



Annual report 2017

by CEO Anita Krohn Traaseth

In 2017, we confirmed what we have long claimed: Norway is innovative. In 2017, Norway rose from the rank of moderate to strong innovator in the EU's innovation index. Norway is a very innovative country. This is also evident when we see our customers' results. This is a big step in the right direction, but it does mean we can rest on our laurels. Much work still needs to be done to restructure the Norwegian economy.

In 2017, Innovation Norway expended a significant amount of effort on following up the wishes of its owners and principals to contribute to a Norway in a restructuring process; a restructuring process that developed well in 2017, during which unemployment fell, exports rose, and 25,000 new limited companies were established in Norway. Norway is well positioned to secure future growth and jobs.

In 2017, the Storting and county authorities allocated a total of NOK 3.8 billion to Innovation Norway. Together with our loan schemes, Innovation Norway contributed NOK 7.3 billion to business and industry in 2017. This included loans, grants, advisory services, profiling and networking through Innovation Norway's various services. The funds triggered more than NOK 20,8 billion in investment from the private sector. Each NOK 1 from Innovation Norway resulted in almost NOK 2 in other funding.

Nine out of ten enterprises stated that Innovation Norway's support was, to a high or moderate extent, a key factor in starting their projects. This shows that we are helping to transform Norwegian industry through the development of new and established companies. That is our role.



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Innovation and risk

Last year, we particularly focused on securing more risk capital for Norwegian industry. We

provided almost NOK 1.5 billion in risk loans in 2017. This is an increase of 50 per cent from 2016. We increased our provision of risk loans from NOK 1 to 1.5 billion in 2017 and provided more than NOK 100 million in start-up loans for entrepreneurs.

Norwegian industry has the appetite and willingness to restructure, establish new projects and take new market shares. Our offices have reorganised and improved their lending skills, so they can deliver significantly more risk capital to the market. The level of innovation among our customers is kept stable and high.

Last year, we particularly focused on securing more risk capital for the Norwegian industry. We provided almost NOK 1.5 billion in risk loans in 2017. This is an increase of 50 per cent from 2016. Innovation Norway provided more than NOK 100 million in start-up loans to entrepreneurs. In 2017, a total of NOK 2.7 billion, which represented 39 per cent of all funding commitments, went towards projects involving international-class innovation. Signing a NOK 1.2 billion agreement with the European Investment Fund (EIF) allowed us to provide NOK 500 million more in risk loans to Norwegian companies in 2017.

Good impact for our customers

Analyses by Statistics Norway indicate that Innovation Norway's support makes a difference to companies. Calculations for 2017 show that the annual growth in value creation of companies that receive support from Innovation Norway is six percentage points higher than that of similar businesses that do not receive such support, measured over a three-year period.

The productivity of those who have taken advantage of Innovation Norway's services was two per cent higher than that of a control group not receiving such support. Increased value creation and productivity may be the best indicators that our services are having the desired impact on the restructuring of Norwegian industry. The impact of support from Innovation Norway remains stable at a high level.

The importance of exports and internationalisation

In 2017, the Government intensified Norway's focus on exports and internationalisation through a national export strategy. Central to this is the work of building Norway's national brand. A strong national brand is a collective good that has a positive impact across industries and regions. A distinct, attractive and credible position will put Norway on the map and offer Norwegian business an advantage and further international competitiveness.

The export strategy includes measures to strengthen the Invest in Norway initiative, establish an export programme, reinforce the focus on clusters, and promote Norway as a maritime nation. In 2017, Innovation Norway was tasked with strengthening Norway's "green" profile to achieve increased exports, provide more arenas for interaction, and make Norway a more attractive country to invest in. One important channel for reaching international markets is a digital showcase for sustainable Norwegian solutions.

If Innovation Norway is to remain relevant for Norwegian industry's international efforts, we need to be flexible and quick to adapt to changes in global markets. We made changes in our international presence in 2017. New offices were established in Munich and Dubai. Our presence has been bolstered in a number of markets identified as important for Norwegian industry and business such as the US, France, Denmark and Sweden. Our offices in Istanbul, Kuala Lumpur, Tallinn and St. Petersburg were closed down during the year.

Public sector engagement in innovation

2017 was the year when public-private innovation was put firmly on the agenda. This involves the public sector laying the groundwork, so business can contribute to more innovative solutions to some of society's challenges. Innovation Norway raised the topic in its Innovation Speech and launched a new scheme to promote public-private innovation, the innovation partnership. The City of Stavanger, Østfold Hospital Trust, Norwegian Public Roads Administration, the City of Bergen and the City of Oslo/Oslo University Hospital and Sunnaas Rehabilitation Hospital have all been successful and have commenced Norway's first innovation partnerships.

Ensuring the needs of customers is central to Innovation Norway and our partners. With an office in every county, Innovation Norway has a unique opportunity to meet customers where they are. We are therefore further developing our partnership with the other government resource

agencies. Together with others, such as the Research Council of Norway, Siva, Enova, GIEK, Kredittforsikring, Export Credit Norway, the Norwegian Industrial Property Office and the Norwegian Space Centre, we are continuously implementing new measures to make it simpler for business to gain a full overview of the total provision of services on offer.

Advice with an impact If innovation policy is going to facilitate good conditions for Norwegian business in the future, we must continually evaluate and adjust our services, so they are relevant and suited to new needs. Our proximity to the customers and markets gives us a unique insight into the opportunities and challenges facing Norwegian business. Innovation Norway therefore has an innovation policy adviser role to play in relation to its owners and principals. In addition to providing specific proposals concerning focus areas or changes to measures, we have a role to play in raising relevant topics in the public debate.

2017 was a busy year and saw broad acceptance of our innovation policy suggestions. For example, the national export strategy launched by the Government in 2017 was in line with Innovation Norway's proposals in the Innovation Speech 2016 and was also followed up by more assignments for Innovation Norway. This means that in 2018 we can increase our efforts to attract foreign investment to Norway and more companies can participate in our export programmes. We are also pleased to have helped put the topic of public-private innovation on the agenda with the Innovation Speech 2017. In the Industry Report, the Government indicated a more prominent role for Innovation Norway in the area of public-private innovation. With a bigger budget, we can start new innovation partnerships in 2018 as well. The interest from the public sector and business is very high.

Norway is in the midst of a regional reform and Innovation Norway has a presence in every county. This ensures we are close to the customers. At the same time, it means we are in a good position to keep track of what is happening in Norwegian business. We also have an important role to play as an adviser on innovation policy for regional principals and in promoting business development based on regional advantages. A special regional team was established in 2017 to ensure we are more relevant for the individual regions, to coordinate efforts, and to strengthen the ability of the regional apparatus to provide professional advice.

Easy to use – easy to love

Innovation Norway should be easy to use and easy to love. This means that we should deliver more to our customers while making the organisation more efficient. That is why we are continually improving our routines: we are improving and digitalising our work, so we can deliver the best possible services to our customers. We are rethinking our digital surfaces and redesigning them. This includes the self-service tools we offer customers, the tools our staff use to evaluate projects, and the information we offer owners and society as insights and as part of our partnerships.

The goal is to improve our usefulness and efficiency. In the period 2014-2017, we increased service delivery by 24 per cent while reducing operating costs by 6 per cent.

Innovation Norway is an organisation that constantly needs to reinvent itself because, its customers – Norwegian business and industry – are constantly changing.

Changes to our office structure in Norway

Innovation Norway offers funding services, advisory services, expert services, networking services and promotional services. Most of the company's staff are located close to customers in offices in every county in Norway or close to the market in more than 30 countries worldwide.

Our local presence throughout the country is one of Innovation Norway's unique features. We have reduced the number of administrative units by merging offices under joint management teams but have maintained 20 office locations in Norway.

To ensure skills and resources are better utilised and to make us more relevant to our customers, we reduced the number of regional offices with joint management teams from twelve to ten in 2017. The offices in Sogn og Fjordane and Hordaland were merged to form Innovation Norway Vestland. The offices in Buskerud, Telemark and Vestfold were merged to form Innovation Norway Buskerud, Telemark and Vestfold.

Merging a number of offices under a joint management team with a greater base of customers and partners allows us to bring together cutting-edge expertise and resources. This allows us to

make an even bigger contribution to the development of business potential in a region.

The changes to our office structure are, with the exception of Buskerud, in line with the new county authority map that will apply following the implementation of the region reform in 2020.

International presence

Changes and restructuring in the Norwegian and global economies and business sectors reinforce the need to constantly review Innovation Norway's international presence.

We also made changes to our international office structure in 2017, where Norwegian business's interests and potential are key criteria with respect to our presence. Based on a comprehensive review with input from companies, actors and business environments, Innovation Norway chose to open new offices in Munich and Dubai. We furthermore chose to strengthen the offices in markets that were identified as particularly important for Norwegian industry and business, including the US, China, France, Denmark and Sweden. Concurrently, our offices in Istanbul, Kuala Lumpur, Tallinn and St. Petersburg were closed down during the year.

Cooperation within the support system

A goal-oriented collaboration between Innovation Norway, the Research Council of Norway and SIVA is intended to ensure that Norwegian businesses are offered more comprehensive and expert services. The Norwegian Innovation Clusters programme is one such collaboration. This aims to contribute to development and value creation through industrial clusters.

Export Credit Norway, GIEK, GIEK Credit Insurance, and Innovation Norway have a good collaborative arrangement for helping Norwegian companies succeed internationally. The purpose of the collaboration is to provide added value for Norwegian companies by offering them the combined services of the organisations. The four organisations jointly arrange the Export Conference and the best export company of the year award.

In 2017, Innovation Norway, together with the Research Council of Norway, SIVA and Enova, carried out Pilot-E, a joint funding programme tasked with supporting and developing new comprehensive solutions to move them quickly from concept to market. Last year, nine projects led by the business sector received NOK 117 million to develop solutions for emission-free land transport and the digitalised energy systems of the future.

The Government has set out a strategy for developing Norway's bioeconomy. In 2017, Innovation Norway, the Research Council of Norway, and SIVA drew up a joint working platform for bioeconomy projects. The purpose of this is to improve coordination within thematic priorities, simplify the transition between policy instruments and joint information and ensure dialogue with various stakeholders.

