 'light' tasks in parallel
- Prepare for active collaboration with external organisations
- Ensure long-term financing

The week was intense, demanding and enjoyable, and was summed up by one individual involved as follows: "We made more progress in five days here than in the previous two years – an impressive methodology well-executed". For our part, we think that if everyone working in ehealth is as competent and committed as those involved in the project from the Directorate of eHealth, the healthcare challenges we are facing will be solved successfully; it is an area in which many people want to make a difference.

ENERGY

CONSULTING WHEN FACING DISRUPTION

Many of Itera's customers are seeing their sector or business model disrupted and so need to test out ideas and concepts quickly. Itera has developed its own methodology for this, which combines service design with the principles of lean start-up.

Based on this methodology, Itera has completed a strategy project for an energy group. The reason for the project was the current situation in the energy market, where companies are seeing prices fall and their margins come under pressure. At the same time, major projects are being undertaken to meet new legal requirements, such as introducing automatic measuring systems (AMSs) to enable energy companies to provide customers with a more digital service offering.

Many established energy groups have addressed these challenges by setting up new electricity companies that have new names and lower cost bases. Itera's customer wanted a quick high-quality overview of how to set up a newly incorporated, profitable and innovative electricity company in terms of the organisation, expertise, products and services it would need.

Itera completed this project using both service design and lean start-up principles in collaboration with personnel from the customer's business development and executive management teams. The end product was a report that sketched out what a clear direction for a new and innovative electricity company might be and the next steps towards implementing this.

BOARD OF DIRECTORS' REPORT

THE COMPANY

Itera is a communication and technology company that designs, develops and operates innovative digital solutions for Nordic companies and organisations. The Group also owns two niche companies: Cicero Consulting, which provides advisory services and solutions to the banking and finance sector, and Compendia, which specialises in products and services for the HR, quality and management areas.

The Group is headquartered in Nydalen in Oslo. The Group also has offices in Bryne, Stockholm, Copenhagen, Kiev and Bratislava.

MARKET CONDITIONS

Itera experienced strong demand for its services in 2016. There continued to be a strong trend for digitising services, products and processes. Itera has worked strategically for many years on becoming a leading provider of expertise in the digital commercial landscape in the Nordic region. With an extensive and complete range of services, Itera is currently the preferred partner in digital transformation for many leading Nordic businesses and public sector organisations.

In 2016 Itera further strengthened its strategic position, which involves creating great user experiences for its customers' customers. This is a consequence of a customer-centric approach; by helping its customers create a great user experience for their customers, Itera helps its customers achieve business gains through improved customer satisfaction, greater customer loyalty, a stronger brand, a better reputation and stronger barriers against competitors, which in turn contribute to additional sales and increased profitability.

CUSTOMERS AND PROJECTS

A central part of Itera's strategy is to maintain and develop its largest, strategic customer relationships across national borders and areas of expertise. The revenue from Itera's 30 largest customers grew by 8% in 2016 and accounted for 72% of the Group's operating revenue, up from 68% in 2015. New agreements were entered into or existing agreements were extended by customers including Santander Consumer Bank, Gjensidige, Nets, the Norwegian Defence Estates Agency, KLP and the Eika Group. These agreements span the whole range of services offered by the Group, from consultancy and strategy via design and development through to IT operations and application management. The design and development projects cover both business-critical core systems and communications solutions for Itera's customers to use with their own customers, existing as well as potential. The IT hosting and management services to an increasing degree involve setting up and hosting cloud-based platforms and applications rather than more traditional technology.

One area in which Itera is strongly positioned is banking and insurance, which is, like a number of other sectors, being strongly affected by new technology and undergoing extensive upheaval. Itera is finding the market position it has created in collaboration with its customers to be strong, and the Group strengthened its position in 2016 in this area thanks to its strong insight into advanced technology, its good understanding of business, and its strong focus on creating good user experiences.

There is a general trend for businesses to both seek inspiration from and to enter into collaboration with startups. It was therefore natural for Itera as a company very active in the financial sector to enter into a partner agreement in 2016 with Fintech Factory, which is an accelerator for fintech startups. The partnership means that Itera is very close to the market and to trends and new business initiatives of relevance to the Group's customers.

Many of the projects in which Itera is involved are of significance to society. An example from 2016 is a project with Norway's National Police Directorate in which Itera is involved as a sub-contractor. The delivery is for a new national ID card with eID based on biometric technology and a new generation of Norwegian passports.

AWARDS AND RECOGNITION

In order to be a professional, relevant and value-adding partner for customers, Itera emphasises innovation in both its development of new and relevant services and in its deliveries to customers. Considerable effort is put into continuous competency development and the development of processes relating to deliveries, quality assurance and efficiency, and Itera's work in these areas is delivering results: Itera was recognised as one of the 25 most innovative companies in Norway in any industry in 2016 by Norway's leading innovation news magazine, Innovasjonsmagasinet, in collaboration with Innovation Forum Norway.

At the Norwegian Computer Society's Rosing prize-giving ceremony, Arne Mjøs, the CEO of Itera, was voted top IT executive of the year. The jury was impressed by Arne Mjøs' ability to drive strategic changes based on making better and smarter use of IT as well as by his ability to develop an organisation that is assertive about adopting new technological solutions in appropriate ways.

FINANCIAL RESULTS

Itera's IT hosting and consulting activities in Norway and Denmark grew strongly and achieved significant profitability improvements. Itera's nearshore activities also saw strong growth thanks to both existing and new customers.

The Group's consolidated operating revenue totalled NOK 425 million in 2016 as compared to NOK 435 million in 2015. The decrease is due to Itera ceasing to operate its IT hosting and consulting units in Sweden. The Group's continuing operations achieved good growth.

Operating revenue in Norway was NOK 391 million as compared to NOK 364 million in 2015, representing an increase of 7.4%. Operating revenue in Denmark increased by 1.2% to NOK 32.0 million from NOK 31.6 million in 2015.

The Group's operating result before depreciation, amortisation and non-recurring costs (EBITDA) was a profit of NOK 55.6 million as compared to a profit of NOK 39.9 million in 2015. This represents an operating profit margin before depreciation and amortisation of 13.1%, as compared to 9.2% in 2015. Payroll and personnel expenses were NOK 263.3 million in 2016, which represents a decrease of 4.4% from 2015, and is due to the Group having fewer full-time equivalent positions. Other operating expenses amounted to NOK 42.3 million in 2016 as compared to NOK 52.7 million in 2015. Total depreciation, amortisation and write-downs were NOK 19.8 million, in line with 2015.

The Group's operating result before non-recurring costs was a profit of NOK 35.8 million in 2016 as compared to a profit of NOK 20.1 million in 2015. Non-recurring items representing a net cost of NOK 1.6 million were recognised in 2016, an increase in non-recurring costs of NOK 0.3 million relative to 2015. The non-recurring costs in 2016 related to relocation costs in Oslo and Copenhagen and a gain on the deconsolidation of Itera's Swedish consulting unit. The Group's operating result in 2016 was a profit of NOK 34.1 million, as compared to a profit of NOK 18.8 million in 2015.

Net financial items were NOK -1.4 million as compared to NOK 0.9 million in 2015. The Group's result before tax was a profit of NOK 32.8 million as compared to a profit of NOK 19.7 million in 2015.

Tax expense totalled NOK 7.4 million in 2016 as compared to NOK 6.6 million in 2015. Tax paid in 2016 was NOK 3.0 million as compared to NOK 0.3 million in 2015. Itera has deferred tax assets of NOK 2.9 million, which are capitalised in full on the balance sheet.

The result for the year was a profit of NOK 25.3 million as compared to a profit of NOK 13.1 million in 2015.

The Board of Directors is satisfied with the progress achieved by Itera in 2016 in terms of its financial results. The improved results demonstrate that the measures implemented to strengthen the Group's profitability have had the desired effect.

It is the opinion of the Board of Directors that the annual accounts provide a true and fair view of the Group's activities in 2016 and its financial position at the end of the year.

RESEARCH AND DEVELOPMENT

Expenditure of NOK 6.2 million relating to the development of new solutions was capitalised in 2016 as compared to NOK 6.8 million in 2015. This expenditure was capitalised as it was incurred since it was considered that the requirements for capitalisation were met. The solutions principally relate to contracts entered into that have fixed future revenue associated with them.

CASH FLOW AND FINANCIAL POSITION

Itera generated cash flow from operations of NOK 48.4 million in 2016 as compared to NOK 19.7 million in 2015. The Group paid shareholders a dividend totalling NOK 21.9 million in 2016. At 31 December 2016, Itera had a cash balance of NOK 71.1 million as compared to NOK 68.4 million at 31 December 2015. The difference between cash flow from operations and the Group's operating profit is primarily due to depreciation costs that have no effect on cash flow, but also reflects tax payments and financing costs.

In addition to the investment made in research and development, NOK 5.3 million was invested in 2016 in hardware, software and fixtures etc. as compared to NOK 3.0 million in 2015. This includes capitalisation of operational equipment that is classified as financial leasing for accounting purposes.

Itera held 965,455 of its own shares at the end of 2016, while at the end of 2015 it held 127,455 own shares.

The Group's equity at 31 December 2016 was NOK 54.3 million as compared to NOK 54.4 million at the same point in 2015. This represents an equity ratio of 26.0% as compared to 25.3% at the same point in 2015.

FINANCIAL RISK

The Group is exposed to currency risk, liquidity risk and credit risk. Executive management and the Board of Directors monitor these risk factors continually and take action as required.

The revenues and expenses associated with Itera's activities in the Nordic region are denominated in Norwegian kroner (NOK), Danish kroner (DKK), and Swedish kronor (SEK). Changes in the exchange rate of the Norwegian krone against the Danish krone and the Swedish krona therefore affect the Group's results. This risk is limited by the fact that the majority of associated expenses are also incurred in these currencies. The Group is also exposed through its nearshoring activities in Ukraine and Slovakia to expenses in American dollars (USD) and euros (EUR). The currency risk associated with this is limited by the fact that the prices Nordic customers are charged for these services are largely adjusted on a monthly basis in accordance with changes in the exchange rates.

The Board of Directors considers the Group's liquidity situation to be satisfactory and does not regard it as necessary to take further measures to reduce the Group's liquidity risk.

The Group has historically incurred very low losses on receivables. This trend continued in 2016.

BUSINESS RISK

The Group's nearshoring activities in Ukraine and Slovakia mean it is exposed to risk factors such as country risk, data security risks and corruption. This is typical for new markets in which the business climate, laws and society are less developed or less familiar to us. Breaches of legal requirements or of our business ethics standards can significantly harm the Group, hinder our ability to do business and damage our reputation. Changes to legislation, tax systems and other regulations can also lead to significant changes in how we implement our services and solutions, and to higher costs that would affect our profitability. Itera closely monitors country risk, and has a zero-tolerance policy on corruption. It does not carry out any domestic activities in countries where the problem of corruption is at its greatest. Best practice data security procedures and checks have been implemented at the Group, as has a legal framework that safeguards data security and intellectual property across national borders.

ORGANISATION

The Group has a strong portfolio of customers in the Nordic region, where many customers are served from more than one of Itera's locations. Itera strengthened its progress in this area in 2016 by making good use of its various nearshore delivery units and resources across the entire Group. The quality of these services is now so high that they reduce the need to have large local organisations covering the same areas of expertise in all countries. In February 2016 Itera's Swedish consulting unit, Itera Consulting AB, was closed, as it was not large enough to be a strong independent business and did not have sufficient complementary expertise in relation to the rest of the Group to be able to serve the Group's Nordic customers.

The Group's headcount at 31 December 2016 was 395 as compared to 400 at the end of 2015. This represents a decrease of 1%, which is due to the closure of the Swedish consulting unit. The average number of full-time equivalent positions at the Group in 2016 was 385 as compared to 425 in 2015. The majority of the Group's activities take place in Norway where the Group had 225 employees at the end of 2016, the same number as at the end of 2015. The Group's Swedish activities had 0 employees in 2016 as compared to 19 in 2015, while its Danish activities had 22 employees in 2016 as compared to 23 in 2015. The Group's activities in Ukraine and Slovakia had 148 employees in 2016 as compared to 133 in 2015.

The proportion of Itera's capacity that is located nearshore (its nearshore ratio) was 37% at the end of 2016 as compared to 33% at the end of 2015. The Group's development centre in Bratislava provides significant flexibility with regard to meeting the strategic target of achieving a nearshore ratio of 50% over the long term.

Absence due to sickness in 2016 was 4.2% as compared with 4.5% in 2015, which the Board considers satisfactory. No accidents or injuries occurred during the course of the year. The Board considers the working environment to be good. Surveys are regularly carried out to assess the Group's working environment.

The Board wishes to thank all the Group's employees for their efforts in 2016.

SOCIAL RESPONSIBILITY

Itera recognises that it has a responsibility to the society of which it is part, and seeks to contribute to the positive development of those areas of society which are most related to its activities.

The Group's ethical guidelines describe the standards that apply in the Group's relationships with customers, suppliers, the public authorities and its own employees.

Further information on Itera's ethical guidelines – The Itera Business Code of Ethics – is available at itera.no/investor-relations

CORRUPTION

Itera does not tolerate any form of corruption.

The Group is exposed through its nearshoring activities in Ukraine to a certain level of corruption risk as the country has a low score on the Transparency International Corruption Index. Itera has therefore decided to protect the Group from this risk by not delivering services to the public or private sector in Ukraine where the problem of corruption is principally found, and by only exporting its services to countries where western business standards are the norm.

The Group has guidelines for all employees concerning the acceptance of gifts and other benefits or advantages. The Group's ethical guidelines, available at itera.no/investor-relations, can be consulted for further information.

DATA SECURITY

Itera has good control routines and frameworks for data security at the Group that operate across national borders. The Group's Information Security Management System (ISMS) is used by the entire Group, and is based on the ISO 27002 framework. Itera's IT hosting unit in Norway obtained ISO/IEC 27001 certification in January 2017.

Itera's nearshoring activities are fully integrated with its Nordic activities, and the entire Group therefore follows the same procedures and ethical standards. The Group operates a common IT infrastructure with all customer data stored on servers located in the Nordic region. Financial processes are carried out by a central function.

All employees that are part of the Group's nearshoring activities have signed confidentiality agreements that include undertakings in respect of data processing and other security arrangements.

The Group has implemented Binding Corporate Rules (BCR), a leading legal framework designed to ensure secure data transfer across national borders. BCR includes internal routines and rules in respect of transferring personal details from companies in the EU to the Group's activities outside the EU.

INTEGRITY AND GENERAL LEGISLATION

Itera complies with the national legislation and regulations of all the countries in which it operates. All its employees are encouraged to disclose internally any cases in which they have concerns with regard to the Group's integrity or where they are aware that laws or regulations are being breached. Employees can make such disclosures confidentially if they so wish, and the Group will not take adverse action against whistle-blowers, regardless of whether the content of the disclosure is found to be true or false.

HUMAN RESOURCES

EQUALITY

Itera regards gender equality as important. It believes that women and men should be given the same remuneration and the same personal and professional development opportunities. The Group seeks to ensure employees of both genders are able to combine their work and private lives, and therefore offers maternity and paternity leave arrangements, home office solutions, and part-time positions to support this.

34% of the Group's employees in 2016 were women as compared to 37% in 2015. The Group's executive management consists of six men and two women. The shareholder-elected Board members are two women and two men, while the employee-elected representatives and observers are two women and two men.

There are large differences in the proportion of women employed in the Group's various areas of expertise. The proportion of women is lower in technology-focused areas in development and operations, while the proportion of women is higher in areas that are more specialised in consultancy, communication, content and testing. More than half the parent company's employees are women. There is an uneven distribution of men and women in management positions. The Group has a goal of improving this balance in its various management groups.

DIVERSITY

Itera regards diversity at the Group as important, and seeks to recruit, develop and retain the best employees regardless of gender, ethnicity or disability. The Group's ethical guidelines also serve to promote diversity and prevent discrimination. For more information, see itera.no/investor-relations.

