

ANNUAL REPORT

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INNOVATION  
NORWAY

2014

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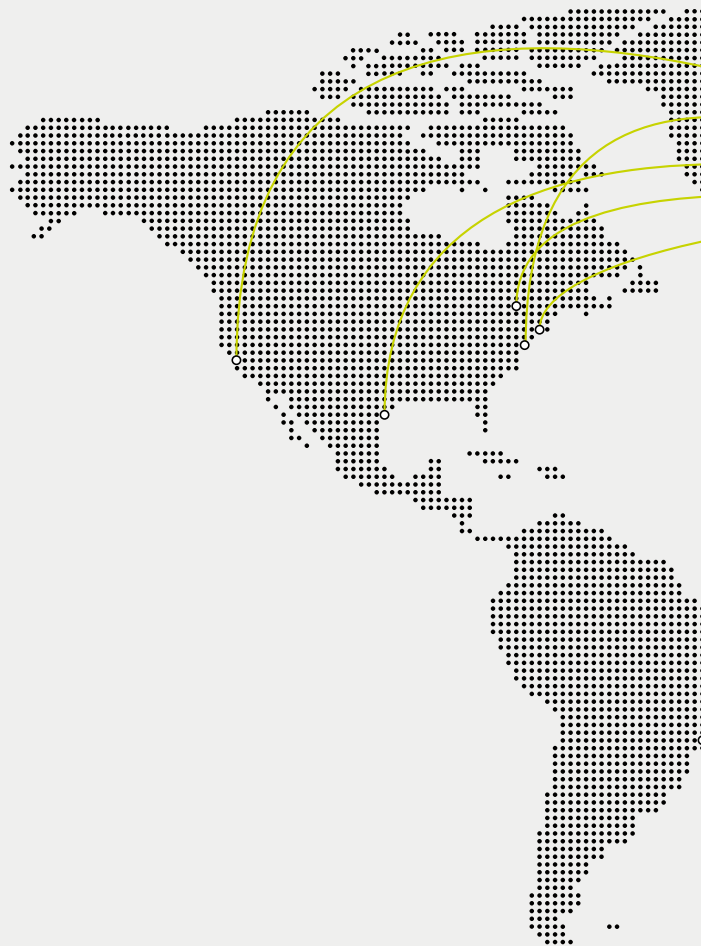


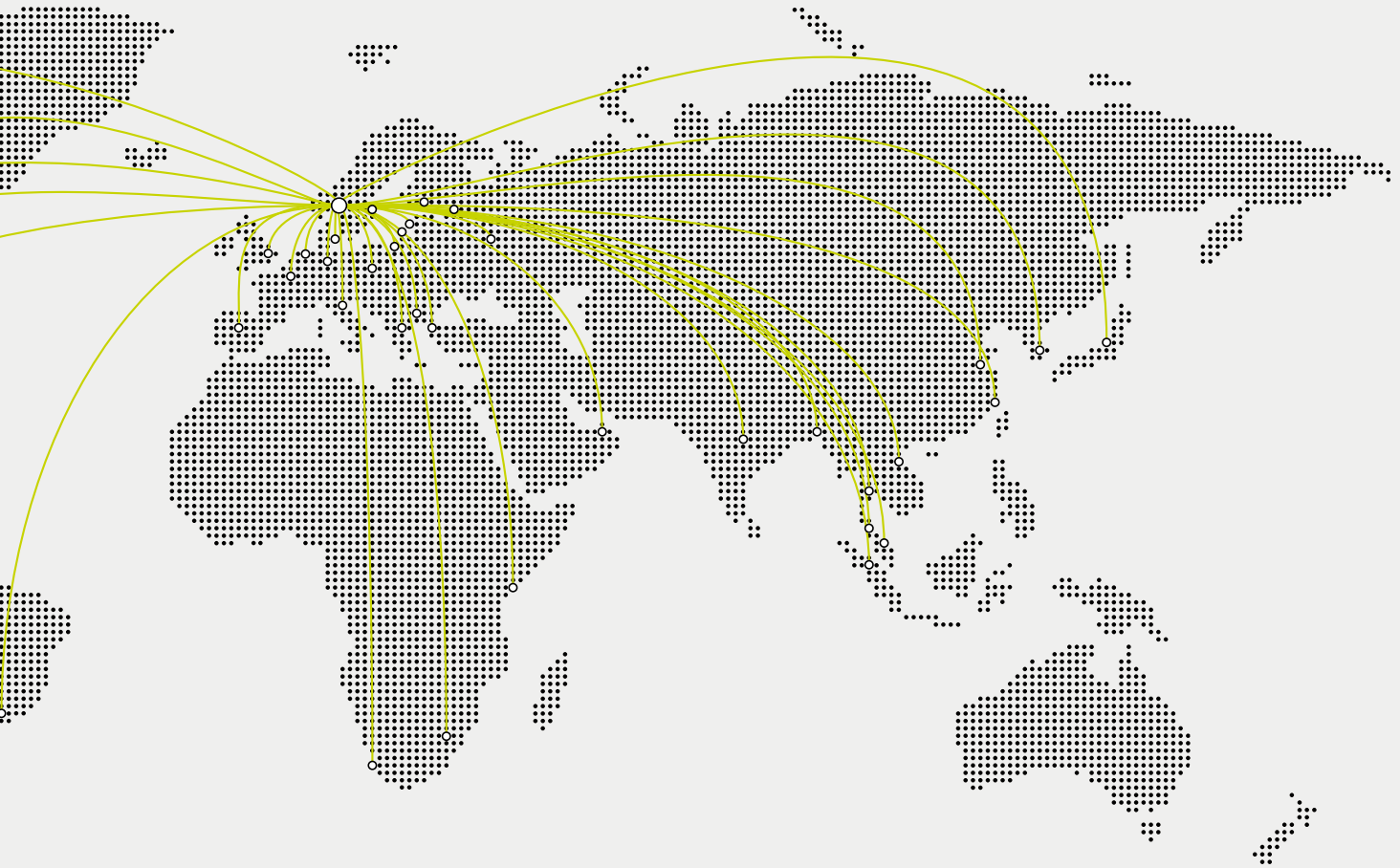
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## INNOVATION NORWAY

**INNOVATION NORWAY** has a broad and complex social assignment. At the core of this assignment lies the expectation of value creation by stimulating to the growth within profitable business development throughout Norway.

Innovation Norway's programmes and services are intended to create more successful entrepreneurs, me enterprises with capacity for growth and more innovative business clusters.

With its nationwide office network, Innovation Norway is able to meet its customers in their business environment. Internationally, customers are followed through our offices in the most important markets worldwide.

Innovation Norway is owned by the Ministry of Trade, Industry and Fisheries (51%) and the county authorities (49%).

In 2014, a consultation process was carried out concerning amendment of the Act relating to Innovation Norway, in which the future ownership model was one of the topics.

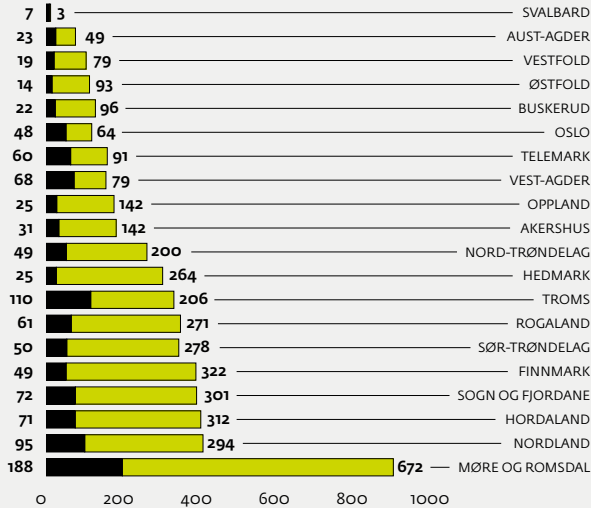
# KEY FIGURES

## COUNTIES

FIGURES IN NOK MILLION

■ Entrepreneurs and start-ups

■ Established enterprises



The figure shows the allocation of grants and loans broken down by county. Black indicates funds allocated to enterprises younger than three years (entrepreneurs), while green indicates funds allocated to enterprises that have existed for more than three years. The high proportion of funds allocated to Møre og Romsdal county mainly reflects low-risk loans to industry, service provision and fisheries.

## INNOVATION NORWAY

ASSIST ENTERPRISES IN THE FOLLOWING FOUR AREAS

In the business examples cited in this report, the following four symbols are used to indicate Innovation Norway's contributions. The symbols are explained below.



**I** = Internationalisation (assistance in the form of market advisory services and promotional services)

**F** = Funding (loan or grant)

**C** = Cluster (the enterprise is a member of a cluster/network)

**A** = Advisory services/ expertise in other areas

# 9,7%

Enterprises that have been granted support from Innovation Norway experience 9.7 percentage points higher growth in annual turnover three years after receiving support from Innovation Norway, compared with similar enterprises that received no such support.

# 1200

We have conducted 1,200 extensive advisory assignments and international company visits. In addition, we have dealt with approximately 1,850 minor customer queries relating to export and internationalisation.

## INNOVATION

Innovation Norway is promoting business development by stimulating and facilitating creativity and innovation. The term 'innovation' has its origin in the Latin word 'innovare', which means to renew or create something new. The OECD has defined 'innovation' as the introduction of new or significantly improved goods, services or processes, new marketing methods or new ways of organising the work.

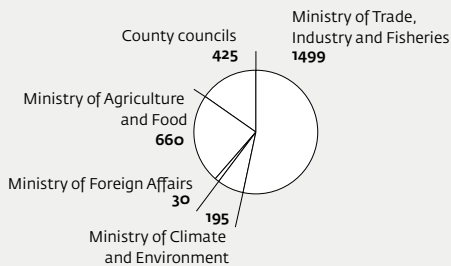
It can be just as fruitful, however, to look at innovation as learning processes that strengthen the enterprise and its employees' ability to do things in new ways. This explains how innovation projects that are seemingly a 'failure' can prove to have a positive effect in the sense of being a valuable learning curve that may lead to other and improved innovation processes in the future.

**APPROPRIATIONS, ALLOCATIONS AND TRIGGERED INVESTMENTS IN 2014 FIGURES IN NOK MILLION**

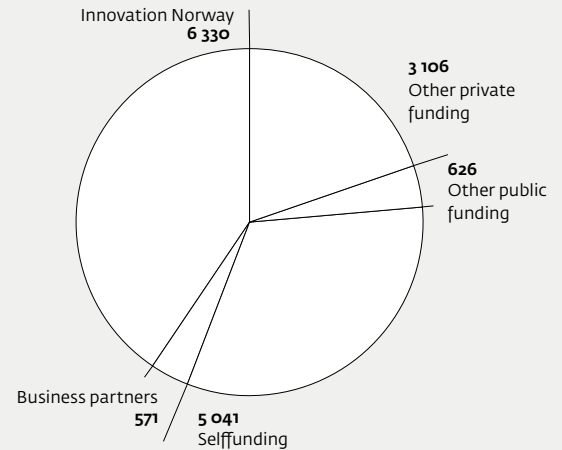
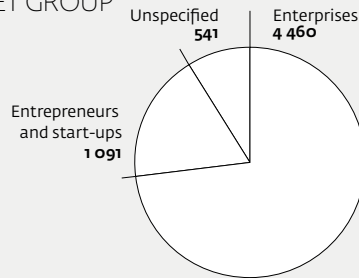


**SERVICE**

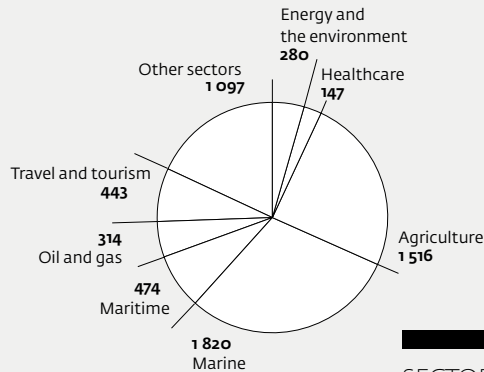
**TARGET GROUP**



**APPROPRIATED**



**TRIGGERED**



**SECTOR**

**NOK 2.8 BILLION** →

**From the Storting and county councils**

Through Innovation Norway, the Storting (Parliament) and county councils allocated more than NOK 2.8 billion in funding to value-adding business development activities all over Norway in 2014.

**NOK 6.1 BILLION** →

**To business and industries**

The funds made available by the Storting and the county authorities, in combination with loan schemes, resulted in a total of more than NOK 6 billion in business-related funding under the protection of Innovation Norway. The figure shows allocations broken down by service, target group and sector.

**NOK 15.7 BILLION** →

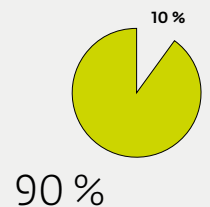
**Triggered**

Innovation Norway's support helped to trigger nearly twice that amount from business and industry. Nearly NOK 16 billion were invested in innovation activities in 2014, including the money from Innovation Norway.

**766**

is the number of Innovation Norway employees, of whom around 200 work abroad. The rest work in the head office and district offices in Norway.

Roughly 10 percentage of the funds contributed by Innovation Norway to business and industry are earmarked for enterprises in rural areas, while 90% are national funds.



**We believe that innovation must become the key player in policies in order to promote restructuring and renewal.**

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PHOTO: JO MICHAEL

CEO

**ANITA  
KROHN  
TRAAETH**



# A DREAM COMMITMENT FOR A SUSTAINABLE FUTURE

**A**s a nation, we are among the best equipped to realise such a transition. The Norwegian workforce is well educated and creative, we have many innovative enterprises, strong clusters, a well-developed welfare system and an advanced policy instrument system, and we enjoy peace and social stability.

But we still lack a clear strategy for where we want to go and how we are to achieve the goals we set ourselves.