Innovation Norway is an attractive place to work

Innovation Norway is considered an attractive workplace by both the company's own employees and potential job seekers. In 2017, the company was named Norway's most attractive employer by economics graduates in a survey conducted by Universum. Innovation, a creative environment and challenging work are some of the things students associate with Innovation Norway.

Innovation Norway has a clear focus on diversity and equality. At the end of 2017, women accounted for a majority of 55 per cent. Six out of the eleven people in the executive management team are women.

Easy to use – easy to like

Innovation Norway is an organisation that constantly needs to reinvent itself because our customers and Norwegian business and industry are constantly changing. For us, it is about wanting to be easy to use and easy to like.

This means that we should deliver more to our customers while making the organisation more efficient. To achieve this, we are constantly improving our routines. We are improving and digitalising our work, internally and together with others, so we can deliver the best possible services to our customers. We are reorganising our resources to ensure customers the best

possible access to our expertise and equal treatment, irrespective of which office they contact. In 2017, we developed a new skills strategy that facilitates collaboration in projects, sharing and exchanging lessons learned. At the same time, we have honed our adviser roles: funding adviser, marketing adviser and customer adviser.

We are also rethinking our digital surfaces and redesigning them. This includes the self-service tools we offer customers, the tools our staff use to evaluate projects, and the information we offer owners and society as insights and as part of our partnerships.

To ensure that more of our customers succeed, we must continually improve our services. In 2017, we introduced the first phase of a new and simplified service model in which expertise, advice and financial services are linked more directly to the customers' overall ambitions and needs. Introducing this service model helps achieve the desired reassignment of capacity and expertise from case management to dialogue and discussions, which are of greater value to customers. The new solution also gives customers and employees easier and faster access to our combined expertise, irrespective of geographical and organisational divisions.

The goal is to improve our usefulness and efficiency. In 2017 we delivered a nine per cent increase in our services for Norwegian business (NOK 7.3 billion) with an unchanged level of costs. Seen over a longer period of time, we increased service delivery by 24 per cent from 2014 to 2017, at the same time as we reduced operating costs by six per cent.



Foto: Agnete Brun

Innovation Norway towards 2020

Innovation Norway's objective is to be the policy instrument of the Norwegian state and the county authorities for achieving value-creating business development throughout the country. In 2015, Innovation Norway developed a strategy for the period 2016 to 2020. The strategy should ensure that we achieve our goals, and that we fulfil our social missions in a best possible way.

The revised strategy primarily aims to ensure that we realise the three objectives for our work: we will contribute to more entrepreneurs, more growth companies and more innovative business clusters.

Strategic message Norway needs to increase exports. To achieve this, we believe that going forward we need to focus more on areas where Norwegian business has relevant expertise and competitive advantages internationally. This applies to areas of opportunity, markets, technologies and areas of expertise across industry lines and within various forms of innovation.

Norway has great potential for developing new industries as well as strengthening existing ones. The regions are rich in natural resources and skilled labour, and have different industrial advantages. We believe that when the Norwegian industry of the future is created, it will be based on the strengths we already possess. Innovation Norway's strategy provides the following direction for our work in the run up to 2020:

1. We will elevate the challengers with global growth potential
2. We will strengthen entrepreneurial and cooperative culture to fuel the jobs of the future
3. We will develop a strong national brand, to increase our competitiveness
4. We trigger value creation based on regional advantages
5. We advise and provide knowledge on future-oriented innovation and industry policy

Areas of opportunities

Bioeconomy

Many nations and businesses are working to ensure they have access to bio-raw materials for the future. Norway has an abundance of bio-raw materials and is facing a shift that presents a major opportunity to go from being a supplier of raw materials to building up industries.

Bio-based businesses are important for value creation in Norway. Bio-based businesses currently employ 5 per cent of the labour force, have a direct turnover of NOK 350 billion and make a significant contribution to exports (led by seafood).

Bio-based businesses within agriculture, forestry and the marine sector have, and are, customer groups that are important for Innovation Norway. These businesses constitute the cornerstones of the bioeconomy, which encompasses the sustainable, efficient and profitable production, extraction and utilisation of renewable biological resources within a number of areas.

Focus in 2017

The focus in 2017 has been on following up the national bioeconomy strategy and establishing the Bioeconomy Programme, a means of promoting development in this area. From a previous eight different policy instruments administered by from three ministries, all assignments have now been gathered under a single umbrella programme. The goal of bringing these policy instruments together has been to simplify and strengthen the efforts in relation to the bioeconomy.

The scheme was launched at the end of March 2017. A total of NOK 79 million out of a budgeted NOK 80 million was distributed in 2017.

Today, the bioeconomy makes a considerable contribution to exports with exports of seafood making the biggest contribution of more than 20 per cent of mainland Norway's exports. In 2017, we focused on identifying more export opportunities in the bioeconomy.

Clean Energy

Clean energy is expected to become one of the world's most sought-after areas for future value creation. Norway enjoys a unique position here given our cheap renewable energy production. Innovation Norway's strategic advice is that we should make greater use of our abundant access to renewable energy to create jobs and increase value creation. The area of opportunity that is clean energy includes in this context the entire value chain of the power system: generation, transmission, distribution and use of energy.

In autumn 2016, Innovation Norway presented its Clean Energy for Green Growth in Industry and Services report. This provided the basis for the future work. The strategic recommendations in the report concentrate on three areas:

- Attracting energy-intensive industries and service production to Norway.
- Offering Norwegian technology and service providers risk mitigation so they can make their mark internationally.
- Norway should adopt a position as a laboratory for testing new business concepts related to zero emission transport.

Focus in 2017

All of Innovation Norway's services have been used to help Norwegian companies succeed in this area. Statistics from the funding programmes show that projects involved in producing renewable energy and energy efficiency account for 395 cases and grants of NOK 481 million. In total, this represents 9 per cent of the overall portfolio for 2017.

In 2017, a joint announcement was made concerning Pilot-E, which aims to move projects from concept to market faster. The announcements in 2017 concerned emission-free commercial land transport and the digitalised energy systems of the future, both within the area of clean energy.

Invest in Norway is an important actor with respect to achieving the strategic goal of utilising clean, Norwegian energy to create jobs in Norway. In 2018, people will be recruited to our offices in the US and Germany to actively work on encouraging foreign companies to establish a presence in Norway.

In connection with our assignment from the Government to raise the profile of Norwegian green solutions around the world, Innovation Norway is developing a digital showcase in which the business sector can promote and showcase its solutions. The first version of this will be launched on the Innovation Speech on 31 May 2018, where the focus will be on the marine environment and clean energy.

Health and welfare

The value creation potential of the health industry is vast, in both the public and private sectors. The industry could also help solve many social challenges in the next few decades. Health has the potential to become a valuable growth area for Norwegian business.

Going forward, enabling technologies and digitalisation will drive new solutions within health and care services. Norwegian companies and enterprises have competitive advantages in the form of a modern, digitally skilled population, large health research investments, a professional public sector, and advanced technology and production in other sectors with a transfer value for health.

A growing proportion of seniors is creating a need for greater mobilisation and a requirement for more efficiency in the health sector. If Norwegian companies can manage to come up with good solutions to the social challenges we face here at home, the path to international growth will be short. Good health services are a global need.

Focus in 2017

In 2017, Innovation Norway helped strengthen the health industry's potential by providing risk mitigation for innovation projects, skills and networks. Innovation Norway's financial commitment to this industry amounted to more than NOK 85 million. It provided NOK 59 million in grants for innovation contracts, NOK 10 million via the cluster programme, and more in other grants, risk loans and expert services.

However, we can see weaknesses in the ecosystem the health industry operates in and challenges for growth. These challenges resulted in us focusing on four strategic areas in 2017:

1. Putting the health industry on the map
2. Building our home market

3. International opportunities
4. Networks and capital

Ocean Space

The marine environment area of opportunity includes industries that work on, in or under the sea. These industries represent more than 70 per cent of Norway's export revenues, including from crude oil, gas and seafood. Much of Innovation Norway's efforts, grants and loans are directed at these industries.

Traditionally, these industries have been said to belong to the oil and gas, maritime and aquaculture sectors. However, we now look at these industries together in order to develop them and retain Norway's global lead. That is why it is we call the area of opportunity the marine environment and the industries marine industries.

The marine environment area of opportunity is closely linked to other areas of opportunity, especially the bioeconomy and clean energy. The need for close cooperation is particularly evident when working on new concepts for the production of seafood and utilisation of new species, or new forms of offshore energy production.

Focus in 2017

Much of the work in Innovation Norway is directed at the marine industries. In addition to following up all of Innovation Norway's customers in the area, we provided input on the Government's marine strategy. Innovation Norway also published its Dream Commitment report on the marine environment.

As a leading maritime nation, Norway has a special responsibility to increase the sustainability of global industries. We therefore want to be pioneers in the further development of offshore energy industries, irrespective of whether these involve oil and gas, wind power, wave power or tidal power. By initiating green maritime programmes we have contributed to the fact that Norwegian technology and Norwegian solutions are preferred in the global market. In connection with our assignment from the Government to raise the profile of Norwegian green solutions around the world, Innovation Norway is developing a digital showcase in which the business sector can promote and showcase its solutions. The first version of this will be launched at the Innovation Speech on 31 May 2018, where the focus will be on the marine environment and clean energy.

Smart cities

Smart communities is a term used to explain how cities and villages will be developed into sustainable, modern communities in which economic, social and environmental values permeate everything we do and create.

The smart communities area of opportunity is a new area in a Norwegian context and refers to a number of technology and business sectors. Innovation Norway has concentrated on the areas of transport, water, wastewater and waste, energy, welfare services, buildings and public administration. Common to these areas is that they are vital elements of a well-functioning society. Common to the companies and solutions that fall into the smart communities category is that they use digital technology to improve their deliveries to communities.

This area of opportunity is important for Innovation Norway because it represents growth opportunities for Norwegian business that are linked to multiple development challenges and opportunities within digitalisation, climate challenges, population growth and urbanisation.

Focus in 2017

Our focus in 2017 was on developing a collaborative forum involving the most important cities in Norway with a focus on the development of smart city projects in interaction with business. It has also been important to take the step from a learning and insight phase to providing companies

with specific internationalisation programmes and market activities. An important part of this work has been to fund larger development and commercialisation projects such as Global Growth Circular Economy and Global Growth Urban Infrastructure. The project has also worked on raising the profile of Norwegian cities, projects and companies within smart cities and communities in the international arena, including actively taking part in the Smart City Expo World Congress in Barcelona in November and Nordic Edge in Stavanger in September.