HUMAN RIGHTS

Itera is committed to ensuring internationally recognised human rights, such as those defined in the United Nation's Universal Declaration of Human Rights and other UN conventions, are respected. No-one shall in any way contribute to an individual's human rights being breached or circumvented. The Group places special emphasis on ensuring that employees' fundamental rights are respected. Itera has operations in countries outside Scandinavia, specifically Ukraine and Slovakia, and considers that the establishment of these workplaces has contributed to increasing the living standards of its employees in these countries.

EMPLOYEE SATISFACTION

The Group measures employee satisfaction twice a year, with the main survey taking place in September and a supplementary survey taking place in April. The same survey is used throughout the Group, which affords a good overview of general trends and local differences. The survey measures important areas such as work-life balance, professional development, workload and adherence to Itera's values.

The results of the survey are shared with all the Group's employees. After the main survey, all employees are able to participate in deciding which areas should be prioritised and what should be implemented in the following year in order to improve the results further. Measures that are considered likely to benefit more than one business area are implemented under the direction of the Group's HR function. Measures that are more locally targeted are carried out by the department or division in question under the direction of the relevant manager. The supplementary survey in April assesses whether the measures that were selected are having the desired effect, or whether changes should be made ahead of the next main survey.

The 2016 employee satisfaction survey shows that employees find Itera an enjoyable place to work.

SKILLS AND EXPERTISE DEVELOPMENT

A high level of skills and expertise is crucial to the Group's competitiveness. Itera works in a targeted way to develop the skills and expertise of all its employees with regard to both specific technical disciplines and management. The skills and expertise programs run at Itera together constitute the "Itera Academy", which is the overall structure for all training. The training available through the "Itera Academy" is closely linked with the Group's strategy and with the various requirements of the business areas, and ranges from courses on the role of the consultant for new graduates, through courses of varying levels on project management, system development and user experience, to management skills training for both new and experienced managers.

ENVIRONMENT

Itera's activities only pollute the external environment to a limited extent. The Group's environmental impact is principally a result of its use of energy, business travel and the waste created by its office activities. The Group is Eco-Lighthouse certified, which means it operates environmentally friendly and sustainable procedures in areas including business travel, procurement and waste management.

In June 2016, the Group moved into newly renovated premises in a BREEAM-NOR certified building. BREEAM is the world's longest-established (1990) and Europe's leading environmental assessment tool for buildings, and BREEAM certification is based on a building's documented environmental performance across nine sustainability categories: management, health and well-being, energy, transport, water, materials, waste, land use and ecology, and pollution. In 2016 the office part of the building received a provisional assessment rating of "Very good". The building's owner, Avantor, expects the building to receive a final assessment rating at the same level in 2017.

Other environmental initiatives at the Group seek to promote the use of organised recycling schemes for obsolete IT equipment, to reduce travel by ensuring video meetings are used as effectively as possible and to encourage responsible waste management.

All employees have a duty to consider the environmental impact of work-related activities and to favour solutions, products and methods that impact the environment as little as possible. Details of this can be found in the Group's ethical guidelines (itera.no/investor-relations)/

SHARES AND SHAREHOLDER RELATIONS

The share capital of Itera ASA is NOK 24,655,987 divided into 82,186,624 shares each with a face value of NOK 0.30 per share.

Itera held 965,455 own shares at the end of 2016. The Group has three ongoing share options programs, and the exercise price for all of these programs was below the share price at the end of 2016.

Itera had 1,810 shareholders at the close of 2016. The 20 largest shareholders owned 54.5 million shares, which represents 66.3% of the share capital.

A dividend totalling NOK 21.9 million was paid in 2016 on the basis of the Group's 2015 results, which is equivalent to NOK 0.27 per share. The Board of Directors proposes the payment of a dividend of NOK 0.18 per share on the basis of the Group's 2016 results. The Board of Directors will also put forward a proposal at the Annual General Meeting for it to be granted authorisation to pay a supplementary dividend later in the year if the Group's financial situation makes this possible.

CORPORATE GOVERNANCE

Itera applies corporate governance that is based on the requirements of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. The separate section on corporate governance provides more information on how Itera complies with Section 3-3(b) paragraph 2 of the Norwegian Accounting Act and the provisions of the Norwegian Code of Practice for Corporate Governance. The Board of Directors of Itera ASA held nine board meetings in 2016.

The Board of Directors has two subcommittees, namely the Audit Committee and the Compensation Committee. The Audit Committee consists of two board members and held four meetings in 2016. The Compensation Committee consists of two board members and held two meetings in 2016. The Compensation Committee prepares and makes recommendations to the Board regarding the CEO's remuneration. The Compensation Committee acts as an advisory body for the CEO on compensation-related issues and other significant personnel questions related to the executive management.

Further information on this area is provided in the corporate governance report at the end of this report.

PARENT COMPANY

Internal support processes and shared solutions are structured as Group Functions in the parent company Itera ASA in areas where this facilitates significant economies of scale and synergies. The scope of Group Functions is managed in line with the Group's requirements, and covers areas such as accounting/finance, HR, communication, marketing and internal IT.

As the owner, the parent company receives group contributions and dividends from the subsidiary companies. In 2016, the parent company received group contributions and dividends totalling NOK 11.0 million. The book value of the parent company's investments in the subsidiary companies is NOK 110.0 million. The parent company administers the Group bank account system. The Group's positive cash flow also appears as an increase in the liquid assets held by the parent company as this shows the combined bank deposits held in the Group bank account system. The parent company reports the bank deposits held by the subsidiary companies in the Group bank account system as liabilities to Group companies. The Norwegian companies are also jointly VAT registered, and the parent company is responsible for paying VAT on behalf of all these companies. The total VAT liability is reported as a liability on the parent company balance sheet, but is offset by intra-group receivables due from subsidiaries.

The parent company's headcount at the end of 2016 was 15, which is the same number as at the end of 2015. 10 of the 15 employees are women. Absence due to sickness in 2016 was 4.7% as compared to 7.7% in 2015. No accidents or injuries occurred during the course of the year. The Board considers the working environment to be good.

It is the opinion of the Board of Directors that the annual accounts provide a true and fair view of the parent company's activities in 2016 and its financial position at the end of the year.

GOING CONCERN ASSUMPTION

In accordance with Section 3-3a of the Norwegian Accounting Act, it is confirmed that the going concern assumption is applicable and that the annual accounts have been prepared on this basis. The budgets for 2017 and the Group's equity situation and liquidity situation provide the basis for the going concern assumption.

PROFIT ALLOCATION

The Board of Directors proposes that the profit of NOK 4,380k recorded by the parent company Itera ASA is allocated as follows:

- NOK 12,183k to supplementary dividend
- NOK 14,794k to ordinary dividend
- NOK -22,597k from other equity

OUTLOOK

Itera has a well-founded strategy for all parts of the Group and continues to work in a targeted way. Its overall strategy of developing larger, long-term customer relationships, achieving greater operational efficiency and using delivery models that combine resources from across the Nordic region and nearshore locations remains unchanged. The Group is seeing satisfactory levels of activity in all the markets in which it is represented, and is keeping a close watch on how market trends are developing.

Oslo, 17 March 2016
The Board of Directors of Itera ASA

Morten Thorkildsen
Chairman of the board

Mimi K. Berdal
Board member

Jan-Erik Karlsson
Board member

Eli Marie Giske
Board member

Berit Klundseter
Board member

Odd Khalifi
Board member

Arne Mjøs
Chief Executive Officer

CONTENT
GROUP

CONTENT PARENT

STATEMENT OF COMPREHENSIVE INCOME
GROUP

NOK 1 000	NOTE	2016	2015
Operating revenue			
Sales revenue		**424 787**	435 393
Total operating revenue	1, 21	**424 787**	435 393
Operating expenses			
Cost of sales		**63 533**	67 355
Payroll and personnel expenses	7,8,9,10,21	**263 326**	275 383
Depreciation	13	**19 785**	19 779
Other operating expenses	21	**42 345**	52 731
Total operating expenses		**388 990**	415 248
Operating profit before non-recurring items		**35 797**	20 145
Non-recurring costs	21	**1 648**	1 381
Operating profit		**34 149**	18 764
Other financial income	11, 21	**874**	4 509
Other financial expense	11	**2 230**	3 619
Net financial items		**(1 356)**	890
Ordinary profit before tax		**32 793**	19 654
Tax on ordinary profit	15	**7 484**	6 590
Profit for the year		**25 309**	13 064
Attributable to:			
Parent company shareholders:		**25 309**	13 064
Earnings per share	3	**0,31**	0,16
Diluted earnings per share	3	**0,31**	0,16
Profit for the year		**25 309**	13 064
Other comprehensive income that will be reclassified to profit and loss			
Currency translation differences in respect of subsidiaries		**(329)**	(417)
Unrealised currency effects on investments in subsidiaries		**0**	414
Comprehensive income for the year		**24 980**	13 061
Attributable to:			
Parent company shareholders		**24 980**	13 061

STATEMENT OF FINANCIAL POSITION
GROUP

NOK 1 000	NOTE	2016	2015
ASSETS			
Fixed assets			
Intangible assets			
Deferred tax assets	15	2 865	2 547
Other intangible assets	13	15 607	15 274
Total intangible assets		18 472	17 821
Tangible fixed assets			
Office machinery, fixtures, fittings etc.	13	27 243	29 979
Total tangible fixed assets		27 243	29 979
Total fixed assets		45 715	47 800
Current assets			
Work in progress	2	14 311	9 463
Receivables			
Accounts receivable	12	55 939	66 599
Other current receivables	4	22 040	22 905
Total receivables		92 291	98 967
Bank deposits	17	71 092	68 351
Total current assets		163 382	167 318
Total assets		209 098	215 118

STATEMENT OF FINANCIAL POSITION
GROUP

NOK 1 000	NOTE	2016	2015
EQUITY AND LIABILITIES			
Paid-in capital			
Share capital		**24 656**	24 656
Total paid-in capital		**24 656**	24 656
Retained earnings/other equity		**29 659**	29 745
Total retained earnings		**29 659**	29 745
Total equity		**54 315**	54 401
Liabilities			
Non-current liabilities			
Interest-bearing non-current liabilities	14	**20 311**	22 528
Total non-current liabilities		**20 311**	22 528
Current liabilities			
Accounts payable		**24 442**	24 768
Tax payable	15	**8 121**	3 211
Public duties payable		**29 945**	29 321
Other current liabilities	5	**71 965**	80 890
Total current liabilities		**134 472**	138 190
Total liabilities		**154 782**	160 717
Total equity and liabilities		**209 098**	215 118

Oslo, 17 March 2016
The Board of Directors of Itera ASA

Morten Thorkildsen
Chairman of the board

Mimi K. Berdal
Board member

Jan-Erik Karlsson
Board member

Eli Marie Giske
Board member

Berit Klundseter
Board member

Odd Khalifi
Board member

Arne Mjøs
Chief Executive Officer

STATEMENT OF CASH FLOW
GROUP

NOK 1 000	NOTE	2016	2014
Cash flow from operating activities			
Profit before tax		**32 793**	19 654
Gain on disposal of subsidiary company	21	**(530)**	(9 257)
Tax paid	15	**(2 984)**	(326)
Depreciation	13	**19 785**	19 780
Change in work in progress		**(5 276)**	2 363
Change in accounts receivable	12	**5 464**	(12 095)
Change in accounts payable		**2 777**	(572)
Change in other accruals		**(3 147)**	1 046
Effect of changes in exchange rates		**(448)**	(851)
Net cash flow from operating activities		**48 434**	19 742
Cash flow from investment activities			
Receipts on sales of tangible fixed assets	13	**140**	225
Purchase of tangible fixed assets	13	**(5 263)**	(3 005)
Investment in development costs	13	**(6 230)**	(6 750)
Net proceeds from disposal of subsidiary company	21	**(881)**	10 937
Net cash flow from investment activities		**(12 234)**	1 407
Cash flow from financing activities			
Change in non-current interest-bearing liabilities			
Purchase of own shares	19	**(3 604)**	(456)
Sale of own shares	19	**373**	69
Repayment of borrowings	14	**(8 591)**	(8 265)
Dividend paid		**(21 911)**	(12 237)
Net cash flow from financing activities		**(33 734)**	(20 889)
Effect of changes in exchange rates on cash		**275**	902
Net change in bank deposits		**2 741**	1 162
Bank deposits at 1 January		**68 351**	67 189
Capital increase from merger			
Bank deposits at 31 December		**71 092**	68 351

'Gain on disposal of subsidiary company' is the difference between the sale consideration and the book value of the company's equity on the date of the sale. The gain is presented as part of non-recurring costs (see note 21). Net proceeds are the contractual consideration received minus the sold company's liquid assets at the time of the sale.

Changes in balance sheet items such as accounts receivable, work in progress etc. exclude the sold subsidiary company. Receipts on sales of tangible fixed assets exclude the disposal of the fixed assets of the subsidiary company Itera Networks AB.

STATEMENT OF CHANGES IN EQUITY
GROUP

NOK 1000	Paid-in capital	Own shares	Other paid-in share capital	Translation differences	Other equity	Total equity
Equity at 31 December 2015	24 656	(38)	402	(598)	29 980	54 401
Comprehensive income for the year				(329)	25 309	24 980
Purchase of own shares		(300)			(3 304)	(3 604)
Sale of own shares		49			324	373
Dividend					(21 911)	(21 911)
Share option costs			78		0	78
Equity at 31 December 2016	**24 656**	**(290)**	480	**(928)**	**30 397**	**54 315**

NOTES
GROUP

COMPANY INFORMATION

Itera ASA ('the Company') is registered in Oslo, Norway. Itera's consolidated accounts for the 2016 accounting year cover the Company and the subsidiary companies Itera Norge AS, Cicero Consulting AS, Compendia AS, Itera Offshoring Services AS, Itera Sweden AB, Itera Sverige AB, Itera Consulting ApS and Itera Consulting Ukraine. The subsidiary company Itera Consulting AB went into liquidation in February 2016, and its revenue and expenses are included in the consolidated accounts until the date it entered liquidation.

BASIS OF PREPARATION

Financial framework statement

The consolidated accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) and related interpretations as approved by the EU and in effect at 31 December 2016, and with all additional disclosure requirements pursuant to the Norwegian Accounting Act as in effect at 31 December 2016.

Measurement basis

The consolidated accounts have been prepared on the historical cost basis with the exception of the following items:

- Financial instruments, which are measured at fair value through profit and loss
- Loans, receivables and other financial liabilities, which are measured at amortised cost.

Functional and presentation currency

The Group presents its accounts in Norwegian kroner (NOK), which is the parent company's functional currency. The figures presented in the annual accounts are rounded to the nearest thousand. Figures for subsidiary companies whose functional currency is not the Norwegian krone are translated using the exchange rate at the date of the balance sheet for balance sheet items, while for profit and loss items the exchange rate at the transaction date is used. An average exchange rate for the month is used as an approximation for the exchange rate at the transaction date. Translation differences are recognised through other comprehensive income.

Estimates and judgment

Preparing accounts in accordance with IFRS involves management making judgments, estimates and assumptions that influence the accounting principles that are applied and the amounts that are reported for assets, liabilities, revenue and costs. Actual amounts may vary from the estimates. The estimates and underlying assumptions used are kept under constant review. Changes in accounting estimates are recognised in the period in which the estimates are changed and in all future periods that are affected by the changes.

The most significant estimates that depend on the judgment of the Company's management are:

- Work in progress – see Note 2
- Provision for losses on accounts receivable – see Note 12
- Capitalised development costs (R&D) – see Note 13
- Valuation of deferred tax assets – see Note 15

Itera Norge AS has entered into leasing contracts for operational equipment. The leasing contracts have been assessed in relation to the requirements of IAS 17, and it was concluded that they should be treated as financial leasing. More information is provided in Note 14.

In some instances, the proceeds of a sale will be for multiple deliveries. In such cases, Itera assigns a value to each delivery and records the revenue associated with each delivery when it is made.

IFRS 13 Fair Value Measurement came into effect on 1 January 2013. The Group has not elected to use principles whereby assets and liabilities can be recognised at fair value, or it does not have assets and liabilities for which fair value recognition is permitted. It has been determined that Itera does not hold financial instruments that must be recognised at fair value.

NOTES GROUP

ACCOUNTING PRINCIPLES

The accounting principles detailed below are applied consistently to all the companies in the Group in all accounting periods.

