

Annual report of the Board of Norut for 2015

The Norut Group

The research and innovation group Norut is the leading company in Northern Norway in applied research and innovation within technology and social science. With a vision of “Sustainable growth in the north”, Norut aims to be a competent and sought after provider of knowledge to both the private and public sectors. Norut has offices in Nordland, Troms and Finnmark (www.norut.no). Through its geographical presence, interdisciplinary expertise and international network, the group plays a central role in the development of business, industry and society in the north.

Composition and activity of the Board

Following the general meeting in 2015, the composition of the Board is as follows:

Members

Morten Hald (Chair)
Arvid Jensen (Deputy Chair)
Hilde Hamnes
Trygve Myrvang
Irene Lange Nordahl
May-Britt Ellingsen (Employee representative)
Anne Katrine Normann (Employee representative)

Substitute members

Elected by the shareholders: Wei D. Solvang and Trude Haugli
Elected by the employees: Kjell-Sture Johansen, Tom Rune Lauknes, Geir Bye and Daniel Stødle

The Board held five meetings and a total of 50 items were officially discussed in the reporting year.

Organisation

Norut Northern Research Institute is both a performing research company and the parent company of the Norut Group. The subsidiary companies are Norinnova Technology Transfer AS (Norinnova) and Barents Biocentre AS (BB Lab). Northern Research Institute Narvik AS (Norut Narvik) is an associated company in which Norut has a 50% shareholding.

The group's history dates back to 1984 when Forut (the Research Foundation of the University of Tromsø) was founded. In 1991 three of the divisions were converted into limited liability companies, including the predecessor of Norut Narvik. The following year Forut was converted into the Norut Group, with Fiskeriforskning as one of the subsidiary companies. In 2001 the foundation Finnmarkforskning became a subsidiary of the group. In 2003 this foundation merged with NIBR's department in Northern Norway and in 2007 was renamed Norut Alta. In 2003 Norinnova became a

subsidiary of the group, while in 2007 Fiskeriforskning was sold in conjunction with the establishment of Nofima.

This led in turn to a restructuring and renaming of the group with Northern Research Institute Tromsø (Norut Tromsø) as the parent company. In 2010 the wholly owned subsidiary Barents Biocentre was founded. The innovation side of the group was restructured in 2011 through the merger of Norinnova and TTO Nord into Norinnova Technology Transfer. The ownership structure of Norut Narvik changed in 2014 through a non-public offering to Forte Narvik. After the offering, Norut Tromsø has a 50% shareholding in the company. In 2015 Northern Research Institute Alta AS (Norut Alta) was merged with the parent company Norut Tromsø, which coincided with the company being renamed Norut Northern Research Institute. UiT The Arctic University of Norway is the majority shareholder of Norut.

Norut's organisational structure and ownership as of 31 December 2015

Human resources and working environment

As of 31 December 2015, the Norut Group had 124 employees, 71 of which were employed by the parent company. The corresponding figures for 2014 were 123 and 63 respectively (including Norut Narvik). At year-end 2015, Norut Narvik had 31 employees (19 full-time equivalent work years).

The sickness absence rate at the group's companies has varied from 2.6% to 4.5%, of which doctor-certified sickness absence (longer periods of sickness absence) accounted for 1.6% to 2.7%. The total sickness absence rate at Norut was 3.3%, of which doctor-certified sickness absence was 1.9%.

All the companies in the Norut Group are located in modern premises. The companies have a generally good working environment, performance appraisals are conducted annually and measures for further improvements are considered continuously. No personal injuries as a result of the group's activities were reported in 2015.

The company has good pension and personal insurance.

Gender equality

Gender equality in the group and subsidiary companies is an area of focus for the Board. This concerns recruitment to the boards as well as the various positions in the group. In the parent company, women accounted for 40% of the shareholder-elected directors. The equivalent proportion on the boards of the subsidiary companies varied from 40% to 50%.

At the turn of the year end, the gender breakdown of the employees in the Norut Group was 49 women and 75 men.

Norut wants a reasonably equal gender distribution in terms of both employees and the composition of the boards. There is currently a gender imbalance in the management of the group's technological activities. The salaries of the companies' employees are fixed in accordance with objective and gender-neutral criteria based

on their position, qualifications, expertise, capabilities and work contribution. There is no salary imbalance based on gender or ethnicity within the same position category. The employment strategy and pay system both reflect the contract research market's requirement for professional competence. Norut's workforce is international and a total of 17 nationalities are represented. All employees are on an equal footing with respect to further education and career opportunities in the company.