In 2014, Innovation Norway contributed to the debate about the future Norway. In 2015, we intend to do much more.

We believe that innovation must become a key player in policies in order to promote restructuring and renewal. Only through knowledge development and innovation can we apply our existing expertise to new areas and meet the demands of our future society and markets.

The requirements of the future will concern corporate social responsibility and green renewal. These requirements will apply to all areas, from food and energy production to services. This is why the strategy will have to be based on sustainability as the overall objective.

We have invited politicians and activists, entrepreneurs and growth enterprises, society at large and the business communities to participate in a discussion about a necessary dream commitment for Norwegian innovation. The 'Dream Commitment' is what we have called the voluntary initiative to clarify what a sustainable Norway will entail.

**IN 2014, NORWAY REALISED THE SERIOUSNESS OF THE CURRENT ECONOMIC SITUATION.** This was the year in which the threat of climate change became a reality for most people. The dramatic drop in oil and gas prices also highlighted that the transition to a more sustainable economy no longer could be postponed.

For Innovation Norway it is important to identify good ideas about how we can and should contribute to such a nationwide restructuring process, both alone and in cooperation with other public funding agencies, including the Research Council of Norway, the Industrial Development Cooperation of Norway (SIVA), the Agency for Public Management and eGovernment (Difi), the Norwegian Industrial Property Office, the Norwegian Centre for Design and Architecture, Enova, the Norwegian Guarantee Institute for Export Credits, Export Credit Norway and the county authorities. Together, we are already in possession of an advanced set of tools. In many cases, it will be a matter of using services that already exist in new ways. But we also need to look at future policy instruments.

As an innovation policy adviser to the Government, we will also continue to participate in the debate about a broad and including innovation policy, in which innovation, education, research, infrastructure are seen as part of the innovation structure. . . Often innovation is considered on individual measures separately, without looking at how the different parts of the economy and innovation systems function together.

All our expertise in Innovation Norway will be linked to what we learn through the debate on the Dream Commitment. This process will also create the basis for the advice we give our owners, clients and society at large in 2015. ■

# GOOD EFFECTS AND A DEMANDING RESTRUCTURING PROCESS

**INNOVATION NORWAY CELEBRATED ITS TENTH ANNIVERSARY IN 2014**, but its history dates back as far as to the mid-19th century, when Den Norske Hypotekbank was established. At the start of 2015, the need for Innovation Norway is greater than it has been for a long time as a result of low oil prices and the need to restructure the economy for sustainable future solutions. The company has much expertise, is ambitious and is well equipped to contribute to the coming restructuring.

**Simplification is important to us. We want to be seen as an accessible company with a structure that is easy to understand.**

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The indicators in the performance management and result monitoring system, show that support from Innovation Norway has a good effect, with levels on a par with those that were recorded in 2013. The effect of participation in the innovation community is also positive. The Board is satisfied that we are able to present sound figures to demonstrate the effect that Innovation Norway has in relation to entrepreneurs and enterprises. This provides a better basis for good management and control of the company in the future.

In 2014 as before, considerable public funds have been channelled through the company. The volume of funding services has been on the same level as 2013. Changes to the rules regarding start-up grants, resulted in a rise in the number of entrepreneurs who were approved for grants by 9% compared

with 2013. This was in line with the Board's wish to reach entrepreneurs in an early phase.

Internationalisation has been an important focus area in recent years. In 2014, this led to an increase in the number of enterprises that we assisted to enter markets abroad. This suggests that we made better use of our International offices and programmes than we did in 2013.

Simplification is important to us. We want to be seen as an accessible company with an easily understood structure. We are not quite there yet. Documentation for 2014 shows that our services are effective and that the company delivers in accordance with its social assignment. At the same time, feedback from business and industry, tells us that our customers find it hard to





CHAIR OF THE BOARD

## PER OTTO DYB

get an overview of the services we offer, and the criteria for being granted support.

In spring 2014, more than 500 of our customers responded to the question of what time thieves we should remove in order to make life easier for them. Many of them pointed out the need for better digital solutions with improved self-service, and better communication.

In 2014, we have continued our efforts to improve the customer experience. As part of this, we have introduced a new customer relationship management (CRM) system.

The results show that our customers are definitely more satisfied in 2014 compared with 2013, but we still have room for improvement, and we will persist in our efforts to improve in 2015. A positive trend is

that the processing time for our services is decreasing, and particularly for services targeting entrepreneurs, where time is of essence.

In order to give clear advice to the authorities, we must base our advice on financial expertise, social analyses and our own data and experience. We still have a way to go in systemising and sharing the insight gained in the dialogue with Norwegian businesses at home and abroad. However, in 2014 we have taken some important steps in the right direction by developing common learning arenas, by using foresight and by acquiring a better knowledge base about effects and results based on the new performance management and result monitoring system.

We feel that the dialogue with our clients and owners in 2014 has been characterised

by trust and the common goal of achieving knowledge and development in the best interest of Norwegian business and industry. We have received less detailed guidelines and enjoyed more freedom to use the allocated funds in suitable areas with documented needs and a high success rate. Innovation Norway is an attractive employer with highly motivated and knowledgeable employees.

In 2015, we have been assigned more tasks at the same time as rationalisation is required of the organisation. This will be a challenge, but the Board is impressed by the willingness to change shown by our employees and managers. ■

A hammer with a black handle and silver head is positioned diagonally from the bottom right towards the center. The hammer head is surrounded by several pieces of yellow paper that appear to be torn or scattered. The background is a light blue, textured surface, possibly concrete or stone, with some small water droplets or stains.

# Restructuring

# LET US CREATE NEW NATIONAL TEAMS – TOGETHER!

**NOBODY CAN BE IN ANY DOUBT** that Norwegian business and industry are entering a period in which restructuring are required in order to survive. Nor can anybody doubt that the oil and gas industry, which our country has depended on for so long, will continue to be an important cornerstone in the Norwegian economy in the years to come.

**T**he oil and gas industry can look forward to several decades of profitable activity, and will play an important role during the period of restructuring that we are now entering. The oil is part of the solution. But oil and gas will not play the role as prime mover in the Norwegian economy. We must therefore make some choices. We have talked and debated for years; now is the time to plot a course for sustainability.

**FEELING THE EFFECTS** Let us start with a small reality check: Last year, the oil price dropped by 50%. This does not mean that Norway is facing a new dramatic period of decline. The underlying growth rate was relatively stable, and the return of the Government Pension Fund will continue to be an important source of revenue. But the declining oil price has intensified the debate on 'Norway after the oil' and made it more pressing.

The year 2014 was also a year when we finally saw signs of political willingness to address the climate crisis. The agreement between the USA and China to reduce carbon emissions can lead to greater investments in clean energy and more stringent requirements to reduce the use of fossil fuels. This will contribute to reducing the demand for fossil fuels. In other words, perhaps oil prices will rise again, but such an increase is likely to be short-lived and must not become a source of

false security, which will stand in the way of a necessary restructuring of the Norwegian economy.

Innovation Norway has already received confirmation from our offices that investments in the North Sea are declining. Statistics Norway expects petroleum investments to fall by 13 percent in 2015. The price drop will have consequences for oil and gas producers, and for their suppliers and sub-suppliers.

**CONSEQUENCES** So far, it looks as if job redundancies within these enterprises are absorbed by a mainland Norway that is eager to employ highly capable engineers and skilled workers, but there is little reason to believe that the enterprises outside the petroleum industry can offer the same high wages. The population's purchasing power is therefore likely to fall. This can have consequences for large parts of Norwegian business and industry, including industries that are far removed from the oil and gas sector. Even if some of this activity is replaced by other profitable enterprises, these new enterprises will be hard pressed to generate the same profit. Norway's taxincome will therefore decrease. In the longer term, this can lead to further budget cuts in the public sector, which will have consequences for employment and in turn generate ripple effects throughout the economy. When

people fear for the future, they tend to cut their spending, which will in turn reinforce the negative effects.

On the positive side, falling oil prices will contribute to reducing costs in some parts of Norwegian business and industry. Export enterprises will also benefit from a weaker NOK exchange rate, but this will not compensate for the drop in petroleum revenues. Nor does continued stagnation in Europe, our most important export market, bode well for the future.

The future can easily be perceived as dark. But is this really the case? No! We believe that, first and foremost, this offers us opportunities to grow in new areas and gives us greater power to carry out necessary restructuring. The opportunities will be demanding and involve some tough challenges, but we know that we have the business communities and expertise necessary to succeed.

Oil and gas represent 53% of Norway's total exports of goods. We need to restructure Norwegian business and industry, and we need innovation.

**GREEN INNOVATION** In our opinion, the most promising opportunities can be found in the area of green innovation. But other social challenges also require sustainable



PHOTO: SHUTTERSTOCK

**Investing in sustainability is both morally and socio-economically the right thing to do. It will also be commercially profitable.**

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answers, for example within the health and care sector. In the intersection between the public and private sectors, innovations can be created that can provide the basis for new business developments. Investing in sustainability is both morally and socio-economically the right thing to do. It will also be commercially profitable.

Norway has significant advantages compared with many other countries. We have strong business clusters whose expertise can be used to promote sustainability, and the petroleum sector's technology and expertise relating to the production and transportation of energy can be used in many other areas.

Norway is a small country with a small population and a domestic market the size of a medium-sized European city. We therefore need to define some strategic priorities to help switch to more sustainable business operations. Some priorities will present themselves, but the sum of profitable choices made by each individual enterprise will not necessarily satisfy all the needs of the business community and society at large. Enterprises are primarily responsible for generating earnings, and not for the fate of

Norway or the world. The political, social and cultural framework conditions are decisive for Norwegian business and industry's capacity for innovation. Our politicians, the public sector, the civil society and the business community have a joint responsibility for providing optimum framework conditions.

In brief, the transition to a more sustainable society and business development is important. The same applies for the need to create a culture for innovation, in which there is room for failure. Such a culture can be cultivated through a flexible policy instrument system and framework conditions that stimulate sustainable innovation.

Which business sectors and enterprises should participate in the new national teams? Our politicians need sound advice. We wish to collaborate with Norwegian business and industry, expert environments and politicians, in order to draw up specific advice on what the Norwegian authorities can do to support the transition to a renewed, sustainable economy. We call it the 'Dream Commitment' because it is all about our commitment to help those who dare to dream. ■



PHOTO: KETIL JACOBSEN

## MANY INTERRELATED ASSIGNMENTS

**INNOVATION NORWAY HAS MANY CLIENTS** and many different assignments that together constitute our innovation mandate. Common for all our assignments is that we must contribute to long-term and sustainable value creation and business development in Norway.

**I**nnovation Norway has 42 clients: four ministries, the county councils and the county governors. All our assignments target enterprises and require business development expertise. . Since this is common for all our activities, we are able to use the same type of expertise in everything that we do. It also means that we can make efficient use of the various

schemes that we administer in relation to a wide range of customers. We know of only three countries in the world where public services to the business community are organised in this way (Ireland, New Zealand and Norway). All three are small countries with small domestic markets. The fact that many assignments are gathered under one roof

### INNOVATIVE AGRICULTURE

**WORLD-CLASS BIOTECHNOLOGY** Norwegian Antibodies AS was formed in 1995. Today it is the world's biggest producer of antibodies from chicken egg yolks. Since its formation, the company has experienced a high rate of growth and international expansion. Production takes place to order in accordance with specific requirements, and the customers are biotechnology companies and research communities in the EU, USA and China. Norway's world-class animal health, its expertise and technology are important competitive advantages. In January 2014, Norwegian Antibodies AS was awarded Innovation Norway's Rural Development Prize together with Moer farm at Ås.



PHOTO: MARRANN TVEITE

→ By-products from the wood industry such as cutter chips, can give rise to various other high-grade products.

→→ The first aeroplanes have already tested bio-based aviation fuel.



PHOTO: SHUTTERSTOCK



PHOTO: SHUTTERSTOCK

generates synergies for Norway and for our customers.

**KNOWLEDGE ACROSS BOUNDARIES**

Innovation Norway provides services to customers in different sectors, in different phases and with different ambitions. This means that the knowledge we acquire about what is needed to succeed with innovation, market development and profitable growth in one sector can be transferred and used in relation to customers in other sectors. Innovation Norway is an important partner for the business community. While most of our services are available all over the country, some target specific regions, sectors and social challenges, for example environmental technology.

**WORLD-CLASS ENTERPRISES IN RURAL AREAS AND SPECIAL CHALLENGES** Much of Norway's exports come from rural areas. Norway has world-leading enterprises and clusters with a great potential for increased

value creation in many far-flung locations. This is also reflected in Innovation Norway's allocation of funds. In 2014, support totalling approximately NOK 900 million was granted to highly innovative projects and enterprises in rural areas in sectors such as oil and gas, seafood and the maritime sector.

At the same time, rural areas encounter major difficulties relating to great distances, a shortage of skilled labour and lack of funds. That is why Innovation Norway has a special assignment relating to regional development. Approximately 10% of our contribution of around NOK 6 billion to Norwegian business and industry in 2014 was spent on the regional development assignment.

**FROM AGRICULTURE TO BIOECONOMY**

Agriculture is a separate assignment and a large and important sector for Innovation Norway. Our efforts are intended to help to develop traditional agriculture as well as alternative business activities. An innovative

and adaptable agricultural sector is important in order to ensure our food supply and develop business activities based on farm resources. Agriculture has shown a high productivity growth in the past decade compared with other industries. Innovation Norway makes it possible to achieve a more rapid restructuring in agriculture and transfers to agriculture knowledge about profitable business development acquired in other industries that are exposed to competition. One example of this is the forest industry. In 2014, Innovation Norway and the Research Council of Norway administered SKOG22, the forest industry's own strategy process, by closely following up all parts of the industry. In the time ahead, Innovation Norway will help with the implementation of this strategy.