Consolidation

Subsidiary companies are companies that are controlled by the Company. Control exists when the Group has the power to govern the financial and operating principles of a company so as to obtain benefits from the company's activities. In considering whether the Group has control over a company, the potential voting rights that are currently exercisable are taken into account. Subsidiary companies are included in the consolidated accounts from the date the Group obtains control of them until the date when it ceases to control them. The subsidiary companies' accounting principles have been changed where necessary to align them with the principles adopted by the Group.

Transactions eliminated on consolidation

Intra-group accounts receivable and transactions as well as any unrealised revenue and costs arising from intra-group transactions are eliminated in the consolidated accounts. Unrealised gains on transactions with companies that are accounted for using the equity method are offset against the investment in accordance with the Group's ownership interest. Unrealised losses are offset in the same way, but only to the extent that there is no evidence of impairment.

Transactions in foreign currencies

Transactions in foreign currencies are translated into the respective functional currencies of the companies in the Group using the exchange rate at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the appropriate functional currency using the exchange rate on the balance sheet date. Exchange rate differences from the translation of long-term receivables due from subsidiary companies that are considered part of a net investment are recognised directly through other comprehensive income.

Non-monetary assets and liabilities denominated in foreign currencies which are carried at fair value are translated into Norwegian kroner using the exchange rate when the fair value of the asset was determined. The assets and liabilities of foreign units at the time of consolidation are translated into Norwegian kroner using the exchange rate on the balance sheet date. The revenue and expenses of foreign units are translated into Norwegian kroner using the approximate exchange rate at the time of the transactions. Exchange rate differences arising from translation are posted as translation reserves in shareholders' equity.

Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Purchase of own shares

Where the Company's own shares are purchased, the consideration paid, including any directly attributable costs, is recognised as a change in equity. Own shares are presented as a reduction in equity, net of any tax effects. When the Company's own shares are sold or reissued, the consideration received is recognised as an increase in equity, and gains or losses arising from such transactions are included in equity.

Cost of equity transactions

Transaction costs directly related to equity transactions are recognised against equity, minus any tax expenses.

Tangible fixed assets

Tangible fixed assets are carried at acquisition cost, less accumulated depreciation and accumulated impairment losses.

Acquisition cost includes expenses directly attributable to purchasing the asset. Acquisition cost for self-developed assets includes direct salary costs, other costs directly attributable to ensuring that the assets function as intended, and costs of dismantling and removing the assets.

NOTES
GROUP

Gains and losses on the sale of tangible fixed assets are the difference between the consideration received and the carrying value of the asset, and the net amount is recognised as other income in the profit and loss account.

Expenses relating to the acquisition of new software are capitalised on the balance sheet as tangible fixed assets. Expenses incurred to maintain or extend the future usefulness of software are directly expensed unless the changes to the software increase its future economic usefulness.

Depreciation of tangible fixed assets

Tangible fixed assets are depreciated on a straight-line basis over their estimated useful life. Leased assets are depreciated over the shorter of the lease term and estimated useful life, unless it is reasonably certain that the Group will obtain ownership after the end of the lease term.

The estimated useful lives for the current and comparison periods are:

Fixtures and fittings	5-10 years
Software and IT equipment	3-5 years
Other fixed assets	3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Intangible assets

Intangible assets are recognised on the balance sheet if it can be shown to be probable that there will be future economic benefits attributable to the assets and their cost price can be estimated reliably. Intangible assets are carried at cost price. Intangible assets that have unlimited economic life are not amortised, but are written down if their recoverable amount is lower than their cost price. Recoverable amounts are calculated annually and also if there are indications that an asset is impaired. Intangible assets of limited life are amortised and the need for any write-downs is considered. Other intangible assets are amortised from the date they become available for use.

Research and development

Costs related to research activities are expensed as incurred.

Development activities are related to significant new concepts or solutions. Development costs are capitalised only to the extent that they can be measured reliably, the product or process is technically or commercially viable, the future economic benefits are likely, and the Group intends and has resources sufficient to complete its development as well as to sell or make use of it. Capitalised expenses include costs for materials, direct salary costs, and directly attributable overhead costs. Other development costs are expensed as incurred.

Capitalised development expenditure is carried at cost minus amortisation and impairment.

Amortisation of intangible assets

Intangible assets are amortised on a straight-line basis over their estimated useful life from the date they become available for use. The estimated useful lives for the current and comparison periods are:

Capitalised development costs	3-5 years

Leases

Leases are classified as either finance leases or operating leases at the time they are entered into on the basis of their content. If substantially all the financial risks and control of the underlying lease object is transferred to the lessee, the lease is classified as a finance lease, and the related assets and liabilities are capitalised on the balance sheet. Other leases are classified as operating leases with the annual leasing fees expensed as leasing costs.

Work in progress

Work in progress consists of earned but unbilled revenue, less a deduction for expected losses. Billing for individual projects is carried out on the basis of contractual payment milestones.

NOTES GROUP

Accounts receivable

Accounts receivable are recognised in the balance sheet at their nominal value, less a provision for expected losses. The interest element is disregarded if it is not material. If there is objective evidence of impairment, the difference between the book value and the present value of future cash flows is recognised as a loss.

Impairment

At each balance sheet date the Group assesses whether there are objective indications that financial assets may be impaired. Significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively or in groups of assets that share similar credit risk characteristics.

All impairment losses are charged to profit and loss. Impairment losses are reversed if the reversal can be objectively linked to an event that occurs after the loss was recognised.

Defined contribution pension scheme

The Itera Group finances its pension arrangements for employees through collective defined contribution based schemes. A defined contribution pension scheme is a plan under which an entity pays fixed contributions into a separate fund or pension fund and has no legal or constructive obligation to pay any further amounts. Contribution obligations are recognised as personnel expenses in the profit and loss account when due. Prepaid contributions are recognised as an asset to the extent that they entail cash refunds or that future payments to the scheme are reduced.

Share-based remuneration

Employee share options at the Itera Group give employees the right to subscribe for shares in Itera ASA at a future point at a predetermined price (exercise right). This right as a rule is dependent on the employee achieving concrete targets and still being employed at the time of exercise.

Employee share options are valued at fair value on the grant date. Their calculated value is recognised as a personnel expense, with a counterentry to other paid-in equity. The cost of share options is divided over the period until the employee becomes unconditionally entitled to exercise the options. The expensed amounts are adjusted to reflect the actual amount of stock options exercised if the associated service and non-market conditions are met.

The social security tax costs associated with employees' taxable benefits are expensed as incurred over the accrual periods on the basis of the accrual rates and values at the balance sheet date.

Provisions

Provisions are recognised when the Group has incurred a legal or constructive obligation as a result of a previous event and it is likely that this will lead to it making a payment or transferring other assets in order to settle the obligation, and the size of the obligation can be measured reliably.

Provisions are measured at the present value of the expected future cash flows, discounted using a market-based discount rate before tax.

Operating revenue

Revenue from delivering services is recognised in accordance with the stage of completion of the transaction at the balance sheet date. Stage of completion is assessed on the basis of the work that has been carried out. Revenue arising from subscriptions is recognised over the course of the contract period. Revenue arising from long-term projects is recognised on the basis of the current consideration payable due to the stage of completion. Stage of completion is assessed on the basis of the work that has been carried out. If the outcome of a long-term project cannot be estimated reliably, contract revenue can only be recognised to the extent that contract costs incurred are expected to be covered by the customer. To the extent that the consideration agreed with the customer is for more than one product or service, the consideration is allocated to the different subdeliveries. Revenue is recognised as the different products and services are delivered. Revenue from subscriptions is recognised over the period of the subscription.

NOTES GROUP

Expected losses on contracts are recognised when it is established that the expected costs of the contract will exceed the expected revenue from the contract. Revenue from the sale of goods is measured at the fair value of the consideration received or the receivable and is recognised once the risk has transferred to the buyer.

Where the consideration covers multiple subdeliveries, it is broken down by the Group and recognised when the various different components are delivered.

Financial income and financial expense

Financial income comprises interest income from financial investments. Interest income is recognised using the effective interest rate method. Dividends are recognised in profit and loss when they are approved by the annual general meeting of the company from which they will be received. Financial expense comprises interest expense on borrowings and changes in the fair value of financial assets. All borrowing costs are recognised in profit and loss using the effective interest rate method.

Tax expense

Tax expense comprises both tax payable and changes in deferred tax. Deferred tax/tax assets are calculated on all differences between the accounting values and tax values of assets and liabilities.

Deferred tax assets are capitalised on the balance sheet when it is likely that the individual company will have sufficient taxable profits in subsequent periods to be able to use the tax asset. The individual companies recognise previously non-capitalised tax assets to the extent that it has become likely that they will make use of them. Likewise, the individual companies reduce the value of their deferred tax assets to the extent that they no longer regard it as likely that they will be able to make use of their deferred tax assets.

Statement of cash flow

The statement of cash flow has been prepared using the indirect method. Cash and cash equivalents comprise cash, bank deposits and other short-term liquid investments.

Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share is calculated by adjusting the profit or loss and the weighted average number of ordinary shares outstanding for all potentially dilutive effects. Dilutive effects occur due to share options granted to employees.

Events after the balance sheet date

New information obtained after the balance sheet date on the group's financial position at the balance sheet date is taken into account in the financial statements. Events after the balance sheet date that do not affect the Company's financial position at the balance sheet date, but will affect the Company's financial position in the future, are reported if they are significant.

IFRS standards which have not yet been implemented

A number of new standards, amendments to standards and interpretations have not yet come into force for the Group for the accounting year ending 31 December 2016, and have consequently not been applied when preparing the consolidated accounts. The most significant of these standards are:

- IFRS 9 Financial Instruments will be obligatory for the Group with effect from 1 January 2018. This new standard may change the way in which financial assets are classified and measured. The Group does not plan to adopt the standard early. The Group's assessment is that the standard will not have material consequences for the Group.

- IFRS 15 Revenue from Contracts with Customers will apply from the accounting year beginning 1 January 2018. The new standard provides a comprehensive model of accounting for revenue, and will replace IAS 18. The Group's assessment is that IFRS 15 will not have material consequences for the Group

NOTES GROUP

- IFRS 16 Leasing. The IASB has published the new IFRS 16 Leasing standard, which changes the reporting requirements for lessees. All leasing contracts (except short contracts and leases of small assets) must be recognised on the lessee's balance sheet as right-of-use assets and as liabilities. The payments on leases will have to be presented as depreciation and interest expense. Additional information is also required. The new standard will apply to the accounting year starting on 1 January 2019 or later. Early adoption is permitted. The European Commission has not yet approved the changes. The Group does not plan to adopt the standard earlier than required. The Group has assessed the impact of IFRS 16 and estimates it will increase its total balance sheet by NOK 28 million, which as of 31 December 2016 would have caused its equity ratio to decrease from 26% to 23%.

1 SEGMENTS

The business activities of the Itera group are carried out by six (six) operational companies. Each company has its own management team and a CEO who is responsible for the company's financial results. Each company also has its own internal structure for management, budgeting and financial reporting, including reporting to the group CEO. The activities carried out by all the subsidiaries are for all practical purposes related to delivering IT and communication solutions to customers, and these activities are considered to have similar financial characteristics. On this basis, the Itera Group is considered to be a single reporting segment.

Transactions and transfers between the companies are carried out on normal commercial terms that are equivalent to the terms for transactions with external parties..

Geographical areas

2016

NOK 1 000	Norway	Sweden	Denmark	Ukraine	Group
Sales revenue	462 073	2 190	32 630	1 602	498 495
Intragroup eliminations	(71 426)	0	(679)	(1 602)	(73 708)
Net sales revenue	**390 646**	**2 190**	**31 951**	**0**	**424 787**
Investment	17 661	0	207	0	17 867
Total assets	193 831	809	7 817	6 640	209 098
Total liabilities	142 931	315	7 158	4 379	154 782

2015

NOK 1 000	Norway	Sweden	Denmark	Ukraine	Group
Sales revenue	429 065	42 566	31 599	1 734	504 963
Intragroup eliminations	(65 231)	(2 568)	(37)	(1 734)	(69 570)
Net sales revenue	**363 834**	**39 998**	**31 562**	**0**	**435 393**
Investment	23 059	382	76	180	23 696
Total assets	178 831	11 716	18 813	5 758	215 118
Total liabilities	137 913	10 940	7 358	4 506	160 717

2 WORK IN PROGRESS

Work in progress comprises earned revenue that has not yet been invoiced.

NOK 1 000	2016	2015
Work in progress	**15 224**	9 958
Provision for losses on work in progress	**(913)**	(495)
Net work in progress	**14 311**	**9 463**

The revenue from sales of services is recognised when the services are delivered. Revenue from customer projects is recognised in accordance with percentage completion of the project when the outcome of the transaction can be estimated reliably. When the outcome of a transaction cannot be reliably estimated, revenue can only be recognised to the extent of the project costs incurred.

To the extent a sale consists of part deliveries and the consideration is for multiple products/deliveries, the consideration will be allocated to the different components. Revenue will be recognised for the different deliveries in accordance with IAS 18.13 as they are delivered. Revenue will be recognised in accordance with progress on a delivery as a ratio between the number of hours to date and the total number of hours expected to complete the delivery. Planned hours are used and not the number of hours actually spent to prevent excess revenue from being recognised for overruns.

3 EARNINGS PER SHARE

NOK 1 000	2016	2015
Profit for the year	**25 309**	13 064
Average number of outstanding shares	**81 640**	82 187
Outstanding employee share options	**2 974**	1 572
Average number of shares including dilution	**82 247**	82 386
EBITDA per share	**0,68**	0,49
Undiluted earnings per share	**0,31**	0,16
Diluted earnings per share	**0,31**	0,16

Average number of outstanding shares	**81 640**	82 187
Dilution effect of outstanding share options	**606**	199
Average number of shares including dilution	**82 247**	82 386

The average share price for 2016 calculated on the basis of the market closing price for the Itera share on each trading day (except for days when no shares were traded when the bid price has been used) was NOK 4.06.

The dilution effect is calculated when the average market price for the period is higher than the share option exercise prices. The share option exercise prices are NOK 3.89, NOK 2.58 and NOK 2.30 for the 2016, 2015 and 2013 programs respectively.

4 OTHER CURRENT RECEIVABLES

NOK 1 000	2016	2015
Pension fund	**10**	61
Prepaid expenses	**8 591**	9 544
Other current receivables	**13 440**	13 301
Total	**22 040**	22 905

5 OTHER CURRENT LIABILITIES

NOK 1 000	2016	2015
Holiday pay	**18 456**	18 710
Customer prepayments	**29 373**	38 690
Accrued wages and bonuses	**21 300**	19 803
Accrued other expenses	**2 835**	3 687
Total	**71 965**	80 890

6 FINANCIAL RISK MANAGEMENT

The Itera Group is exposed to financial risks such as: credit risk, liquidity risk, currency risk and interest rate risk. The Group's exposure to these risks is considered to be low. The Group has established guidelines to manage its exposure to these risks. The main principle is to minimize exposure to financial risks, and the Group accordingly holds no financial assets or liabilities for speculative purposes.

The Group's nearshore operations in Ukraine and Slovakia expose it to new risks, such as country risk, IT security risks and the risk of corruption. Itera has a zero-tolerance policy on corruption, and does not carry out any domestic business in countries which are exposed to the risk of corruption.

Credit risk

Credit risk is the risk of financial loss to the Group's receivables due from customers and other short term receivables. In order to manage this risk, the Group has established credit approval procedures to evaluate the creditworthiness of all material counterparties. The Group's exposure to credit risk is not dependent on individual customers but customers as a group. Unless an agreement for delayed settlement has been made with a counterparty, an accounting provision is made for all receivables older than 90 days. Information on the Group's risk exposure in respect of accounts receivable is provided in note 12.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages its liquidity in such a way as to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due without incurring unacceptable losses or risking damage to the Group's reputation. The Group has established an overdraft facility with its banking partner. See note 17 for further information.

In order to accommodate growth in the Group's operational companies, lease financing contracts have been entered into for major investments in software and hardware.

