

Q3 INTERIM REPORT 2020



HIGHLIGHTS Q3

JULY – SEPTEMBER 2020

- Operating revenue NOK 138.2 million (NOK 128.3 million), representing growth of 8%
- Gross profit NOK 121.4 million (NOK 111.1 million), representing growth of 9%
- EBITDA NOK 24.6 million (NOK 19.1 million) and an EBITDA margin of 17.8% (14.9%)
- EBIT NOK 14.5 million (NOK 9.9 million) and an EBIT margin of 10.5% (7.7%)
- Cash flow from operations NOK 16.4 million (NOK 15.0 million)
- Number of employees up by 51 FTEs
- Cash and cash equivalents NOK 57.7 million (NOK 45.7 million)
- Treasury shares valued at NOK 17.7 million (NOK 6.2 million)
- Equity ratio 24% (24%)

HIGHLIGHTS OF THE THIRD QUARTER

- Despite Covid-19 presenting challenges for many of Itera's customers, Itera achieved revenue growth of 8% in the third quarter. Lower growth in personnel expenses and other cost savings contributed to Itera's improved profitability, with its EBIT margin reaching 10.5% (7.7%).
- Itera continues to have an ambition of achieving steady growth despite Covid-19. It carried out its extensive summer internship programme as originally planned and welcomed 31 master's students who worked on five different customer projects. Itera also onboarded 18 new graduates in Oslo as planned. This had some negative short-term impact on the utilisation rate, but demand for our services is picking up again.
- Covid-19 is accelerating digital innovation and cloud transformation in most industries. In response to this mega trend, Bjørnar Engebretsen has been hired to be the Head of Hybrid Cloud Services at Itera. Itera's migration of its data centres to the cloud is now accelerating as planned.
- For the fifth consecutive year, Itera was recognised as one of the 25 most innovative companies in Norway across all industries. (*Innovasjonsmagasinet*).
- In the third quarter of 2020, Itera's order intake was equivalent to a book-to-bill ratio of 1.0, and it entered into new or extended contracts with customers such as Gjensidige Forsikring, Cognite, Storebrand Livsforsikring, Santander Consumer Bank, Nordea Direct (previously Gjensidige Bank), Vizrt (Peak Broadcast System), Storebrand Asset Management, Össur and the Western Norway Regional Health Authority.
- The Board has resolved an additional dividend of NOK 0.40 per share payable on 4 November 2020.

KEY FIGURES

	2020	2019	change	2020	2019	change	2019
Amounts in NOK million	7-9	7-9	%	1-9	1-9	%	1-12
Sales revenue	138.2	128.3	8 %	450.9	414.3	9 %	560.3
Gross profit	121.4	111.1	9 %	394.1	355.8	11 %	483.0
EBITDA	24.6	19.1	29 %	79.7	64.0	25 %	92.0
EBITDA margin	17.8 %	14.9 %	2.9 pts	17.7 %	15.4 %	2.2 pts	16.4 %
Operating profit (EBIT)	14.5	9.9	47 %	49.6	37.6	32 %	56.2
EBIT margin	10.5 %	7.7 %	2.8 pts	11.0 %	9.1 %	1.9 pts	10.0 %
Profit before tax	13.5	9.8	37 %	49.4	35.9	37 %	53.6
Profit for the period	10.6	7.6	39 %	38.5	27.4	40 %	41.6
Profit margin	7.7 %	5.9 %	1.7 pts	8.5 %	6.6 %	1.9 pts	7.4 %
Net cash flow from operating activities	16.4	15.0	10 %	64.1	36.9	74 %	80.0
No. of employees at the end of the period	556	505	10 %	556	505	10 %	512

GROUP PERFORMANCE IN THE THIRD QUARTER

FINANCIAL PERFORMANCE

The comments below relate to Itera's performance in the third quarter of 2020 compared to the third quarter of 2019 unless otherwise stated. The figures given in brackets in this report refer to the equivalent period in 2019. Please refer to Note 3 for a description of the alternative performance measures used.

Itera (the Group) consists of Itera ASA (the Company) and its subsidiaries. Itera ASA is a public limited liability company, incorporated in Norway and listed on the Oslo Stock Exchange with the ticker ITE. The condensed consolidated interim financial statements cover the Group. As a result of rounding differences, some numbers and percentages may not add up to the totals given.

As Itera is continuing to transition its customers from its on-premise data centre operations to managed cloud services, figures for Itera's traditional data centre operations and for its core digital business services are presented for the purposes of analysis. Following Itera's initial investment in establishing its managed cloud service offerings last year, the figures have been reclassified to include this business as part of the Company's core digital business.

Summary for the third quarter of 2020

Itera achieved organic revenue growth of 8% in the third quarter of 2020 relative to the third quarter of 2019. This was driven by growth in the revenue from Itera's own services, subscription revenue and other revenue, while revenue from third-party services was lower than in the corresponding quarter last year. As a result, the increase in Itera's gross profit of 9% was higher than the increase in revenue.

The Group's operating profit (EBIT) for the third quarter of 2020 was NOK 14.5 million (NOK 9.9 million), giving an EBIT margin of 10.5% (7.7%). The third quarter of 2020 contained the same amount of working days as the third quarter of 2019.

The third quarter of 2020 was characterised by a gradual recovery following the initial peak of the Covid-19 pandemic in the Nordics. Lower sales activity during the summer months affected Itera's top-line growth, but this was in part mitigated by lower spending. For further information on this, please refer to Note 4 in this interim report.

Accounting principles

These interim condensed consolidated financial statements for the quarter ending 30 September 2020 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required for annual financial statements and should be read in conjunction with the Group's annual report for 2019. The accounting policies applied in the preparation of these interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019. The interim financial information contained in this report has not been audited or reviewed.

Operating revenue

Itera reports operating revenue of NOK 138.2 million (NOK 128.3 million) for the third quarter of 2020, which represents growth of 8%. This was driven by growth in the revenue from Itera's own services and in subscription revenue, which increased by 9% to NOK 91 million and by 6% to NOK 39 million respectively. Revenue from third-party services was 12% lower at NOK 5 million, while other revenue, which includes hardware and software sales, was 22% higher at NOK 4 million. In total, the revenue from Itera's core digital business increased by 8% to NOK 110.6 million, while its traditional data centre operations grew by 6% to NOK 27.6 million.

For the first nine months revenue grew by 9% to NOK 450.9 million, with revenue from Itera's core digital business increasing by 10% and revenue from its traditional data centre operations increasing by 6%.