The agricultural assignment represented approximately 30% of the total amounts that were approved in 2014. Norway has a high level of agricultural expertise and hence also competitive advantages and favourable

**CONQUERING THE WORLD FROM VIK**

**GLOBAL IT SOLUTIONS FROM VIK** Highsoft AS was formed in 2006. Based in Vik in Sogn og Fjordane county, it has successfully developed presentation solutions for an international IT market. Software from Highsoft AS is used to display graphs, maps and diagrams, for example of currency rates or stock-exchange prices, weather data or management tools, on web sites and in web applications. Today the company has 15 members of staff in Norway, of which 11 are based in Vik, in addition to a support team consisting of three employees based in Krakow in Poland. The company is growing, and by the end of 2014 Highsoft had sold licences to 61 of the 100 largest companies in the world.



SPAREBANKEN SOGN OG FJORDANE



PHOTO: HEIDI WIDBERG



PHOTO: MORTEN BRUN

← Our oceans offer opportunities. Norway has been a pioneer nation in shipping, fisheries and aquaculture, as well as in offshore oil and gas. Looking forward, our oceans offer many new business and technology opportunities.

conditions for new growth in food production and bioeconomy.

**THE NORWAY BRAND** Innovation Norway also has a special assignment of promoting the Norway Brand to businesses abroad, investors and tourists from other countries, and introducing Norwegian products on the international market. We can also function as a door opener and help promote Norwegian business and industry internationally by organising delegation trips, participation at trade fairs and other public assignments. By highlighting the Norway Brand in important international markets, we make Norwegian business and industry more competitive. At present, only a modest share of our total assignment work relates to the Norway Brand, but the potential is considerable. We are also charged with marketing Norway as more than just a travel destination.

#### **WE ARE WHERE THE ENTERPRISES ARE**

Today, enterprises that wish to grow must

think in terms of internationalisation. It is important for Innovation Norway to be where our customers are, and we must also be present in our customers' markets. That is why we have offices in every county in Norway and in 36 countries around the world. This means that we can follow an enterprise from its start-up in the local community until the products are launched in the international markets.

Our offices abroad give us an understanding of local markets and business cultures and act as door openers and network builders between Norwegian businesses and foreign players. Proximity to the customer is and will continue to be important to Innovation Norway's development.

#### **WE ARE NOT ABLE TO HELP EVERYONE, BUT WHERE WE DO HELP, WE DO MAKE A DIFFERENCE**

Nobody is entitled to get funding for their project from Innovation Norway. We are not here to help everyone,

but where we do help, we should make a difference. When we carry out assessments of projects and customers, we consider profitability, sustainability and the potential for value creation. We have a long-term perspective, and we have clear demands and expectations of those who wish to be our customers.

Innovation Norway does not support day-to-day operations, but supports high-risk innovation projects. Bold innovation and rapid adaptation to change are important to society. We share the risk with enterprise owners, investors and banks. This means that our customers implement innovation projects that would otherwise not have seen the light of day, and that the projects are sufficiently big or are realised at a fast enough rate for our customers to succeed in the market. ■

## **NORTHERN LIGHTS SUCCESS FOR NORWEGIAN TRAVEL AND TOURISM**

**INNOVATION NORWAY** has, by means of targeted marketing, helped to secure Norway's position as the 'Land of the Northern Lights'. Over the past five years, there has been an incredible 122% growth in northern light tourism, which is currently responsible for more than 120,000 commercial guest nights. This growth alone generates revenues of NOK 143 million during a time of year which was previously a low season for the tourism industry.



PHOTO: GAUTE BRUVIK / VISIT NORWAY




## MAIN GOALS

# INNOVATION NORWAY MAKES A DIFFERENCE

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# 2,5%

Annual growth in productivity is 2.5 percentage points higher in enterprises that received support from Innovation Norway.



# 0,3%

Annual profitability is 0.3 percentage points higher in enterprises that received support from Innovation Norway.

### WHAT MAKES AN ENTERPRISE

**SUCCESSFUL?** The factors that contribute to profitable business development are difficult to measure, as many of these factors must work together in order to enable an enterprise to grow and develop. In this report, we use some financial indicators to highlight the effect we create for our customers. These indicators will only present part of the picture, however. This is particularly true for the services that primarily intend to contribute to the enterprises' expertise and capacity for innovation. In the following we will use the term 'start-ups' about enterprises that have existed for less than three years, while the term 'enterprise' when used alone refers to those that have existed for longer than that.

**SURVIVAL:** Successful start-upssurvive. An indication that we have attained our goal of helping more entrepreneurs to succeed is that there is a greater survival rate among Innovation Norway customers than among those that are not.

**HIGHER GROWTH IN TURNOVER:** Successful enterprises grow. This is an indication that we have attained our goal of creating more successful entrepreneurs and enterprises

with a capacity for growth as Innovation Norway's customers have a higher rate of growth than those that are not.

**HIGHER PRODUCTIVITY GROWTH:** More productive enterprises create more value. IT is an indication that we have attained our goal of helping more enterprises with a capacity for growth, when proved that enterprises who are customers of Innovation Norway have a higher rate of growth in productivity compared with non- customers.

**HIGHER PROFITABILITY:** In order to reward effort and generate return on the advice and capital invested, enterprises need to be profitable. Otherwise they will not survive and cannot create value for their owners or society.

### INNOVATION NORWAY IS EFFECTIVE

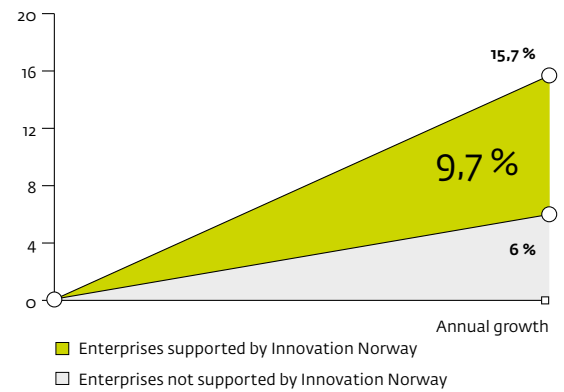
What is the effect of spending public funds on Innovation Norway? In order to measure the effect, we use a method developed by Statistics Norway, which compares Innovation Norway's customers with a corresponding group of enterprises of non-customers. The method compares enterprises using a series of parameters, including age, business sector code,



## OVERALL EFFECTS OF INNOVATION NORWAY

- Higher growth in turnover:** Enterprises that received support from Innovation Norway experienced 9.7 percentage points higher growth in turnover compared with similar enterprises that did not receive such support. This is about the same as in 2013. It means that enterprises that receive support from Innovation Norway have an annual growth rate of 15.7%. The average annual growth rate for enterprises in Norway is approximately 6%.
- Higher productivity growth:** Enterprises that received support from Innovation Norway experienced 2.5 percentage points higher productivity growth compared with similar enterprises that did not receive such support. This is slightly below the difference of 3.3 percentage points in 2013. The slight decrease in labour productivity is confirmed by the effect on the number of employees, which increased from 3.3 percentage points in 2013 to 3.7 percentage points in 2014, while value creation was reduced from 5.7 to 5.4 percentage points during the same period.
- Higher profitability:** Enterprises that received support from Innovation Norway experienced 0.3 percentage points higher return on capital (commercial profitability) compared with similar enterprises that did not receive such support. The figure is slightly lower than last year's measurement of 0.5 percentage points. The effect on entrepreneurs (start-up enterprises), established enterprises and business environments are discussed separately in the chapters that follow.

## HIGHER GROWTH IN TURNOVER PER CENT



ownership structure (ownership concentration) and assets.

Based on this, a control group is established, which is used to compare developments in turnover, profit and productivity.

The comparison provides a good indication that the funds channelled through Innovation Norway have an effect. The figures are sound, showing only small variations in 2014 compared with the figures for 2013.

The effect indicators confirm our customers' own responses to the questions of whether their financial performance has improved as a result of Innovation Norway's contribution and whether the collaboration with Innovation Norway was decisive for implementation ('triggering'). The proportion of customers who reply that Innovation Norway had a triggering effect has been consistently high and increased somewhat during the period 2002–2013. ■

## METHOD OF MEASURING EFFECT

The method is a reasonably standard method of comparing enterprises, described in the literature. The analyses by Statistics Norway look at changes in outcome variables (such as turnover) in the same enterprises over time rather than statistical level differences between enterprises supported by Innovation Norway and the control group. Stable, enterprise-specific differences between enterprises that receive support and the control group are therefore not a problem in Statistics Norway's analyses.

Obviously, over time, changes in the outcome variables can also be affected by (unobservable) variables that are systematically different in Innovation Norway-supported enterprises and the control group. It is not possible to fully control for this type of unobservable heterogeneity. Statistics Norway is therefore reluctant to interpret the results of the analyses as causality, i.e. as a manifestation of contra-factual differences in innovation and value creation within the same enterprises – with or without support from Innovation Norway.

When considering sources of bias in the effect estimates, account must also be taken, however, of the fact that Innovation Norway will not grant funding to enterprises with growth ambitions that are able to obtain funding in the private capital markets. Such enterprises could be part of the control group.



**Entrepreneurs**

## SUB-GOAL 1

MORE SUCCESSFUL  
ENTREPRENEURS

**THERE IS NO SHORTAGE OF ENTREPRENEURS** in Norway. Many companies are formed every year, but most of them remain small and few succeed internationally. What is it that enables some of them to move forward?

**R**esearch shows that the fastest-growing enterprises are the most successful because they have bigger dreams than the rest. The goal is not to establish as many enterprises in Norway as possible, but to help promising start-up enterprises to grow. In order to help more enterprises to set ambitious goals, Innovation Norway has developed several projects in recent years, where start-ups with international potential can learn about international business development from the best environments.

**BETTER ENTREPRENEUR ENVIRONMENTS** We have seen a positive growth of privately initiated entrepreneur communities in several parts of the country during the past two years. Such environments help to create enthusiasm and an entrepreneurial culture in which it is attractive to take chances and live out one's dream of creating

something of one's own. Innovation Norway has a positive collaboration with these environments and has supported several of their initiatives.

**HOW DO WE WORK?** Traditionally, the lack of successful entrepreneurs has been explained by challenges relating to funding. However, new knowledge indicates that a lack of business expertise and market orientation among entrepreneurs shows as much of a challenge as the lack of capital. Innovation Norway has made several changes in recent years in order to make more entrepreneurs aware of the need for market orientation and the importance of meeting market demands.

**CHANGES TO THE START-UP GRANTS SCHEME** In 2014, we have made several changes to the start-up grant schemes. Funds are made available to more start-ups

in an early phase, which makes it easier for individual start-ups to test their business concepts in the market without taking too great a risk. We also put greater emphasis on ensuring that the help we provide should contribute to improve the customer dialogue, providing faster case processing and better information, and simplifying the application forms. The entrepreneur helpline was introduced at the start of 2014 to make us more accessible to entrepreneurs who need advice, guidance or somebody to play ball with. We helped a total of more than 4,000 entrepreneurs in the course of the year. In response to feedback from our customers, the opening hours of the entrepreneur helpline will be extended in the near future. We are also in the process of setting up a new online forum and blog for entrepreneurs and start-ups (Gründerpulsen).

SALT LOFOTEN AS  
NORDLAND

## OUR CONTRIBUTIONS:



**THE KNOWLEDGE ENTERPRISE SALT LOFOTEN AS RECEIVED THE FEMALE ENTREPRENEUR OF THE YEAR** award for 2014. The enterprise was established in Svolvær in 2010 by entrepreneurs Kriss Rokkan Iversen and Kjersti Eline Tønnessen Busch. The business concept is to offer highly sought-after knowledge and services relating to sustainable use of marine areas and resources in a global perspective. The company now has a staff of five, whose expertise ranges from marine system ecology and aquaculture to management, innovation and entrepreneurship. SALT has previously been awarded a prize for its achievements by the Ministry of Fisheries and Coastal Affairs.



PHOTO: ESPEN MORTENSEN

# 21%

Start-ups that received support from Innovation Norway had 21% higher turnover in growth compared with enterprises that did not receive such support.

**GOOD RESULTS** Approximately 15% of the funds that were approved went to entrepreneurs and start-up enterprises (younger than three years) in 2014. This is much the same as in previous years.

We are very pleased that the figures from Statistics Norway indicate that Innovation Norway's efforts in relation to entrepreneurs remain effective (see framed text). The description of the projects that were approved in 2014 also shows that there was a big increase in the proportion of projects involving innovation at an international level from 2013 to 2014. In 2014, half the entrepreneurs had a project that was considered innovation at an international level. This represents an increase of almost ten percentage points in relation to 2013. We

believe that most of this increase can be explained by the fact that there has been more emphasis on offering competence and network services relating to international market and business development for entrepreneurs in recent years. However, the level of innovation differs widely in different parts of the country. In rural areas, the share of projects that involve innovation at an international level is less than half of what we see in central areas. However there has been a nationwide increase in the proportion of high-level innovation projects.

**IMPROVED EXPERTISE** Four years after funding a project, we ask our customers whether the project contributed to improving expertise in the enterprise. Half the start-ups confirm that the project

helped to increase their expertise in different areas. Our contribution to improving expertise has remained stable for the past three years.

**REMOVING TIME THIEVES** In autumn 2014, we obtained input from more than 500 customers concerning which time thieves they thought Innovation Norway should remove. The young enterprises (younger than three years) primarily pointed to the need for faster processing, better self-service solutions and improving our role as business partner. The input received will be important in the further development of our services to entrepreneurs. ■

## CRYOGENETICS AS HEDMARK COUNTY

### OUR CONTRIBUTIONS:



**EXPERTS IN BREEDING** Cryogenetics AS originates from the competent stock breeding community in the Hamar region. The company has specialised in new, innovative technology and services to make fish reproduction more efficient and ensure genetic diversity. Customers include different players in the environmental management, research, aquaculture and hydropower sectors all over the world. The company employs 18 full-time equivalents, of which 8 work in the head office in Hamar, where the research and development work takes place. The company has branches in Canada, Chile, the USA and the UK.