Currency risk

The Group is exposed to currency risk through its businesses in Sweden, Denmark, Ukraine and Slovakia. The exposure to currency risk is limited by the fact that businesses in Sweden and Denmark have revenue and costs in the same currency, and in addition most borrowing is arranged within the Group. Of the Group's total revenue, 1% is in Swedish kroner (SEK) and 8% is in Danish kroner (DKK). A 10% change in the NOK exchange rate against SEK and DKK would have a 0.8% effect on the Group's revenue.

The Group's nearshore companies operate in three different currencies: USD, Euro and Hryvna. The main exposure is in USD. The Group to a large extent has currency adjustment mechanisms in its agreements with customers to counteract its exposure to the US dollar.

Interest rate risk

The Group is exposed to interest rate risk in relation to its bank deposits. The Group is also exposed in connection with lease financing contracts and when drawing against the overdraft facility. The Group does not hold any financial securities or other assets that have an inherent interest rate risk.

Fair value

Itera does not have significant differences between fair value and book value in respect of financial instruments, which for all practical purposes comprise accounts receivable and accounts payable, other current receivables and other current liabilities.

7 PAYROLL AND PERSONNEL EXPENSES

NOK 1 000	2016	2015
Salaries	**223 991**	232 303
Share option costs	**119**	151
National insurance contributions	**25 166**	31 190
Pension costs	**10 446**	10 509
Other benefits	**7 281**	5 056
Payroll and personnel expenses capitalised	**(3 678)**	(3 826)
Total payroll and personnel expenses	**263 326**	275 383

Average number of employees	**385**	425

8 SHARE-BASED REMUNERATION

The Itera Group had three share option programs in 2016. All schemes are settled by the granting of shares. The oldest of the current share option programs was established in 2013. The options were targeted at key employees in the Group. 80% of the options were conditional on targets being achieved in 2013, and if the targets were not achieved, 80% of the options would lapse. The targets were financial and were achieved for 2013. There are service conditions for all the options, with employees having to be employed for the whole period. 20% of the options are not related to any targets, only to service conditions. 80% of the options can be exercised between 2014 and 2017 with up to 25% of these options available for exercise each year. Any options not exercised in a year may be carried forward to subsequent years. The remaining 20% of the options can be exercised at the end of the program in 2017.

An equivalent share option program was approved in 2015 with the same conditions and for the same target group as the 2013 program. The financial targets for 2015 were not achieved, so 80% of the options lapsed. The remaining 20% of the options can be exercised at the end of the program in 2019.

Another share option program was approved in 2016 with the same conditions as the previous programs, with options granted to key employees at the Group. The financial targets for this program were achieved. 80% of the options can be exercised between 2017 and 2020 with up to 25% of these options available for exercise each year. Any options not exercised in a year may be carried forward to subsequent years. The remaining 20% of the options can be exercised at the end of the program in 2020.

The fair value of the options was calculated on the date they were granted, and the options granted in 2013 are being expensed over the accrual periods of 1 to 4 years in accordance with the graded vesting principle. The 2015 and 2016 options are being expensed over a period of four years. Fair value is calculated using the Black-Scholes-Merton option pricing model.

The calculation of fair value assumes that historical volatility is an indication of future volatility. Expected volatility is therefore set equal to historical volatility. The interest rate is based on rates obtained from Norges Bank for the same period as the life of the options.

For all the option programs an annual staff departure rate of 10% is assumed. For calculation purposes, an annual dividend of NOK 0.30 is forecast for the 2013 and 2016 programs, while an annual dividend of NOK 0.20 is forecast for the 2015 program.

Share option costs (including employer's social security contributions) of NOK 388k were expensed in 2016 (NOK 151k in 2015).

Program	Outstanding 31.12.15	Issued 2016	Expired in2016	Exercised in 2016	Outstanding 31.12.16	Fair value	Exercise price [1]	Share price when issued [2]	Date of issue	Exercise period
2013	1 292 000		32 000	250 000	1 010 000	NOK 0.15	NOK 2.30	NOK 2.30	22.08.2013	2014–2017
2015	280 000		6 000	0	274 000	NOK 0.25	NOK 2.58	NOK 2.58	07.09.2015	2016–2019
2016		1 690 000	0	0	1 690 000	NOK 0.26	NOK 3.89	NOK 3.89	08.07.2016	2017–2020

[1] The exercise price is the average share price over the 30 days prior to the date the option is granted.

[2] The exercise price is set at fair value on the date the option is granted. The company works on the basis that the exercise price is the same as the share price on the date the option is granted and that the options do not have any intrinsic value on this date.

Program	Number	Interest rate	Volatility	Lifetime
2013	1 010 000	1.57%–2.02%	43.5%	1–4 years
2015	274 000	0.77 %	30.0%	3.77 years
2016	1 690 000	0.49 %	25.0%	3.77 years
Total	2 974 000			

9 REMUNERATION OF SENIOR EMPLOYEES

Pursuant to Section 6-16a of the Norwegian Public Limited Companies Act, the Board of Directors will present the following remuneration guidelines to the Annual General Meeting:

"The Board of Directors' statement on the remuneration of senior employees
The objective for the Itera Group's guidelines for the remuneration of the chief executive officer (CEO), senior employees and other key employees is to support the Group's strategy and corporate values and to promote the achievement of the Group's objectives. The purpose of remuneration is to encourage conduct that builds the desired corporate culture in terms of performance and focus on profitability. In preparing this statement, the Board has not found it necessary to make any changes to its earlier statements on the principles for the remuneration of senior employees.

The CEO's total remuneration is made up of a fixed salary, normal employment benefits, and bonus, together with pension and insurance benefits. The CEO will also participate in the Group's share option programs. The CEO's total remuneration will be determined on the basis of a comprehensive evaluation, with the variable element of remuneration primarily based on the Group's financial performance. The CEO's remuneration is subject to annual evaluation, and is determined by the Board.

The CEO determines the remuneration of senior employees in collaboration with the Board. The Board has set up a separate subcommittee to advise on the guidelines for the remuneration of senior employees and other key employees. The total remuneration of senior employees is made up of a fixed salary, normal employment benefits and bonus, together with pension and insurance benefits. Senior employees will also be considered for inclusion in the Group's share option programs. The total remuneration of senior employees is determined on the basis of the need to offer competitive terms. It is intended that the level of remuneration should ensure that the Group is competitive in the relevant labour market, and should promote the Group's profitability, taking into account the desired trend in income and costs. However, the level of total remuneration must not be such as to damage the Group's reputation or to be market leading, but should be sufficient to ensure that Itera attracts and retains senior employees with the desired expertise and experience.

Remuneration is subject to annual evaluation and will be determined on the basis of general salary levels in the labour market in general and the IT industry in particular.

Bonuses paid in 2016 were based on results achieved by the companies for which senior employees were responsible, together with their performance relative to their personal targets for 2015. Senior employees may also be eligible for normal employment benefits to the extent that such benefits are relevant in relation to the employee's function or are in line with market practice.

Senior employees are members of the defined contribution pension schemes of the respective companies.

The company established a share option program in 2011 that expired in 2015, and new share programs were established in 2013, 2015 and 2016. Each year the Board considers whether or not to continue with a new share option program. When share options are approved, they will be granted with an exercise price set at the current market share price. Proposals for new share option programs will be submitted for approval by the Annual General Meeting.

As a general rule, the Group will not enter into termination payment agreements with employees. However, the Group will honour existing agreements.

The Board confirms that the remuneration of senior employees in 2016 was in accordance with the statement on the remuneration of senior employees submitted to the Annual General Meeting held on 23 May 2016. The guidelines for the remuneration of senior employees were unchanged from 2015 to 2016."

Executive management remuneration

NOK 1 000

Name	Position	Salary	Bonus	Other benefits	Total remuneration	Pension cost to the company	Option benefit reported
Arne Mjøs	Chief Executive Officer	2 067	488	23	2 578	145	0
Bent Hammer	Chief Financial Officer	1 211	87	19	1 317	72	0
Ane Gjennestad	Chief Communications Officer	995	93	24	1 112	65	0
Merete Jordal	Chief Technical Officer	1 013	85	12	1 111	68	0
Niko Nyström	Executive Vice President	1 390	368	10	1 768	69	68
Jon Erik Høgberg	Executive Vice President	1 530	472	17	2 019	71	224
Kristian Enger	Executive Vice President	1 494	300	22	1 816	69	57
Igor Mendzebrovski	Executive Vice President	1 550	0	0	1 550	0	0
John Aalling	Executive Vice President	1 186	203	15	1 404	146	27
Total 2016		**12 435**	**2 096**	**142**	**14 673**	**706**	**376**

Name	Position	Salary	Bonus	Other benefits	Total remuner-ation	Pension cost to the company	Option benefit reported
Arne Mjøs	Chief Executive Officer	2 002	488	95	2 585	71	0
Bent Hammer	Chief Financial Officer	325	87	5	417	11	0
Torunn Havre	Chief Financial Officer (outgoing)	1 410	0	563	1 973	58	0
Ane Gjennestad	Chief Communications Officer	992	93	12	1 097	63	0
Merete Jordal	Chief Technical Officer	1 011	85	10	1 106	64	0
Niko Nyström	Executive Vice President	1 389	300	8	1 697	65	0
Jon Erik Høgberg	Executive Vice President	1 363	472	174	2 009	65	0
Kristian Enger	Executive Vice President	1 490	356	9	1 855	65	0
Igor Mendzebrovski	Executive Vice President	1 520	0	0	1 520	0	0
John Aalling	Executive Vice President	1 153	0	17	1 170	115	0
Total 2015		**12 655**	**1 882**	**893**	**15 430**	**577**	**0**

The company has not entered into agreements with any members of the executive management on termination payments or any other form of compensation upon termination of employment.

The business activities of the Itera group are carried out by six (six) operational companies. Each company has its own management team and a CEO who is responsible for the company's financial results. In addition to the Chief Executive Officer and the Chief Financial Officer, the executive management of Itera ASA is made up of the heads of the individual Business Units, together with the group's Chief Technical Officer and the Chief Communications Officer.

Board of Directors remuneration

Name	Position	2016	2015
Morten Thorkildsen	Chair of the Board	**325**	313
Mimi K. Berdal	Board member	**215**	202
Jan-Erik Karlsson	Board member	**0**	188
Eli Giske	Board member	**100**	0
Berit Klundseter	Board member	**10**	0
Odd Khalifi	Board member	**10**	0
Wenche Holen	Board member (resigned)	**100**	187
Karl-August Brunstad	Board member (resigned)	**10**	30
Jorunn Aarskog	Board member (resigned)	**10**	30
Richard Strand	Board member (resigned)	**0**	20
Total		**780**	**970**

Election Committee remuneration

Name	Position	2016	2015
Erik Sandersen	Chair	**30**	30
Olav W. Pedersen	Member	**15**	15
Geir Moe	Member	**15**	15
Total		**60**	**60**

Shares and share options held by members of the Board at 31 December 2016

Name	Position	Shares	Options
Jan-Erik Karlsson	Board member	153 076	0
Mimi K. Berdal	Board member	73 000	0
Total		**226 076**	**0**

Shares (held directly or indirectly) and share options held by members of Executive Management at 31 December 2016

Name	Position	Shares	Options
Arne Mjøs *	Chief Executive Officer	20 801 998	980 000
Jon Erik Høgberg	Executive Vice President	476 944	302 000
Niko Nyström	Executive Vice President	173 736	240 000
Kristian Enger	Executive Vice President	207 472	260 000
Bent Hammer	Chief Financial Officer	100 000	180 000
Igor Mendzebrovski	Executive Vice President	0	150 000
John Aaling	Executive Vice President	0	64 000
Ane Gjennestad **	Chief Communications Officer	30 000	96 000
Merete Jordal	Chief Technical Officer	0	40 000
Total		**21 790 150**	**2 312 000**

* Arne Mjøs holds all his shares through Arne Mjøs Invest AS.
** Ane Gjennestad owns all her shares through Triceps AS.

Audit fees

NOK 1 000	2016	2015
Statutory audit of Itera ASA	**290**	527
Statutory audit of subsidiaries by KPMG Norway	**264**	318
Statutory audit carried out by international offices of KPMG	**141**	201
KPMG audit fees	**695**	1 046
Tax advisory services provided by KPMG Norway	**32**	0
Fees for other certification services provided by KPMG Norway	**61**	0
Other services provided by KPMG Norway	**407**	251
Other services provided by international offices of KPMG	**0**	49
Statutory audits carried out by other accounting firms	**0**	13
Audit fees for other accounting firms	**0**	13

The figures reported for audit fees exclude value added tax.

10 PENSION

All of the Group's pension schemes are defined contribution schemes. The Group's pension expense is represented by the premiums paid, and is included in payroll and personnel expenses in the Statement of Comprehensive Income. The Group's pension schemes in Norway comply with the Norwegian Mandatory Occupational Pension Act (OTP).

Pension cost

NOK 1 000	2016	2015
Norway	**8 783**	6 875
Sweden	**0**	2 182
Denmark	**1 663**	1 368
Total	**10 446**	10 425

11 FINANCIAL ITEMS

NOK 1 000	2016	2015
Interest income	**503**	485
Net currency effects	**330**	3 969
Other financial income	**40**	54
Total financial income	**874**	4 509
Interest expense	**937**	955
Net currency effects	**1 146**	2 544
Other financial expense	**148**	120
Total financial expense	**2 230**	3 619

12 ACCOUNTS RECEIVABLE

NOK 1 000	2016	2015
Gross accounts receivable at 31.12	**56 010**	66 934
Provision for bad debts	**(71)**	(335)
Net accounts receivable at 31.12	**55 939**	66 599

Ageing of receivables	Total	Not due	< 30 days	30-60 days	60-90 days	> 90 days
Accounts receivable 2016	**56 010**	**45 863**	**9 067**	**569**	**251**	**261**
Accounts receivable 2015	66 934	54 188	10 974	1 434	23	315

Analysis of customer receivables by country/currency

	2016	%	2015	%
Norway	**49 137**	88 %	53 274	80 %
Sweden	**439**	1 %	4 620	7 %
Denmark	**6 363**	11 %	8 705	13 %
Total	**55 939**	100 %	66 599	100 %

Losses on accounts receivable are classified as operating expenses in the Statement of Comprehensive Income. Maximum credit risk is equivalent to the figure for net accounts receivable shown in the table above.

13 TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

2016

NOK 1000	Development costs	Software	Office machinery & equipment	Fixtures & fittings	Leased office machinery	**Total**
Acquisition cost						
Accumulated at 1 January	59 165	4 031	11 642	7 919	47 142	**129 900**
Additions during the year	6 230	278	2 082	2 904	6 374	**17 867**
Disposals during the year	0	(41)	(457)	(2 804)	(0)	**(3 302)**
Currency differences	0	(6)	53	41	0	**88**
Accumulated at 31 December	**65 395**	**4 263**	**13 320**	**8 060**	**53 516**	**144 554**
Depreciation						
Accumulated at 1 January	43 891	2 455	6 938	5 854	25 511	**84 647**
Depreciation for the year	5 897	1 297	3 138	725	8 729	**19 785**
Depreciation on disposals in the year	0	0	(279)	(2 539)	0	**(2 818)**
Currency differences	0	(6)	53	41	0	**88**
Accumulated at 31 December	**49 788**	**3 746**	**9 849**	**4 081**	**34 239**	**101 703**
Book value						
Book value at 1 January	15 274	1 577	4 705	2 065	21 632	45 253
Book value at 31 December	**15 607**	**517**	**3 471**	**3 978**	**19 276**	**42 850**
Estimated useful life	3-5 years	3-5 years	3 years	5–10 years	3 years	
Depreciation plan	Linear	Linear	Linear	Linear	Linear	

Intangible assets (capitalised development costs) are primarily related to the development of new concepts. These concepts are primarily related to contracts entered into with fixed future income.

In 2016, costs of NOK 6.2 million (NOK 6.6 million) incurred in connection with the development of concepts were capitalised. Expenditure incurred in connection with development work relates principally to the salaries and personnel costs of the employees involved in developing the concepts. As at 31 December 2016, intangible assets totalled NOK 15.6 million (NOK 15.3 million).

There are no significant differences between the book values recorded in Itera's accounts and fair value.