Itera's core digital business was responsible for 80% of its total revenue in the third quarter of 2020, which is the same proportion as in the third quarter last year. Due to the market uncertainty associated with the Covid-19 pandemic, some customers paused or deferred projects, and this had a detrimental effect on Itera's billing ratio (see Note 4). The revenue associated with Itera's traditional data centre operations is to a large extent recurring and was therefore not impacted by Covid-19 to the same degree as its core digital business.

Gross profit (revenue minus cost of goods sold) was NOK 121.4 million (NOK 111.1 million) in the third quarter, an increase of 9%. This growth was driven by a particularly strong increase in new customers. Gross profit for the first nine months increased by 11% to NOK 394.1 million.

Operating expenses

Itera's total operating expenses in the third quarter of 2020 were 4% higher at NOK 123.7 million (NOK 118.4 million), while for the first nine months they were up 7% to NOK 401.3 million.

Cost of sales was NOK 16.8 million (NOK 17.1 million) in the third quarter of 2020. Cost of sales principally consists of services purchased from sub-contractors, costs related to Itera's data centres, and third-party software licences and hardware that form part of larger deliveries. Cost of sales can vary significantly from quarter to quarter. For the first nine months cost of sales was down 3% to NOK 56.7 million.

Personnel expenses were NOK 86.3 million (NOK 82.3 million) in the third quarter of 2020, which represents an increase of 5%. The increase is partly explained by the fact that the average number of employees increased by 8%, while the average personnel expense per employee was down by 3%. This decrease in personnel expense per employee was due to lower bonus accruals as a result of softer onshore utilisation, as well as a positive pyramid shift. For the first nine months personnel expenses were NOK 281.9 million, which is 8% higher than in the same period last year, while the average number of employees was 7% higher.

Other operating expenses were NOK 10.4 million (NOK 9.7 million) in the third quarter of 2020 as increased facility and sales & marketing expenses outpaced the savings on travel, seminars and social events caused by Covid-19. For the first nine months other operating expenses were NOK 32.5 million (NOK 31.4 million).

Depreciation and amortisation totalled NOK 10.1 million (NOK 9.2 million) in the third quarter. The increase relates to Itera's expanded facilities in Ukraine and to upgrades to Itera's data centre infrastructure, as well as to foreign exchange impacts. For the first nine months depreciation and amortisation totalled NOK 30.1 million (NOK 26.3 million).

Operating result

The operating result before depreciation and amortisation (EBITDA) for the third quarter of 2020 was a profit of NOK 24.6 million (NOK 19.1 million). The operating result (EBIT) for the third quarter was a profit of NOK 14.5 million (NOK 9.9 million). The EBIT margin for the third quarter of 2020 was 10.5% (7.7%), while for the first nine months it was 11.0% (9.1%).

Itera's operating result from its core digital business was a profit of NOK 11.3 million (NOK 8.4 million), giving an EBIT margin of 10.2% (8.2%). Itera's operating result from its traditional data centre operations was a profit of NOK 3.2 million (NOK 1.5 million), giving

an EBIT margin of 11.7% (5.7%).

The result before tax for the third quarter of 2020 was a profit of NOK 13.5 million (NOK 9.8 million). Tax expense accrued for the third quarter totalled NOK 2.9 million (NOK 2.2 million). For the first nine months the result before tax was a profit of NOK 49.4 million (NOK 35.9 million) and the tax expense accrued was NOK 10.9 million (NOK 8.5 million).

Earnings per share (EPS) was NOK 0.13 (0.09) for the third quarter and NOK 0.48 (0.34) for the first nine months.

Cash flow, liquidity and equity

Net cash flow from operating activities was NOK 16.4 million (NOK 15.0 million) in the third quarter of 2020 and NOK 64.1 million (NOK 36.9 million) in the first nine months.

There was a net cash outflow from investing activities of NOK 4.5 million (NOK 7.7 million) in the third quarter of 2020, of which NOK 1.4 million (NOK 1.6 million) was for intangible assets, including investment in intellectual property rights. There was a net cash outflow from investing activities of NOK 12.2 million (NOK 13.1 million) in the first nine months.

There was a net cash outflow from financing activities of NOK 2.1 million (NOK 5.8 million) in the third quarter of 2020 as a result of lease payments, with the overall outflow decreased by a cash inflow from the sale of own shares. In the first nine months there was a net cash outflow from financing activities of NOK 47.3 million (NOK 33.5 million).

Work in progress at 30 September 2020 was NOK 0.5 million lower than at 30 September 2019, while capitalised contract costs were NOK 4.7 million lower. The capitalised contract costs relate to revenue the recognition of which is deferred under IFRS 15. Accounts receivable and other receivables were NOK 4.0 million lower and NOK 1.8 million higher respectively than at 30 September 2019.

Accounts payable at 30 September 2020 were NOK 2.2 million higher than at 30 September 2019. Public duties payable were NOK 10.5 million higher than at the end of the third quarter of 2019. Tax payable was NOK 4.1 million higher than at 30 September 2019. Contract liabilities at 30 September 2020 were NOK 1.8 million higher at NOK 20.1 million.

Cash and cash equivalents amounted to NOK 57.7 million at 30 September 2020, compared to NOK 45.7 million at 30 September 2019. At the end of the period, Itera had an undrawn credit facility of NOK 21.5 million.

Itera had lease liabilities totalling NOK 48.1 million (NOK 57.2 million) at 30 September 2020, which represents a net decrease of NOK 9.1 million. NOK 18.4 million of the lease liabilities are current liabilities that fall due within 12 months, while NOK 29.7 million are classified as non-current liabilities.

At 30 September 2020 Itera held 1,269,136 own shares, valued at NOK 17.7 million.

Equity at 30 September 2020 totalled NOK 57.3 million (NOK 56.4 million at 30 September 2019). The equity ratio was 23.8% (23.6%).

Dividend

At its meeting on 26 October 2020, the Board of Directors approved the payment of an additional dividend of NOK 0.40 per share for 2019 in accordance with the authorisation it was granted at the Annual General Meeting on 25 May 2020. The share will trade excluding the right to receive the additional dividend starting on 28 October 2020 and the dividend will be paid on 4 November 2020.

BUSINESS REVIEW

Although the pandemic continued to affect many sectors, Itera continued to grow its revenue from both new customers and new industries due to the Group having limited exposure to the worst impacted industries (e.g. travel, aviation, fitness, retail).