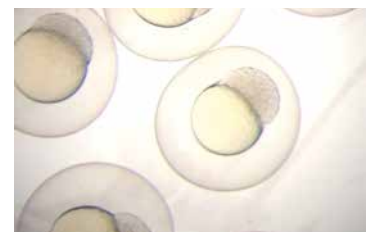
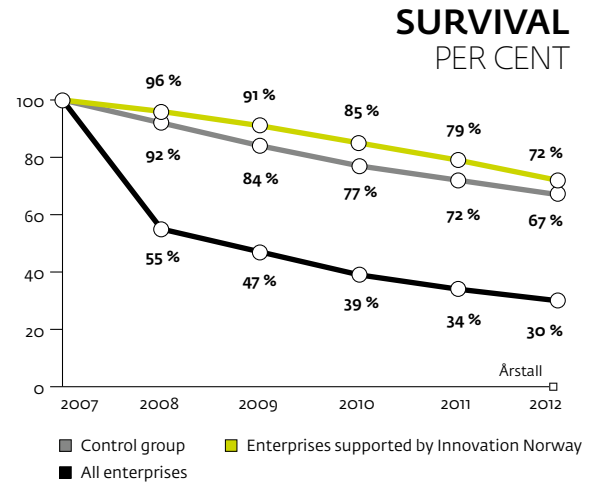


PHOTO: CRYOGENETICS

## CONTINUED POSITIVE EFFECT

Figures from Statistics Norway show that Innovation Norway continues to have a positive effect on the turnover and survival rate of start-up enterprises.

- **Higher growth in turnover:** Entrepreneurs that have been granted support from Innovation Norway have 21 percentage points higher growth in annual turnover for three years following the year in which they received support compared with similar start-ups that received no such support.
- **Higher survival rate:** An indication that we succeed in helping more entrepreneurs to succeed is the higher survival rate among start-ups that are customers of Innovation Norway compared with those that are not. The figures show that 72% of the supported enterprises remain active five years after their inception in 2007, compared with 67% of the enterprises in the control group. This is slightly lower than what we found to be the case in 2013. By comparison, only 30% of all enterprises that were started up in 2007 are still in operation five years later.



## BIG DREAMS – A GOOD STARTING POINT FOR STEEP GROWTH

In recent years, Innovation Norway has developed several global competence programmes to offer start-ups with international potential. In 2014, we launched three new global services aimed at Norwegian start-up enterprises. They all focus on international business development, and the programmes are offered under the heading Global Entrepreneurship.

- **TINC (Tech Incubator) in Singapore**  
Six early-phase enterprises were given the opportunity to approach the fragmented Asian markets at lower risk to themselves.
- **Entrepreneurial Marketing in New York**  
Nine enterprises learnt about how growth and scaling can be achieved through improved marketing, sales and branding.
- **Business Bootcamp in Norge**  
Twenty-six early-phase start-ups were given international expert guidance on how to build a lean and scalable enterprise.

In addition, 48 enterprises were 'trained' in international business development through close contact with expert environments in London, Boston and Silicon Valley.



### THE TINC PROGRAMME OPENS DOORS

The Tech Incubator (TINC) programme and Innovation House in Silicon Valley were door openers for the successful entrepreneurs behind Dirtybit. Dirtybit was formed in 2011 based on the business concept of developing mobile games. In 2012, it launched the Fun Run game app., which has been downloaded more than 50 million times. Fun Runz was launched in December 2014, and had been downloaded more than ten million times by February 2015.

Today, Dirtybit is based in Bergen and employs a staff of nine. Among other things, the TINC programme helped put the enterprise in touch with important contacts in Apple, Google and Amazon.

## BRIGHT PRODUCTS AS OSLO

### OUR CONTRIBUTIONS:



**LAMP WITH BRIGHT PROSPECTS** Bright Products has collaborated with K8 Industridesign to develop two solar powered lamps that can be used as reading lamps, ceiling lamps and torches. The SunBell model can also be used to charge mobile phones. The objective was to find a replacement for the polluting and expensive kerosene lamps that are used in the poorer parts of the world. With the United Nations High Commissioner for Refugees (UNHCR) as its biggest customer, the company had sold 210,000 lamps to more than 20 countries by the end of 2014. It aims to sell one million units by 2018. The lamps have been awarded a number of prizes.



PHOTO: KRISTIAN BRE



**Growth enterprises**

## SUB-GOAL 2

# MORE ENTERPRISES WITH CAPACITY FOR GROWTH

**ONLY A SMALL PROPORTION** of Norwegian businesses can be described as high-growth enterprises. Nevertheless, they play a very special role in the economic development, which is why Innovation Norway aims to cultivate many more enterprises that have the capacity and will to grow.

**I**n 2013, there were 723 high-growth enterprises in Norway. This amounts to less than 0.5% of all enterprises with employees, but represents 3.6% of those that had ten or more employees in 2010. They play a very special role in economic development, however, which is why Innovation Norway aims to cultivate more enterprises that have the capacity and will to grow.

**HOW DO WE WORK?** The first step on the way to becoming an enterprise with the capacity to grow is to dare to set ambitious goals. It also requires a team of people who are willing to learn a lot in a short time and work hard to succeed. This is why it is important for us to find customers with a special potential for growth, and to offer them more targeted services. A growth enterprise needs funding to reduce the risk, but it also needs support in the form of expertise and access to new markets and networks. In 2014, we have therefore made a conscious effort to encourage such customers to use our international offices and other advisory services.

**GROWTH MUST TAKE PLACE ABROAD ...** Norwegian enterprises with a high growth potential are often niche-oriented. This

means that the domestic market is too small for enterprises with good business concepts and highly specialised skills to realise their growth potential. If such enterprises are to grow, they have to succeed internationally.

Establishing oneself in a new market is both costly and risky. Products must be adapted to new standards, approved or tested. Other challenges are lack of market knowledge, language, legal aspects and business culture. Small and medium-sized businesses often lack necessary expertise and financial muscle.

Roughly a third of Innovation Norway's funding, more than NOK 2 billion, is spent on internationally oriented projects. Our EU advisers all over Norway seek to find market opportunities, projects and partners within the EU. Innovation Norway also has offices in more than 30 offices worldwide and knows the local markets, bring home market opportunities and help to introduce enterprises to the international markets.

**RESULTS AND ASSESSMENTS ...** In 2014, approximately 80% of the funds that were approved (approximately NOK 5 billion) went to established enterprises (older than three

years). This is on a par with previous years.

In 2014 we made a special effort to identify more enterprises with a capacity for growth and to get them to use our services. One of the results was that Innovation Norway provided advice or competence development measures in various areas to 30% more customers in 2014 than in the previous year. The effect indicators (see the fact box) show that our customer enterprises experienced a growth of 3.0 percentage points (compared with 2.4 in 2013) and 5.0 percentage points (compared with 5.3 in 2013) respectively.

Nine out of ten enterprises (the same number as in 2013) stated that the support triggered their project to a high or medium high degree. On the whole, there are only small changes in the risk situation for enterprises that were approved in 2014 compared with 2013.

**LEVEL OF INNOVATION** Innovation is an important driving force for economic growth and an important part of Innovation Norway's work. Our customer advisers therefore look at the extent to which a project or service is innovative before granting support to an enterprise. In 2014, 18% of the

## RESMAN AS SØR-TRØNDELAG COUNTY

### OUR CONTRIBUTION:

**F**

**RESMAN AS IS A GROWING** internationally oriented company that develops, operates and maintains sensors for reservoir management in the oil and gas industry. The technology is currently used in more than 280 wells all over the world. Customers include the majority of the major and most well-known operator companies in the oil and gas industry, in addition to a number of smaller operator companies. Resman has nearly 70 employees, and its head office, production facilities and laboratories are located in Trondheim. The company also has its own sales offices in Aberdeen, Stavanger, Houston, Rio de Janeiro, Abu Dhabi and Kuala Lumpur.



PHOTO: KRISTIAN BYE

funds were allocated to projects that were considered to represent new way of thinking in a global context (innovation at the international level). This represents an increase of two percentage points compared with 2013.

**GROWTH POTENTIAL** Simple statistics based on the data used in the effect measurements show that there were almost four times as many high-growth enterprises among Innovation Norway's customers as in the control group.

In 2014, we changed our procedures for identifying and registering our customers' growth potential to make it easier to ensure that we work with the right customers. Our customer advisers are now required to always consider whether enterprises have high, medium or low growth potential. The data so far shows that approximately 15% of our customers are considered to have a growth potential of at least 20% over a four-year period. There are wide variations in growth potential between different sectors. In Agriculture and Travel and Tourism, about 10% of the enterprises are considered to have high growth potential, while the corresponding figure is approximately 50% for Energy and Environment, and Oil and Gas. This affects our approach to these sectors as well as the effect that we can expect from our efforts. Our goal is in any case to increase the share of enterprises with growth potential.

The level of innovation in a project is neither a precondition nor sufficient for an enterprise to succeed in its efforts to grow. This varies from one sector to another. In the oil

and gas sector, almost all enterprises with a high growth potential have been granted support for highly innovative projects. In the maritime sector, on the other hand, there are many enterprises with a high growth potential in which the project that we support does not represent innovation at the international level.

**INTERNATIONALISATION** We saw a clear increase in the demand for our international services in 2014. In total, we delivered approximately 1,800 extensive advisory assignments and international company visits to our customers. In addition, we dealt with approximately 1,850 minor customer queries relating to export and internationalisation.

Around 200 customers received advice and found partners in the EU. This is about the same level as in 2013. In addition, the demand for courses and simple queries increased to 1,650. The demand is particularly great for advice relating to the EU framework programme Horizon 2020, which now makes up 65% of all advice relating to the EU. This is a positive development and means that Norway is getting more in return for the funds it contributes to the EU programmes.

Our offices abroad delivered international advisory services to many more customers than before. In 2014, such advisory services increased by 50% compared with 2013. The biggest increase relates to our nearest markets in Western Europe, while the increase is smaller than expected in relation to demanding markets such as Russia, China and Indonesia. Collaboration between

Innovation Norway's district offices and its offices abroad has improved, and during the second half of 2014 we intensified our effort to introduce more enterprises to international markets through what we refer to as multi-enterprise projects. When several enterprises approach a market together, their opportunities for learning and sharing knowledge are multiplied at the same time as the need for resources from Innovation Norway is reduced. This strategy has proved successful and some foreign regions have seen a very positive development. We have set even higher goals for our international activities in 2015.

**SATISFIED CUSTOMERS ...** It is important that the services provided by Innovation Norway are perceived as relevant by our customers. When asked, nine out of ten customers reply that they are satisfied with the help they have received from Innovation Norway's offices abroad. It is worth noting that nearly half of them express a high or very high degree of optimism about their prospects for future growth.

Around half of our customers say that, in addition to financial services, they have also been provided with expertise that was appropriate to their needs. These figures are also positive for our advisory services. For example, six out of ten customers who received advice relating to the EU in 2014 reported that the advisory service led to 'an important positive overall result' for the enterprise. In another survey, an equal proportion of customers agreed that the help they had received could have a concrete financial effect for their enterprise. ■

## COLDWATER PRAWNS OF NORWAY AS MØRE OG ROMSDAL COUNTY

### OUR CONTRIBUTIONS:



**ENTERPRISE OF THE YEAR 2014** Coldwater Prawns of Norway AS is the only company that offers 100% Norwegian environmentally certified cold-water prawns. With its strong and attractive brand, Coldwater Prawns of Norway has succeeded in conquering new markets in Europe, the USA and Asia. The company has actively cooperated with Innovation Norway's offices in these markets, and is currently responsible for 90% of all export of prawns caught by Norwegian vessels in the Barents Sea. Coldwater Prawns of Norway AS was elected Enterprise of the Year in 2014.



PHOTO: COLDWATER PRAWNS

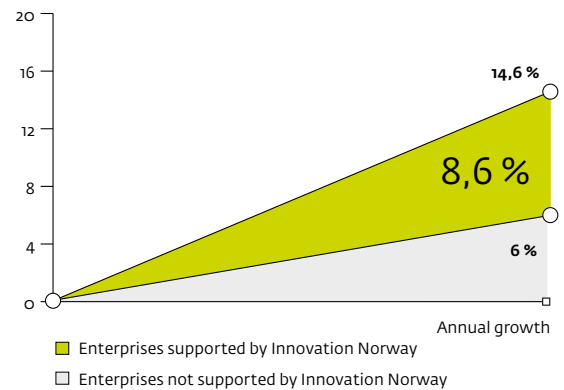


## EFFECT INDICATORS

Statistics Norway's analyses for 2014 largely confirm the figures from 2013. The effect indicators appear to be reasonably sound.

- **Higher growth in turnover** The growth in turnover was 8.6 percentage points higher in enterprises that were customers of Innovation Norway than in the control group (compared with 8.4 percentage points the year before).
- **Higher productivity growth** Productivity growth was 2.6 percentage points higher in enterprises that were customers of Innovation Norway than in the control group (compared with 3.5 percentage points the year before).
- **Higher profitability growth** Profitability growth (total return on capital) was 0.37 percentage points higher in enterprises that were customers of Innovation Norway. There was no significant difference in this indicator compared with the year before.

## TURNOVER EFFECT PER CENT



## INNOVATION AND GROWTH IN AGRICULTURE

### Eight dairy farms in Nordland county improved their performance by 40% after investing in new production equipment with funding from Innovation Norway.