In 2018, we will continue to focus on more Global Growth programmes and information gathering reports from the international market so we can match Norwegian companies. We will continue and strengthen our presence in international arenas and bolster Norway's reputation as a supplier of sustainable technological solutions to the world's urban development projects. We will continue to help individual companies with funding and strengthen our smart communities clusters.

Creative industries and tourism

The creative industries and tourism area of opportunity refers to the potential created in the intersection between these two industries. The area encompasses sustainable value creation within art and culture, as well as nature and activities. Sectors in this area include architecture, computer games, design, film, literature and music.

The tourism industry and creative industries each represent great potential on their own, and even greater potential when seen together. Globally, tourism is one of the world's fastest growing industries. 9 per cent of the world's GDP and jobs are linked to tourism.

Between 2002 and 2011, the creative industries saw growth of 8.8 per cent annually in the market for creative products and services (OECD 2014). In 2013, the market was worth USD 212.8 billion, and all of the indications are that this growth will continue.

The creative industries could represent big opportunities for tourism by contributing to greater diversity in the content of tourism products. The creative industries can contribute new technology to the development of tourist experiences and can help build strong, attractive destinations. At the same time, tourism represents opportunities for the creative industries in relation to broadening their audiences and affording cultural and creative products and services greater value and appeal.

Focus in 2017

Our focus in 2017 was on following up White Paper No. 19 (2016-2017) "Experiencing Norway – a unique adventure", developing a new action plan for our tourism initiative, and continuing to focus on creative industries on behalf of the Ministry of Culture.

In total, NOK 344 million was allocated to the tourism industry and NOK 148 million to the creative industries in loans and grants.

Both the creative industries and tourism make significant contributions to exports. Foreign tourists spent NOK 45 billion in Norway in 2015, which amounts to 28.6 per cent of total tourist spending.

Restructuring Norwegian trade

New national and international innovation surveys confirm what Innovation Norway has long claimed: Norwegian business is very good at innovation. This helps to explain the high productivity and value creation rates both in the Norwegian business and trade in general and at Innovation Norway's customers in particular.

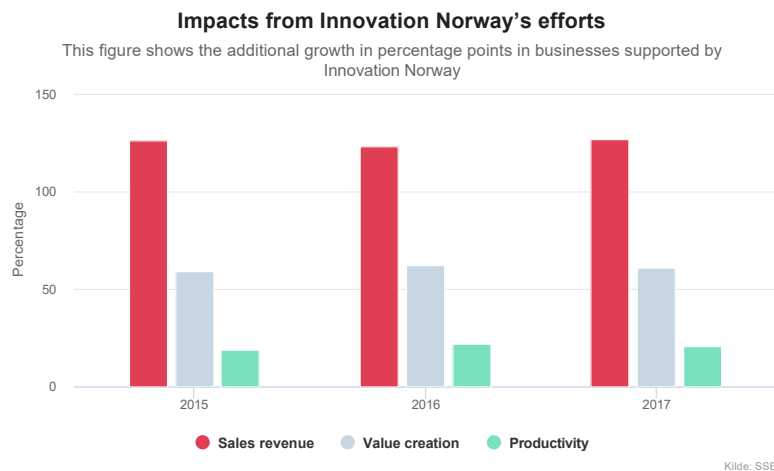
Norwegian trade is as good as its Nordic neighbours when it comes to innovation. In the European Commission's annual [European Innovation Scoreboard report](#), Norway jumped three spots in 2017 to 12th place and now ranks among the "strong innovators".

Better value creation and productivity

The annual growth in value creation of companies that receive support from Innovation Norway is more than six percentage points higher than that of similar businesses that do not receive such support, measured over a three-year period. Productivity is two percentage points higher at those who have used Innovation Norway's services.

Increased value creation and productivity may be the best indicators that our services are having the desired impact on the restructuring of Norwegian business. Since average productivity growth in business is currently quite low (1-2 percentage points) two percentage points of extra productivity growth is relatively high. The extra growth in sales revenue also has a significant impact.

A simple comparison may serve to illustrate what an extra growth of 12.7 percentage points each year can mean: if we have two similar companies with NOK 10 million in sales revenue in year X, and we assume that the control company grows by two per cent a year, it will increase its income by NOK 600,000 in three years. By comparison, "our" company will see an increase in sales revenue of well over NOK four million in the same three years, i.e. seven times as much growth. This shows that Innovation Norway is making a difference in Norwegian business development.



Triggering NOK 20.8 billion in investments and development

The grants from the Storting, county authorities and county governors to Innovation Norway totalled NOK 3.8 billion in 2017, compared with NOK 3.7 billion in 2016. Together with Innovation Norway's loan schemes, we were able to distribute a total of NOK 7.3 billion to Norwegian business via various programmes and services, compared with NOK 6.7 billion in 2016. This support helped trigger a further NOK 13.5 billion from other public and private sources of capital, meaning the investment in developing Norwegian companies last year totalled NOK 20.8 billion. This is an increase compared with 2016, when we triggered NOK 20.1 billion.

In simple terms, NOK 1 from Innovation Norge triggers NOK 1.8 in other funding.

Nine out of ten enterprises stated in the annual Customer Impact Survey (Oxford Research) that Innovation Norway's support was a key factor in starting their projects. This supports the findings from Statistics Norway's Customer Impact Survey: Innovation Norway is a driving force behind the restructuring and development of the business sector.

Purpose and objectives

Innovation Norway's main purpose is to stimulate profitable business and socio-economic development and help different regions realise their business development potential. Our sub-goals are to develop:

- More successful entrepreneurs
- More companies with growth potential
- More innovative business environments

Each year, Innovation Norway receives more than 40 letters of assignment from ministries, county authorities and county governors. The letters of assignment provide an overview of how much Stortinget, county authorities, and county governors have allocated to Innovation Norway.

The letters also provide an overview of what the different principals expect from Innovation Norway, new focuses and changes to our programmes and services.

Innovation Norway has many principals, but a common denominator in the assignments is that we should contribute to sustainable, long-term economic, social and environmental value creation in Norway. Our main assignments are as follows:

- Innovation and internationalisation work, primarily funded by the Ministry of Trade, Industry and Fisheries
- District and regional development work, funded by the Ministry of Local Government and Modernisation
- Agricultural work, funded by the Ministry of Agriculture and Food

We also have a bank assignment (bankoppdraget) that does not affect the national budget, but which provides opportunities for long-term loan financing for investments in Norwegian business. Innovation Norway is "a government bridge in the capital market". Our banking mission has been assigned by the Ministry of Trade, Industry and Fisheries based on the failings of the capital market when it comes to long-term investments for the entire business sector, as well as some political objectives concerning the development of agriculture, fisheries and the districts.

Innovation Norway also has important assignments in relation to promoting the Norwegian tourism industry, export assistance for the emergency aid market (NOREPS) and EEA funds.

Expertise in business, technology and market opportunities are required for all of the assignments in order to achieve their objectives. This expertise, along with our regional presence, both in Norway and abroad, puts Innovation Norway in a unique position to play a crucial role in increasing productivity and value creation within the business sector.

Our future level of prosperity depends on our ability to adapt. Norway is known for high-quality technology and products, but as a nation we are not as good at creating growth and more jobs. Through our services and programmes, we are helping innovative solutions reach the market by encouraging new research and a unique collaboration with demanding customers in the private and public sector.

Sustainability as a competitive advantage

Innovation Norway believes sustainability improves competitiveness and drives innovation and development. Developing sustainable solutions and business models is central to our work.

Sustainable business models

Innovation Norway's sustainability strategy from 2015 stresses that Innovation Norway should help Norwegian business restructure such that sustainable solutions and innovation related to social challenges contribute to future competitiveness. In funding cases, sustainability is evaluated based on a three-part bottom line: the economy, the environment and society. Individual projects are evaluated based on their profitability, quality and ability to implement. In those cases where projects are equally good, environmental and social factors may be prioritised.

Figures for 2017 show that we have increased the proportion of our total pledges to profitable environmental projects from 47 per cent to 49 per cent. We spent NOK 400 million more on environmental projects in 2017. Environmental projects account for no less than 53 per cent of the projects receiving risk loans and grants.

Everyone who applies to Innovation Norway is challenged on corporate social responsibility and good business practices. Applicants are expected to explain their good business practices and satisfy Innovation Norway's requirements. This also applies to all other services for Innovation Norway.

Innovation Norway's contribution to the UN sustainable development goals

In 2015, the world adopted a set of common goals for a sustainable future. The 17 sustainable development goals were negotiated by all UN member states. They provide governments, business and organisations with common directions and goals for the future.

The work with the UN sustainable development goals should make Innovation Norway a more relevant partner for norwegian business and make sure sustainability become one of Norway's

competitive advantages.

We take a two-pronged approach to the UN sustainable development goals. The first involves how Innovation Norway contributes to achieving the goals through its activities. The second involves how the companies in Innovation Norway's project portfolio can contribute to achieving the goals.

Through talking to internal and external stakeholders we have identified four sustainability goals that are important to our business area, these are:

5. Gender equality

8. Decent work and economic growth

9. Industry, innovation and infrastructure

17. Partnerships for the goals

Innovation Norway has also identified a further ten sustainable development goals as being essential in making an indirect contribution through companies involved in Innovation Norway's portfolio. These are:

2. Zero hunger

3. Good health and well-being

4. Quality education

6. Clean water and sanitation

7. Affordable and clean energy

11. Sustainable cities and communities

12. Responsible consumption and production

13. Climate action

14. Life below water

15. Life on land

Innovation Norway is still in a start-up phase in terms of our efforts to contribute to achieving the sustainable development goals. In 2018, we will continue to work on indicators, data collection and reporting to highlight how Innovation Norway can contribute to achieving the goals by realising value-creating business development nationwide.

More successful entrepreneurs

Access to capital was an important issue both for Innovation Norway and Norwegian entrepreneurs in 2017. It is important for Innovation Norway to encourage the investment of private capital by sharing the risks of investors and entrepreneurs when they invest in a company in its early stages. We want to change our services in line with entrepreneurs' needs, market trends and where the market is failing in the capital system.