As many areas of society were more or less locked down for most of the third quarter, the pace of digital change has accelerated. The value of digital channels, products and services has become obvious to all organisations. As a specialist in creating sustainable, digital business, the market demand for Itera's services continued to be strong during the third quarter. Itera's ability to combine customer experience, business knowledge, expertise in new cloud technologies and its hybrid delivery model across borders continues to set us apart in the marketplace.

The impact of the Covid-19 virus on our business

In general, the Group is carefully watching the dynamics of the macro environment both locally and globally and is actively assessing the possible consequences for our business. It is also verifying its assessments continuously through discussion with customers and other organisations in the industry in the Nordics.

Ever since the outbreak of coronavirus, the Group has sought to be very close to its customers and to safeguard its position. In this way, the Group has collected facts and identified potential changes in demand as well as new Covid-19-driven opportunities.

All the Group's offices have been adapted to the recommendations issued by each country's health authorities. In the third quarter, the Group continued to keep a limited number of desks available for employees, and it continued the practice of requiring that its employees book space in the office using an in-house-developed booking solution. However, for most of Itera's employees, working from home is still the norm.

The Group is closely monitoring how its employees are coping with the situation. One of a number of the Group's initiatives is that it is carrying out an employee survey twice a month to monitor how its employees are experiencing the situation and to collect feedback on how the company can provide support.

As many employees have highlighted the significant reduction in the number of opportunities to socialise as one of the most negative consequences of the pandemic, the Group is facilitating ways of creating a sense of community that are possible in the pandemic situation.

There is no doubt that the Covid-19 pandemic will continue to have widespread and long-lasting implications. However, we believe that Itera is very well positioned to take advantage of the pent up demand for assistance with creating digital business in a way that will help create a more sustainable future, which will emerge as soon as the Covid-19 restrictions are eased and the economy starts to recover. Thanks to our hybrid delivery model, our services provide a competitive advantage relative to business models involving increasing local staffing levels. In fact, the business model of increasing Nordic staffing levels is experiencing significant disruption as a result of Covid-19, which should in turn benefit our hybrid delivery model of remote, cross-functional teams working across geographies.

Market and customer development

In the third quarter of 2020, Itera had an order intake equivalent to a book-to-bill ratio of 1.0. Itera entered new or extended contracts with customers such as the Western Norway Regional Health Authority, Gjensidige Forsikring, Cognite, Storebrand Livsforsikring, Santander Consumer Bank, Nordea Direct (previously Gjensidige Bank), Vizrt (Peak Broadcast System), Storebrand Asset Management and Össur.

One of Norway's 25 most innovative companies – for the fifth year in a row

In the third quarter, Itera was named as one of Norway's most innovative companies across all industries for the fifth year in a row. The award is organized by "Innovasjonsmagasinet", which, with its 25,000 readers and national distribution, is Norway's premier innovation magazine. Each year, 25 companies are selected from across all sectors. Many strong brands were among the 25 chosen in 2020, including DNB, Posten, Jotun, Cognite and DNV GL. The jury's assessment included the following comments: "We believe that this list of the 25 most innovative companies is by far Norway's most comprehensive list of who is actually innovative, as opposed to those who are only talking about innovation. We emphasize that the list only deals with Norwegian companies, but common to all on the list is that they are world-class when it comes to working actively on innovation".

Innovation with master's students

This summer, Itera and five of its customers kept to their plan of accepting 31 master's students for summer internship projects. Their motivation was to help maintain activity levels both in the market as well as within education despite coronavirus. The students were divided into interdisciplinary teams consisting of business consultants, developers, UX specialists and testers.

Each team was assigned a project that required a high level of expertise in the various disciplines as well as creative problem-solving skills.

An example of the innovative solutions the teams presented during the third quarter was the project "Advanced data analytics and machine learning", which was carried out for Pelagia.

Pelagia is one of the world's largest producers of pelagic fish products and it supplies fish products from its factories along the Norwegian coast to markets all over the world.

Challenge

Pelagia had a manual process for retrieving a specific type of data, and there was no proper structure to the data being retrieved. This made using this data for analytical purposes difficult. Pelagia therefore wanted to automate the process of collecting this data and to investigate whether it was possible to use advanced data analytics and machine learning to create business value.

Solution

Itera delivered an interdisciplinary team consisting of developers and business consultants. The team set up a dedicated database in Azure and linked existing data to it in a structured way. In addition, methods were developed for new data sets to be retrieved automatically.

Thanks to the new database, advanced data analysis and machine learning could be used to extract insights from the data. Based on these insights, two strategies were developed, each of which would create increased business value.

Result

The project provided insight into an area with significant business potential for Pelagia. Specifically, the recommendations from the team provided a basis for a return on investment ten times higher than the cost. The project also highlighted the importance of taking a more data-driven approach and gave Pelagia specific advice on how to achieve this.

"Technologies demystified" – an initiative to strengthen expertise in Nordic organisations

Technological change is affecting us at a pace that we have never witnessed before. Users now expect frequent improvements, there is more and more competition, and we all need to work smarter. Success requires a collective understanding of how technology can be used to create added value - for users, business, and society. At the same time, more and more companies are realising that their employees do not have a good understanding of what the various technologies available are - nor of all the opportunities they

represent.

Using the concept of "Technologies demystified", Itera wants to do something about this and has therefore prepared a report that addresses the most central technologies we see today. The report gives uncomplicated explanations of what the technologies actually are, how they work and what opportunities they offer. As part of Itera's social mission, the report is freely available on our website, along with simple articles and short, illustrative films.

Furthermore, Itera arranged a panel debate as part of the digital version of the "Arendalsuka" conference in the third quarter that featured the Minister of Labour and Social Affairs, Torbjørn Røe Isaksen, along with the CEOs of the Confederation of Norwegian Enterprise, Microsoft Norway and Itera.

In the third quarter, Itera also designed an effective course series that has been delivered for several of the group's customers in which Itera's experts provide an introduction to the various technologies and relevant examples of how the technologies can actually create value in various companies and sectors. The feedback on the course series has been very good, and it will contribute to Itera's growth ambitions by being a door-opener for new customers.