As we lack sufficient data, it has been difficult to measure the effect of Innovation Norway's measures in relation to agricultural customers using the same method as for other customers. As an example of the potential effect of investments in agriculture, we have instead taken a closer look at eight dairy farms in Nordland that received assistance in the form of funding from Innovation Norway. Contributions to the renewal of production facilities on dairy farms are an important part of Innovation Norway's activities in relation to the agricultural sector, and represented around 50% of the grants awarded to traditional agriculture in 2014. The eight farms spent loans and grants of

between NOK 3.5 and 9 million on investments during the period 2005–2008. A review was carried out of their income statements for 2009 and 2014, and the farmers were interviewed about their experience relating to their development and operation of the farms. The information was compared with the results from a control group consisting of comparable dairy farms in Nordland used by Tine in its efficiency monitoring.

The 2009 review yielded mixed results, as many of the farms had not yet reached their planned production volumes. In 2014 all the farms had reached their planned production volumes with a resulting increase in turnover and operating profit.

On average, the eight farmers had improved their results by around 40% from just over NOK 1.6 million to almost NOK 2.3 million per farm. All the

farmers now earn more per litre of milk and get more out of each hour they put in, but their costs are slightly higher than in the control group.

None of the farms would have invested without grants from Innovation Norway. Three of eight farms stated the farm would no longer have been operative had it not been developed. Four of the rest think that they would still be operative, but the scope of their operations would only have been about one third of what it now is. This supports the conclusion that was reached in an evaluation of the Rural Development Fund, which showed that support for investments in agriculture is an effective policy instrument.

According to the feedback, investments in new and bigger production facilities are decisive in relation to getting the next generation to take over the farms.

## DELITEK AS NORDLAND COUNTY

### OUR CONTRIBUTIONS:



**GROWTH ENTERPRISE WITH THE WORLD AS ITS MARKET** The business concept was coined as a result of reported large volumes of waste from shipping in the Barents Sea. From its base in Alsvåg in Vesterålen, Delitek AS has taken the position of market leader in the manufacture and supply of patented waste compressors adapted to different vessels and other maritime industry, with Asia as its biggest market. The family-owned company has 12 employees and has grown at a rate of over 60% for the past three years. Product innovation, communication and professionalism are key words that explain the company's success. In 2014, Delitek AS was elected Growth Enterprise of the Year in Northern Norway.

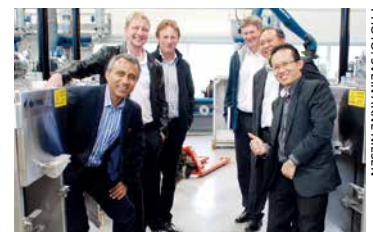


PHOTO: SVEIN ARNE NILSEN



**Business communities**

## SUB-GOAL 3

# MORE INNOVATIVE BUSINESS COMMUNITIES

**IF NORWEGIAN ENTERPRISES** are to become more internationally competitive in the future, they must collaborate on innovation and business development. Clusters and networks are useful instruments for that purpose.

**E**nterprises that collaborate are more innovative, more productive and more competitive. The majority of Norwegian enterprises are small. If Norwegian business and industry are to deliver on global environmental and social challenges, the best enterprises and business communities must work together. That is why Innovation Norway seeks to strengthen collaboration between enterprises and knowledge communities through our cluster and network programmes.

## NEW COMPREHENSIVE CLUSTER

**PROGRAMME** The cluster programme supports long-term collaboration processes that promote innovation and make enterprises more competitive. In 2014, we established a new comprehensive cluster programme: Norwegian Innovation Clusters. It consists of three levels and offers customised support for clusters in different

phases of development: Arena, Norwegian Centres of Expertise (NCE) and Global Centres of Expertise (GCE). The programme is a collaboration between Innovation Norway, the Industrial Development Corporation of Norway (SIVA) and the Research Council of Norway.

**IN GREAT DEMAND** The call for applications in 2014 resulted in 33 applications from different business communities. Funding was approved for eight cluster projects, including the first two projects to be awarded Global Centres of Expertise (GCE) status. The response to the call for applications was very good, which indicates that the programme meets a need.

**BUSINESS NETWORKS** Business networks support collaboration for specific commercial purposes. Sixteen business networks were started in 2014. At the end of 2014, we

## FOUR MAIN SERVICES ARE INTENDED TO STIMULATE COLLABORATION AND DEVELOPMENT OF BUSINESS COMMUNITIES

- **Norwegian Innovation Clusters** shall trigger and strengthen collaboration in regional business clusters, make the clusters more dynamic and attractive, and make the enterprises more innovative and competitive.
- **Business Networks** supports small and medium-sized businesses that enter into commercially strategic collaborations with other enterprises.
- **Competence Development** in regional business communities shall make relevant expertise more accessible to enterprises in the regions through collaboration with universities and university colleges.
- **Regional Development** shall provide guidance and quality assurance to local authorities in municipalities/regions with development/restructuring status.

## NORWEGIAN SMART CARE CLUSTER ROGALAND COUNTY

### OUR CONTRIBUTION:



**ARENA FOR WELFARE TECHNOLOGY** The goal of the Norwegian Smart Care Cluster in Rogaland County is to develop welfare technology solutions for the future. By welfare technology we refer to user-oriented technology intended to support and improve user security and safety and enable them to be more self-sufficient and participate in decision-making, to improve their quality of life. The cluster aims to get support for the establishment of a joint demonstration and learning centre together with the R&D environments, the municipalities and the hospital in the region. The cluster, which comprises 39 enterprises, was given ARENA status in 2014.



PHOTO: NORSK TELEMEDISIN

## IN THE PREMIER LEAGUE OF THE BUSINESS WORLD

In June 2014, Blue Maritime in Møre og Romsdal county and the NODE oil and gas cluster in Agder county were awarded status as Global Centres of Expertise (GCE). This title is reserved for business clusters that are world leaders within their field.

GCE NODE (Norwegian Offshore & Drilling Engineering) has about 60 business partners that develop and deliver technology and systems for offshore drilling and platform operations to the oil and gas sector globally.

GCE Blue Maritime has more than 210 enterprises that design, build, fit out and operate advanced vessels for the petroleum sector worldwide.



PHOTO: TERJE BORUD / INNOVASJON NORGE

From the left: Per Erik Dalen, general manager of GCE Blue Maritime, Minister of Trade and Industry Monica Mæland and Anne-Grete Ellingsen, cluster manager in GCE NODE.

were involved in a total of 40 business network projects, comprising a total of 385 enterprises. The Business Networks service is also in great demand.

**THE REGIONAL DEVELOPMENT PROGRAMME** Innovation Norway is a national centre of expertise for regional restructuring. In 2014, Innovation Norway acted as adviser to 30 municipal restructuring projects.

**COMPETENCE DEVELOPMENT IN REGIONAL BUSINESS COMMUNITIES** This service was launched in 2014 in order to

create stronger links between business and knowledge environments. The first seven projects were approved in March 2014. Eleven projects were approved following a call for applications half way through the year. There is great interest in this service.

**RESULTS AND ASSESSMENTS** Innovation Norway will contribute to strengthening the collaboration between the participants in the clusters and collaboration with external enterprises and knowledge communities. The number of new and improved collaborative relations is therefore an important performance indicator. In order to measure

this indicator, a questionnaire survey was carried out in 2014 among enterprises that participate in clusters and networks. It is the first time that Innovation Norway uses this method of reporting, and we must therefore be careful not to draw any definite conclusions at the present time. In addition, an external evaluation has been carried out of the Business Networks service.

**MANY NEW COLLABORATIVE RELATIONS** On average, the participants in the cluster programme established 14 new relations in 2014, about half of which were with partners inside the cluster and half

## NCE RAUFOSS OPPLAND COUNTY

### OUR CONTRIBUTION:



**NCE RAUFOSS WAS ELECTED NORWAY'S BEST INNOVATION COMMUNITY IN 2014** As one of the first Norwegian Centres of Expertise (NCE), the 17 member enterprises have collaborated with SINTEF, local authorities in the host municipalities and educational institutions to create a centre of expertise for Norwegian onshore industry. The cluster aims to strengthen the participants' innovative power and competitiveness to boost value creation and development. The enterprises in the cluster have a total of 5,000 employees and exports account for 85% of their turnover. The biggest markets are the global automotive industry, the defence industry and the electronics industry.



PHOTO: NCE RAUFOSS

## R&D AND INTERNATIONAL BUSINESS DEVELOPMENT

The annual reports from the 35 cluster projects show how many new development projects Arena, NCE and GCE have helped to facilitate:

- **658** innovation projects, of which about two out of three involve R&D players
- **261** projects in which the cluster enterprises have collaborated on international business development
- **120** projects to develop new or improved educational programmes
- **308** projects aimed at other competence development measures

The cluster projects report a total net increase of 159 participants. This indicates that cluster collaboration is perceived as positive and attracts new participants. It was reported that 89 new enterprises/projects had been initiated with a view to new start-ups in the business communities.

## BUSINESS NETWORKS

The evaluation of the Business Networks service concluded that the service had '... a clear effect on the ability and willingness to collaborate.'

'... a majority of the enterprises see it as likely that they will collaborate on other projects in the future. The enterprises also take a positive view of the prospect that their collaboration project will lead to more collaboration with external players, particularly suppliers and customers.'

(Damvad, 29 January 2014)

with parties outside the cluster. As expected, the survey showed that enterprises that participate in Arena are more likely to seek partners inside the cluster, while enterprises in the more mature NCE and GCE clusters establish slightly more relations outside the cluster. This distinction becomes even clearer when we compare enterprises in early-phase clusters (years 1–3) with enterprises in the more mature clusters (older than 4 years) in Arena and NCE/GCE. We see the same pattern when we look at new relations with R&D and knowledge institutions. The NCE and GCE enterprises consistently tend to establish more new

knowledge relations than the Arena enterprises.

**BUSINESS NETWORKS** The 104 enterprises that responded to the survey reported a total of 1479 collaborative relations with new partners during the past year as a consequence of their participation in the business network. On average, each enterprise established 14 new relations.

**CLUSTER PARTICIPANTS GROW FASTER** Effect analyses by Statistics Norway indicate that there are significant differences in turnover and profitability between enter-

prises that participate in a cluster and the control group. During the first three years of participation in a cluster, enterprises have 12.9 percentage points higher growth in turnover, and we also find a significantly higher growth in the number of employees (8.3 percentage points). As regards profitability (return on total capital), the figures indicate slightly lower growth among cluster enterprises than in the control group enterprises. ■

## ARENA USUS AGDER AND TELEMARK COUNTIES

### OUR CONTRIBUTION:



**THE CUSTOMERS DO THE MARKETING** Arena Usus is a cluster for enterprises in the travel and tourism, experience and culture industries in Agder and Telemark counties. The cluster has existed since 2010 and has about 100 member enterprises, all with an above-average focus on satisfying their customers. Usus is Latin and means usage, custom, experience, expertise, advantage and profit, and Arena Usus has adopted the slogan 'Our guests are our best marketers.' The vision is for nine out of ten customers to return. Arena Usus has received international recognition for its market concept.



PHOTO: HUTCHINSON, VISIT SØRLANDET



## **Board of Directors' report**

# BOARD OF DIRECTORS' REPORT 2014

**INNOVATION NORWAY** was formed on 19 December 2003 and is co-owned by the Norwegian State, represented by the Ministry of Trade, Industry and Fisheries, with an ownership interest of 51%, and the county authorities with an ownership interest of 49%. The company is organised as an enterprise established by special legislation, whose Board of Directors has an independent responsibility for its activities and the results achieved.

**I**nnovation Norway's objective is to be the State and the county authorities' instrument for achieving value-creating business development throughout the country.

Innovation Norway's main purpose is to trigger business development that is profitable from both a commercial and a socio-economic perspective, and to help different regions to realise their potential for business development. This goal is to be achieved through the sub-goals of more successful entrepreneurs, more enterprises capable of growth and more innovative business clusters.

Innovation Norway receives allocations and assignments in yearly assignment letters from the Ministry of Trade, Industry and Fisheries, the Ministry of Local Government and Modernisation, the Ministry of Agriculture and Food, the Ministry of Foreign Affairs, the county authorities, the county governors and other public bodies.

Our main goal and sub-goals form the basis for Innovation Norway's dialogue with its owners and clients. Innovation Norway's activities and priorities shall be in accordance with the goal structure and the company's activities shall contribute to goal attainment.

Innovation Norway offers five types of services: funding services, competence services, advisory services, networking services and promotional services.

**GOOD EFFECTS** Innovation Norway has many clients and many different assignments. The common denominator in all our assignments is that we should contribute to value creation and business development in Norway. In 2014 considerable funds have been channelled into value generating business development throughout Norway. Appropriations from the Storting and county councils totalled NOK 2.8 billion. As some of these funds were converted to loans, the total approved support for business development amounted to 6.1 billion. These funds triggered nearly twice that amount in investments from business and industry.

Figures from Statistics Norway show that support from Innovation Norway continues to have a good effect. Figures show that enterprises that received support experienced 9.7% higher growth in turnover, 2.5% higher growth in productivity and 0.3% higher profitability than enterprises in a control group. This is about the same as in 2013. The effect of participation in innovation milieus is also positive. The Board is satisfied that we are able to present sound figures showing the effect that Innovation Norway has in

relation to individual enterprises. This provides a better basis for good management and control of the company in the future. One challenge is the fact that the company does not have equally good documentation of the effects of all its services. In particular, it is necessary to obtain better documentation of the effect of competence and advisory services in the time ahead in order to provide a more accurate overall picture of the effect of the company's activities.

In 2014, considerable public funds were channelled through the company. The total volume of funding services was about the same as in 2013. The proportion of projects considered to be innovative at an international level (world news) increased from 2013 to 2014, particularly among entrepreneurs and start-up enterprises. This represents a positive development and can, in time, contribute to better goal attainment. The volume of competence and advisory services has increased somewhat compared with 2013, with a particular increase in the number of projects involving international market advice provided by our offices abroad. There has also been increased activity for services under the Global Entrepreneurship programme.