Start-up loans, the new loan scheme for entrepreneurs and the pre-seed capital programme have proved to be good means that have triggered capital investments in young, growing companies.

At the same time, we realise that capital alone is not enough.. Investors also contribute with advice, networks and follow-up. "Competent capital" provides start-ups with expertise that contributes to growth.

Entrepreneurs solving global problems

Technology and innovation are helping to solve major global challenges. A lot of attention has recently been paid to responding to the UN's sustainability goals. Investors are more interested in investing in companies that not only produce economic returns but also contribute to a better society and have a positive impact on the environment. Social challenges and solutions to these represent a market need, and new opportunities for Norwegian entrepreneurs to capture market share.



Foto: Kicki Nilsson

More entrepreneurs focusing on new markets

An increasing number of companies are going international. In addition to the US, Asia has been the subject of more attention in the last two years. We have supported Norwegian entrepreneurs' interest by entering into a partnership with the nHack accelerator programme in China. This now a part of our Global Entrepreneurship programme.

To encourage more Norwegian entrepreneurs to see international opportunities, we arranged a hackathon within financial services technology and humanitarian innovation in cooperation with a UN organisation, UN Women, and the accelerator Katapult. This project was part of the official agreement Innovation Norway entered into with UN Women in Trondheim on 7 Mars 2017, which aims to ensure more Norwegian entrepreneurs can develop and promote their products in a global arena.

To develop the ecosystem for Norwegian entrepreneurs abroad, we expanded the success of the Nordic Innovation House in Silicon Valley with equivalent provision in New York in 2017. Nordic Innovation House is a collaboration with the WeWork office sharing network, Nordic Innovation, and the Nordic countries. This arena helps to create a strong local environment for Nordic entrepreneurs and is important when it comes to ensuring Norwegian companies can gain faster, easier access to networks and expertise in an international market.

From business to industry

Innovation Norway has also been working to increase the global competitive power of creative enterprises through the tailor-made export programmes: Games Go Global and Architecture Go Global. Both programmes bring together creative companies from around Norway, have bold international ambitions, and have achieved acceptance in the market and built a strong team.

Diversity as a competitive advantage

Entrepreneurs need more than capital to succeed in international markets. Norwegian companies need to understand global markets and have insights into new target groups to build competitive, global businesses. Good teams consisting people of varying ages, backgrounds, experience and genders will be one of the biggest competitive edges Norwegian start-ups have when they meet the global market.

Innovation Norway arranged the Innoversity conference in May, where the topic was how a greater diversity can impact the culture, results and bottom line of a company. The conference was followed up by a study trip for selected companies to the start-up city Toronto in Canada, where the participants got to meet companies that had achieved success through the deliberate application of diversity as part of their business strategy.

We also continue to focus on the need for more female entrepreneurs, especially within

technology, and Female Entrepreneur 2017 was awarded to Nuria Espallargas, founder of industrial company Seram Coatings.

More nationwide key arenas

More and better key arenas have helped develop the entrepreneurial environments in Norway and bring investors and companies closer together. With earmarked funds from the Government's entrepreneur plan, we have helped strengthen major key arenas such as Startup Extreme in Bergen and Voss, Oslo Innovation Week (OIW) and Technoport in Trondheim. Such arenas are attracting more entrepreneurs and investors than ever before, including from abroad. We are experiencing increased curiosity from angel investors who want to understand which companies they should invest in and how and through which networks they can access good companies and co-funding. These meeting places are also good arenas in which we can raise topics that are important for start-up companies, as we did with intellectual property rights (IPR) in a seminar arranged in cooperation with the Norwegian Industrial Property Office at OIW 2017.

Funding that triggers private capital

One of the major challenges entrepreneurs and businesses face at an early stage is access to capital. In 2016, we launched pre-seed capital and piloted a new loan scheme for entrepreneurs. In 2017, we launched the start-up loan scheme and within a year 74 projects had been loaned NOK 110 million through the scheme.

In 2017, NOK 50 million in interest-free loans was distributed among 17 investor environments throughout the country as part of the pre-seed capital scheme. A total of NOK 114 million was invested in 18 start-up companies, of which 78 million came from private investors.

Long-term investments in competitive businesses

Norwegian entrepreneurs with international ambitions often have a great need for capital, where equity and angel investors are not enough. Access to risk capital has thus been strengthened with two new funds via the seed capital scheme.

Of Innovation Norway's total grants of NOK 6.8 billion in 2017, one-third (NOK 2.3 billion) went to entrepreneurs and start-up companies. Start-up grants accounted for nine per cent. The new start-up loan for companies in the same phase is another measure for good entrepreneurs who demonstrate a capacity for growth and internationalisation. The number of companies that received start-up grants or start-up loans fell, but the total amount and the amounts per company were higher than in 2016.

Innovation Norway makes a difference

Calculations done by Statistics Norway (SSB) clearly indicate that support from Innovation Norway has an effect. According to Statistics Norway figures for 2017, entrepreneurial companies that received support from Innovation Norway averaged 14 percentage points higher growth in annual turnover (sales revenue) than a control group of similar businesses that did not receive such support. Similarly, the increase in value creation in entrepreneurial and start-up businesses was close to nine percentage points higher than in the control group. In the last three years, the estimated productivity of our entrepreneurs has increased successively from less than four percentage points extra growth per year to five percentage points in this year's measurement.

More companies with growth capacity

During 2017, Innovation Norway worked purposefully together with Norwegian business and industry to strengthen Norwegian companies' international competitiveness. Our district and international offices have together utilised the entire range of Innovation Norway's services in this work. The Customer Impact Survey shows that the proportion of customers who say our assistance has had a major impact on exports has increased from 22 per cent in 2014 to 35 per cent in 2017.

Collaboration on risk mitigation and growth guarantees

Gaining access to risk capital can be difficult, also for established companies. Even companies that are well able to service their debts often experience strict limits on loan financing from banks. This increases the need for loan programmes in which the collateral requirements are less strict than in the commercial market, such as Innovation Norway's innovation loans.



Foto: Thinkstock

Innovation Norway increased the supply of risk capital for growth companies by NOK 500 million in 2017. This was made possible by signing an agreement with the European Investment Fund (EIF) totalling NOK 1.2 billion, which enabled the provision of high-risk loans to Norwegian companies to be increased by NOK 500 million in 2017. The agreement also resulted in us increasing the limit on how much we can lend each project from NOK 25 million to NOK 50 million. This means we can lend more money to a business sector undergoing restructuring without increasing our risk of losing money. The agreement with EIF is also valid for 2018.

Access to commercial bank financing was also improved through the piloting of a new guarantee instrument that means commercial banks can offer innovative Norwegian companies risk mitigation. The banks allocated NOK 142 million in 2017 and are already requesting increased limits.

The EU funding programme, the SME Instrument, works well for Norwegian small and medium-sized enterprises. In 2017, 25 Norwegian companies received a total of almost NOK 220 million in financial support for their projects just from this programme alone. That is more than twice as much as the year before. Innovation Norway's efforts help ensure that more small and medium-sized businesses with innovative solutions to important social challenges are now getting EU funding for their projects. To ensure we get the right companies involved, we are making the most of our presence in the regions and targeting our events and advice to ensure this. .

Heavy focus on exports and internationalisation

The Government launched a national export strategy in 2017. The strategy describes measures for increasing foreign investment in Norway, promoting Norwegian green solutions and establishing an export programme. Innovation Norway plays a central role in this work, among other initiatives through the Brand Norway project, which is a national value creation programme for increasing Norwegian export and attractiveness. Norwegian business wants to be a leader in using new technology to develop sustainable solutions. The Brand Norway project gives us an opportunity to raise the visibility of Norwegian solutions on the global arena.

Due to the fall in petroleum exports, a far larger number of small companies must succeed in exporting innovative products and solutions. That is why we are mobilising and reinforcing our expertise in international business development.

In 2017, we simplified how we work with exporters. We are going to digitalise our export services and make our routines more efficient and clearer. We will also continue to work on promoting the services available to Norwegian exporters from a combined support system.

Global Growth and International Market Advice help Norwegian companies seeking international expansion achieve faster growth with lower risk, while the Export Centre offers advice on implementation.

Global Growth is one of Innovation Norway's most powerful skills programmes for companies ready to take advantage of international market opportunities. In 2017, 260 companies took part in tailor-made programmes organised by Innovation Norway's international offices. Innovation Norway's international network delivered more than 900 International Market Advice projects in 2017.

In 2017, we sharpened our advice-giving expertise in the districts by recruiting internationalisation advisers who encourage more companies to pursue opportunities outside Norway's borders. The advisers survey the customers' needs and qualify customers before they go international.

Mobilisation activities were stepped up in 2017 with 30 Go Global events across the country attended by more than 900 companies. The idea is to motivate and inspire Norwegian business to

think internationally early on.

Norwegian companies with international focus

- 900 Norwegian companies attended Go Global events in 2017
- 46 companies took part in internationalisation workshops to prepare for going international
- 750 companies received advice or attended courses arranged by the Export Centre
- 260 Norwegian companies took part in programmes organised by Innovation Norway's international offices
- 600 companies received international market advice from Innovation Norway's international offices.

The mission of Invest in Norway is to encourage more foreign companies to invest in Norway by leveraging and developing Norway's position internationally. Foreign capital and ownership contribute to jobs, research and development, access to new technologies, global value chains and increased exports. In 2017, Invest in Norway worked on 26 projects relating to potential foreign investment in Norway.

Innovation partnerships solving social challenges

Innovation Norway has intensified its focus on public-private innovation. The public sector is a large potential market for Norwegian companies. If innovative companies are to improve their chances of international success, they need to be able to test solutions and technologies in a well-functioning home market.

The public sector is facing numerous social challenges, for example in relation to climate change and the senior wave. We need an innovative business sector that develops good products and services that meet public needs to come up with sustainable solutions. Innovation Norway has therefore made it possible for public and private actors to enter into innovation partnerships.

In 2017, we launched Norway's first innovation partnership with the National Programme for Supplier Development, the Agency for Public Management and eGovernment (Difi), and the City of Stavanger. Through this, and four other innovation partnerships, we are learning valuable lessons about what it will take to come up with new, innovative solutions that the public sector needs.