Hybrid Cloud Services

Covid 19 is accelerating digital innovation and cloud transformation in most industries. In response to this mega trend, Bjørnar Engebretsen has been hired to be the Head of Hybrid Cloud Services at Itera. Bjørnar joins Itera from the position of Director of Cloud in Microsoft Norway where he had overall responsibility for supporting Microsoft in establishing its global data centres in Oslo and Stavanger. He also has a proven track record as a leader at Evry within managed services for large customers in the Nordics.

Itera has been engaged by a strategic high-tech customer with a leading global position to deliver managed services for large international industrial customers with very high cloud consumption. Together we will create cloud center of excellence at scale for industrial customers. In addition, our assignments for both existing and new customers are now organized as DevSecOps, and we are seeing increasing demand for managed services and security as part of our projects.

As reported in our interim report for the second quarter of 2020, Itera will accelerate the migration of its own data centres to the cloud, which will cause some potential one-off costs and increased investment over the next 3-12 months. During the third quarter, the transition of several customers to the cloud was accelerated as planned. The largest customer at our data centre is carrying out a lift-and-shift transition to the cloud and this will be managed by their corporate IT-function in USA.

In total, low margin infrastructure subscription services will decrease from a current monthly run rate of approximately NOK 7.2 million to less than NOK 3 million by January next year, of which amount approximately 37% is cost of sales and depreciation of assets. The remaining customers will be moved to the cloud by the end of 2021.

Overall, the one-time effect of scaling down our own data centres is estimated to be about NOK 3-5 million, with most of this amount set to be incurred in the fourth quarter of 2020. Cloud is a great way to switch our CapEx costs at our data centres to a pay-as-you-go model that involves substantially less financial and operational risk. The net book value of assets of around NOK 4 million with corresponding leasing obligations will be transferred to customers completing their cloud migration in the first quarter of 2021.

Itera has prepared for the transition to the cloud over the last two years by investing in a new setup for managed cloud services and in extensive training and certification programs for our data centre operations staff. Most of our data centre operations staff are ready for the move to the cloud and will be gradually onboarded to new cloud-based commitments while downscaling our own data centres.

Diversity and inclusion on the agenda

Itera strongly believes diversity and inclusion make a difference to Itera, our customers and society. We believe all our individual uniqueness represents the driving force for our winning team in their work to grow our customers and our employees. We believe a diverse culture is a sustainable culture.

The business case for diversity and inclusion (D&I) is stronger than ever. For diverse companies, the likelihood of outperforming industry peers on profitability has increased over time, while the penalties are getting steeper for those lagging behind. New research on diversity winners shows that a systematic, business-led approach and bold, concerted action on inclusion are needed to make substantial progress.

Greater diversity is correlated with a significantly greater likelihood of outperformance. Furthermore, fostering a diverse and inclusive culture is a critical success factor: it enables individuals both to shine in their own right and to pull together as ONE Itera.

During the third quarter, a team of committed and skilled Itera employees were tasked with developing a framework for Itera's approach to diversity and inclusion. The framework includes leadership principles, key activities for 2020/2021, KPIs and a governance structure to support a strong focus and practices within diversity and inclusion.

Nordic strategy and larger, long-term customer relationships

A key part of Itera's strategy is to maintain and develop its largest and most strategic relationships across national borders and areas of expertise. Itera has a strong customer portfolio in the Nordic region, where many customers are served from more than one of Itera's various locations.

The revenue from Itera's 30 largest customers accounted for 78% of its operating revenue, which is one percentage point higher compared to the third quarter of 2019. New customers accounted for 8% of revenue.

Digital change altering traditional delivery models

Itera has for several years witnessed a clear tendency for more and more Nordic customers to purchase our services across international borders. Nearshoring and cloud services are natural drivers of this, but Itera is finding that this trend has increased further due to Covid-19. There are good reasons to believe that Covid-19 has changed how many organisations will deliver and purchase their services over a long-term perspective. We therefore expect that we will see a more general tendency for personnel and project teams to be distributed across locations and/or international borders. Itera also anticipates that more organisations, both vendors and customers, will experience that this delivery model, which Itera has practiced for 12 years, brings flexibility, as it makes local presence less important or even non-critical.

Organisation

Building on a strong Nordic heritage, we combine local presence with geographically distributed capabilities into a hybrid delivery model that features multidisciplinary teams and a flexible distribution of work across borders.

As part of our continuous work to develop and maintain a good working environment for all employees, we use a measurement tool that provides a picture every two weeks of the current situation in terms of important factors such as employee engagement and employees' perception of the extent to which they are supported by their managers and are engaged in meaningful work. These measurements continued to be taken in the third quarter when the vast majority of Itera's employees were working remotely. During this period the scores for employee engagement, the working environment, and the perceived level of managerial support increased, which Itera finds very positive.

Itera's headcount at the end of the third quarter of 2020 was 556 as compared to 505 at the end of the third quarter of 2019. Itera has

nearshore development centres in Slovakia and Ukraine. The proportion of Itera's capacity that is located in these locations (its nearshore ratio) was 46% (48%) at the end of the third quarter.

Our hybrid delivery capabilities are very scalable and provide access to a much larger workforce than is available in local markets. We are tapping into the world's fourth largest pool of digitally talented people, a pool which is only a few hours by plane from the Nordic region. Our hybrid delivery model was recognised as providing the world's best customer experience by the Global Sourcing Association (GSA) in 2018 and for running the best Project Management Office (PMO) in Europe by the global PMO Alliance in 2020.

Significant risks and uncertainties

Itera's activities are influenced by several different factors, both within and outside of the company's control. As a service company, Itera faces business risks associated with competition and pressure on prices, project overruns, recruitment, loss of key employees, customers' performance and bad debts. Market-related risks include risks related to the business cycle. Financial risks include currency fluctuations against the Norwegian krone (NOK), principally in relation to the Danish krone (DKK), the US dollar (USD) and the euro (EUR). In addition, interest rate changes will affect the returns earned by Itera on its bank deposits, as well as leasing costs and the cost of credit facilities.

Itera is exposed through its nearshore activities in Ukraine to additional risk factors such as country risk, data security and corruption. Itera has a zero-tolerance policy on corruption and therefore does not deliver services to the public or private sectors in Ukraine.

For risks related to Covid-19, please refer to Note 4.

More information about risks and uncertainties can be found in Itera's annual report for 2019.

Outlook

The company's overall strategy of developing large, long-term customer relationships, increasing the number of project deliveries which involve the full range of Itera's services, using hybrid teams of Nordic and nearshore resources and focusing on operational efficiency remains unchanged.