Activities in 2015

The activities in the reporting year have been characterized by good professional production, but from a financial perspective it has been a very challenging year for the company. Reorganisation of the pension scheme and the merger of Norut Alta resulted in a significant accounting deficit for Norut.

Market orientation and development of a robust organisation in line with national research policy have been important areas of work for the Board and management. An evaluation has been conducted of the technical-industrial part of Norut. The recommendations of the international evaluation committee and the Research Council of Norway will serve as an important contribution in the effort to revise the strategic plan, plans of action and in the ongoing work involving marketing and positioning.

Norinnova's innovation activities are generating good results and the company is now taking care of key technology functions for UiT The Arctic University of Norway, the University Hospital of Northern Norway (UNN) and Norut. Norinnova is involved in around 100 innovation projects and new business start-ups through innovation programmes. Norinnova hosts the Siva Innovation Centre Tromsø and manages the Biotech North cluster, while 18 start-up businesses are located in the incubators affiliated with Norinnova. Norinnova now has a key national position in the work involving FORNY (the commercialisation of R&D results) and the recently established pre-seed scheme.

In the technology sector, Norut's work involving unmanned aircraft and satellites, industry-oriented ICT and cold climate technology have been devoted considerable attention. Norut, along with partners UiT The Arctic University of Norway and Lufttransport, have established ASUF – The Arctic Centre for Unmanned Aircraft Systems, which includes facilities in Ny-Ålesund. Efforts to establish biotechnology as an applied area of R&D at Norut have continued, and Norut is responsible for the infrastructure at Barents Biocentre (BBLab). Fluctuations in the cluster of biotechnology companies, the orientation of the funding agencies and the lack of available office space at the Tromsø Science Park have made the work to develop BBLab challenging.

Norut has worked on social scientific research topics related to regional development, innovation, new industries, labour, Sami issues, the environment and natural resources. The connection with research topics in the fields of natural science and technology has been further developed, internally as well as through external partners.

Norut has extensive national cooperation, including through its participation in the formation of various centres (The Fram Centre, The Tromsø Centre for Remote Sensing, the Roald Amundsen Petroleum Consortium and ASUF – The Arctic Centre for Unmanned Aircraft Systems) and its international connections are maintained through actual and formalised cooperation with European, Russian and North American institutions. Norut's professional activities are of international interest and Norut participates actively in several international project consortia, particularly aimed at the targeting the European Commission's framework programme.

External environment

The company does not pollute the external environment.

Financial risk

The business in the parent and subsidiary companies is mostly conducted in Norwegian kroner (NOK). In the case of major foreign projects, hedging tools will be considered.

A significant proportion of the projects is funded in full or part by public institutions or funding agencies. In certain types of projects, a partial advance payment is made. Taking into account the above combined with tight project management and good invoicing routines, the risk of bad debts and losses on commissions is regarded as low.

The Board has drawn up guidelines for the investment of surplus liquidity.

Economy and accounts

The group's accounts show a gross turnover of NOK 111,293,845, an operating loss of NOK 12,188,883 and a loss for the year after tax of NOK 12,959,315 after the results of the minority interests in the subsidiary companies are included. The corresponding figures for 2014 were NOK 113,787,397, NOK -1,766,108 and NOK -1,133,869 respectively.

For the parent company Norut, the accounts for 2015 show a gross turnover of NOK 72,430,336, an operating loss of NOK -13,682,942 and an ordinary result before tax of NOK -13,518,857 (without the results of the subsidiary and associated companies). The corresponding figures for 2014 were NOK 61,459,274, NOK -1,720,534 and NOK -1,430,545.

The liquidity of the group varies, but this is strengthened through improved rules for project settlement. The parent company shows cash flow (cf. the cash flow analysis) from operating activities of NOK -2,943,983 million compared to an operating loss of NOK -13,682,942 million.

The total equity of the group is NOK 92,717,647 compared to NOK 104,732,010 in 2014. The equity ratio constitutes 50.8% (53.9% in 2014). The equity in Norut Tromsø is NOK 44,985,458 compared to NOK 57,653,154 in 2014. The equity ratio constitutes 61.8% (75.4% in 2014). The group (organised through Norinnova) has

invested seed capital in research and technology enterprises and has a substantial portfolio of such companies.

Cash and cash equivalents for the group at the end of the reporting period have dropped from NOK 32,946,910 to NOK 31,665,681, while for the parent company have dropped from NOK 7,808,192 to NOK 4,834,469. The main reason for this is associated with the payment of accounts receivable and project funds.