In 2017, we also emphasised developing relationships, collaborations and role sharing with the other stakeholders in this area. We are developing an ecosystem for public-private innovation together with key partners such as Difi, the Norwegian Association of Local and Regional Authorities, the Confederation of Norwegian Enterprise (NHO), the National Programme for Supplier Development, and the Research Council of Norway. By creating good instruments for this area, we are providing a way for Norwegian companies to grow and create new jobs by finding solutions to the social challenges of today and tomorrow

More innovative business environments

Clusters and networks are playing a central role in the restructuring of Norwegian business. Strategic partnerships in relation to restructuring, new markets, and new business models are more in demand than ever, and in 2017 Innovation Norway granted NOK 164 million to cluster projects and NOK 40.5 million to business network projects.

In a society with many small businesses, companies are more reliant on cooperation in order to succeed when it comes to research, innovation and international growth. The cluster and network services are cost effective tools that reach more than 3,000 companies and start-ups with a modest amount of effort. Clusters make strong environments visible.

Companies in business clusters collaborate more, employ more people, increase sales revenue and enjoy greater value creation than companies that are not a member of a cluster, especially in the first few years. This is evident from



Foto: Finance Innovation

the evaluation of the cluster programme published at the start of 2018. The evaluation shows clusters contribute to both growth and restructuring. The evaluation also shows that the results are good even if the financial support is limited – in fact, the investment in the cluster programme will already have been paid back after two-three years. The evaluation of the business networks also points to increased innovation and better financial results. It also reports many new collaborative relationships that provide a basis for partnerships in new projects. Business network projects make a significant contribution to restructuring and internationalisation in small and medium-sized companies.

Restructuring and renewal

Restructuring and renewal have in various ways characterised our work with clusters and networks in 2017. All of the new business network projects have an international focus with an emphasis on developing new market opportunities. The criteria for becoming new clusters were changed in 2017 meaning that applicants had to demonstrate a higher level of ambition for the cluster and an ability to connect knowledge from multiple disciplines and sectors. The five new Arena projects and two new NCE projects will all contribute to more radical innovation and renewal.

In 2017, Innovation Norway issued its first Restructuring Engine (Omstillingsmotoren) service announcement. The Restructuring Engine is a cluster programme that aims to encourage more efficient restructuring by letting well-established clusters share their expertise within digitalisation and modern production with companies outside the cluster.

Regional restructuring

Our work on the innovative business environments sub-goal also includes regional restructuring work. This objective is to help create and secure new, profitable jobs, contribute to a more robust and diversified business structure, as well as strengthen business development capacity in municipalities experiencing stagnation or jobs disappearing. 26 restructuring areas make use of the programme's tools and guidance. They have created 151 new companies and almost 460 new jobs.

Triggering investments in agriculture

The agricultural work is a major and important assignment for Innovation Norway. NOK 3.13 billion was invested in projects within traditional agriculture in 2017. Of this, NOK 1 billion was given as grants from Innovation Norway. That means that NOK 1 in funding from Innovation Norway triggers an investment of no less than NOK 2.1 from the agriculture businesses itself.

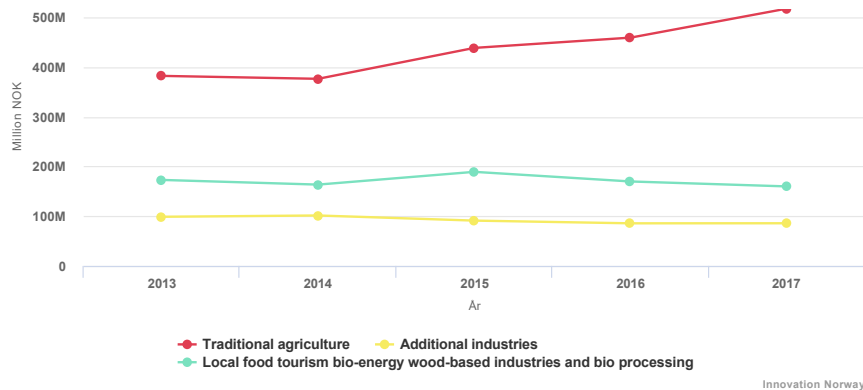
The majority of this funding, 65 per cent, goes to investments in milk and beef production.

There is a big interest within the industry in investing in and developing Norwegian agriculture further. Innovation Norway will prioritise increased food production where there is a commercial basis for doing so. An expanding production provides a basis for adopting new and more efficient technologies such as milking robots. Norway is a world leader in this area and more than 40 per cent of Norwegian dairy cattle are milked by robots.

Efficient and sustainable agriculture

Innovation Norway wants to facilitate efficient and sustainable agriculture. In the last ten years, Norwegian agriculture has seen an average annual growth in gross labour productivity of four per cent, while the equivalent for Norwegian industry has been 1.4 per cent. The average for mainland Norway is 0.7 per cent.

Funds for investment and business development in agriculture are Innovation Norway's most important instrument for developing traditional agriculture and other agricultural industries. The trend of an increased proportion of funds going to traditional agriculture continued in 2017. This trend is due to the demand from the two areas of traditional agriculture and other industries. For the other programmes, the trends are due to the variation in annual available budgets.



Recruiting people into agriculture

Recruiting people into agriculture is a prerequisite for increased food production and value creation. The focused prioritisation of young people in this industry is important for the development of agriculture and agriculture-related activities.

The proportion of funds for investment and enterprise development in agriculture (IBU) that goes to young farmers is therefore important. Of the total IBU budget of NOK 574.5 million in 2017, 27 per cent went to farmers younger than 35 years old. This is 2 percentage points lower than in 2016, but still 8 per cent higher than in 2011. The 35-50 age group remains the dominant one, receiving 51 per cent of the grants.

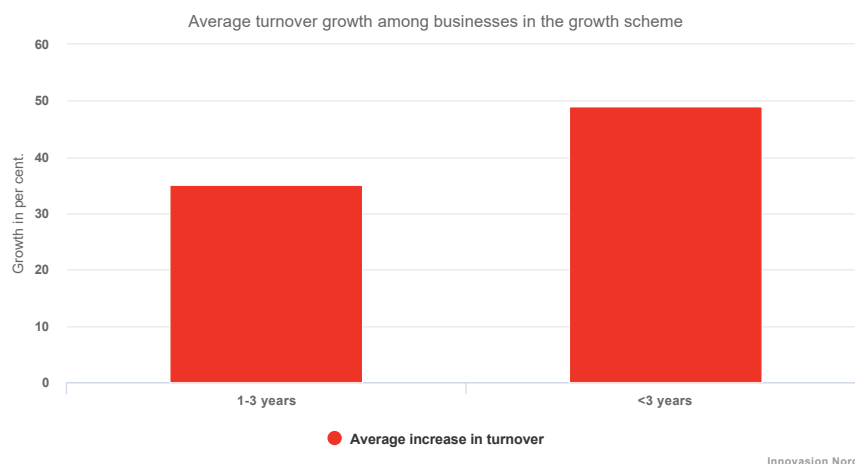
Development programme stimulating growth

The agriculture and reindeer-based growth and value creation development programme aims to help increase value creation in complementary industries based on agricultural and reindeer herding resources.

One of the financial instruments in the programme is the growth scheme. The scheme can provide up to NOK 1 million in grants to companies aiming to increase turnover by at least 30 per cent in the next three years.

The scheme was evaluated in 2016/2017. The results show that 79 per cent of the companies that received growth support reported that it had a high rate of success with respect to triggering investments and was very important for the company's financial development.

The accounting figures of the public limited companies confirm this trend. The companies that have completed the growth project can point to turnover growth of 49 per cent. The figures for companies still in the project indicate average turnover growth of 35 per cent.



Climate-friendly energy

The bioenergy programme aims to help more agricultural companies use more bioenergy in order to phase out fossil energy and make agriculture's energy consumption more climate neutral.

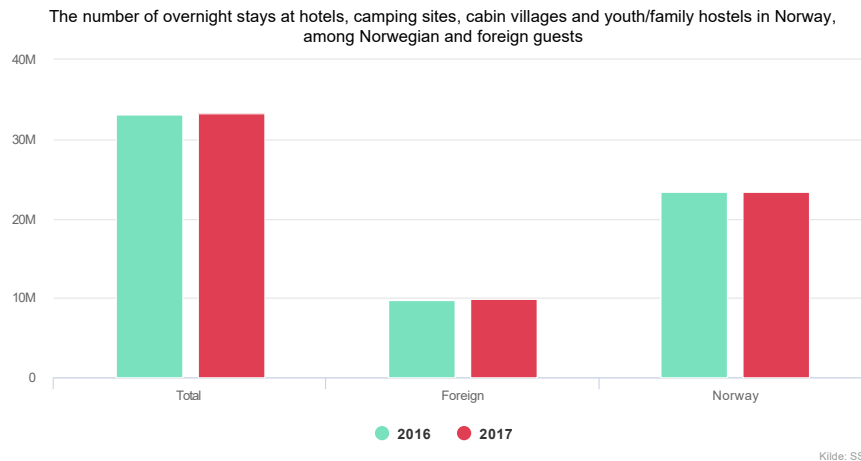
Despite low energy prices, agriculture continues to invest in climate-friendly energy for its own

consumption and for sale. Since the programme started in 2003, production of just under 400 GWh has been established. This transition to bioenergy has saved emissions of 72,000 tonnes of CO₂-equivalents.

Travel and tourism

In 2017 it was a total of 33,3 million commercial bed nights in Norway. This is an increase in one percent and amounts to 170 000 more commercial bed nights compared to 2016.

Commercial bed nights have increased from 29 million in 2013 to a total of 33 million in 2017. This represent an increase in 14 percent and four million more bed nights. Figures from Norway Statistics indicates that the growth is not evenly distributed throughout the year, as 2,7 million, or 60 percent of the growth was between May and August.



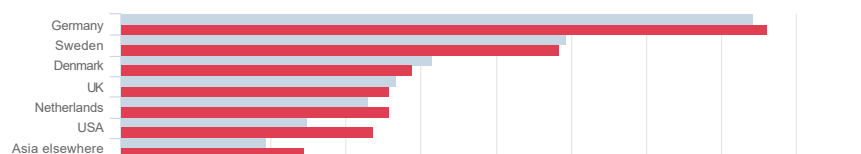
2017 was a year of change for Innovation Norway's tourism initiative. Based on the White Paper on tourism (White Paper No. 19 (2016-2017) "Experiencing Norway – a unique adventure", Innovation Norway presented a new action plan for its tourism initiative called "Hele Norge – Hele Året" (All of Norway – All Year). The goal is to make people want to come to Norway, travel around Norway, and experience Norway all year round.