Itera develops its range of services to meet customers' requirements, and its services are based on combining business knowledge, communication and technology.

As previously communicated, Itera will accelerate the transition of its own data centres to the cloud. This will significantly reduce low margin infrastructure revenue from the beginning of 2021, gradually mitigated by an increase in the cloud business volume. There will be some restructuring costs in the fourth quarter of 2020 and in the first quarter of 2021 relating to this transition, estimated to be in the range of NOK 3-5 million.

At the moment, the Covid-19 pandemic is only moderately affecting Itera's business. Uncertainty remains over the future development of the pandemic and its impact on demand.

Next interim report

The interim report for the fourth quarter will be published and presented on 18 February 2021.

STATEMENT BY THE BOARD OF DIRECTORS AND CHIEF EXECUTIVE OFFICER

The Board of Directors and the CEO have today considered and approved the consolidated condensed financial statements for the Itera Group for the nine months ended 30 September 2020, including the comparisons with the corresponding period in 2019. The Board has based its declaration below on reports and statements from the Group's CEO, on the results of the Group's activities, and on other information that is essential to assessing the Group's position.

To the best of our knowledge:

- The consolidated condensed financial statements for the nine months ended 30 September 2020 have been prepared in accordance with IFRS as adopted by EU and IAS 34 (Interim Financial Reporting) and the additional disclosure requirements pursuant to the Norwegian Securities Trading Act.
- The information provided in the financial statements gives a true and fair portrayal of the Itera Group's assets, liabilities, profit and overall financial position as at 30 September 2020.
- The information provided in the report for the first half of 2020 provides a true and fair overview of the development, performance, financial position, important events and significant related party transactions in the accounting period as well as the most significant risks and uncertainties facing the Itera Group.

Oslo, 27 October 2020
The Board of Directors and CEO of Itera ASA

Morten Thorkildsen
Chairman

Marianne Killengreen
Board Member

Jan-Erik Karlsson
Board Member

Gyrid Skalleberg Ingerø
Board Member

Andreas Almquist
Board Member

Anne Nyseter Perez
Board Member

Arne Mjøs
CEO

INTERIM CONDENSED FINANCIAL INFORMATION

Consolidated statement of comprehensive income

All figures in NOK 1000 except earnings per share	2020 7-9	2019 7-9	change %	2020 1-9	2019 1-9	change %	2019 1-12
Sales revenue	138 193	128 261	8 %	450 857	414 331	9 %	560 318
Operating expenses							
Cost of sales	16 840	17 137	(2 %)	56 744	58 510	(3 %)	77 310
Gross Profit	121 353	111 124	9 %	394 113	355 821	11 %	483 008
<i>Gross Margin</i>	88 %	87 %	1.2 pts	87 %	86 %	1.5 pts	86 %
Personnel expenses	86 301	82 264	5 %	281 945	260 455	8 %	348 317
Depreciation and amortisation	10 079	9 240	9 %	30 107	26 339	14 %	35 798
Other operating expenses	10 430	9 746	7 %	32 463	31 397	3 %	42 676
Total operating expenses	123 650	118 387	4 %	401 259	376 701	7 %	504 101
Operating profit	14 543	9 874	47 %	49 598	37 629	32 %	56 218
Other financial income	732	996	(26 %)	4 532	1 697	167 %	2 514
Other financial expenses	1 748	1 027	70 %	4 720	3 382	40 %	5 143
Net financial income (expenses)	(1 016)	(31)	(3 172 %)	(188)	(1 685)	89 %	(2 629)
Profit before taxes	13 527	9 843	37 %	49 410	35 944	37 %	53 589
Income taxes	2 942	2 220	33 %	10 918	8 526	28 %	11 979
Net income	10 585	7 623	39 %	38 492	27 418	40 %	41 609
Earnings per share	0.13	0.09	40 %	0.48	0.34	41 %	0.51
Fully diluted earnings per share	0.13	0.09	41 %	0.47	0.33	41 %	0.51
Translation differences on net investment in foreign operations	(586)	809	(173 %)	2 271	705	222 %	459
Total comprehensive income	9 999	8 432	19 %	40 764	28 123	45 %	42 068
Total comprehensive income attributable to:							
Shareholders in parent company	9 999	8 432	19 %	40 764	28 123	45 %	42 068

Consolidated statement of financial position

All figures in NOK 1000	2020 30 Sep	2019 30 Sep	change	change %	2019 31 Dec
ASSETS					
Non-current assets					
Deferred tax assets	3 093	3 876	(783)	(20 %)	2 901
Other intangible assets	19 473	21 022	(1 549)	(7 %)	21 864
Property, plant and equipment	31 558	31 650	(92)	(0 %)	35 989
Right-of-use assets	37 992	44 677	(6 685)	(15 %)	40 821
Total non-current assets	92 117	101 225	(9 109)	(9 %)	101 575
Current assets					
Work in progress	1 363	1 870	(507)	(27 %)	732
Contract costs	8 022	12 755	(4 732)	(37 %)	11 571
Accounts receivable	64 400	60 413	3 986	7 %	57 075
Other receivables	15 830	17 589	(1 759)	(10 %)	17 193
Cash and cash equivalents	57 702	45 713	11 989	26 %	53 085
Total current assets	147 317	138 339	8 978	6 %	139 656
TOTAL ASSETS	239 434	239 565	(131)	(0 %)	241 231
EQUITY AND LIABILITIES					
Equity					
Share capital	24 656	24 656	-	0 %	24 656
Other equity	(5 898)	4 346	(10 243)	(236 %)	(19 894)
Net income for the period	38 492	27 418	11 074	40 %	41 609
Total equity	57 251	56 420	831	1 %	46 371
Non-current liabilities					
Other provisions and liabilities	955	1 148	(193)	(17 %)	1 077
Lease liabilities - long-term portion	29 718	38 854	(9 136)	(24 %)	35 577
Total non-current liabilities	30 673	40 002	(9 329)	(23 %)	36 655
Current liabilities					
Accounts payable	16 634	14 407	2 226	15 %	23 838
Tax payable	12 709	8 605	4 104	48 %	10 880
Public duties payable	40 045	29 556	10 489	35 %	32 779
Contract liabilities	20 100	21 898	(1 798)	(8 %)	21 264
Lease liabilities	18 353	18 365	(11)	(0 %)	19 400
Other current liabilities	43 670	50 312	(6 642)	(13 %)	50 044
Total current liabilities	151 510	143 142	8 368	6 %	158 205
Total liabilities	182 183	183 145	(961)	(1 %)	194 860
TOTAL EQUITY AND LIABILITIES	239 434	239 564	(131)	(0 %)	241 231
Equity ratio	23.9 %	23.6 %		0.4 pts	19.2 %