**THE OWNERS' EXPECTATIONS** Innovation Norway's Board of Directors is responsible for following up the owner's expectations of the company. Once a year, the Board of Directors reports on how the owners' expectations have been followed up, current status and goal attainment are discussed in a meeting between the owners and the chair of the board.

The owners have prepared four goals that define the direction in which Innovation Norway should develop:

1. A greater focus on internationalisation work
2. Simplification of the policy instrument portfolio
3. A good customer dialogue
4. A clearer innovation policy adviser role

In 2014, the administration focused on these four goals.

Internationalisation has been an important focus area in recent years. In 2014, there was an increase in the number of projects in most markets where Innovation Norway is represented. This suggests that we made better use of our offices abroad and our international programmes than we did in 2013. There was also more collaboration between offices in Norway and offices abroad in 2014 compared with 2013. Innovation Norway's

international presence is reviewed annually. A strategic council makes recommendations about adjustments and/or changes to the company's international presence, including proposals to establish new office locations. It is up to the Board to decide where the company's offices abroad should be located. In the Board's opinion, the company's international presence in 2014 was well adapted to the needs of business and industry and the company's assignments.

Simplification is an important focus area for Innovation Norway. We have good documentation showing that our services were effective and that the company delivered on its social assignment in 2014. At the same time, we continue to receive feedback from business and industry that our policy instrument portfolio is still too complex and that the criteria for being granted support are difficult to understand. In spring 2014, more than 500 customers responded to a 'time-thief initiative' from Innovation Norway. Many of them pointed to the need for Innovation Norway to improve its digital solutions by introducing more self-service solutions and an improved communication. A higher assignment volume in combination with a cut in the administration costs, also point out the need for the company to prioritize digitalisation in the times ahead.

Good customer dialogue and positive customer experience were also given high priority in our internal work in 2014, and the results show improvement compared with 2013. We will maintain a strong focus on simplification and customer satisfaction in 2015. However, we are very pleased to see that case processing times are decreasing across our services, and particularly for services targeting entrepreneurs and start-up enterprises, where time is of essence.

In order for Innovation Norway to be a clear adviser to the authorities, the advice we give should be based on financial, economic and social analyses, and on analyses of our own data and experience gained through close contact with customers in all counties in Norway and in more than 30 countries worldwide. Innovation Norway still has improvement potential when it comes to systemising and sharing more of the insights gained through the customer dialogue with Norwegian businesses both at home and abroad. In 2014, the company took some important initiatives by developing common learning arenas and acquiring a better knowledge base about effects and results based on the new performance management and result monitoring system. The Board believes that the dialogue with our clients and owners in 2014 was characterised by a shared ambition of achieving learning and development in the best interest of Norwegian business and industry. Innovation Norway received fewer guidelines and enjoyed slightly more freedom to reallocated budgetary funds to areas with documented needs and a high rate of goal attainment.

**COST-EFFECTIVE OPERATION** The Board monitors cost developments in the company throughout the year and expects efficient operations and responsible administration of public funds. The costs of making deliveries under the different schemes are followed up through regular reporting and evaluation. The evaluation of our lending activities showed that Innovation Norway had slightly higher operating costs than comparable functions in the market. However, as a result of its role as the Norwegian State and the county authorities' policy instrument for achieving value-creating business development throughout the country, Innovation Norway is subject to additional requirements and expectations. Innovation Norway also works to a decentralised delivery model under which the company's presence in every county ensures proximity to its customers.

The years from 2004 to 2014 have seen a considerable growth in the company's activities. Annual gross approved funding for Norwegian business and industry has increased from NOK 3.9 billion to NOK 6.6 billion. During the same period, total costs have increased from NOK 0.9 billion to NOK 1.4 billion. The company's costs have developed in step with the scope of its activities. The Board points out that it is difficult to see how costs have developed from the annual accounts, as the accounts include both the costs of delivery and the costs of activities in relation to customers and projects.

In 2015, the company will intensify its efforts to find good indicators to describe and detail the cost-efficiency development.

There is a potential for rationalisation of Innovation Norway's activities. Systematic work is being carried out to rationalise work processes in order to provide a basis for smarter and more customer-friendly collaboration. The Board considers greater investments in new digital communication and collaboration processes to be absolutely crucial to the further development of Innovation Norway as a customer-oriented and efficient organisation.

Innovation Norway's investments in ICT over the past ten years have been moderate. Together with the company's clients and owners, the Board will facilitate an increase in ICT investments in the next 3–5 years. This will be done with a view to digitalising our activities, streamlining our customer processes, reducing case processing times and facilitating increased use of self-service solutions. Among other things, we aim to put customers in contact with the right services/expertise more quickly and to make the company more cost-effective. At the same time, work is in progress to implement a new organisational structure, adopted in December 2014, which will underpin and enable us to realise our ambitions.

**COLLABORATION WITH OTHER PUBLIC FUNDING AGENCIES** Innovation Norway, the Research Council of Norway and SIVA are the three most important agencies in the government's system of policy instruments aimed at business and industry. Separately and together, these three agencies are intended to contribute significantly and efficiently to Norwegian business and industry's innovative power, internationalisation and value creation. The three agencies have different roles, responsibilities, expertise and tasks, and are intended to complement each other throughout the value chain, from the birth of an idea up until the product/service is launched on the market. Because of the differences in the way that these agencies work, they need to collaborate well at a strategic level. The management of all three organisations have invested considerable time in ensuring consistency and a clear division of roles between the three agencies in order to ensure that the public funds at our disposal can be utilised as effectively as possible.

In December 2013, the three agencies signed a new collaboration agreement for the period 2014–2018. Four areas of collaboration have been defined for the period covered by the agreement: a shared and comprehensive customer perspective, regional coordination, coordination of our international work and a common knowledge base.

In the Board's opinion, Innovation Norway, the Research Council of Norway and SIVA collaborate well. This will help us realise the ambition of having three clear and coordinated agencies whose policy instruments complement and support each other and that are perceived as parts of a whole.



**ABOUT THE ANNUAL ACCOUNTS** The profit for the year 2014 was NOK 298 million, compared with NOK 164 million in 2013. Profit before losses amounted to NOK 312 million in 2014, compared with NOK 190 million in 2013. Net interest income was NOK 417 million in 2014, compared with NOK 381 million the year before.

Total operating income amounted to NOK 1,322 million compared with NOK 1,276 million in 2013. This was because public appropriations increased by NOK 43 million to NOK 1,110 million in 2014, and external revenues increased by NOK 1 million.

Operating costs amounted to NOK 1,425 million, compared with 1,467 million in 2013, a reduction of NOK 42 million. Payroll expenses were on the same level as the year before, but included a provision for restructuring costs in the amount of NOK 46 million and a reduction in pension expenses of NOK 43 million. The reduction in pension expenses was a result of a revision of the pension plan related to new disability pensions and life expectancy adjustments of NOK 64 million, in addition to estimate changes in the amount of NOK 19 million. The reduction in operating costs also includes a reduction in Other operating costs of NOK 43 million. The reduction relates to ventilation system maintenance in 2013 and ICT infrastructure.

Net losses on loans amounted to NOK 14 million, compared with NOK 26 million in 2013. Losses on loans mainly relates to the low-risk scheme. The losses correspond to 0.1% of the loan portfolio.

Losses on loans related to Innovation Norway's innovation and high-risk loan schemes are covered by loss reserves, and therefore not reflected in Innovation Norway's financial performance figures. Losses on loans relating to innovation loans and guarantee schemes amounted to NOK 85 million in 2014, compared with NOK 121 million in 2013. These lending activities are expected to involve a significantly higher risk than the low-risk loan scheme, and the losses incurred in 2014 represented 3.2% of the portfolio.

Changes in losses are closely linked to fluctuations in the economy. Our loan customers have enjoyed good operating conditions for some time, which has led to lower losses on loans. The Board is satisfied with the low level of losses in 2014 and believes that the company is well equipped to deal with somewhat more challenging times for business and industry.

The cash flow statement shows that large gross payments are received and disbursed by Innovation Norway every year. Gross payments received in connection with borrowings amounted to NOK 45 billion, which is slightly less than in 2013. There was a net reduction in liquidity of NOK 338 million in 2013, compared with a decrease of NOK 31 million in 2013.

Innovation Norway's balance sheet total at year end was NOK 23.7 billion, compared with NOK 23.8 billion at the end of the previous year. This was due to reductions in bank deposits and in other assets of NOK 338 million and NOK 294 million, respectively, and to an increase in net loans of NOK 459 million, in addition to some minor changes in other balance sheet items.

Net lending amounted to NOK 17.2 billion at 31 December 2014. In 2014, NOK 2.7 billion were paid out in new loans and NOK 2.2 billion in grants.

The company did not incur any costs or make investments related to R&D in 2014.

External evaluations and analyses are carried out of the company's activities and use of policy instruments. The company uses the knowledge they provide in the development of our services, organisation and work processes.

**RISK MANAGEMENT** Innovation Norway's risk situation is a complex one. Sound risk management is an important prerequisite if Innovation Norway is to be capable of achieving its goals at different levels over time. Innovation Norway bases its risk assessment and risk management on the methodology document 'Risk management in the government administration'.

#### *Strategic business risk*

Strategic risk relates to factors that are important in relation to Innovation Norway's long-term goal attainment, such as loss of reputation.

The company carries out annual assessments of factors of importance to Innovation Norway's goal attainment at the overall level. Based on Innovation Norway's strategy, an 'overall risk assessment for the company' is submitted for consideration by the Board each year, and measures to mitigate risk are identified and implemented. Extraordinary risk assessments are conducted in the event of significant changes in the Norwegian economy or the company's assignment situation, or if the quarterly reports on goal attainment show significant deviations. When necessary, risk assessments of critical functions and limited areas are carried out at a lower level.

The company reports to the Norwegian Ministry of Trade and Fisheries every year, after the national budget has been presented, on the risk of not attaining the company's goals and on the need for measures, if any.

#### *Financial risk*

The financial risk largely consists of currency risk, liquidity risk, credit risk and interest rate risk. Innovation Norway has revenues and expenses in foreign currency, but this does not make up a substantial part of its activities. Currency hedging is not used.

Innovation Norway has a borrowing arrangement with the Norwegian State. The lending limits are defined in the annual assignment letter from the Norwegian Ministry of Trade, Industry and Fisheries. The lending limit stipulates the amount available to the company for granting new loans. As a result of this arrangement, Innovation Norway has no liquidity risk in practice.

#### *Credit risk*

Credit risk is financial risk relating to the lending activities, and constitutes a significant risk in Innovation Norway. The Board adopts annual guidelines for Innovation Norway's financial services. The overriding principle is to ensure that satisfactory earnings are generated by Innovation Norway's low-risk loans and that innovation and high-risk loans do not involve risks over and above what can be borne by the loss reserves, and that adequate decision-making processes are in place to ensure a satisfactory long-term development. Overriding guidelines are revised in connection with material changes to the framework conditions and strategy revisions.

Developments in the loan portfolio are reported to the Board every quarter. The risk profile is adjusted if there are significant negative deviations in relation to the targets. All major commitments and subject to loss are reviewed in connection with the presentation of our six-monthly accounts.

Low-risk loans are extended on market conditions. The risk must be moderate for a project to be granted funding. The risk is therefore limited by imposing relatively stringent security requirements.

Innovation and high-risk loans are a form of lending that primarily aims to help small and medium-sized enterprises that need risk mitigation in investment projects by providing top-up finance for such projects. These loans are granted subject to moderate requirements for security on the condition that the customer's ability to service the loan is deemed to be satisfactory.

Loss reserves have been established for innovation and high-risk loans, loan and guarantee schemes targeting the districts and for loans to seed capital fund enterprises. Hence, Innovation Norway does not bear the risk for these loans, as any losses will be covered by the loss reserves or additional appropriations. The purpose of loss reserves is to make it possible for Innovation Norway to mitigate risks for innovative projects with a growth potential and thus contribute to the realisation of more profitable projects that would otherwise find it difficult to obtain sufficient venture capital in the market.

#### **Market risk / interest rate risk**

Market risk is mainly related to interest rate risk. This risk is managed and reduced by adapting lending terms to borrowing terms. Borrowings shall correspond to lendings and secure the liquidity required to operate the loan schemes. The borrowings reflect the interest rate profile of the lendings.

#### **Operational risk**

Operational risk comprises all the potential loss sources relating to Innovation Norway's day-to-day operations. Examples of such sources include procedural failure, computer system failure, lack of competence and breach of trust on the part of employees. Internal control is an important tool in reducing operational risk. Innovation Norway has contingency plans and carries out exercises on a regular basis. The Board has established an internal audit function in order to strengthen internal control. The ethical guidelines emphasise impartiality and the duty of confidentiality, dilemma training and corporate social responsibility (CSR). They also focus on authorisation structures and procedures for ensuring satisfactory case processing in Innovation Norway.

**GOING CONCERN** The annual accounts have been prepared on the basis of the going concern assumption. The accounts give a true and fair picture of the company's assets, liabilities and result. No circumstances have arisen after the end of the financial year that are of significance to the evaluation of the company and that are not mentioned in the annual report and pertaining notes.

**ORGANISATION AND WORKING ENVIRONMENT** Innovation Norway's head office is in Oslo, but most of its staff is located close to customers in offices situated in all the counties in Norway or close to the market in more than 30 countries worldwide.

Innovation Norway's Board of Directors consists of 11 members, two of whom are elected from among the employees. The Board is responsible for the administration and appropriate organisation of Innovation Norway's activities, and is tasked with supervising the company's management. The Board appoints the 15 regional boards for the district offices. They are accountable to the Board through the CEO.