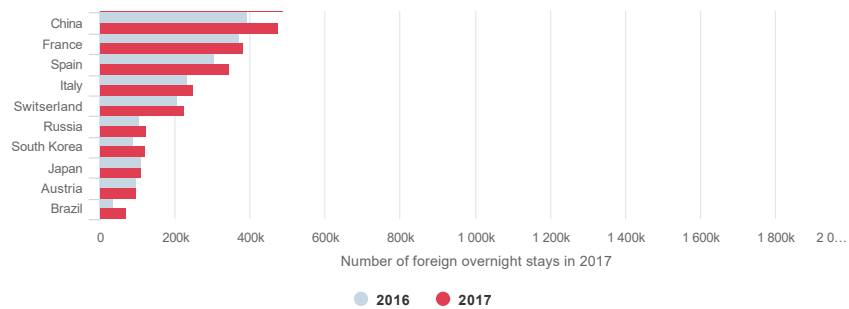
The vision is for Norway to become a leading destination for sustainable nature and culture based experiences, and six guiding principles have been defined:

- All of Norway, the whole year. We will work to attract travellers to Norway year-round and to the whole country.
- We will work with all businesses across sectors that produce experiences.
- We need to know the motives behind the travel. Travellers are increasingly choosing destinations based on the experiences they want to have, not the specific destination.
- The driving force behind developing experiences: Innovation Norway's services should contribute to a richer range of experiences that are making Norway worth the journey.
- Innovation Norway is an open innovation environment. We will be transparent about how we work and our processes.
- Innovation Norway measures, shares and learns, together with the tourism industry.

Norway is currently largely a seasonal destination and to achieve the goal of attracting travellers to the whole country, all year round, Norway will have to focus more on new target groups and segments. In line with the action plan, our target groups now include meetings, incentives, conferences and exhibitions (MICE) in collaboration with Norway Convention Bureau (NCB) and the destinations.

Foreign overnight stays 2016-2017





The export initiative - Brand Norway

Norwegian exports need to increase in order to develop the welfare society of the future.

There is also a need to attract more international capital, knowledge, talent and tourists to Norway.



Foto: Erik Skjoldbjærg(c)Friland film

Innovation Norway has a number of export-oriented initiatives to help achieve this,

including Visit Norway, Business Partnerships, and Invest in Norway. Growth opportunities in international markets are now a recurring theme in Innovation Norway's customer dialogue. Global Growth and International Market Advice help Norwegian companies seeking international expansion achieve faster growth with lower risk, while the Export Centre offers advice on implementation.

With more than 30 offices in international markets, a nationwide office network in Norway and a dedicated Export Centre, Innovation Norway is well equipped to assist Norwegian business.

Norwegian companies are offered expertise and insights into business and market development, links to the right contacts in the market, and help building their brand and gaining a foothold in the market.

The Government consolidated Norway's focus on exports and internationalisation through a national export strategy in 2017. A number of the measures in the strategy have to be implemented by Innovation Norway, including establishing an export programme, strengthening Invest in Norway, marketing Norwegian green solutions, and strengthening the focus on clusters. In order to follow up the strategy and strengthen the focus on exports, Innovation Norway has gathered all of its export activities in a single division – Brand Norway.

A clear national profile is essential for both individual companies and the country as a whole. That is why Innovation Norway, in cooperation with Norwegian business, is focusing on its export initiative, Brand Norway. The initiative brings together private and public stakeholders from sectors such as the marine industry, tourism, health, smart cities, bioeconomy, culture and energy. The full list is longer and contains everything that underpins Norway's desired position as a pioneer when it comes to sustainability. The goal is clear: together we will show the world why they should buy Norwegian, work with Norway, invest in Norway, and live in and visit Norway.

Brand Norway – A digital showroom

In January 2017, Innovation Norway was tasked with strengthening Norway's "green offensive" profile to achieve increased exports, provide more arenas for interaction, and make Norway a more attractive country to invest in. One important channel for reaching international markets is a digital showcase for sustainable Norwegian solutions.

The digital showcase will also serve as a matching tool for existing Norwegian solutions and international needs. In addition, it will be a meeting place for developing new solutions. This way, the service will contribute to both increased exports and increased innovation. The target groups for the service will be foreign buyers, investors and partners. The service will also be an important tool for Team Norway's export work.

The budget of NOK 4 million from the Ministry of Climate and Environment has been used to develop the digital concept and test a prototype service. Some content has also been developed, including the history of Norway and Norwegian industry, as well as some completed cases.

The concept has been presented to several external stakeholders, including DNV GL, Zero, the

Federation of Norwegian Industries, the Research Council of Norway, the Norwegian Shipowners Association, and all of the clusters in Western Norway. The feedback has been unanimously positive. An initial dialogue has been started with the major export companies about the future organisation, funding and running of an operational solution. Statoil, Statkraft and Yara are among those who have taken part in these meetings. A strategy committee will be established with a clear remit concerning the development of a final business model.

The first version of the service will be launched in May 2018 and the goal is to have a fully operational matching service based on public-private funding in 2019.

From development aid to business development

Innovation Norway carries out assignments for, and linked to, the Ministry of Foreign Affairs through its administration of various programmes. The assignments involve socio-economic development in the recipient countries and strengthening bilateral relations with Norwegian business.

NOREPS's purpose is to help improve global preparedness and humanitarian responses through networks, advice and grant administration. NOREPS is also tasked with reinforcing a culture of innovation in Norwegian humanitarian organisations, and innovation partnerships between humanitarian organisations and private companies. NOREPS administered grants totalling NOK 40 million in 2017.



Foto: Torleif Kvinnesland

Enterprise Development for Jobs (EDFJ) is a programme that combats poverty and creates jobs in the south. The programme has two components: one is grant administration by Norad and the other is a competence, advice and networking component that is delivered by Innovation Norway on behalf of Norad.

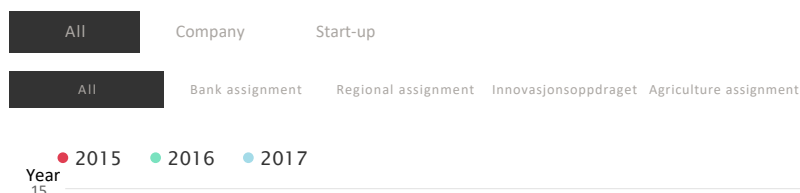
Vision2030's mission is to find new ways of combating poverty in developing countries through innovative solutions and services within health and education. The funding mechanism was set up in 2016 with a budget of up to NOK 150 million over three years. Innovation Norway administered NOK 20 million on behalf of Norad in 2017. The programme was aimed at small, medium-sized and large companies registered in Norway.

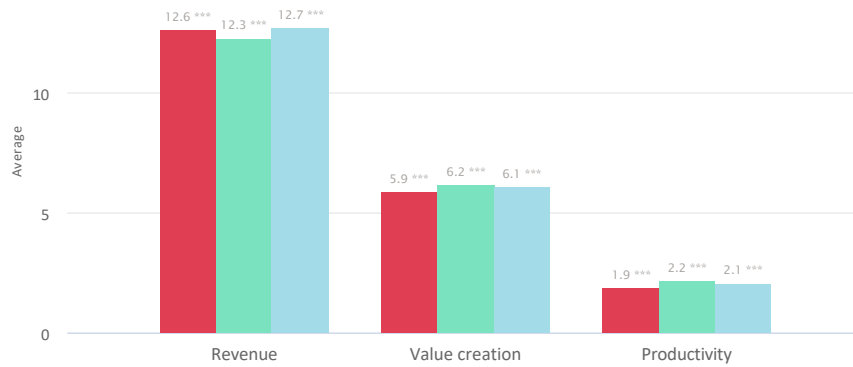
The goal of EEA grants is to contribute to social and economic equalisation, primarily in new EU member states, and to increase bilateral cooperation with Norway. Innovation Norway has been asked to administer five new programmes in the next EEA programme period (2014-2021) within: business development, innovations and SMEs; decent work and tripartite dialogue; renewable energy; and energy efficiency and reliability. These assignments increase Innovation Norway's administrative responsibilities from NOK 650 million for the period 2009-2014 to around NOK 1.7 billion for the period 2014-2021.

Arktis2030 and ProRus are grant schemes tasked with supporting business cooperation in the Arctic and with Russia.

Facts and figures

Impacts from Innovation Norway's efforts





Non significant values are set to 0 : ***: 99% significant ** : 95% significant * : 90% significant

Source: SSB Metoderapport / Innovasjon

This figure shows the additional growth in percentage points in businesses supported by Innovation Norway compared to similar businesses that have not received support. This provides an indication of the impact of our support.

Higher growth in sales revenue

Companies supported by Innovation Norway achieve 12.7 percentage points higher annual added growth in sales revenues compared to equivalent companies that do not receive this support.

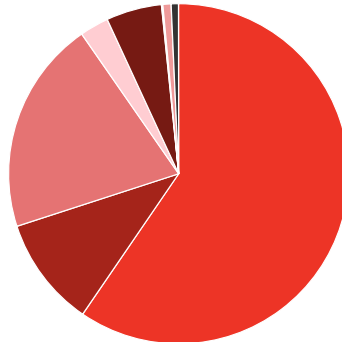
Growth in value creation

Companies supported by Innovation Norway achieve 6.1 percentage points higher annual added growth in value creation compared to equivalent companies that do not receive this support.

Increased productivity

Companies supported by Innovation Norway achieve 2.1 percentage points higher annual added growth in productivity compared to equivalent companies that do not receive this support.