Consolidated statement of cash flows

All figures in NOK 1000	2020 7-9	2019 7-9	change	2020 1-9	2019 1-9	change	2019 1-12
Profit before taxes	13 527	9 843	3 684	49 410	35 944	13 466	53 589
Income taxes paid	(3 282)	(471)	(2 812)	(7 877)	(9 903)	2 026	(9 995)
Depreciation and amortisation	10 079	9 240	839	30 107	26 339	3 768	35 798
Change in work in progress	312	1 024	(712)	(631)	2 318	(2 949)	3 456
Change in accounts receivable	(7 096)	8 488	(15 584)	(7 325)	(8 146)	821	(4 808)
Change in accounts payable	(300)	(4 263)	3 963	(7 205)	(9 534)	2 330	(103)
Change in other accruals	3 227	(8 139)	11 366	4 539	744	3 795	3 867
Effect of changes in exchange rates	(71)	(767)	696	3 092	(889)	3 981	(1 797)
Net cash flow from operating activities	16 395	14 955	1 441	64 112	36 874	27 238	80 007
Investment in fixed assets	(3 096)	(6 106)	3 010	(6 854)	(7 950)	1 096	(11 861)
Investment in intangible assets	(1 369)	(1 574)	206	(5 327)	(5 123)	(203)	(6 938)
Net cash flow from investing activities	(4 465)	(7 680)	3 215	(12 180)	(13 073)	893	(18 799)
Purchase of own shares	-	(96)	96	(18 818)	(96)	(18 723)	(96)
Sales of own shares	3 624	-	3 624	5 888	2 125	3 763	2 125
Principal elements of lease payments	(3 691)	(3 544)	(146)	(11 025)	(8 100)	(2 925)	(11 694)
Instalment of lease liabilities	(2 013)	(2 175)	162	(7 093)	(7 227)	135	(9 128)
Dividends paid to equity holders of Itera ASA	-	-	-	(16 270)	(20 236)	3 966	(44 660)
Net cash flow from financing activities	(2 080)	(5 815)	3 735	(47 318)	(33 534)	(13 783)	(63 453)
Effects of exchange rate changes on cash and cash equivalents	1	164	(163)	4	165	(161)	50
Net change in cash and cash equivalents	9 851	1 624	8 228	4 617	(9 568)	14 186	(2 195)
Cash and cash equivalents at the beginning of the period	47 851	44 089	3 762	53 085	55 279	(2 195)	55 279
Cash and cash equivalents at the end of the period	57 702	45 713	11 989	57 702	45 711	11 991	53 085
New borrowings related to leasing	516	4 742	(4 226)	2 440	8 083	(5 643)	11 493

Consolidated statement of changes in equity

All figures in NOK 1000

	Share capital	Own shares	Other paid in equity	Cumulative translation differences	Other equity	Total equity
Equity as of 1 Jan 2019	24 656	(373)	(10 312)	25	33 448	47 443
Implementation of IFRS 15	-	-	-	-	41 609	41 609
Net income for the period	-	-	-	459	-	459
Other comprehensive income for the period	-	-	(1 106)	-	-	(1 106)
Share option costs	-	4	594	-	-	598
Employee share purchase programme	-	(5)	(90)	-	-	(96)
Purchase and sale of own shares	-	143	1 982	-	-	2 125
Dividends	-	-	-	-	(44 661)	(44 661)
Equity as of 31 Dec 2019	24 656	(233)	(8 933)	483	30 396	46 371
Net income for the period	-	-	-	-	38 492	38 492
Other comprehensive income for the period	-	-	-	2 271	-	2 271
Share option costs	-	156	(907)	-	-	(751)
Employee share purchase programme	-	172	5 207	-	-	5 379
Purchase and sale of own shares	-	(478)	(17 764)	-	-	(18 242)
Dividends	-	-	-	-	(16 270)	(16 270)
Equity as of 30 Sep 2020	24 656	(382)	(22 397)	2 755	52 618	57 251

NOTES

NOTE 1: TRANSACTIONS WITH RELATED PARTIES

There have been no material transactions with related parties during the reporting period 1 January 2020 to 30 September 2020.

NOTE 2: EVENTS AFTER THE BALANCE SHEET DATE

There have been no events after 30 September 2020 that would have a material effect on the interim accounts.

NOTE 3: ALTERNATIVE PERFORMANCE MEASURES

In accordance with the guidelines issued by the European Securities and Markets Authority on alternative performance measures (APMs), Itera publishes 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 short for earnings before interest, tax, depreciation and amortisation. It 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 short for earnings before interest and tax and 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.

NOTE 4: IMPACT OF COVID-19

Itera has been able to operate more or less as normal amidst the Covid-19 outbreak, bar a change to more extensive home working rather than at customers' sites or in Itera's offices. The vast majority of Itera's customers have also adapted well to the situation and are continuing their journey to digitalise their business. Due to a wait-and-see approach taken by some customers during the summer months, new engagements after the summer vacation period have taken a bit longer to start than normal due to the lead time of the sales cycles.

The financial impact of softer billability has been partly mitigated by lower bonus accruals, discretionary cost cutting and natural reductions in spending as a result of restrictions on travel and social gatherings. Itera has not applied for or used any government incentives or reliefs except those implemented for all companies.

The pandemic has further highlighted the benefits of digitalisation. Itera's strategy of assisting its customers with digitalising their businesses is therefore as valid as ever before and hence not affected. Itera's financial performance in the short to medium term will depend on how fast the economy recovers and how quickly customers ramp up their investment spending. To support future growth, Itera has decided not to implement any temporary or permanent layoffs as a consequence of the pandemic. On the contrary, Itera has continued recruitment and carried out extensive summer internship and graduate onboarding programmes as originally planned. This has been a strong investment in Itera's employer brand.

