

Annual report of the Board of Norut for 2016

The Norut Group

The research and innovation group Norut Northern Research Institute (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 2016, the composition of the Board is as follows:

Members

Morten Hald (Chair)
Arvid Jensen (Deputy Chair)
Trygve Myrvang
Irene Lange Nordahl
Anita Andersen Stenhaug
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 49 items were officially discussed in the reporting year.

Organisation

Norut Northern Research Institute (Norut) 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 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 Linken meeting centre is a subsidiary of Norinnova. 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.

Human resources and working environment

As of 31 December 2016, the Norut Group had 123 employees (including Norut Narvik), 71 of which were employed by the parent company. The corresponding figures for 2015 were 124 and 71 respectively (including Norut Narvik). At year-end 2016, Norut Narvik had 27 employees (21 full-time equivalent work years).

The sickness absence rate at the group's companies has varied from 3.6% to 6.0%, of which doctor-certified sickness absence (longer periods of sickness absence) accounted for 2.6% to 4.6%. The total sickness absence rate at Norut was 3.6%, while doctor-certified sickness absence was at 2.6%.

All the companies in the Norut Group are in modern premises. The companies have a generally good working environment, an affiliated occupational health service, performance appraisals are conducted annually and measures for further improvements are considered continuously. No personal injuries resulting from the group's activities were reported in 2016.

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 67%.

At the turn of the year end, the gender breakdown of the employees in the Norut Group was 45 women and 78 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 20 nationalities are represented. All employees are on an equal footing with respect to further education and career opportunities in the company.

Activities in 2016

The activities in the reporting year have been characterized by good professional production, but from a financial perspective it has been challenging for parts the company.

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 and social science parts 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, action plans 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 40 projects within research-based innovation and six commercialisations (two spin-offs). The company has expanded its efforts to assist existing businesses which develop new products and services. Norinnova hosts the Siva Innovation Centre Tromsø and manages the Biotech North cluster, while 29 start-up businesses are in the incubators affiliated with Norinnova. Norinnova 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 has expanded its activities within unmanned aircraft, including through the establishment of offices in Bodø and Setermoen. Fluctuations in the cluster of biotechnology companies have made the work to develop the Barents Biocentre challenging, and a new operational concept is being worked out.

Norut has worked on social scientific research topics related to the environment and natural resources, regional development and Sami issues. The interdisciplinary connection with research topics in technology and natural science 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 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 the Norwegian krone (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. Considering 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 for 2016 show a gross turnover of NOK 127,807,007, an operating loss of NOK 4,188,223 and a loss for the year after tax of NOK 6,064,864 after the results of the minority interests in the subsidiary companies are included. The corresponding figures for 2015 were NOK 111,293,845, NOK -12,188,883 and NOK -12,959,315.

For the parent company Norut, the accounts for 2016 show a gross turnover of NOK 76,269,811, an operating loss of NOK -3,374,304 and an ordinary result before tax of NOK -3,187,358 (without the results of the subsidiary and associated companies). The corresponding figures for 2015 were NOK 72,430,336, NOK -13,682,942 and NOK -13,518,857.

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 -546,016 compared to an operating loss of NOK 3,374,304.

The total equity of the group is NOK 83,762,579 compared to NOK 92,717,647 in 2015. The equity ratio constitutes 55.4% (50.8% in 2015). The equity in Norut Tromsø is NOK 39,160,594 compared to NOK 44,985,458 in 2015. The equity ratio constitutes 56.7% (61.8% in 2015). The group (organised through Norinnova) has invested seed capital in research and technology enterprises and has a substantial portfolio of such companies. In the interests of prudence, the share portfolio in the seed fund Norinnova Invest is written down.

Cash and cash equivalents for the group at the end of the reporting period have dropped from NOK 31,665,681 to NOK 29,289,273, while for the parent company

have dropped from NOK 4,834,469 to NOK 2,995,635. The main reason for this is associated with the payment of accounts receivable and project funds.

The discrepancy from the budgeted operating result may in the main be attributed to weak access to projects for the social science departments and within e-health. Significant cost saving measures have been implemented, which will have a financial effect from 2017.

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 2016, risk and the financial position of the company at year end.

The Board proposes that the deficit of NOK 5,824,864 be covered as follows:

Transferred to the fund for valuation differences	NOK	-2,637,506
Transferred from other equity	NOK	0
Transferred from uncovered losses	NOK	<u>-3,187,358</u>
Total allocations	NOK	<u>-5,824,864</u>

Key financial figures for the Norut Group 2012 – 2016

All figures in NOK million	2012	2013	*2014	*2015	*2016
Gross turnover	137.3	132.3	113.8	111.3	127.8
Operating result	1.3	-4.1	-1.8	-12.2	-4.2
Profit/loss	-5.1	-3.8	-1.1	-12.9	-6.1
Current assets	126.0	110.9	77.8	78.0	81.7
Current liabilities	60.5	50.8	33.6	38.9	41.5
Equity capital	111.7	109.0	104.7	92.7	83.7
Total assets	234.5	219.2	194.2	182.5	151.2

* These figures do not include Norut Narvik.

The future prospective

The Board and management believe Norut has a professional profile and adaptability that enables the group to meet the upcoming tasks in a challenging market for contract research. Despite 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 2017, Norut will further development key research areas and operational products, including in areas such as Air and space, Cold climate, Ocean and Sustainable societies, as well as strengthening innovation activities, internationalisation and facilities directed towards the Arctic. The Board will continue to emphasize strengthening of the strong-point areas of 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 establishment of the office in Bodø creates new perspectives for the professional activities associated with unmanned aircraft as well as Norut's geographic affiliation. Moreover, Norut wishes to further develop the areas of cooperation with UiT The Arctic University of Norway.

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. Work is underway to secure the framework conditions for the group so this may be accomplished.

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, 19 June 2017

Morten Hald
Chair of the Board

Arvid Jensen
Deputy Chair of the Board

May-Britt Ellingsen

Trygve Myrvang

Irene Lange Nordahl

Anne Katrine Normann

Anita Andersen Stenhaug

Ivan C. Burkow
CEO / Managing Director