We receive 3,8 billion:



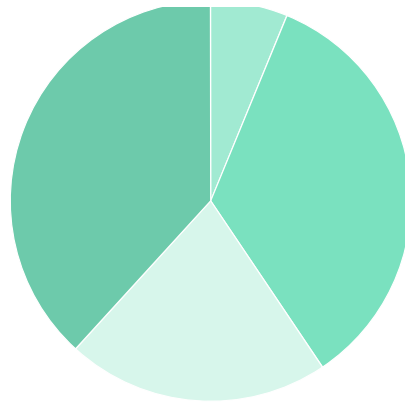
- NFD (Ministry of Trade Industry and Fisheries)
- UD (Ministry of Foreign Affairs)
- KLD(Ministry of Climate and Environment)
- KD(Ministry of Education and Research)
- FK (County Council)
- KMD(Ministry of Local Government and Modernisation)
- KUD(Ministry of Culture)
- LMD(Ministry of Agriculture and Food)

Through Innovation Norway, The Parliament and County Council granted 3,8 billion NOK in 2017 for the support of value-creating industry development all over the country (Corresponding number for 2016 was 6,7 billion NOK).

We distribute 7,3 billion:

Service:

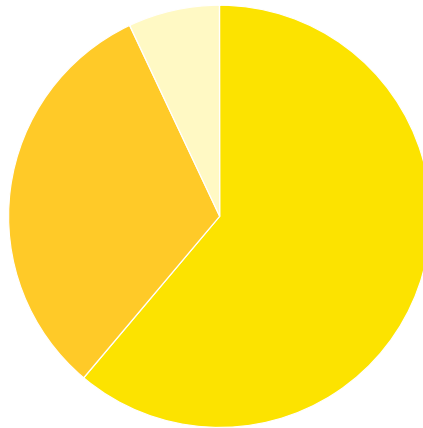




● Advisory and Profiling ● Low risk loans ● Risk loans and guarantees ● Grants Innovasjon Norge

The grants from Parliament and the counties, together with loan schemes, provided a total business-oriented effort of NOK 7,3 billion through Innovation Norway. The charts show the breakdown by service, target group and sector.

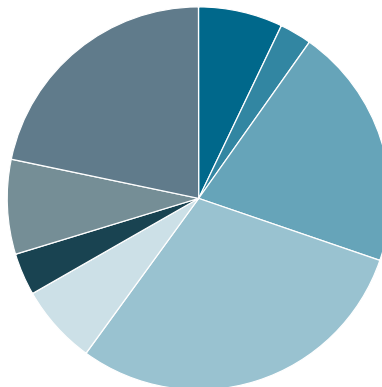
Target group:



● Companies ● Entrepreneurs and startups ● Network and collaboration projects Innovasjon Norge

The grants from Parliament and the counties, together with loan schemes, provided a total business-oriented effort of NOK 7,3 billion through Innovation Norway. The charts show the breakdown by service, target group and sector.

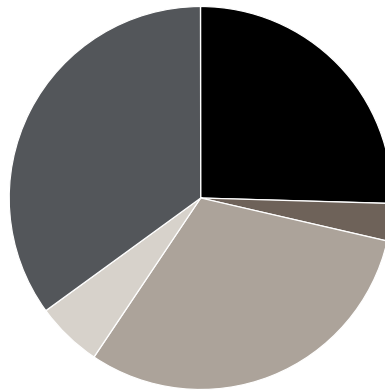
Sector:



● Energy and environment ● Health ● Agriculture ● Marine ● Maritime ● Oil and gas ● Travel and tourism ● Other Innovasjon Norge

The grants from Parliament and the counties, together with loan schemes, provided a total business-oriented effort of NOK 7,3 billion through Innovation Norway. The charts show the breakdown by service, target group and sector.

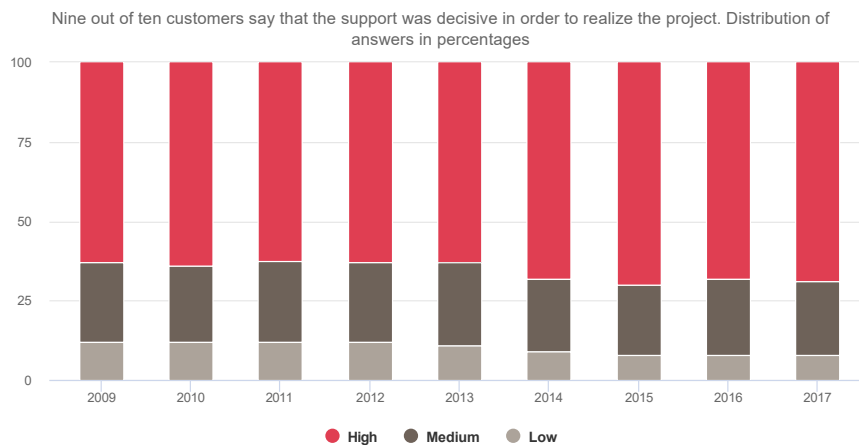
We generate:



● Other financing (including banks) ● Other public means ● Private financing (including investor capital)
 ● Financing from customer partners ● Innovation Norway (e. g. guarantee) Kilde: Innovasjon Norge

The support from Innovation Norway contributed to triggering this much effort from the business community. Including the money from Innovation Norway, 20,8 billion NOK was invested into innovation activities in 2017 (Corresponding number for 2016 was 20,1 billion NOK).

Innovation Norway makes a difference



Nine out of ten customers say that the support was decisive in order to realize the project. Distribution of answers in percentages

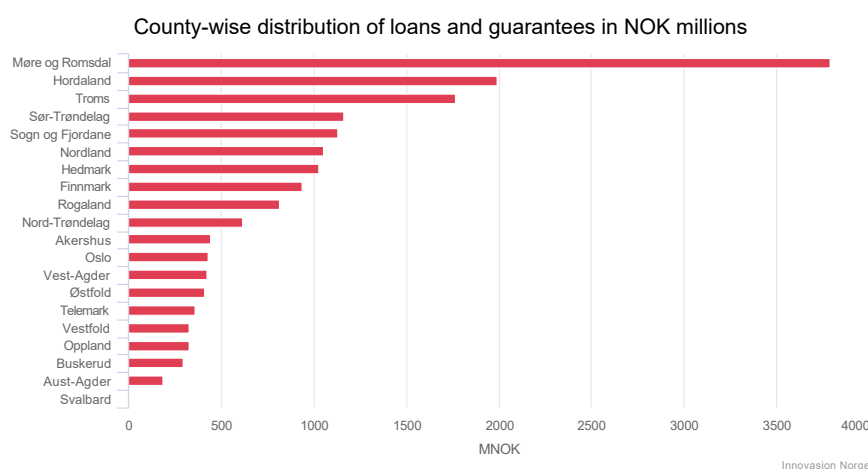
In 2017 nine out of ten customers (92%) responded that support from Innovation Norway was decisive for realization of their projects. Additionality is a key indicator in the annual customer impact surveys to gauge which difference the allocated funds have made. In the preliminary survey for 2017, the proportion with high additionality is at 69 per cent, medium additionality at 23 per cent, and the share with low additionality at eight per cent. In 2014 there was an increase in the proportion with high additionality from 63 to 68 per cent compared to the years from 2009 to 2013, and the share has since remained at around 70 per cent. The share for the category with low additionality declined in the period 2013 and 2014, and has since remained stable at eight per cent.

Every year Oxford Research conducts a customer impact survey among all of Innovation Norway's registered customers.

County-wise allocations

In 2017 low-risk loans, risk loans and guarantees and grants comprised a total of NOK 7.3 billion. This is an increase of 8 per cent from 2016. A total of NOK 2.5 billion was provided as low-risk loans in 2017, shared between industry and services (NOK 676 million), agriculture (NOK 587 million) and fishing fleet (NOK 1.5 billion). Risk loans and guarantees to industry, services and agriculture comprised NOK 1.6 billion, up 36 per cent from corresponding figures for 2016 (NOK 1.1 billion). A total of NOK 3.2 billion was disbursed as grants in 2017. The largest items were other programme, investment and development funds (NOK 771 million), agriculture (NOK 751 million) and environmental technology (NOK 538 million).

Active loan portfolio 2017



At the end of 2017 the loan portfolio included just less than 14,000 active loans. Loans to industries in ocean and coastal fishing comprise 48 per cent of the overall loan portfolio for the three counties with the greatest active loans, NOK 1.7 billion for Møre and Romsdal, NOK 1 billion for Hordaland and NOK 800 million for Troms respectively.

Commercial overnight stays 2016-2017

In 2017 there were 33.3 million overnight stays in commercial accommodation in Norway. This is an increase of just less than 1 per cent and constitutes 170,000 more overnight stays. Norwegian overnight stays are unchanged from 2016, so growth in 2017 is due to more foreign overnight stays.

Commercial overnight stays have increased from 29 million in 2013 to 33 million in 2017. The increase of 14 per cent corresponds to four million more overnight stays. Figures from Statistics Norway show that growth is not distributed throughout the year, as a full 2.7 million, or 60 per cent of the growth in the period has been in the months May to August.

Foreign overnight stays 2016 - 2017

The increase in foreign overnight stays from overseas markets continued in 2017, in addition to good growth from southern Europe. After several years of decline, 2017 also saw an increase in Russian overnight stays. Even with a decline from large-volume markets such as Denmark,

Sweden and the UK, Norway had an overall increase of two per cent in the number of foreign overnight stays in 2017 compared to 2016.

Grants for investments and development in agriculture

With regard to funds for investments and business development in agriculture, the trend of an increased share of funds going to traditional agriculture continues, but the amount to additional businesses has stabilized from 2018.

The development is due to demand from the two areas. In terms of developing farms and diverse local communities, it could perhaps be desirable with a somewhat greater interest in rural industries, cf. the report to the Storting on growth and entrepreneurship in agriculture-based business development. At the same time developments are understandable given the focus on the loose housing requirement, increased food production and efficiency.

The growth scheme

Development programme stimulating growth

The agriculture and reindeer-based growth and value creation development programme aims to help increase value creation in complementary industries based on agricultural and reindeer herding resources.

One of the financial instruments in the programme is the growth scheme. The scheme can provide up to NOK 1 million in grants to companies aiming to increase turnover by at least 30 per cent in the next three years.