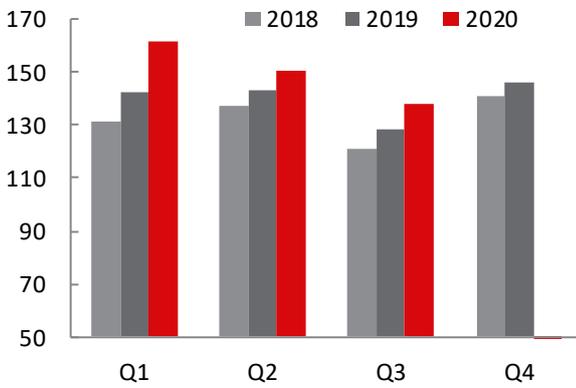
Itera has thus far not experienced any rise in actual or expected credit losses as a result of the Covid-19 crisis. The vast majority of our customers are medium and large-sized businesses with strong financial solidity and are not in those industries that have been hit the hardest. The current financial performance with growth in both revenue and profitability has not triggered any impairment of non-financial assets as these are still considered substantiated by future revenue streams.

KEY FIGURES

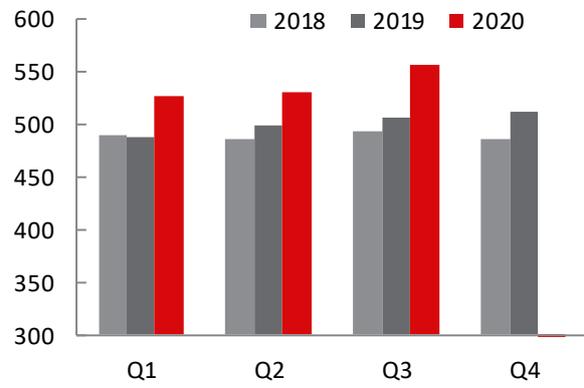
	2020 7-9	2019 7-9	change %	2020 1-9	2019 1-9	change %	2019 1-12
All figures in NOK 1000 except earnings per share							
Profit & Loss							
Sales revenue	138 193	128 261	8 %	450 857	414 331	9 %	560 318
Gross profit	121 353	111 124	9 %	394 113	355 821	11 %	483 008
EBITDA	24 622	19 114	29 %	79 705	63 969	25 %	92 016
EBITDA margin	17.8 %	14.9 %	2.9 pts	17.7 %	15.4 %	2.2 pts	16.4 %
Operating profit (EBIT)	14 543	9 874	47 %	49 598	37 629	32 %	56 218
EBIT margin	10.5 %	7.7 %	2.8 pts	11.0 %	9.1 %	1.9 pts	10.0 %
Profit before taxes	13 527	9 843	37 %	49 410	35 944	37 %	53 589
Profit for the period	10 585	7 623	39 %	38 492	27 418	40 %	41 609
Balance sheet							
Non-current assets	92 117	101 225	-9 %	92 117	101 225	-9 %	101 575
Bank deposits	57 702	45 713	26 %	57 702	45 713	26 %	53 085
Other current assets	147 317	138 339	6 %	147 317	138 339	6 %	86 571
Total assets	239 434	239 565	(0 %)	239 434	239 565	(0 %)	241 231
Equity	57 251	56 420	1 %	57 251	56 420	1 %	46 371
Total non-current liabilities	30 673	40 002	(23 %)	30 673	40 002	(23 %)	36 655
Total current liabilities	151 510	143 142	6 %	151 510	143 142	6 %	158 205
Equity ratio	23.9 %	23.6 %	0.4 pts	23.9 %	23.6 %	0.4 pts	19.2 %
Current ratio	1.35	1.29	5 %	1.35	1.29	5 %	0.88
Cash flow							
Net cash flow from operating activities	16 395	14 955	10 %	64 112	36 875	74 %	80 007
Net cash flow	9 851	1 624	507 %	4 617	(9 568)	148 %	(2 197)
Share information							
Number of shares	82 186 624	82 186 624	0 %	82 186 624	82 186 624	0 %	82 186 624
Weighted average basic shares outstanding	80 706 259	81 425 620	(1 %)	81 004 569	81 186 520	(0 %)	81 244 074
Weighted average diluted shares outstanding	81 088 490	82 053 485	(1 %)	81 638 054	81 938 248	(0 %)	82 052 944
Earnings per share	0.13	0.09	40 %	0.48	0.34	41 %	0.51
Diluted Earnings per share	0.13	0.09	41 %	0.47	0.33	41 %	0.51
EBITDA per share	0.31	0.23	30 %	0.98	0.79	25 %	1.13
Equity per share	0.71	0.69	2 %	0.71	0.69	2 %	0.57
Dividend per share	0.00	0.00	0 %	0.25	0.25	0 %	0.55
Employees							
Number of employees at the end of the period	556	505	10 %	556	505	10 %	512
Average number of employees	543	502	8 %	530	494	7 %	498
Operating revenue per employee	254	255	(0 %)	850	838	1 %	1 126
Gross profit per employee	223	221	1 %	743	720	3 %	970
Personnel expenses per employee	159	164	(3 %)	532	527	1 %	700
Other operating expenses per employee	19	19	(1 %)	61	64	(4 %)	86
EBITDA per employee	45	38	19 %	150	129	16 %	185
EBIT per employee	27	20	36 %	94	76	23 %	113