2015

NOK 1 000	Development costs	Software	Office machinery & equipment	Fixtures & fittings	Leased office machinery	**Total**
Acquisition cost						
Accumulated at 1 January	57 428	12 675	48 268	20 821	35 941	**175 133**
Additions during the year	6 750	227	2 104	674	14 761	**24 516**
Disposals during the year	(5 079)	(8 878)	(38 615)	(13 473)	(3 559)	**(69 605)**
Currency differences	66	7	(114)	(103)	0	**(144)**
Accumulated at 31 December	**59 165**	**4 031**	**11 642**	**7 919**	**47 142**	**129 900**
Depreciation						
Accumulated at 1 January	41 557	10 926	43 274	15 847	20 738	**132 340**
Depreciation for the year	6 349	1 277	3 156	1 754	7 243	**19 779**
Depreciation on disposals in the year	(4 081)	(9 751)	(39 422)	(11 720)	(2 471)	**(67 444)**
Currency differences	66	3	(70)	(27)	0	**(28)**
Accumulated at 31 December	**43 891**	**2 455**	**6 938**	**5 854**	**25 511**	**84 647**
Book value						
Book value at 1 January	15 871	1 749	4 995	4 975	15 203	42 793
Book value at 31 December	15 274	1 577	4 705	2 065	21 632	45 253
Estimated useful life	3-5 years	3-5 years	3 years	5-10 years	3 years	
Depreciation plan	linear	linear	linear	linear	linear	

14 LEASING CONTRACTS

The Group has entered into leasing contracts in connection with investments in IT equipment related to its major IT hosting contracts.

Assets leased on financial lease contracts are as follows:

NOK 1 000	2016	2015
IT equipment	53 516	47 142
Accumulated depreciation	(34 239)	(25 510)
Book value at 31 December	19 276	21 632
Future minimum lease payments:		
Up to 1 year	7 444	6 822
1 to 5 years	14 023	17 275
Over 5 years	0	0
Future minimum lease payments	21 467	24 097
Interest	1 156	1 569
Discounted present value of future minimum lease payments	20 311	22 528
Of which		
- current liabilities	0	0
- non-current liabilities	20 311	22 528

15 TAX

NOK 1 000	2016	2015
Tax expense		
Tax payable	10 246	7 102
Change in deferred tax	(2 762)	(513)
Total tax expense	7 484	6 590
Tax payable in the balance sheet:		
Tax payable recognised to profit and loss	10 246	7 102
Tax payable for previous years	(21)	0
Tax in relation to group contribution	(2 104)	(3 892)
Total tax payable in the balance sheet	8 121	3 211
Tax paid in advance	(350)	(351)
Net tax payable at 31.12	7 771	2 860

Tax paid in advance is included in other current receivables.

NOK 1 000	2016	2015
Specification of the basis for deferred tax		
Fixed assets	**(11 466)**	(10 287)
Current assets	**0**	(95)
Other temporary differences	**(94)**	94
Losses carried forward	**(439)**	0
Total	**(11 999)**	(10 287)
Deferred tax assets	**(2 865)**	(2 547)
Deferred tax assets recognised in the balance sheet	**(2 865)**	(2 547)
Assets and liabilities associated with deferred tax assets		
Fixed assets	**(2 737)**	(2 549)
Current assets	**0**	(24
Other temporary differences	**(23)**	26
Losses carried forward	**(105)**	0
Total	**(2 865)**	(2 547)
Change in deferred tax assets		
Opening balance	**(2 547)**	(5 810)
Correction to opening balance from previous year	**334**	0
Change for the year recognised to comprehensive income	**(2 762)**	(511)
Translation differences	**6**	(1)
Tax effect of items recognised in other comprehensive income	**0**	0
Effects of group contribution	**2 104**	3 775
Closing balance	**(2 865)**	(2 547)
Reconciliation of tax rate		
Profit before tax	**32 793**	19 654
Tax calculated at the nominal corporation tax rate of 25% (27%)	**8 198**	5 307
Effect of change in the tax rate	**114**	302
Effect of tax from previous year	**21**	0
Effect of differing tax rates for foreign subsidiaries	**(82)**	(112)
Effect of permanent differences	**(768)**	(2 700)
Effect of previously capitalised tax assets	**0**	905
Effect of previously unrecognised deferred tax asset	**0**	2 930
Tax charge in the statement of income	**7 484**	6 590
Effective tax rate	**(22.8%)**	(33.5%)

16 FOREIGN CURRENCY

Information on the exchange rates applied by the Itera Group in 2016.

	Exchange rate 1 Jan.	Average	Exchange rate 31 Dec.
SEK	1.0474	0.9826	0.9512
DKK	1.2891	1.2485	1.2222
EUR	9.6190	9.2899	9.0863
USD	8.8090	8.3987	8.62
UAH	0.3627	0.3044	0.3132

17 CASH AND CASH EQUIVALENTS

NOK 1 000	2016	2015
Cash and bank deposits	**71 092**	68 351
Of which blocked deposits	**(7 588)**	(7 372)
Unrestricted cash and cash equivalents	**63 503**	60 979
Undrawn credit facilities	**25 000**	25 000
Cash reserve	**88 503**	85 979

The group has a cash-pool agreement, and accordingly the item 'cash and bank deposits' is a net item and includes any drawings from the overdraft facility.

The overdraft facility agreement with Danske Bank has the following financial covenant:
- The Itera Group's net interest bearing debt ratio (NIBD)/EBITDA shall not be more than 2.25

This key ratio is assessed as at 31 December each year, and at the latest 120 days after year-end. Itera did not draw upon the overdraft facility in 2016, and had no borrowings from Danske Bank at 31 December 2016.

The bank has a charge over the accounts receivable of the Group's Norwegian subsidiaries as collateral for the overdraft facility.

18 LIABILITIES NOT INCLUDED IN THE STATEMENT OF FINANCIAL POSITION

The Group had a liability for premises rent totalling NOK 57.5 million at 31 December 2016. This amount includes a seven-year rental agreement for Itera's head office premises in Nydalen that runs from 01 July 2016.

Analysis of future payments:	
Up to 1 year	16.8
1 to 5 years	31.2
Over 5 years	9.4
Total payments	57.4

19 SHAREHOLDERS

Share capital

Itera ASA's share capital at 31 December 2016 was NOK 24,655,987 made up of 82,186,624 fully paid shares each with nominal value of NOK 0.30.

Ownership structure

At the close of 2016, Itera ASA had 1,810 (1,650) shareholders. Of these 4% (11%) were foreign shareholders. The company's 20 largest shareholders owned 66% (68%) of the company's shares at year-end.

Holdings of own shares

The Itera Group held 127,455 own shares at the start of 2016. The Group purchased 1,000,000 own shares in 2016, of which 162,000 were used in connection with options exercised under the share option programs. The Itera Group held 965,455 own shares at the end of 2016.

Dividend

A dividend of NOK 0.18 per share is proposed, totalling NOK 14.8 million.

20 largest shareholders in Itera ASA at 31 December 2016

	Shares	%
Arne Mjøs Invest AS	20 318 298	24.7 %
Storebrand Vekst Verdipapirfond	5 350 354	6.5 %
OP Capital AS	4 340 481	5.3 %
Gip AS	2 809 200	3.4 %
Eikestad A/S	2 800 000	3.4 %
Septim Conculting AS	2 615 000	3.2 %
Boinvestering AS	2 282 698	2.8 %
Jøsyra Invest AS	2 200 000	2.7 %
Gamst Invest AS	2 068 787	2.5 %
Marxpist Invest AS	2 031 588	2.5 %
Storebrand Norge Verdipapirfond	1 397 809	1.7 %
Framar Invest AS	1 000 000	1.2 %
Itera ASA	965 455	1.2 %
Aanestad Panagri AS	900 000	1.1 %
Altea Property Development AS	639 590	0.8 %
Morten Johnsen Holding AS	600 000	0.7 %
Lars Peter Jensen	584 020	0.7 %
Jetmund Gunnar Nyvang	545 000	0.7 %
Kim-Kjetil Grøsland	520 000	0.6 %
Sober Kapital AS	510 000	0.6 %
Total 20 largest	**54 478 280**	**66.3 %**
Other shareholders	27 708 344	33.7 %
Total	**82 186 624**	**100.0 %**

20 TRANSACTIONS WITH RELATED PARTIES

There were no material transactions between the Group and related parties in the period from 1 January to 31 December 2016.

21 NON-RECURRING COSTS

Non-recurring costs include costs related to Itera vacating premises in Oslo and Copenhagen, as well as a gain from the deconsolidation of Itera Consulting AB.

2016

	Before adjustment	Non-recurring effect	As reported
Other operating expences	(44 523)	(2 178)	(42 345)
Other financial income	1 404	530	874
Total non-recurring items in 2016		(1 648)	

2015

	Before adjustment	Non-recurring effect	As reported
Sales revenue	434 448	(946	435 393
Other revenue	8 405	8 405	0
Cost of sales	67 072	(283)	67 355
Personnel expenses	267 631	(7 752)	275 383
Other operating expenses	51 925	(805)	52 731
Total non-recurring items in 2014		(1 381)	

22 EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 31 December 2016 that would have a material effect on the annual accounts.

23 ALTERNATIVE PERFORMANCE MEASURES

The new guidelines issued by the European Securities and Markets Authority on alternative performance measures (APMs) came into force for 2016. In accordance with these guidelines Itera is publishing definitions for the alternative performance measures used by the company. Alternative performance measures, i.e. performance measures not based on financial reporting standards, provide the company's management, investors and other external users with additional relevant information on the company's operations by excluding matters that may not be indicative of the company's operating result or cash flow. Itera has adopted non-recurring costs, EBITDA, EBITDA margin, EBIT, EBIT margin and equity ratio as alternative performance measures both because the company thinks these measures will increase the level of understanding of the company's operational performance and because these represent performance measures that are often used by analysts and investors and other external parties.

Non-recurring costs are significant costs that are not expected to reoccur under normal circumstances.

EBITDA is calculated as profit for the period before (i) tax expense, (ii) financial income and expenses and (iii) depreciation and amortisation.

EBITDA margin is calculated as EBITDA as a proportion of operating revenue.

EBIT is calculated as profit for the period before (i) tax expense and (ii) financial income and expenses.

EBIT margin is calculated as EBIT as a proportion of operating revenue

Equity ratio is calculated as total equity as a proportion of total equity and liabilities.

STATEMENT OF INCOME PARENT

NOK 1 000	NOTE	2016	2015
Operating revenue			
Sales revenue	13	**24 770**	25 734
Total operating revenue		**24 770**	25 734
Operating expenses			
Personnel expenses	1, 2, 3	**18 629**	18 511
Depreciation	4	**1 772**	1 498
Other operating costs	1	**10 251**	10 824
Total operating expenses		**30 652**	30 833
Operating profit		**(5 881)**	(5 098)
Tax payable in the balance sheet			
Income from investments in subsidiaries	10	**11 033**	31 218
Interest income from companies in the same group		**35**	105
Other financial income		**275**	2 455
Interest paid to companies in the same group		**557**	671
Other financial expense	10	**515**	16 250
Net financial items		**10 271**	16 857
Profit before tax		**4 389**	11 758
Tax on ordinary profit	8	**9**	1 178
Profit for the year		**4 380**	10 581
Allocations and transfers			
To supplemental dividend	9	**12 183**	12 237
To ordinary dividend	9	**14 794**	9 862
To/from other equity	9	**(22 597)**	(11 518)
Total allocations and transfers		**4 380**	10 581

STATEMENT OF FINANCIAL POSITION PARENT

NOK 1 000	NOTE	2016	2015
ASSETS			
Fixed assets			
Intangible assets			
Research and development	4	**1 726**	0
Deferred tax assets	8	**467**	476
Total intangible assets		**2 194**	476
Tangible fixed assets			
Office machinery, fixtures, fittings etc.	4	**3 254**	2 714
Total tangible fixed assets		**3 254**	2 714
Financial fixed assets			
Investments in subsidiaries	5	**109 953**	109 953
Loans to group companies	7	**0**	5 024
Total financial fixed assets		**109 953**	114 977
Total fixed assets		**115 401**	118 167
Current assets			
Receivables			
Receivables from group companies	10, 11	**28 916**	41 645
Other current receivables		**2 474**	2 472
Total receivables		**31 391**	44 118
Bank deposits	11, 12	**63 814**	60 201
Total current assets		**95 205**	104 318
Total assets		**210 605**	222 485

STATEMENT OF FINANCIAL POSITION PARENT

NOK 1000	NOTE	2016	2015
EQUITY AND LIABILITIES			
Equity			
Paid-in equity			
Share capital		**24 656**	24 656
Other paid-in capital		**2 097**	2 125
Holdings of own shares		**(290)**	(38)
Total paid-in capital		**26 463**	26 743
Other equity		**38 180**	63 623
Total earned equity		**38 180**	63 623
Total equity	9	**64 643**	90 365
Liabilities			
Current liabilities			
Accounts payable		**3 642**	4 011
Tax payable		**0**	0
Public duties payable	14	**15 464**	13 805
Liabilities to group companies	10, 11	**106 335**	100 225
Provision for dividend	9	**14 794**	9 862
Other current liabilities		**5 726**	4 217
Total current liabilities		**145 962**	132 120
Total liabilities		**145 962**	132 120
Total equity and liabilities		**210 605**	222 485

Oslo, 20 March 2017
The Board of Directors of Itera ASA

Morten Thorkildsen
Chairman of the board

Mimi K. Berdal
Board member

Jan-Erik Karlsson
Board member

Eli Marie Giske
Board member

Berit Klundseter
Board member

Odd Khalifi
Board member

Arne Mjøs
Chief Executive Officer

STATEMENT OF CASH FLOW
PARENT

NOK 1000	2016	2015
Cash flow from operating activities		
Profit before tax	4 389	11 758
Group contribution recognised but not paid	(11 033)	(31 218)
Share option costs	(28)	96
Write down of shareholder contribution	0	15 005
Ordinary depreciation	1 772	1 498
Change in accounts payable	(200)	1 576
Effect of changes in exchange rates	0	(1 400)
Change in other accruals	(4 035)	(1 837)
Net cash flow from operating activities	(9 134)	(4 522)
Cash flow from investment activities		
Payments on purchases of tangible fixed assets	(5 239)	(1 402)
Receipts on sale of tangible fixed assets	140	0
Receipts of group contributions and dividends from subsidiaries	31 218	17 944
Payments of receivables due to group companies	(109)	(1 000)
Receipts of receivables due from group companies	5 024	8 861
Net cash flow from investment activities	31 034	24 403
Cash flow from financing activities		
Net change in group cash pool	6 856	12 736
Payments on purchases of own shares	(3 604)	(456)
Receipts on sales of own shares	373	69
Dividend paid	(21 911)	(12 236)
Net cash flow from financing activities	(18 287)	113
Net change in bank deposits	3 613	19 994
Bank deposits at 1 January	60 201	40 207
Bank deposits at 31 December	63 814	60 201

NOTES PARENT

GENERAL

The annual financial accounts consist of the profit and loss account, the balance sheet, the statement of cash flow and the notes, and have been prepared in accordance with the Public Limited Liability Companies Act, the Accounting Act, and Norwegian Generally Accepted Accounting Principles (NGAAP).

Basis of preparation

The company accounts are prepared on the historical cost basis.

Transactions are recognised on the date of the transaction at the value of the consideration received or paid. Revenue is recognised when earned and costs are matched with revenue earned.

Estimates and judgment

Preparing accounts in accordance with Norwegian Generally Accepted Accounting Principles involves management making judgments, estimates and assumptions that influence the accounting principles that are applied and the amounts that are reported for assets, liabilities, revenue and costs. Actual amounts may vary from the estimated amounts.

The estimates and underlying assumptions used are kept under constant review. Changes in accounting estimates are recognised in the period in which the estimates are changed and in all future periods that are affected by the changes.

Classification of balance sheet items

Assets intended for permanent ownership or use are classified as fixed assets. Assets related to the operating cycle are classified as current assets. Receivables are also classified as current assets if they are due to be repaid within a year. Comparable criteria apply to liabilities. However, the first year's instalments on long-term receivables and long-term borrowings are not classified as current assets or current liabilities.

Subsidiary companies

Subsidiary companies are companies that are controlled by the Group. Control exists when the Group has the power to govern the financial and operating principles of a company so as to obtain benefits from the company's activities. In considering whether the Group has control over a company, the potential voting rights that are currently exercisable are taken into account. Subsidiary companies are included in the consolidated accounts from the date the Group obtains control of them until the date when it ceases to control them.