Innovation Norway is an Inclusive Workplace (IW) enterprise and has a corporate health service at both its head office and the district offices. Regional safety representatives have been elected for our offices abroad, and our biggest offices also have a works council and working environment committee.

A control system for matters relating to health, safety and the environment has been established as an integral part of the organisation's overall quality assurance system. Procedures for notification (whistle-blowing) have been established.

Cooperation with employee organisations is good.

Sickness absence is monitored continuously, with quarterly reporting to management and the working environment committee. Sickness absence in 2014 was 3.4%. Female employees account for 61% of the sickness absence. One injury resulting in admission to hospital was reported in 2014.

**EQUALITY AND DIVERSITY** Innovation Norway have had action plans for gender equality and diversity for the periods 2006–2009 and 2010–2013. In May 2014, the works council received a report on important aspects of equality and diversity. In connection with the reporting at the end of the action plan period, it was discussed whether it was expedient to prepare a new action plan or whether Innovation Norway, on the basis of the reported positive trends, should continue its follow-up with annual analyses and discussions about possible new measures without a new action plan. The employee representatives and management agreed that the work should continue on the basis of the same goals, annual analyses and discussions about measures, but without preparing a new action plan.

The Board of Directors comprises six women and five men. At the beginning of the year, the management group consisted of seven people, of whom one (14%) was a woman. At the end of the year, it comprised eight members, of whom three (38%) were women. In 2015, the proportion of women increased to seven out of eleven (64%) as a result of the establishment of a new management group structure.

At the end of 2014, the proportion of female employees in Innovation Norway was 57%, compared with 53% at year end 2013. The table below shows the proportion of women at the various position levels in the company.

JOB CATEGORY	2014	2013
DIRECTOR	42 %	39 %
LAWYER	63 %	75 %
HEAD OF DEPARTMENT	56 %	49 %
SPECIAL ADVISER	28 %	30 %
SENIOR ADVISER	53 %	45 %
ADVISER	81 %	82 %
CONSULTANT	84 %	81 %

The table below shows the relationship between women's and men's pay at each position level:

POSITION LEVEL	AVERAGE DEVIATION IN PAY	
	2014	2013
DIRECTOR	-1,6 %	-1,0 %
HEAD OF DEPARTMENT	-0,2 %	-5,0 %
SPECIAL ADVISER	-8,4 %	-11,0 %
SENIOR ADVISER	-3,2 %	-2,0 %
ADVISER	-3,6 %	-6,5 %
CONSULTANT	-5,4 %	-5,7 %
TOTAL FOR ALL POSITION LEVELS	-3,7 %	-5,0 %

Wage negotiations in recent years have focused on low-income groups in particular. Innovation Norway has a clear goal to reduce the pay differences in the organisation. Because local pay rises were granted as part of the wage settlement and the company also gave priority to those with low incomes, the differences in pay were reduced from 2013 to 2014. Pay for new employees are stipulated on the basis of their qualifications and the duties and responsibilities of the position.

Of the company's 766 employees, 39 work part time, of which 82% are women and 18% men. The average percentage of a full-time position is 60.2 for women and 60.7 for men.

Innovation Norway includes a diversity statement in all job advertisements. It emphasises that our recruitment process aims to ensure diversity with respect to gender, age and cultural background. Innovation Norway has implemented general measures to promote diversity (ethnicity, age, gender, functional impairment).

Annual reports are submitted to the Directorate of Integration and Diversity on the status of recruitment and the appointment of new employees from immigrant backgrounds.

**THE NATURAL ENVIRONMENT** Innovation Norway's activities have not contributed to pollution of the natural environment over and above what is natural for an organisation of this kind. The head office and the district offices are Eco-Lighthouse certified.

**CORPORATE GOVERNANCE** The owners exercise supreme authority in the company through the enterprise meeting. When necessary, the owners can hold an owners' meeting to discuss matters to be considered by the enterprise meeting. A Collaboration Forum has been established for the owners and client ministries. The Collaboration Forum is intended to facilitate the long-term strategic development of the company, among other things by discussing overriding principles for the activities and the main content of the letters of assignment for the coming year.

Innovation Norway receives annual letters of assignment from ministries, county authorities and county governors. Based on the national budget, the letters provide an overview of our clients' expectations and requirements of Innovation Norway's activities. The letters also set out

Innovation Norway's allocation framework and strategic and operational guidelines relating to initiatives, programmes and services.

The company complies with the guidelines for terms of employment for managers in government enterprises and corporations.

In 2014, a new Chair of the Board of Directors and a new CEO were appointed for Innovation Norway. Per Otto Dyb was elected Chair of the Board of Directors in June 2014, and Anita Krohn Traaeth took up the position of CEO in December 2014.

**ABOUT CORPORATE SOCIAL RESPONSIBILITY** Innovation Norway is a member of the UN Global Compact and follows up the Global Compact's ten principles of corporate citizenship in its own activities and in relation to customers and suppliers.

Corporate social responsibility means to take responsibility for the enterprise's impact on society and the environment. Corporate social responsibility also means that we must help to find solutions to the great environmental and social challenges of our time through innovation and responsible operation. In 2011, the Board of Innovation Norway adopted a code of conduct for corporate social responsibility, which forms the basis for our work to spread knowledge, build motivation and set expectations of our customers and partners.

Innovation Norway has adopted ethical guidelines, provided CSR training and appointed personnel to be responsible for environmental issues at the head office and all the district offices.

#### *Human rights*

Human rights are one of six focus areas addressed in the code of conduct. Innovation Norway shall respect human rights in its own activities and in its roles in relation to external parties, including as investor, lender and procurer. Our activities shall not infringe on the rights of others or exploit the inability or unwillingness of public authorities to meet their obligation to safeguard human rights.

#### *The relationship between Innovation Norway's business strategy and corporate social responsibility*

Innovation Norway is a driving force for greater corporate social responsibility among its customers and suppliers. Among other things, we expect customers who use our services to take their corporate social responsibility seriously, and we give priority to customers who can demonstrate a good understanding of what this implies and show that they have implemented relevant measures.

Innovation Norway expects the activities of our contract partners, customers and suppliers to be based on stringent requirements for ethical attitudes and to avoid contributing to corruption, violation of human rights, poor working conditions or harmful impacts on local communities and the environment.

In the service survey carried out among Innovation Norway's customers in 2014, 46% of the respondents that used our services in Norway and 25% of those that used the services of our foreign offices, stated that Innovation Norway had made them more aware of their corporate social responsibility. Thirty per cent of the funding approved in 2014

went to customers with projects that were considered to have a positive impact on society and/or the environment. We tested different methods of providing better advice relating to both risks and opportunities in the area.

#### Combating corruption

Innovation Norway requires a high ethical standard of its employees and officers, and has a zero tolerance policy in relation to corruption. The company's requirements and expectations are set out in the company's ethical guidelines, which, in addition to corruption, address impartiality, interests in other undertakings and gifts and financial advantages. Innovation Norway is continuously working to ensure awareness of the corruption risk and compliance with the high ethical standards we set for our staff by means of dilemma training and training adapted to the corruption risk to which the company is exposed.

In 2014, Innovation Norway's internal notification procedures was further developed by the introduction of an electronic reporting channel for employees to use if any concerns about unethical or illegal conduct in the company. The reporting channel protects the anonymity of employees. Our notification procedure emphasises that employees have both a right and sometimes even a duty to report breaches of legal or ethical obligations, either through the line organisation or by using the reporting channel. All such notifications will be treated confidentially, and whistle-blowers in Innovation Norway are protected against reprisals etc. as a consequence of their notification.

In 2014, Innovation Norway has supported Transparency International Norway's anti-corruption work by giving financial support to the updating of the organisation's anti-corruption handbook for Norwegian business and industry ('Beskytt din virksomhet'). In 2014, Innovation Norway has also prepared a simple information brochure on how Norwegian business and industry should deal with the risk of corruption abroad.

In the times ahead, Innovation Norway will continue to develop the company's own anti-corruption measures, including the use of guidance tools to help employees assess and deal with the risk of corruption in areas where the company is exposed to such risk.

**APPLICATION OF THE PROFIT** The accounts for 2014 show a profit of NOK 298.4 million. The Board proposes the following allocation of the profit for the year:

To be transferred to the Ministry of Trade, Industry and Fisheries as owner, from:

Innovation loans and guarantees	NOK 25,316,998
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To be transferred to the county authorities as owners, from:

High-risk loans and guarantees	NOK 19,185,837
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Divided as follows:

Agder county	NOK	161,895
Buskerud county	NOK	134,318
Finnmark county	NOK	1,410,128
Hedmark county	NOK	1,231,204
Hordaland county	NOK	1,397,097
Møre og Romsdal county	NOK	3,884,059
Nordland county	NOK	2,440,375

Nord-Trøndelag county	NOK	1,150,106
Oppland county	NOK	511,774
Rogaland county	NOK	46,528
Sogn og Fjordane county	NOK	1,546,747
Sør-Trøndelag county	NOK	957,121
Telemark county	NOK	1,156,841
Troms county	NOK	3,157,644

Charged to retained earnings:

The Investment Fund for Northwest Russia	NOK	-5,761,846
The Investment Fund for Eastern Europe	NOK	-1,005,877

Transferred to retained earnings:

Low-risk loan scheme	NOK	196,471,550
Service deliveries and grant administration	NOK	64,212,916

**PROSPECTS FOR 2015** As of 1 January 2015, given lower oil prices and the need to restructure Norwegian business and industry, the Board of Directors believe that Innovation Norway will have an important role to play in the restructuring of the Norwegian economy in the time ahead.

The dramatic drop in oil and gas prices made it clear that the transition to a more sustainable economy no longer could be postponed. With its well educated and creative workforce, many innovative enterprises, strong clusters, a well-developed welfare system, an advanced policy instrument system and a situation of peace and social stability, Norway has the best possible chances of succeeding with such a transition.

This development offers opportunities and incentives for growth in new areas and strengthens our power to adapt and restructure. Norway has the business communities and expertise required to grasp the opportunities that present themselves. If we are to achieve the transition to a more sustainable society and economy, we must create a culture for innovation with room for failure and where public agencies participate and contribute to reducing the risks that bold innovation entails. Norway needs a pro-active policy instrument system and framework conditions that stimulate sustainable innovation.

In 2014, Innovation Norway contributed actively to the debate about the new Norway. In 2015, we intend to do much more. Together with Norwegian business and industry, expert environments and politicians, Innovation Norway will formulate specific advice on what the Norwegian authorities can do to support the transition to a renewed, sustainable economy. Innovation Norway has therefore invited start-ups and growth enterprises, established industries, politicians and activists, other businesses and social players to discuss how we can achieve a necessary boost to our capacity for innovation. We have named this initiative 'the Dream Commitment'. In May 2015 the results, in the form of specific proposals, will be submitted to the Government and the Storting.

The Government is carrying out a review of Innovation Norway. The purpose of this review is to help Innovation Norway become a more efficient policy instrument that our customers will find it easier to relate to. In relation to this, a review has been initiated on the Act relating to Innovation Norway, with proposed amendments relating to the State's

guarantee and the company's equity. The Act is expected to be amended in 2015.

In 2014, a new organisational structure, new management group, new ambitions and priorities were proposed and adopted. The Board and company's management are working on implementing extensive changes in response to feedback from customers, partners, clients, representatives of trade and industry and the company's own employees. Innovation Norway shall be geared to the future and meet the new needs of customers, partners and clients.

The national budget presented for 2015 makes more funds available to increase the focus on unsuccessful entrepreneurs and start-ups, growth enterprises and innovative business clusters. At the same time, the national budget signals a clear expectation that the company rati-

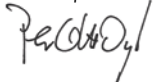
alise and restructure. This means that the organisation will be required to do more with fewer resources, which means that we must work in new and more efficient ways to deliver on our assignments for the Government. Overall, Innovation Norway has been granted a wider framework and greater freedom of action. But we need to deliver on our restructuring and implementing capabilities. Changes in Innovation Norway will be based on our customers' needs.

The administration is faced with the challenge of handling a greater assignment volume at the same time as the company is presented with clear requirements for rationalisation of its operations in the course of the financial year 2015. The Board of Directors is satisfied with the organisation's ability and willingness to restructure, and with the management's milestone schedules for implementation and collaboration with the company's employee representatives.

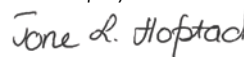
Oslo, 26 February 2015

The Board of Directors of Innovation Norway

Per Otto Dyb  
Chair of the Board



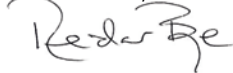
Tone Lindberg Hofstad  
Deputy Chair



Martha Kold Bakkevig



Reidar Bye



Jan Løking



Jørund Ødegård Lunde



Wenche Kjølås



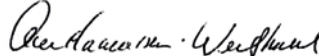
Einar Enger



Heidi Wang



Ove Haaversen-Westhassel



Toini H. A. Ness



Anita Krohn Traaseth  
CEO



INNOVATION  
NORWAY'S BOARD  
OF DIRECTORS



**PER  
OTTO  
DYB**

CHAIR OF  
THE BOARD



**TOINI  
H.A. NESS**



**JØRAND  
ØDEGÅRD  
LUNDE**

**EINAR  
ENGER**



**WENCHE  
KJØLÅS**



**JAN  
LØKLING**



**MARTHA  
KOLD  
BAKKEVIG**



**TONE  
LINDBERG  
HOFSTAD**

DEPUTY CHAIR



**OVE  
HAAVERSEN-  
WESTHASSEL**



**REIDAR  
BYE**



**HEIDI  
WANG**





# Finances

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# ANNUAL ACCOUNTS

**THE ANNUAL ACCOUNTS** comprise the company's delivery costs and customer deliveries, with the exception of loans and grants that have been disbursed to customers. For more information about loans and grants to customers, see the pie charts on page 5.