QUARTERLY DEVELOPMENT 2018-2020

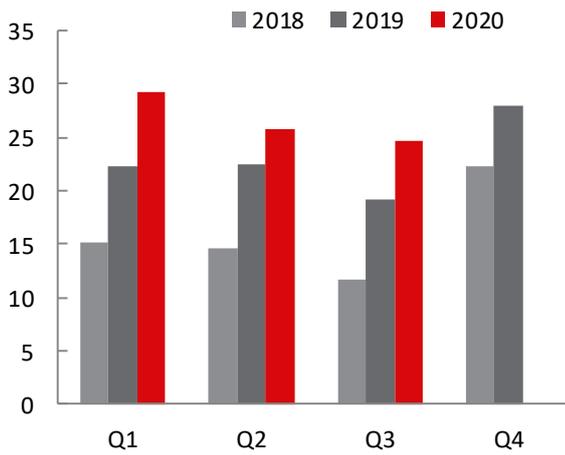
Revenues
NOK million



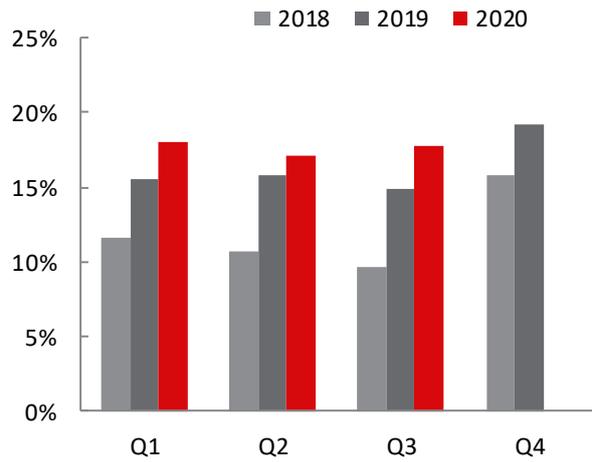
Employees
End of period



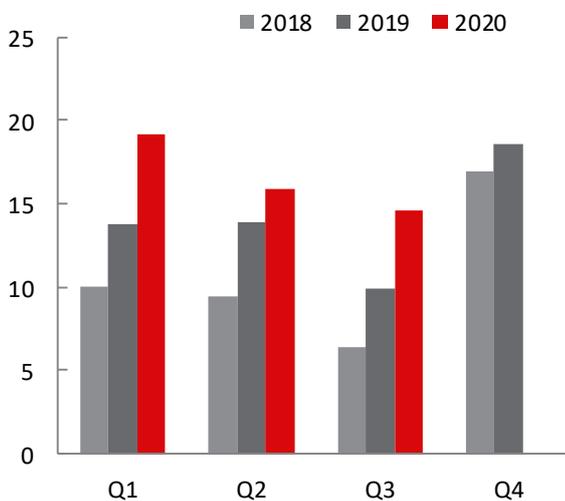
EBITDA
NOK million



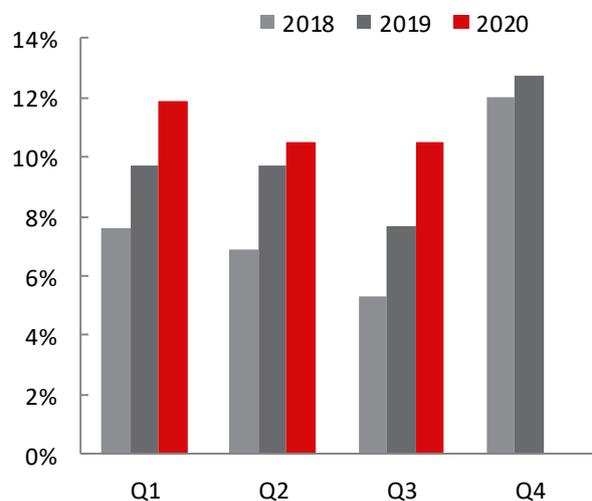
EBITDA margin
%



EBIT
NOK million



EBIT margin
%





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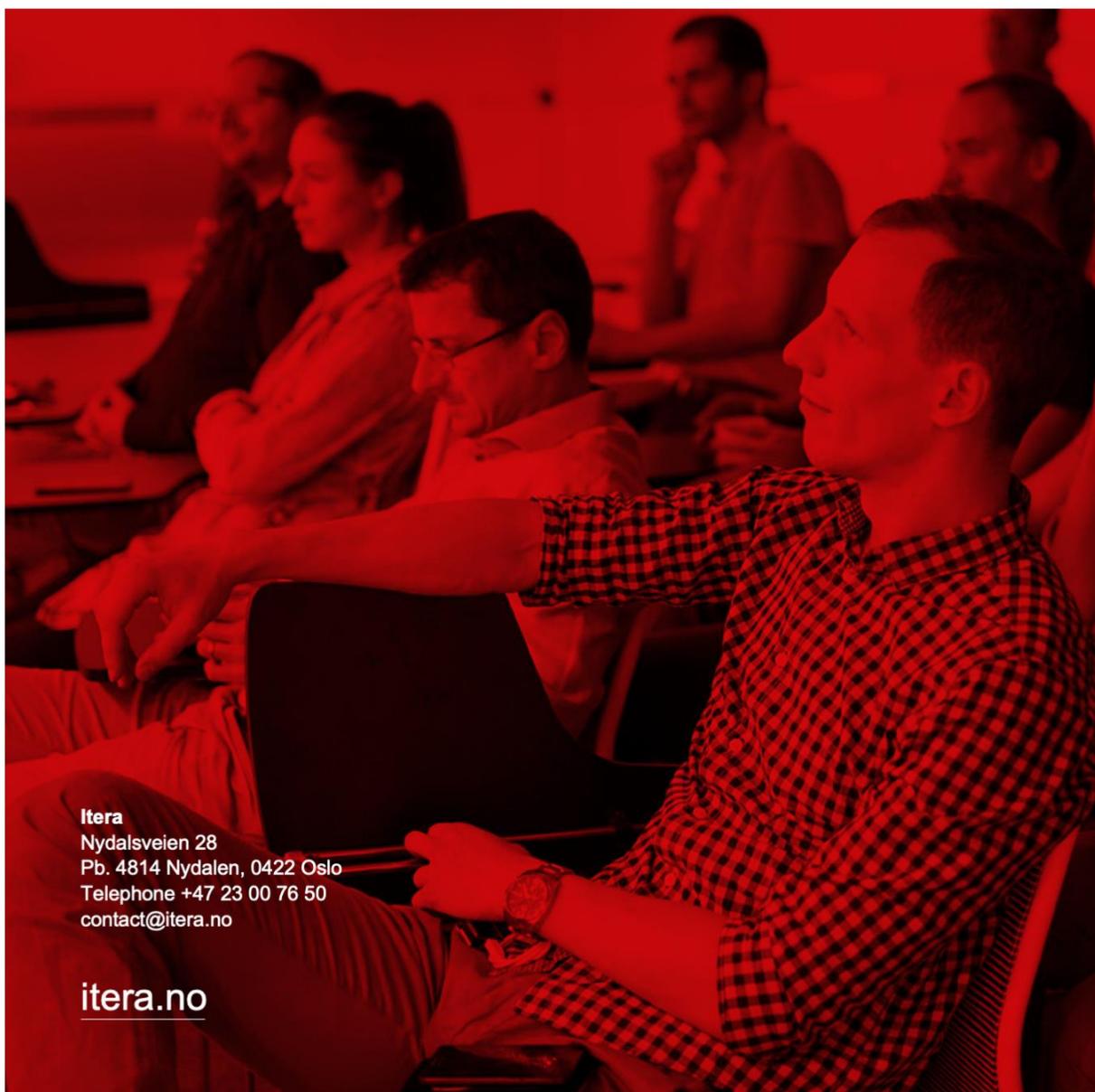
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