Valuation of investment in subsidiaries

Investments in subsidiary companies are valued at acquisition cost less any write-downs. Investments are written down when impaired unless the impairment is regarded as temporary. Impairment losses are reversed if the basis for the impairment loss is no longer present.

Dividends, group contributions and other distributions from subsidiary companies are recognised in profit and loss on the same date as they are recognised in the subsidiary companies' accounts. If the distributions paid by a subsidiary company exceed the profit earned by the company during any given ownership period, these are regarded as repayments of the investment and the carrying value of the investment is reduced.

Foreign currency transactions

Receivables and liabilities denominated in foreign currencies are translated into Norwegian kroner (NOK) at the exchange rate on the balance sheet date.

Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issuance of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

NOTES PARENT

Purchase of own shares

Where the company's own shares are purchased, the consideration paid, including any directly attributable costs, is recognised as a change in equity. Own shares are presented as a reduction in equity, net of any tax effects. When the company's own shares are sold or reissued, the consideration received is recognised as an increase in equity, and gains or losses arising from such transactions are applied to retained earnings.

Intangible assets

Intangible assets are recognised on the balance sheet if it can be shown to be probable that there will be future economic benefits attributable to the assets and their cost price can be estimated reliably. Intangible assets are carried at cost price. Intangible assets that have unlimited economic life are not amortized, but are written down if their recoverable amount is lower than their cost price.

Tangible fixed assets

Tangible fixed assets are carried at acquisition cost, less accumulated depreciation and accumulated impairment losses. If the fair value of a tangible fixed asset is lower than its carrying value and the impairment is not temporary, the asset is written down to fair value.

Impairment

At each balance sheet date the Group assess whether there are objective indications that financial assets may be impaired. Financial assets that are individually significant are tested for impairment on an individual basis. The remaining financial assets are assessed collectively or in groups of assets that share similar credit risk characteristics.

All impairment losses are charged to profit and loss. Impairment losses are reversed if the reversal can be objectively linked to an event that occurs after the loss was recognised.

Subordinated loans and other long-term loans

The parent company has granted subordinated loans to several of the subsidiary companies. Loans made to foreign subsidiaries are denominated in local currencies. The loans are carried on the balance sheet at the exchange rate on the balance sheet date. Changes in the value of the loans due to exchange rate changes are recognised under financial items. NOK-denominated loans are carried at nominal value.

Accounts receivable

Accounts receivable are recognised in the balance sheet at their nominal value, less a provision for expected losses. The interest element is disregarded if it is not material. If there is objective evidence of impairment, the difference between the book value and the present value of future cash flows is recognised as a loss.

Defined contribution pension scheme

The company finances pension schemes for all its employees through a collective defined contribution based scheme. Pension expense is equal to the contributions paid.

Share-based remuneration

Employee share options at Itera give employees the right to subscribe to shares in Itera ASA at a future point at a predetermined price (exercise right). This right as a rule is dependent on the employee achieving concrete targets and still being employed at the time of exercise.

The value of share options is calculated at grant date and expensed as a personnel cost over the vesting period. Options are normally granted with a subscription price equal to the average share price over the thirty days prior to the grant date. The social security tax costs associated with employees' taxable benefits are expensed as incurred over the accrual periods on the basis of the accrual rates and values at the balance sheet date.

Operating revenue

The parent company's operating revenue arises from the shared services it delivers through its Group Functions in the accounting/finance, HR, IT and information/communication areas. Its revenue is based on a cost-plus model and is recognised when the services are delivered.

NOTES PARENT

Financial income and expense

Financial income comprises interest income from financial investments and group contributions or dividends from subsidiary companies. Interest income is recognised using the effective interest rate method. Group contributions and dividends are recognised in profit and loss on the same date that they are recognised by the company from which they are received.

Financial expense comprises interest expense on borrowings and changes in the fair value of financial assets. All borrowing costs are recognised in profit and loss using the effective interest rate method.

Tax expense

Tax expense comprises both tax payable and changes in deferred tax. Tax expense is recognised in the profit and loss account. Deferred tax assets and liabilities are calculated using the liability method on a non-discounted basis, and are calculated for all differences arising between accounting values and tax values of assets and liabilities as well as for losses carried forward. Deferred tax assets on net tax-reducing differences that have not been eliminated and tax losses that are to be carried forward are recognised on the basis of expected future earnings.

Statement of cash flow

The statement of cash flow has been prepared using the indirect method. Cash and cash equivalents comprise cash and bank deposits.

1 PAYROLL, PERSONNEL EXPENSES AND REMUNERATION

NOK 1 000	2016	2015
Salaries	**14 911**	14 445
Share option costs	**385**	151
National insurance contribution	**2 073**	2 152
Pension cost	**651**	616
Other benefits	**609**	1 147
Total payroll and personnel expenses	**18 629**	18 511
Average number of employees	**16**	19

For information on salaries and other remuneration of the executive management, see note 9 to the consolidated accounts.

Auditor

Analysis of remuneration paid to the auditor:		
Statutory audit	290	527
Other authorisation services	0	0
Tax advice	20	20
Other services	335	150
Total fees paid to the auditor	**645**	697

2 SHARE-BASED REMUNERATION

The Itera Group had three share option programs in 2016. All schemes are settled by the granting of shares. The oldest of the current share option programs was established in 2013. The options were targeted at key employees in the Group. 80% of the options were conditional on targets being achieved in 2013, and if the targets were not achieved, 80% of the options would lapse. The targets were financial and were achieved for 2013. There are service conditions for all the options, with employees having to be employed for the whole period. 20% of the options are not related to any targets, only to service conditions. 80% of the options can be exercised between 2014 and 2017 with up to 25% of these options available for exercise each year. Any options not exercised in a year may be carried forward to subsequent years. The remaining 20% of the options can be exercised at the end of the program in 2017.

An equivalent share option program was approved in 2015 with the same conditions and for the same target group as the 2013 program. The financial targets for 2015 were not achieved, so 80% of the options lapsed. The remaining 20% of the options can be exercised at the end of the program in 2019.

Another share option program was approved in 2016 with the same conditions as the previous programs, with options granted to key employees at the Group. The financial targets for this program were achieved. 80% of the options can be exercised between 2017 and 2020 with up to 25% of these options available for exercise each year. Any options not exercised in a year may be carried forward to subsequent years. The remaining 20% of the options can be exercised at the end of the program in 2020.

The fair value of the options was calculated on the date they were granted, and the options granted in 2013 are being expensed over the accrual periods of 1 to 4 years in accordance with the graded vesting principle. The 2015 and 2016 options are being expensed over a period of four years. Fair value is calculated using the Black-Scholes-Merton option pricing model.

The calculation of fair value assumes that historical volatility is an indication of future volatility. Expected volatility is therefore set equal to historical volatility. The interest rate is based on rates obtained from Norges Bank for the same period as the life of the options.

For all the option programs an annual staff departure rate of 10% is assumed. For calculation purposes, an annual dividend of NOK 0.30 is forecast for the 2013 and 2016 programs, while an annual dividend of NOK 0.20 is forecast for the 2015 program.

Share option costs (including employer's social security contributions) of NOK 388k were expensed in 2016 (NOK 151k in 2015).

Program	Outstanding 31.12.2015	Issued 2016	Expired in 2016	Exercised in 2016	Outstanding 31.12.2016	Fair value	Exercise price [1]	Share price when issued [2]	Date of issue	Exercise period
2013	480 000		0	0	480 000	NOK 0.15	NOK 2.30	NOK 2.30	22.08.2013	2014–2017
2015	86 000		0	0	86 000	NOK 0.25	NOK 2.58	NOK 2.58	07.09.2015	2016–2019
2016		730 000	0	0	730 000	NOK 0.26	NOK 3.89	NOK 3.89	08.07.2016	2017–2020

[1] The exercise price is the average share price over the 30 days prior to the date the option is granted.
[2] The exercise price is set at fair value on the date the option is granted. The company works on the basis that the exercise price is the same as the share price on the date the option is granted and that the options do not have any intrinsic value on this date.

Program	Number	Interest rate	Volatility	Lifetime
2013	480 000	1.57 % -2.02 %	43.5%	1–4 years
2015	86 000	0,77 %	30.0%	3.77 years
2016	730 000	0,49 %	25.0%	3.77 years
Total	1 296 000			

3 PENSIONS

Itera ASA operates a defined contribution pension scheme. The company's pension expense is represented by the premiums paid, and totalled NOK 651k in 2016. The company's pension scheme complies with the Norwegian Mandatory Occupational Pension Act (OTP).

4 TANGIBLE FIXED ASSETS

NOK 1 000	Research & development	Software	Office machinery & equipment	Fixtures and fittings	Total 2016
Acquisition cost					
Accumulated at 1 January	0	3 154	368	1 366	4 888
Additions during the year	1 918	278	169	2 874	5 240
Disposals during the year		0	0	(1 332)	(1 332)
Accumulated at 31 December	**1 918**	**3 431**	**537**	**2 909**	**8 796**
Depreciation					
Accumulated at 1 January	0	1 930	249	1 189	3 368
Depreciation for the year	192	1 104	119	357	1 772
Depreciation on disposals in the year		0	0	(1 324)	(1 324)
Accumulated at 31 December	**192**	**3 034**	**368**	**222**	**3 815**
Book value					
Book value at 1 January	0	1 223	119	178	1 520
Book value at 31 December	**1 726**	**397**	**169**	**2 687**	**4 980**
Estimated useful life	3-5 years	3-5 years	3-5 years		
Depreciation plan	Linear	Linear	Linear		

Software and other fixed assets that are in development are also capitalised on the balance sheet. These are not depreciated, but are moved to one of the fixed asset groups when ready for use. In 2016 development costs totalling NOK 0k (NOK 1,194k) were capitalised and are reconciled against total fixed assets as follows:

NOK 1 000	2016	2015
Fixed assets under development	0	1 194
Depreciable fixed assets	4 980	1 520
Total fixed assets	4 980	2 714

5 SUBSIDIARIES

NOK 1 000	Registered office	Share capital*	Shareholding	Book value 1 Jan.	Change	Book value 31 Dec.	Profit/loss 2016	Equity 2016
Itera Norge AS	Oslo	2 500	100 %	49 730	0	49 730	22 704	54 800
Itera Offshoring Services AS	Oslo	200	100 %	7 500	0	7 500	-561	7 381
Cicero Consulting AS	Oslo	200	100 %	21 438	0	21 438	1 786	8 453
Compendia AS	Bryne	182	100 %	14 237	0	14 237	3 770	10 780
Itera Sweden AB	Stockholm	100	100 %	0	0	0	-30	162
Itera Consulting AB**	Stockholm	111	100 %	0	0	N/A	0	0
Itera Sverige AB	Stockholm	100	100 %	0	0	0	57	643
Itera Consulting Denmark ApS	København	1 424	100 %	16 559	0	16 559	3 059	3 749
Itera Consulting UA	Kiev	50	100 %	489	0	489	-111	201
Total				**109 953**	**0**	**109 953**		

* Share capital is reported in the local currency (1,000). The functional currency for companies in Ukraine is the euro.
** Itera Consulting AB went into liquidation in February 2016.

6 FOREIGN CURRENCY

Information on the exchange rates applied by the Itera Group in 2016.

	Exchange rate 1 Jan.	Average	Exchange rate 31 Dec.
SEK	1.0474	0.9826	0.9512
DKK	1.2891	1.2485	1.2222
EUR	9.6190	9.2899	9.0863
USD	8.8090	8.3987	8.6200
UAH	0.3627	0.3044	0.3132

7 LOANS TO GROUP COMPANIES

NOK 1 000 Company name	Loans	Subordinated loan	Total 2016	Sum 2015
Itera Offshoring Services AS	0	0	**0**	4 111
Itera Sweden AB	0	0	**0**	913
Total loans to Group companies	0	0	**0**	5 024

8 TAX

NOK 1 000	2016	2015
Tax expense for the year		
Current tax on profit for the year	**0**	0
Change in deferred tax	**9**	1 178
Total tax expense for the year	**9**	1 178
Tax payable		
Profit before tax	**4 389**	11 758
Permanent differences	**(4 431)**	(7 538)
Change in temporary differences	**(397)**	(1 121)
Utilisation of losses carried forward	**0**	(3 099)
Basis for current tax, taxable revenue	**(439)**	0
Tax payable in the balance sheet	**0**	0
Specification of the basis for deferred tax		
Fixed assets	**(1 125)**	(1 549)
Other temporary differences	**(384)**	(356)
Total temporary differences	**(1 508)**	(1 906)
Losses carried forward	**(439)**	0
Basis for deferred tax	**(1 947)**	(1 906)
Deferred tax asset (-) / Deferred tax liability (+)	**(467)**	(476)
Reconciliation from nominal to effective tax rate		
Expected tax at nominal corporation tax rate of 25% (27%)	**1 097**	3 175
Effect of permanent differences	**(1 108)**	(2 035)
Effect of change in the tax rate on calculation of deferred tax asset	**19**	39
Tax charge in the income statement	**9**	1 178
Effective tax rate	**0.2 %**	10.0 %

9 EQUITY

NOK 1 000	Share capital	Own shares	Other paid-in capital	Other equity	Total equity
PURCHASE OF OWN SHARES	24 656	(38)	2 125	63 623	90 365
Sale of own shares		(300)		(3 304)	(3 604)
Share option costs		49		324	373
Supplementary dividend			-28		(28)
Ordinary dividend				(12 049)	(12 049)
Profit for the year				(14 794)	(14 794)
Ordinary dividend				4 380	4 380
Equity at 31 December 2016	**24 656**	**(290)**	**2 097**	**38 180**	**64 643**

See note 19 to the group accounts for further information on share capital, holdings of own shares and shareholders.

10
FINANCIAL ITEMS

Itera ASA has recognised the following income in its annual accounts from its investment in its subsidiaries:

NOK 1000 Company name	Dividend	Group contribution	TOTAL
Itera Norge AS	0	6 455	**6 455**
Itera Aps	2 078	0	**2 078**
Compendia AS	0	2 500	**2 500**
Total income from investment in subsidiaries	2 078	8 955	**11 033**

11
BALANCES BETWEEN COMPANIES IN THE SAME GROUP, INCLUDING THE POOLED BANK ACCOUNT SYSTEM

NOK 1000 **Receivables from Group companies** Company name	2016	2015
Itera Norge AS	**17 040**	21 319
Itera Consulting ApS	**2 078**	8 379
Cicero Consulting AS	**4 934**	7 359
Compendia AS	**4 673**	3 913
Itera Offshoring Services AS	**1**	675
Itera Sverige AB	**190**	0
Total	**28 916**	41 645

Receivables from Group companies consist of group customer receivables, receivables from group companies relating to the group's joint value added tax registration (see Note 14) and receivables in relation to group contributions and dividends.

NOK 1000 **Liabilities to Group companies** Company name	2016	2015
Itera Norge AS	**80 895**	62 595
Compendia AS	**15 939**	13 780
Cicero Consulting AS	**3 102**	11 276
Itera Consulting ApS	**5 118**	10 794
Itera Consulting AB	**0**	1 779
Itera Offshoring Services AS	**1 282**	0
Total	**106 335**	100 225

Pooled bank account system

In the group's pooled bank account system, Itera ASA is responsible both for its own deposits/drawings and for deposits/drawings made by Norwegian subsidiaries. The figures reported for bank deposits held by Itera AS in the balance sheet include deposits paid into the pooled bank account system by subsidiaries, which are netted against the parent company's drawings. The bank deposits held by subsidiary companies in the group bank account system are reported in the parent company accounts as liabilities to group companies.

12 BLOCKED DEPOSIT

Itera ASA holds NOK 63.8 million in cash and bank deposits, of which NOK 0.6 million is on blocked deposit for payment of payroll tax deductions.

13 TRANSACTIONS WITH RELATED PARTIES

Itera has structured internal support processes in the areas of accounting/finance, HR, internal IT, and information and communication as Group Functions. These functions are part of Itera ASA and work with the subsidiaries. The parent company invoices these subsidiaries on a cost plus model. In 2016 Itera invoiced NOK 24.4 million (NOK 25.7 million) in respect of these services.