## INCOME STATEMENT

All figures are stated in NOK thousand

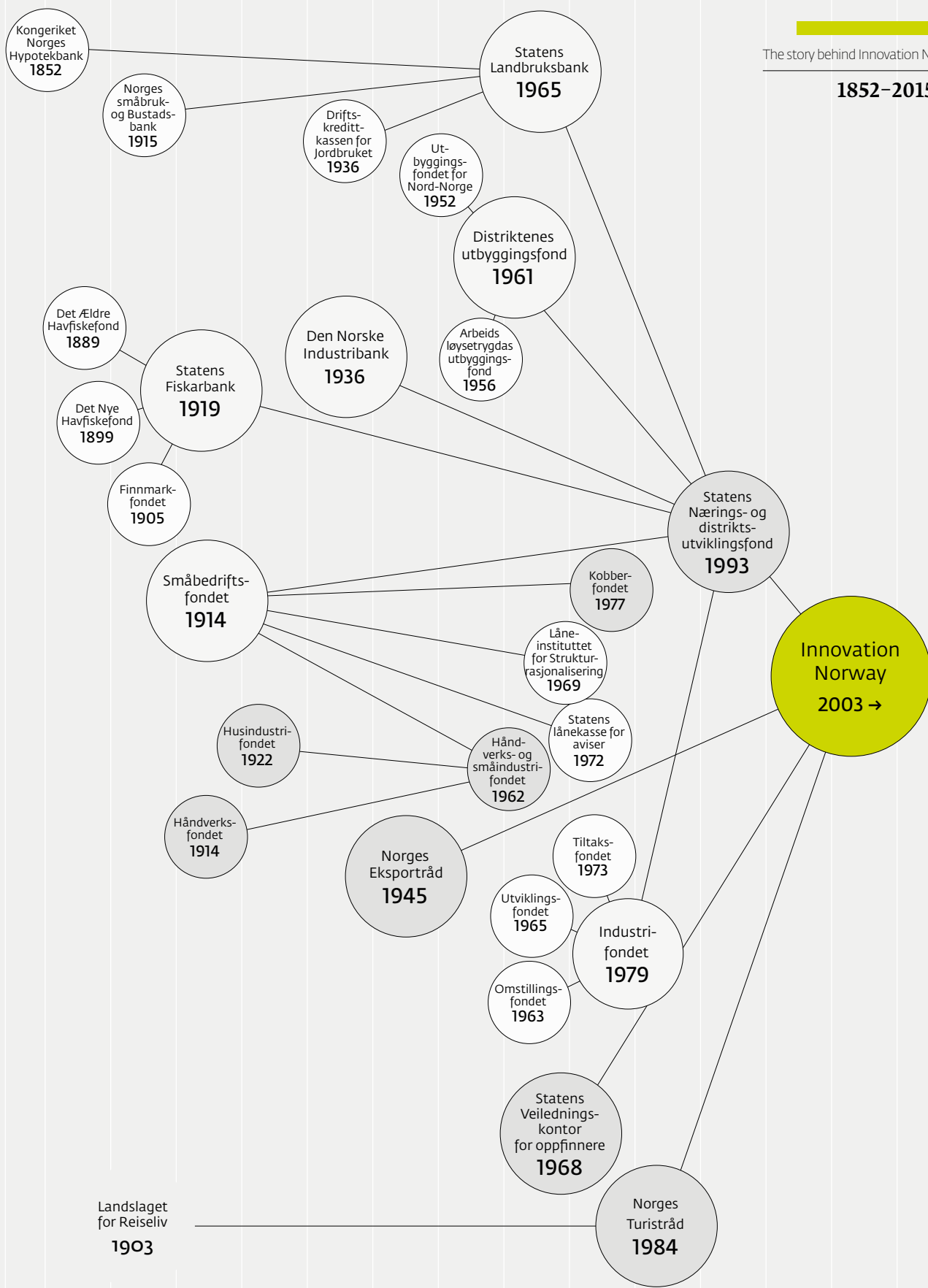
	2014	2013
Interest on loans	732,795	728,094
Interest on bank deposits	11,290	12,190
<b>TOTAL INTEREST INCOME</b>	<b>744,084</b>	<b>740,284</b>
Interest on borrowings	266,186	301,743
Borrowing commission to the Norwegian state	60,768	57,828
<b>TOTAL INTEREST EXPENSES</b>	<b>326,954</b>	<b>359,570</b>
<b>NET INTEREST INCOME</b>	<b>417,130</b>	<b>380,714</b>
<b>DIVIDENDS AND NET GAINS/LOSSES ON SECURITIES</b>	<b>-1,319</b>	<b>-361</b>
Income from public sources	1,109,715	1,066,680
External revenues	185,318	185,143
Miscellaneous operating income	26,610	24,577
<b>TOTAL OPERATING INCOME</b>	<b>1,321,642</b>	<b>1,276,400</b>
Payroll expenses	670,517	669,009
Depreciation of tangible fixed assets	4,065	5,608
Direct project costs	562,460	560,807
Other operating expenses	188,417	231,594
<b>TOTAL OPERATING EXPENSES</b>	<b>1,425,459</b>	<b>1,467,018</b>
<b>PROFIT BEFORE LOSSES</b>	<b>311,995</b>	<b>189,734</b>
Losses on loans and guarantees	156,765	223,788
Coverage of losses	-143,190	-197,601
<b>TOTAL NET LOSSES ON LOANS AND GUARANTEES</b>	<b>13,575</b>	<b>26,188</b>
<b>PROFIT/LOSS FOR THE YEAR</b>	<b>298,420</b>	<b>163,547</b>
Dividend and transfers to owners	44,503	37,673
Transferred from retained earnings in loan and investment funds	-6,768	-6,786
Transferred to retained earnings	260,684	132,660
<b>TOTAL TRANSFERS AND ALLOCATIONS</b>	<b>298,420</b>	<b>163,547</b>

**ASSETS***All figures are stated in NOK thousand*

	2014	2013
Ordinary bank deposits	810,053	724,279
Locked-in deposits in Norges Bank	5,128,589	5,552,486
<b>TOTAL BANK DEPOSITS</b>	<b>5,938,643</b>	<b>6,276,765</b>
Low-risk loans	14,197,807	13,462,110
Innovation and high-risk loans	2,650,532	2,763,084
Other loans	1,455,698	1,880,208
<b>TOTAL GROSS LENDING</b>	<b>18,304,036</b>	<b>18,105,402</b>
- Write-downs on individual loans	-878,152	-1,144,731
- Write-downs on groups of loans	-263,000	-257,000
<b>TOTAL NET LENDING</b>	<b>17,162,884</b>	<b>16,703,671</b>
<b>SHARES AND UNITS</b>	<b>52,556</b>	<b>54,442</b>
<b>OWNERSHIP INTERESTS IN ASSOCIATED COMPANIES</b>	<b>21,250</b>	<b>0</b>
<b>OWNERSHIP INTERESTS IN GROUP COMPANIES</b>	<b>300</b>	<b>300</b>
<b>TANGIBLE FIXED ASSETS</b>	<b>29,688</b>	<b>33,753</b>
<b>OTHER ASSETS</b>	<b>206,453</b>	<b>473,573</b>
<b>COSTS NOT YET INCURRED AND EARNED INCOME NOT YET RECEIVED</b>	<b>244,467</b>	<b>215,114</b>
<b>TOTAL ASSETS</b>	<b>23,656,241</b>	<b>23,757,618</b>

**LIABILITIES AND EQUITY***All figures are stated in NOK thousand*

	2014	2013
Borrowings from the Norwegian state, low-risk loans	12,645,000	12,055,339
Borrowings from the Norwegian state, innovation high-risk loans	2,710,000	2,840,000
<b>TOTAL BORROWINGS FROM THE STATE</b>	<b>15,355,000</b>	<b>14,895,339</b>
<b>OTHER LIABILITIES</b>	<b>503,890</b>	<b>497,049</b>
<b>COSTS INCURRED AND UNEARNED INCOME RECEIVED</b>	<b>481,689</b>	<b>652,062</b>
Pension commitments	60,356	102,995
Write-downs on guarantees	5,783	11,621
Loss reserves	1,887,143	2,016,649
Interest support funds	37,601	42,383
Grant funds	1,961,919	2,186,795
<b>TOTAL PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>3,952,801</b>	<b>4,360,443</b>
Capital contributions to loan and investment funds	1,832,885	2,076,667
Retained earnings / uncovered losses	17,444	24,212
<b>TOTAL LOAN AND INVESTMENT FUNDS</b>	<b>1,850,329</b>	<b>2,100,879</b>
Paid-up equity	665,645	665,645
Retained earnings	846,885	586,201
<b>TOTAL EQUITY</b>	<b>1,512,531</b>	<b>1,251,846</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>23,656,241</b>	<b>23,757,618</b>



# THE STORY BEHIND INNOVATION NORWAY

**IN 2014, WE CELEBRATED INNOVATION NORWAY'S TENTH ANNIVERSARY.** Though the agency itself has only existed for a decade, Norway can look back on more than 160 years of public support for innovation, business development and regional development. Our forerunners played a crucial role in this work.

**I**nnovation Norway is a political tool for promoting innovation and business development in all parts of Norway. The idea that it is a public task to support such development is not a new one. Kongeriget Norges Hypotekbank was established as a mortgage bank as early as in 1852. It was intended to provide assistance to business and industry, and agriculture in particular, by granting cheap loans in exchange for mortgages on real property. The objective was to modernise agriculture and develop new industries under government control. The bank's head office was in Kristiania (now Oslo) but, in 1881, branch offices were established in Bergen, Trondheim and Tromsø. In 1965, the bank was one of the organisations that merged into the Norwegian Agricultural Bank (Statens landbruksbank).

**MODERNISATION AND RECONSTRUCTION** Travel and tourism were also stimulated by the public sector early on. A joint national association ('Landslaget for Reiselivet i Norge') was established in 1903

as a joint body for central and local government and private travel and tourism enterprises. In 1984, the Nortra foundation took over responsibility for the marketing. In 1999, Nortra changed its name and became the Norwegian Tourist Board.

The modernisation of Norway required the shifting of labour from agriculture and fisheries to industry. That would have been difficult to achieve without assistance from wealthy capitalists. An 'industry bank' ('Den Norske Industribank') was established in 1936 for the purpose of stimulating the development of Norwegian industry by extending loans and credit to industrial enterprises, hydroelectric power companies and hotels. Serving those parts of the country that were not adequately covered by private banks was seen as particularly important.

A regional development fund ('Distriktenes Utbyggingsfond') was established in 1961 in order to further employment and settlement in the rural areas. The 'Development Fund', as

it became known, became a byword for small-scale rural development in its role of building the country and utilising the whole country's resources. It was a supplement to Den Norske Industribank by offering venture capital and compensation for the low sales value of investments in fixed and immobile buildings, factories and equipment. It was led by a board of directors appointed by the central government, and the operative units were managed by separate industry and employment boards in each county. The forerunners to the 'Development Fund' were the development fund for Northern Norway (Utbyggingsfondet for Nord-Norge), established in 1952, and a development fund under the unemployment benefit authority ('Arbeidsløysetrygdas Utbyggingsfond'), established in 1956.

**INDUSTRIALISATION** In the interwar years, our central government politicians had ambitious visions about publicly financed, national industrial powerhouses, but these visions were only realised to a very limited extent.



PHOTO: SCHRÖDER



PHOTO: NORSK INDUSTRIARBEIDERMUSEUM



PHOTO: SCANPHOTO



PHOTO: SHUTTERSTOCK



PHOTO: CONOCOPHILLIPS



PHOTO: HARALD VALDERHAUG/LIN

Innovation Norway's forerunners have played an important and active role in modernising and restructuring the nation since 1852.

**In some ways, private initiative has spent its power in the industrial field. Its life is dwindling and, in many places, it faces certain death.**

//

Labour politician Ole Colbjørnsen, affectionately nicknamed 'Action Ola'  
**A Norwegian three-year plan** 1933

However, Den Norske Industribank was revitalised after World War II when public funding was required for industrial reconstruction and employment. As a result of the war, Norway had also lost its export revenues, and the Norwegian Trade Council was therefore established in November 1945 to win back lost markets and conquer new ones.

A big shift occurred around 1950, when more people were employed in the secondary than in the primary industries.

**RESTRUCTURING** The 1960s and 1970s saw the birth of three public funding schemes for development and restructuring of Norwegian industry, travel and tourism: an action fund ('Tiltaksfondet'), a development fund ('Utviklingsfondet') and a restructuring fund ('Omstillingsfondet'). These funds were merged into an industrial fund ('Industrifondet') in 1979, which, in addition to contributing to structural rationalisation, also supported enterprises of great importance to society, even when they were not profitable.

A case in point was Norsk Jernverk in Mo i Rana, which survived on public funds for several decades.

**MERGING** Industribanken, Industrifondet and Distriktenes utbyggingsfond were merged to form the Norwegian Industrial and Regional Development Fund (SND) in 1993. Statens Landbruksbank, Statens Fiskarbank (the Norwegian fishermen's bank) and the county authorities' departments for trade and industry were subsequently also merged into SND. Ten years after its inception, the Norwegian Industrial and Regional Development Fund was merged with the Norwegian Tourist Board, the Norwegian Trade Council and the Government Consultative Office for Inventors to form the organisation that we now know as Innovation Norway.

Innovation Norway has provided Norwegian business and industry with a single door to knock on when they need public assistance and support, instead of the very many doors that existed before. Although the policy instruments and needs have changed over the years, the overriding objective has remained the same throughout: To ensure that we are able, as a nation, to utilise all our resources, assets and ideas to generate growth and welfare throughout Norway. ■

# INNOVATION NORWAY 2015

## INNOVATION NORWAY 2015



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KROHN  
TRAAETH  
CEO

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