

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

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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

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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.