14 OFFICIAL TAXES AND DUTIES PAYABLE

The Norwegian companies in the group are jointly registered for value added tax and other taxes and duties, and accordingly the figures reported for official taxes and duties payable include value added tax payable by the other Norwegian companies in the group. The total VAT liability is included in the parent company accounts, but is offset by intragroup receivables due from subsidiaries.

15 FINANCIAL RISK MANAGEMENT

The Group is exposed to various financial risks, such as credit risk, liquidity risk, currency risk and interest rate risk. These risks are regarded as low. The Group has established procedures for managing these risks. The main principle is to minimise the level of financial risk, and the Group on this basis holds no assets or liabilities for speculative purposes.

See note 6 to the group accounts for further information on financial risk management.

STATEMENT BY THE BOARD OF DIRECTORS AND THE CEO

The Board of Directors and the CEO have today approved the annual report and annual accounts of the Itera ASA group and the parent company for the 2016 calendar year and as at 31 December 2016 (2016 Annual Report).

To the best of our knowledge:

- The consolidated accounts have been prepared in accordance with the IFRS and related interpretations as approved by the EU and with the additional Norwegian disclosure requirements pursuant to the Norwegian Accounting Act as in effect at 31 December 2016.
- The annual accounts of the parent company have been prepared in accordance with the Norwegian Accounting Act and Norwegian Generally Accepted Accounting Principles as in effect at 31 December 2016.
- The annual report of the group and the parent company, including the statements on corporate governance and on corporate social responsibility, has been prepared in accordance with the requirements of the Norwegian Accounting Act and Norwegian Accounting Standard No. 16 as in effect at 31 December 2016.
- The information contained in the accounts provides a true and fair view of the group's and the parent company's assets, liabilities, financial position and earnings taken as a whole at 31 December 2016.
- The annual report of the group and the parent company provides a true and fair view of:
  - the developments, earnings and financial position of the group and the parent company
  - the principal risk and uncertainty factors facing the group and the parent company

Oslo, 20 March 2017
The Board of Directors of Itera ASA

Morten Thorkildsen Chairman of the board	Mimi K. Berdal Board member	Jan-Erik Karlsson Board member
Eli Marie Giske Board member	Berit Klundseter Board member	Odd Khalifi Board member

Arne Mjøs
Chief Executive Officer

SHARES AND SHAREHOLDERS

The objective of Itera ASA (the Company) is to ensure its shareholders a competitive return in the form of dividends and higher share price in comparison with alternative investments.

Shareholder policy

Itera endeavours to ensure shareholders a competitive return on their investment in the form of a higher share price and dividends. The share price shall reflect the Company's earnings and underlying values. Open communication and equally treatment of the shareholders shall contribute to increased shareholder values and trust among investors.

Investor information

Itera ASA was listed on the Oslo Stock Exchange (OSE) on 27 January 1999 under the ticker code ITE. The Company shall treat all shareholders equally concerning information which may affect the market value of the shares. All information of relevance for the share price is published via the notification system of the Oslo Stock Exchange as well as on the Company's website www.itera.no, to ensure such information is made available to all stakeholders simultaneously. The quarterly reports are also made available on Itera's website in the form of online webcasts. The shares have been assigned the ISIN NO 0010001118, and the Company's organisation number at the Norwegian Brønnøysund Register Centre is NO 980 250 547.

Share capital

Itera ASA's share capital at 31 December 2016 was NOK 24,655,987 made up of 82,186,624 fully paid shares each with nominal value of NOK 0.30.

All shares have the same voting rights at the General Meeting.

Shareholders

As of 31 December 2016, Itera had 1 650 (1 737) shareholders. At year-end, 11% (11%) of the Company's shares were owned by foreign investors. The Company's twenty largest investors owned 68% (68%) of the Company's shares.

Dividend

During 2016, dividends of NOK 0.27 (0.15) per share were paid, for a total of NOK 21.9 (12.2) million.

Share price

The Itera share price opened the year at NOK 3.50 and closed at NOK 5.20, corresponding to a change of 49% (17%). The highest share price during the year was NOK 5.20 and the lowest price was NOK 3.21. Itera had a market value corresponding to MNOK 427 (287) million at 31 December 2016.

Stock option schemes

The Company has established option schemes for key personnel. An option scheme was implemented in 2013, 2015 and 2016. There were 2 974 000 outstanding stock options at year-end. Reference is also made to Note 8 to the Consolidated Financial Statements.

20 largest shareholders in Itera ASA at 31 December 2016

	Shares	%
Arne Mjøs Invest AS	20 318 298	24.7 %
Storebrand Vekst Verdipapirfond	5 350 354	6.5 %
OP Capital AS	4 340 481	5.3 %
Gip AS	2 809 200	3.4 %
Eikestad A/S	2 800 000	3.4 %
Septim Conculting AS	2 615 000	3.2 %
Boinvestering AS	2 282 698	2.8 %
Jøsyra Invest AS	2 200 000	2.7 %
Gamst Invest AS	2 068 787	2.5 %
Marxpist Invest AS	2 031 588	2.5 %
Storebrand Norge Verdipapirfond	1 397 809	1.7 %
Framar Invest AS	1 000 000	1.2 %
Itera ASA	965 455	1.2 %
Aanestad Panagri AS	900 000	1.1 %
Altea Property Development AS	639 590	0.8 %
Morten Johnsen Holding AS	600 000	0.7 %
Lars Peter Jensen	584 020	0.7 %
Jetmund Gunnar Nyvang	545 000	0.7 %
Kim-Kjetil Grøsland	520 000	0.6 %
Sober Kapital AS	510 000	0.6 %
Total 20 largest	**54 478 280**	**66.3 %**
Other shareholders	27 708 344	33.7 %
Total	**82 186 624**	**100.0 %**

CORPORATE GOVERNANCE

The Board of Directors and executive management of Itera ASA carry out an annual review of the principles for corporate governance and how they function within the Group. Itera provides here an account of its principles and practice for corporate governance pursuant to Section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance (NUES) as issued on 30 October 2014.

The Norwegian Code of Practice for Corporate Governance is available on www.nues.no/en/.

A description of how Itera complies with the 15 recommendations set out in the Code of Practice for Corporate Governance is provided below.

1. Implementation and reporting on corporate governance

Itera ASA's principles for corporate governance ensure an appropriate division of roles and good collaboration between the company's owners, its Board of Directors and its executive management as well as satisfactory control of its activities. An appropriate division of roles, good collaboration and satisfactory control help to ensure the greatest possible value creation over time in the best interests of owners and other stakeholders.

The company's ethical guidelines address conflicts of interest, relationships with customers, suppliers and the media, inside information issues and other relevant financial interests of a personal nature. The ethical guidelines apply to all employees of the Itera Group.

Itera's employees increasingly regard non-financial incentives as important. Itera's management principles therefore contain a clear set of values for employees to identify with. Itera also focuses on making social and moral considerations part of its business processes. This means that customers or projects may be rejected on account of their being in conflict with the Group's set of values and vision, which is: "Make a difference". This applies to all the contexts in which Itera is present; the aspiration is for Itera's employees to view working at Itera as more than just a job, for its customers to find real value in collaborating with Itera, for its owners to receive a greater return from their investment than would be the case with other comparable investments, and for the company to make a positive contribution to the locations in which it operates.

Itera complies with the Norwegian Code of Practice for Corporate Governance with no material deviations from the Code's recommendations, with the exception of the deviations set out in sections 6 and 14.

2. Business (No deviation from the Code)

Itera is a communication and technology company that delivers projects and services in the consulting and strategy, design and development, and operations and management areas. Itera provides communication and technology services to organisations that require a high level of expertise, innovation, flexibility and availability. The company's Articles of Association are available on its website (www.itera.no).

The annual report contains details of the company's aims and strategies, and the financial markets are provided with continual updates by the company's quarterly presentations.

3. Equity and dividends (No deviation from the Code)

The company's capital situation is kept under constant review in relation to its objectives, strategy and desired risk profile.

The company's objective is to generate a competitive return for its shareholders through dividends and increases in the share price that is in line with comparable investments. Itera's dividend policy is intended to strike a balance between capital adequacy and providing shareholders with a reasonable return. At a meeting held on 16 February 2017, the Board of Directors voted to change the company's dividend policy from distributing 20-50% of the Group's adjusted annual profit after tax to distributing over 50% of the Group's adjusted annual profit after tax. Payment of the annual dividend is dependent on the company's financial situation, its working capital requirements and investment/acquisition opportunities. The Annual General Meeting approves the annual dividend on the basis of a proposal from the Board of Directors, and for 2016 the Board of Directors proposes the payment of a dividend of NOK 0.18 per share. The Board of Directors has also resolved to ask the Annual General Meeting to renew its authorisation to pay a supplementary dividend for 2016 if the Group's financial situation makes this possible.

At the Annual General Meeting in 2016, the Board of Directors was granted authorisation to increase the company's share capital by up to NOK 1,232,799 by issuing for subscription up to 4,109,331 new shares with a nominal value of NOK 0.30. The authorisation is effective until 1 July 2017 and replaced the authorisation approved by the Annual General Meeting held on 21 May 2015. The Board is authorised to waive the preferential rights of shareholders pursuant to Section 10-4 of the Norwegian Public Limited Companies Act. The authorisation also covers capital increases for non-cash payment or other special subscription terms pursuant to Section 10-2 of the Norwegian Public Limited Companies Act. The authorisation also covers resolutions in connection with mergers pursuant to Section 13-5 of the Norwegian Public Limited Companies Act.

At the same Annual General Meeting, the Board of Directors was granted authorisation to buy back own shares up to a nominal value of NOK 1,232,799. The authorisation is effective until 1 July 2017 and replaced the authorisation granted at the Annual General Meeting held on 21 May 2015.

At the same Annual General Meeting in 2016, the Board of Directors was granted authorisation to increase the company's share capital by up to NOK 305,100 in connection with a share option program. The Board can also waive shareholders' preferential subscription rights in respect of new shares issued pursuant to this authorisation.

The Board of Directors as part of its preparations for the Annual General Meeting carries out an annual review of whether it should ask for authorisation from the Annual General Meeting to increase the company's share capital and/or to be allowed to buy back own shares. Any authorisation is normally granted for one year, and the basis for such authorisation must be clearly communicated at the Annual General Meeting.

4. Equal treatment of shareholders and transactions with close associates (No deviation from the Code)

The company is committed to treating all shareholders equally. There is only one class of shares. The Articles of Association do not impose any restrictions on voting rights. Treating all shareholders equally is regarded as important. All information liable to influence the company's share price is published through the Oslo Stock Exchange's information system and on the company's website.

The company's transactions in its own shares (share buy-backs) are carried out through the stock exchange at market rates. The Board will normally obtain independent valuations for any material transactions involving the company and its shareholders, members of the Board, executive personnel or close associates of such parties.

5. Freely negotiable shares (No deviation from the Code)

Itera shares are freely negotiable. The Articles of Association do not impose any restrictions on transfers of shares.

6. Annual General Meeting

All shareholders are entitled to participate in the Annual General Meeting. Arrangements have been made that allow shareholders to vote in accordance with their ownership through a legal representative or proxy. All shares in the company carry equal voting rights. There are no ownership restrictions, and the company is not aware of any shareholder agreements.

Minutes from the Annual General Meeting are made available using the Oslo Stock Exchange's information system and on the company's website (www.itera.no).

NUES recommends that the Annual General Meeting should vote separately on each individual candidate for any corporate bodies to which members are elected. Itera's practice is for the entire Board to be elected.

7. Committees (No deviation from the Code)

Nomination Committee

The Annual General Meeting has established a Nomination Committee in accordance with Itera's Articles of Association. The Annual General Meeting issues the mandate for the work of the Nomination Committee. The Nomination Committee nominates candidates for appointment to the Board of Directors for consideration by the Annual General Meeting. The nominations are required to provide relevant information about the candidates' background and independence. The Nomination Committee also makes proposals regarding the remuneration paid to members of the Board. The remuneration paid to the Nomination Committee is determined by the Annual General Meeting.

The members of the Nomination Committee are Erik Sandersen, Geir Moe and Olav Werner Pedersen.

The Nomination Committee publishes an invitation to submit proposals for candidates for election to the Board on the company's website. The Nomination Committee will also send a letter to the largest shareholders inviting their proposals.

Audit Committee

The Board has established an Audit Committee in accordance with Itera's Articles of Association. The Audit Committee has two members. Its mandate is to supervise the company's reporting procedures and to assess the effectiveness of internal control and risk management activities. The Audit Committee is in regular contact with the auditor and ensures the auditor is independent. The Audit Committee reports to the Board. Members of the Board have access to all relevant documentation as well as to the minutes of all Audit Committee meetings.

The members of the Audit Committee are Mimi K. Berdal and Eli Giske.

Compensation Committee

The Board has established a Compensation Committee. The Compensation Committee has two members. Its mandate is to develop and coordinate the Group's compensation systems.

The members of the Compensation Committee are Morten Thorkildsen and Jan-Erik Karlsson.

8. Board of Directors: Composition and Independence (No deviation from the Code)

Itera does not have a corporate assembly. Itera's Articles of Association state that the company is to have a Board of between four and six members. The Board currently has six members, four of whom are elected by shareholders at the Annual General Meeting. Itera's employees are represented by two employee representatives and two observers.

It is regarded as important for the Board to be balanced in terms of its members' expertise, experience and backgrounds in relation to areas that are of relevance to the company's activities. It is also desirable for the composition of the Board to reflect both the company's ownership structure and the need for independent representatives. The current Board includes four members elected by shareholders at the company's Annual General Meeting, and its composition satisfies the independence requirements set out in the Norwegian Code of Practice for Corporate Governance. No member of the executive management is a member of the Board.

The Board of Directors held 9 board meetings in 2016 with an attendance rate of 89%.

9. The Work of the Board of Directors (No deviation from the Code)

The Board prepares an annual plan for its work with an emphasis on targets, strategy and implementation. In addition, the Board has a formal mandate that regulates its areas of responsibility, its duties and the allocation of roles between the Board, the Chairman of the Board and the CEO. The Board receives monthly financial reports for the Group as a whole and for the subsidiary companies, in which the executive management comments on financial performance and financial position. The Board discusses the company's strategy and budgets at extended board meetings.

The Board holds 8-12 meetings a year and assess its own work on an annual basis.

10. Risk management and internal control (No deviation from the Code)

Risk management and internal control are carried out by the Group using a range of processes, both at Board level and by the Group's executive management. The Audit Committee monitors risk management and internal control on behalf of the Board in ways that are additional to the reports and discussions on the issue at Board meetings.

Risk management

The Board is regularly updated on risk management at its meetings, by routine financial reports and by the reports produced by the executive management on the Group's business activities. The Board also assesses the need for measures to be taken in response to risk factors.

The basis of risk management at Itera is that the CEOs of the companies that form the Group are responsible for risk within their individual companies and must therefore have necessary knowledge and understanding of their companies' risk profiles, so that these companies can be managed in a financially and administratively responsible way.

The CEO and CFO continually assess the financial results of the various business areas, the extent to which they are meeting the objectives that have been set, critical situations and events that might influence the future performance of the company, and whether optimal use is being made of resources. The CEO and CFO carry out this work in close cooperation with the management of the individual units.

Internal control

The Board assesses the internal control systems and considers the most important risk factors facing the company as part of the budget planning and budget approval process. The Group has in recent years pursued a growth strategy and the Board is committed to ensuring that all the Group's activities are covered at all times by internal control systems.

The senior management of the subsidiary companies is responsible for ensuring there is appropriate and effective internal control that meets all applicable requirements, and is responsible for ensuring compliance with the internal control requirements.