The transition from the closed performance-based pension plan to new contribution-based pension plan has resulted in a one-off expense of NOK 1.6 million, which was an administrative fee for conversion to a paid-up policy. In addition, the transition of the pension scheme has generated an additional accounting cost of NOK 6.4 million. This cost is the difference between the items “net pension obligations” and “unrecorded change in estimates” in the balance sheet. This re-entry will not have any impact on liquidity. The transition of the pension scheme will result in significantly lower and predictable pension costs in 2016 and in the years ahead.

Besides the transition of the pension scheme, the discrepancy from the budgeted operating profit may in the main be attributed to costs associated with the merger of Norut Alta (the operating loss in Norut Alta before the merger, additional costs related to salaries/pensions, project reviews and direct costs related to the actual merger). Overall, this is the largest single item that contributes to the operating loss, which was compounded by weak access to projects for the ICT (health and welfare technology) and biotechnology departments. Significant cost saving measures have been implemented (improvements in operational efficiency and renegotiation of service and lease contracts), which will have a financial effect from 2016.

The Board also refers to the profit and loss account with accompanying notes and cash flow analysis, which in the Board’s opinion provides adequate information about the operation and the result in 2015, risk and the financial position of the company at year end.

The Board proposes that the deficit of NOK 12,959,315 be covered as follows:

Transferred to the fund for valuation differences	NOK	559,542
Transferred to other equity	NOK	-12,372,952
Transferred from uncovered losses	NOK	-1,145,905
Total allocations	<u>NOK</u>	<u>-12,959,315</u>

The result to date is positive and in accordance with the budget for 2016.

Key financial figures for the Norut Group 2011 – 2015

All figures in NOK million	2011	2012	2013	*2014	*2015
Gross turnover	124.9	137.3	132.3	113.8	111.3
Operating result	-1.6	1.3	-4.1	-1.8	-12.2
Profit/loss	-2.4	-5.1	-3.8	-1.1	-12.9
Current assets	140.6	126.0	110.9	77.8	78.0
Current liabilities	63.3	60.5	50.8	33.6	38.9

Equity capital	119.5	111.7	109.0	104.7	92.7
Total assets	241.6	234.5	219.2	194.2	182.5

* These figures do not include Norut Narvik.

The net turnover for the Norut Group included Norut Narvik divided among the customer groups 2011-2015

The future prospective

The Board and management are of the opinion that Norut has a professional profile and adaptability that enables the group to meet the upcoming tasks in a challenging market for contract research. In spite of a very weak result, significant changes have been implemented that put Norut in a significantly improved position for the future market for contract research.

In 2016, Norut will further development key research areas and operational products, including in areas such as satellite remote sensing, unmanned aircraft, ICT, regional development, natural resources and climate, as well as strengthening innovation activities, internationalisation and facilities directed towards the Arctic. The Board will continue to emphasize strengthening technology areas in the Group in accordance with the adopted strategy and the recommendations of the evaluation committee. The link between social sciences and technology enhances the potential for new and innovative solutions and products. In this respect, the efforts to safeguard the operation of the Barents Biocentre as an attractive biotechnological innovation tool will be of key importance. Moreover, the establishment of the office in Bodø creates new perspectives for the activities associated with unmanned aircraft as well as Norut's geographic affiliation.

Norut sells its knowledge-based services in a competitive and changing market, both nationally and internationally. The company will thus be influenced by the purchasing power of the market and national priorities in research and innovation. The Board has focus on ensuring that Norut is equipped in the best manner possible to meet the applied research challenges of the private and public sectors. In order to accomplish this, work is underway to secure the framework conditions for the group.

As of 25 April 2014, Norut Narvik is no longer formally part of the Norut Group. Talks are currently underway between the owners of Norut Narvik concerning the future structure of the company in line with national research policy.

Continued operation

The annual balance of accounts is presented on the assumption of continued operation. The reasoning for this assumption is the assessments of the group's financial position and the assessments and outlooks of the individual boards.

The Board would like to thank the management and all employees for their efforts in the reporting year.

Tromsø, 17 June 2016

Morten Hald
Chair of the Board

Arvid Jensen
Deputy Chair of the Board

May-Britt Ellingsen

Hilde Hamnes

Trygve Myrvang

Irene Lange Nordahl

Anne Katrine Normann

Ivan C. Burkow
CEO / Managing Director