Accounting/Finance, HR, IT and Communications/Markets are organized as common Group Functions across the Group. This ensures there is internal control across the companies and across national borders. Accounting/Finance has implemented shared accounting procedures for the Group where it has proved efficient to do so, including in relation to charts of accounts and reporting. The companies in the Group all use the same accounting system, Maconomy. A specific approval authority matrix has been implemented that determines the authorisation routines for expenditure, and the approval of two individuals is required for payments to be made. The Group Finance Function has a separate finance/accounting function that manages accounting in the subsidiary companies. This function is also responsible for quality control of accounting information by performing reconciliations and other checks. Some accounting work is carried out by the Group's accounting department in Ukraine, which currently has four employees. There was also the equivalent of three full-time positions in the accounting department in Norway in 2016. In addition to the accounting department, there are separate Business Controllers that assist the companies with financial reporting, analysis, forecasting and budgets. There are separate accounting functions in Denmark and Ukraine. The CFO and the head of accounting are responsible for continually assessing whether the accounting routines are functioning as required, including by quality-controlling reconciliations and by analysing and monitoring a range of KPIs. The reports produced by the subsidiary companies are consolidated on a monthly basis, and analysis is carried out as part of the reporting process, with action taken as required. Reporting is carried out using the Group's standard reporting template, with consolidation being carried out using spreadsheets.

The CEO and CFO continually assess the financial results of the various business areas, the extent to which they are meeting the objectives that have been set, critical situations and events that might influence the future performance of the company, and whether optimal use is being made of resources. Meetings are held with the subsidiary companies every quarter to review these topics and others, and also to consider the risks related to financial reporting, over both the short and long term. The CEO, the CFO, the management of the subsidiary companies and relevant experts participate in these meetings, which are led by the CEO. The Group CEO proposes any risk-reduction measures that are required on the basis of the companies' financial reports and any follow up meetings that are held.

11. Remuneration of the Board of Directors (No deviation from the Code)

The Nomination Committee makes recommendations to the Annual General Meeting regarding the remuneration paid to the Board of Directors. The remuneration paid to the members of the Board is determined by the Annual General Meeting once it has considered the proposals of the Nomination Committee. The remuneration paid to the Nomination Committee is determined by the Annual General Meeting once it has considered the proposals of the Board. Information on the remuneration paid to the members of the Board and their shareholdings can be found in the notes to the accounts in the annual report.

12. Remuneration of executive personnel (No deviation from the Code)

The Board has produced guidelines on the remuneration of executive personnel in accordance with the rules set out in Section 6-16a of the Public Limited Liability Companies Act. The Company's Compensation Committee is involved in the process of determining the remuneration paid to executive personnel. Details of the Board's guidelines on the remuneration of executive personnel are set out in Note 9 'Remuneration of senior employees'.

13. Information and communications (No deviation from the Code)

The company strives to provide accurate and sufficiently comprehensive information every quarter, and to be quick to publish it. The company normally publishes quarterly figures within six weeks of the end of a quarter. The company's provisional annual accounts are published in February. Open quarterly presentations are held with a webcast made available so that they can be viewed either live or subsequently. The company's quarterly reports, its presentation materials and webcasts are made available on the company's website.

The notice calling the Annual General Meeting and the annual report are made available on the company's website three weeks prior to the date of the Annual General Meeting.

The company strives to publish information in a non-discriminatory and simultaneous manner. The company maintains regular dialogue with shareholders, analysts and other parties. The company takes a cautious approach in its contacts with these parties. The company limits its communication with investors and analysts in the two weeks prior to the publication of an interim report. In addition, the company does not issue comments to the media or any other parties about the Group's results during this period. This is to ensure all market participants concerned are treated equally.

14. Takeovers

The Board of Directors is committed to equal treatment of shareholders and will ensure openness with respect to any potential takeover of the company. In the event of a takeover bid for Itera, the Board of Directors and executive management will seek to ensure all shareholders have access to sufficient information for them to be able to form a position on the bid. The Board has not issued separate guidelines on how it would operate in the event of a formal takeover bid, but it would conduct itself in accordance with the relevant provisions and recommendations set out by legislation and the Norwegian Code of Practice for Corporate Governance. The Board regards this as sufficient to ensure that shareholders' interests are safeguarded in an equal and proper manner.

The Board will inform shareholders of its opinion of any bid, and the Board will in connection with this inform shareholders about whether they themselves wish to accept the offer should they have taken a position on it.

15. Auditor (No deviation from the Code)

The company has elected KPMG as its external auditor. KPMG audits all the companies in the Group that are subject to statutory audit.

The auditor participates in all meetings of the Audit Committee.

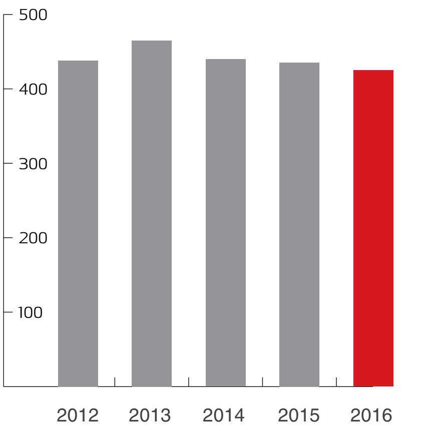
The auditor prepares reports for the Audit Committee and the Board. These reports include an audit plan, an assessment of internal control at the company and a review of significant accounting principles and estimates. The auditor participates in the Board meeting at which the annual accounts are considered. The auditor participates in the Annual General Meeting. Information about the fees paid to the auditor can be found in the annual report.

DEVELOPMENT 2012–2016

(after adjustment for non-recurring costs)

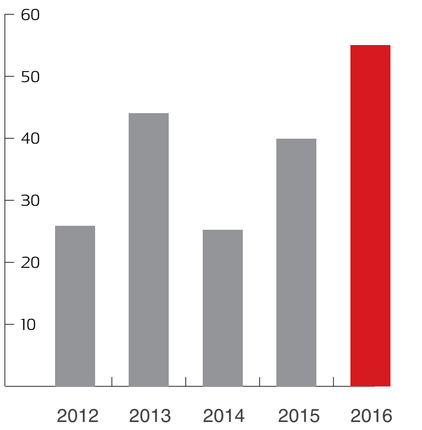
REVENUES

NOK million



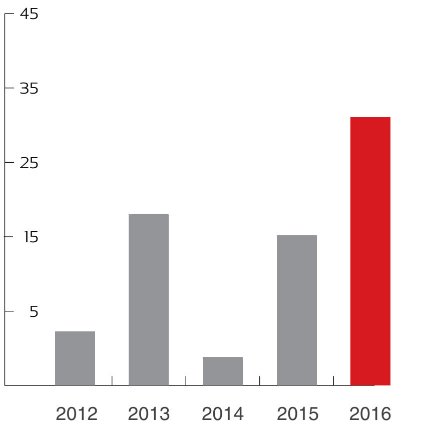
EBITDA

NOK million



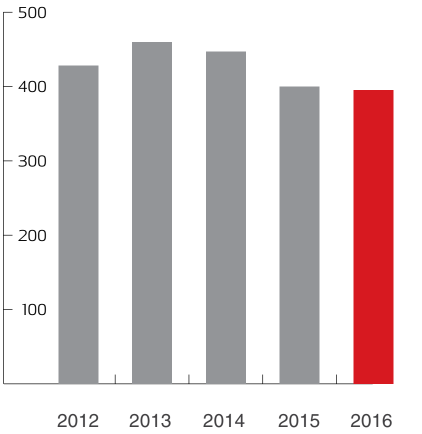
EBIT

NOK million



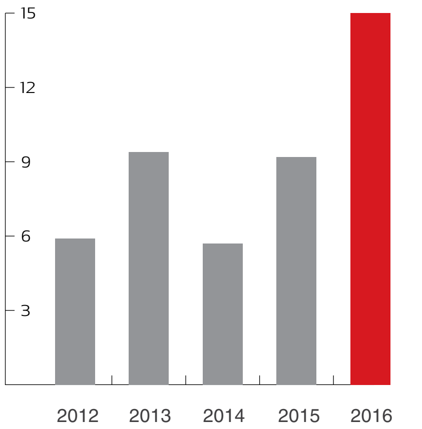
EMPLOYEES

Number



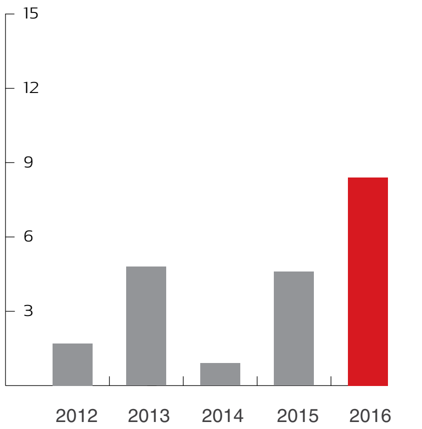
EBITDA-MARGIN

%



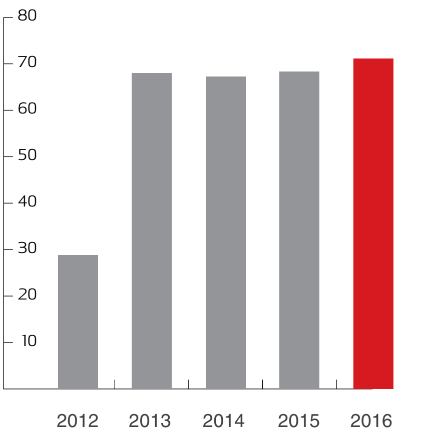
EBIT-MARGIN

%



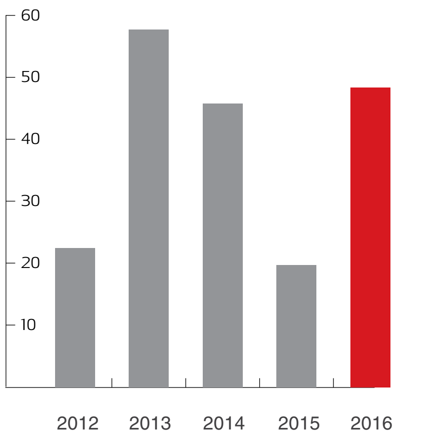
BANK DEPOSITS

NOK million



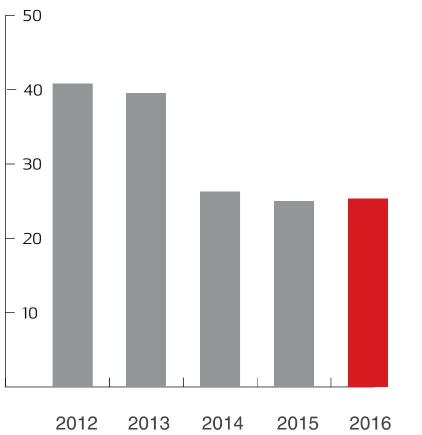
CASH FLOW from operations

NOK million



EQUITY RATIO

%

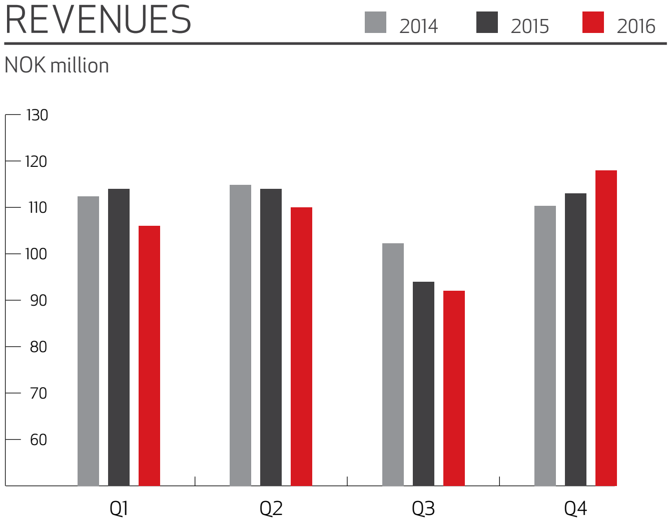


DEVELOPMENT 2012–2016

(after adjustment for non-recurring costs)

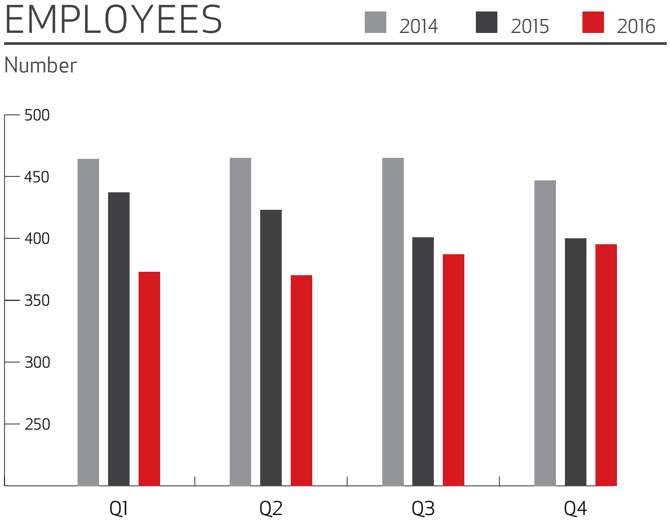
REVENUES

NOK million



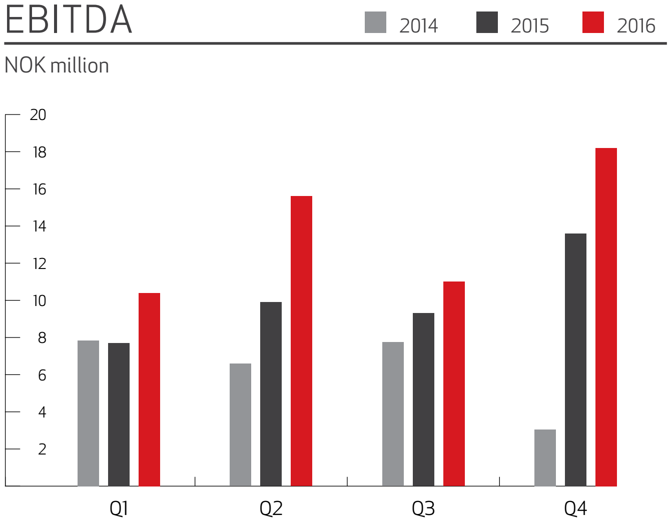
EMPLOYEES

Number



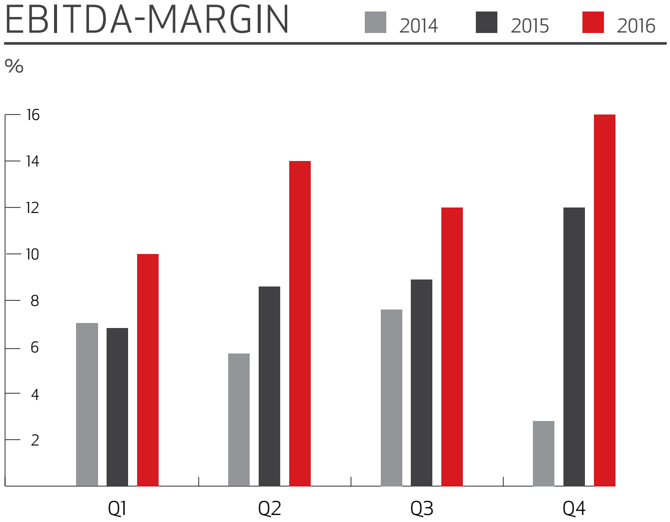
EBITDA

NOK million



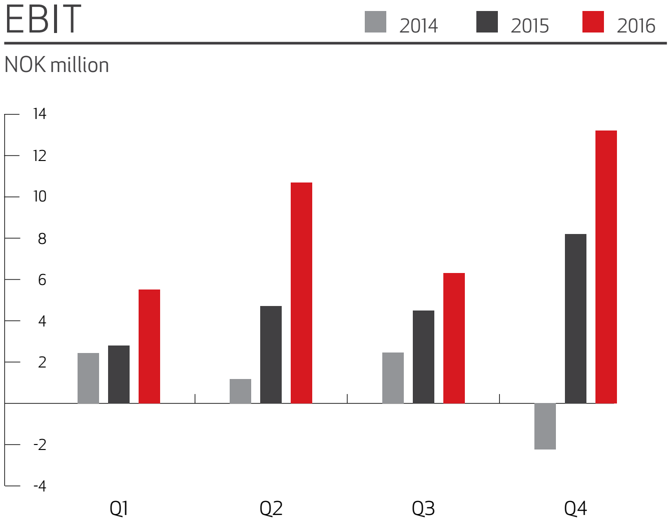
EBITDA-MARGIN

%



EBIT

NOK million



EBIT-MARGIN

%