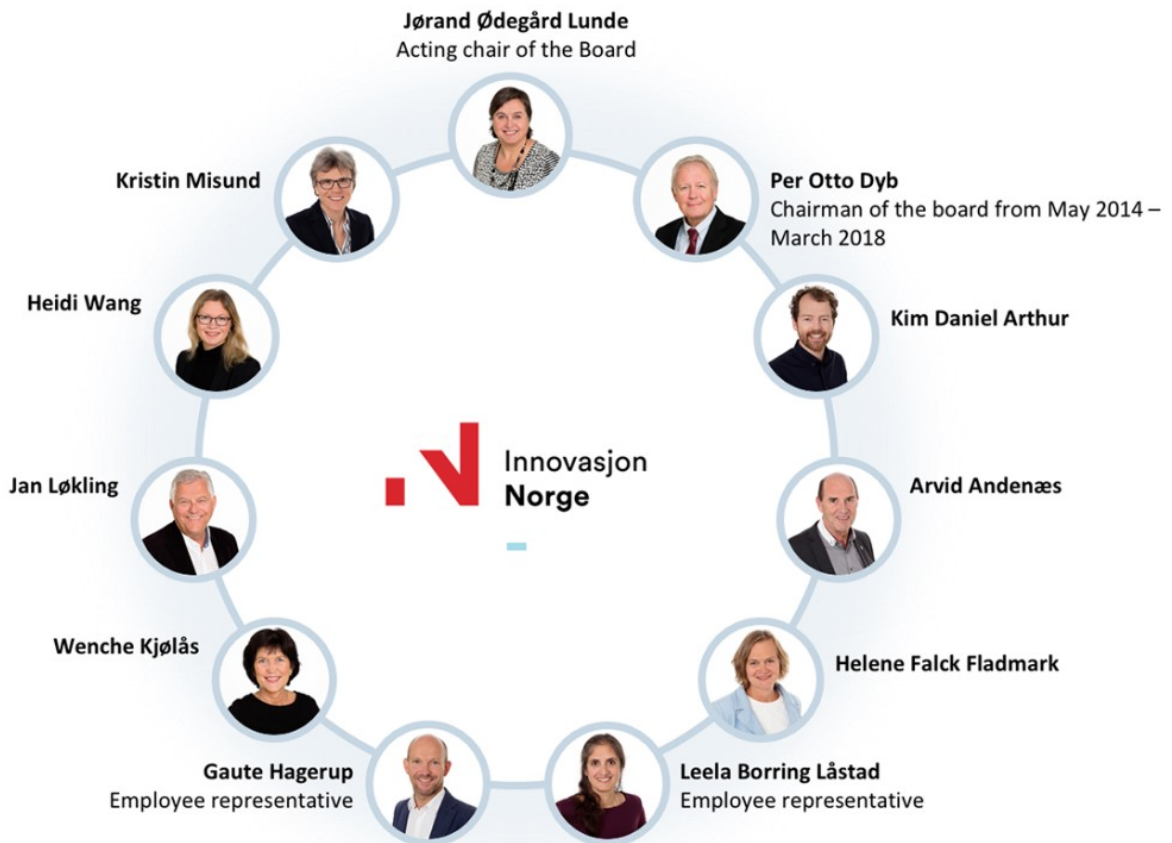
The scheme was evaluated in 2016/2017. The results show that 79 per cent of the companies that received growth support reported that it had a high rate of success with respect to triggering investments and was very important for the company's financial development.

The accounting figures of the public limited companies confirm this trend. The companies that have completed the growth project can point to turnover growth of 49 per cent. The figures for companies still in the project indicate average turnover growth of 35 per cent.

About the impact survey

Innovation Norway uses different forms of evaluations, analyses and indicators to measure the results and impacts of our activities. The indicators are stipulated in our goal and result management system and are based on assessments of our customer advisers, questionnaires for the customers and econometric analyses based on accounting data (economic effects).

Statistics Norway (SSB) is our methodology partner for calculating commercial effects. The method used is a standard in the literature for comparisons between companies. The analyses take into account changes, for example in turnover, in the same businesses over time and compare them with a control group. Stable, company-specific differences between Innovation Norway companies and the control group therefore do not constitute a problem in Statistics Norway's analysis. However, it is not possible to control unobservable variables that can influence the results. Caution should therefore be exercised in interpreting the results causally, i.e. as an expression of exact effect measurements. Effect indicators are, in fact, indications that there are effects. The procedure is documented in the Statistics Norway report 2015/35 "Effect on firm performance of support from Innovation Norway." The method referred to as "matching with stratification" in the report is used.



Annual Accounts 2017

[Annual accounts 2017 \(pdf\)](#)

The nature of the business

Innovation Norway was formed on 19 December 2003 and has its head office in Oslo. The company is owned by the Ministry of Trade, Industry and Fisheries (51%) and the county councils (49%). Innovation Norway is organised as an enterprise established by special legislation, whose Board of Directors has an independent responsibility for its activities and the results achieved. Innovation Norway is responsible for the administration and appropriate organisation of Innovation Norway's activities. The owners exercise supreme authority in the company through the enterprise meeting.

Objectives and goals

Innovation Norway's objective is to be the policy instrument of the state and the county authorities 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.

Each year, Innovation Norway receives more than 40 letters of assignment from ministries, county councils and county governors. Based on the national budget, the letters of assignment provide a combined overview of our principals' expectations and requirements of Innovation

Norway's activities. The letters also set out Innovation Norway's allocation framework and guidelines relating to initiatives, programmes and services.

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

Innovation Norway offers financing services, advisory services, expert services, networking services and promotional services. Most of the company's staff are 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 also has an innovation policy role and task enshrined in Report to the Storting No. 22. Innovation Norway shall provide professional input to public authorities at a national and regional level in connection with business and innovation policy, including proposals for new focus areas for future policy formulation. Innovation Norway is an important sounding board for owners and principals and shall, through its network with Norwegian businesses and industries, both nationally and internationally, acquire knowledge about the challenges and opportunities faced by Norwegian business and industry at all times. Innovation Norway shall also contribute to various innovation, industry and regional policy issues that are relevant to the company achieving its goals being prominent in the public debate.

Positive impact in 2017

In 2017, Innovation Norway expended a significant amount of effort in following up the desire of the owners and clients to contribute to a Norway that is undergoing a period of restructuring. The Company's principal focus in 2017 was to increase access to venture capital for Norwegian business and industry, contribute to increased exports and internationalisation through risk mitigation and export assistance, and provide our clients with innovation policy advice that leaves a lasting impression.

In 2017, Innovation Norway received allocations and assignments in letters of assignment from the Ministry of Trade, Industry and Fisheries, the Ministry of Local Government and Modernisation, the Ministry of Agriculture and Food, the Ministry of Climate and Environment, the Ministry of Education and Research, the Ministry of Culture, the Ministry of Local Government and Regional Development, the Ministry of Foreign Affairs, the county councils, the county governors and other public bodies. Common for the assignments is contributing towards wealth creation and economic development the entire country.

In 2017, Innovation Norway continued and strengthened our efforts towards what we see works well for Norwegian business and industry. We have contributed to increased venture capital for business and industry through increased use of high-risk loans and the introduction of start-up loans for entrepreneurs. Innovation Norway provided a total of NOK 1.5 billion in high-risk loans in 2017 and achieved the target of NOK 100 million in start-up loans. This was made possible by signing an agreement with the European Investment Fund (EIF) totalling NOK 1.2 billion, which enabled the lending of high-risk loans to Norwegian companies to be increased by NOK 500 million in 2017. The access to commercial bank financing was also improved through the piloting of a new guarantee instrument that offers risk mitigation to innovative Norwegian companies. The banks allocated NOK 142 million in 2017 and are already requesting increased limits.

During 2017, Innovation Norway worked purposefully together with Norwegian business and industry in their work on strengthening international competitiveness. In this work, our district offices and offices abroad have together used the entire breadth of the company's services within financing, advice, expertise, networking and promotion. The customer impact survey shows that the proportion of customers who state that IN's assistance has had a major impact on exports increased from 22% in 2014 to 35% in 2017.

Appropriations from the Norwegian Storting and county councils totalled NOK 3.8 billion. Together with our loan schemes, Innovation Norway contributed NOK 7.3 billion to business and industry in 2017. This included loans, grants, advisory services, promotion and networking through Innovation Norway's various services. The funds triggered investments totalling NOK 20.8 billion. Nine out of ten enterprises stated that Innovation Norway's support was a determining factor for their projects to a high or medium high degree.

This means that one krone from Innovation Norway results in NOK 1.8 in own financing or other loan capital. In addition, Innovation Norway also triggers many other innovation and internationalisation activities by mobilising and providing expertise and networking.

The figures from Statistics Norway (SSB) for 2017 indicate that the effect of support from Innovation Norway remains stable at a high level. Companies that have received support from Innovation Norway have higher annual growth in all three effect indicators over a three year period compared with the control group: an increase in annual growth in sales revenues of 12.7 percentage points (2016: 12.3), an annual increase in value creation of 6.1 percentage points (2016: 6.2%), and an annual increase in productivity of 2.1 percentage points (2016: 2.2). There have therefore only been minor changes compared with the previous year.

There has been a stable development in the level of innovation in the past year. In 2017, NOK 2.7 billion, which is equivalent to 39 per cent (2016: 41 per cent) of all financing commitments, went towards projects with innovation potential at an international level. The innovation level has now become established at around 40% after several years of increases.

The company is continually developing methods of analysis and for measuring effect. For 2017, Innovation Norway strengthened its platform of knowledge to be able to exercise its role on a regional basis and, for the first time, has effect figures that are broken down to county level.

The Board is very satisfied that Innovation Norway has a focus on communicating, investigating and acquiring new knowledge about the services and schemes that are most effective in business and innovation policy. At the same time, the Board also acknowledges that this is demanding work that is continually being developed, and that contributions from Innovation Norway are one of several methods that play a part in the long-term development of a start-up, growth or cluster-oriented company.

Evaluations, reports, analyses and measurements of effects together provide important management information and a knowledge base on which to further develop the company. The Board is focussed on the company continuing with this work and communicating lessons learnt to owners, clients and other stakeholders.

The owners' expectations

Innovation Norway's Board of Directors is responsible for following-up the owners' expectations for the company and reporting on the owners' expectation once per year.

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. Good customer dialogue.
4. A clearer innovation policy adviser role.

In 2017, the Government reaffirmed Norway's focus on exports and internationalisation through a national export strategy. Norway shall strengthen its position as a trading nation and the strategy includes measures for strengthening Invest in Norway, marketing Norwegian green solutions, establishing an export programme and strengthening the cluster initiative.

In January 2017, Innovation Norway was assigned to strengthen Norway's "green offensive profile" to achieve increased exports, provide more arenas for interaction and make Norway a more attractive country to invest in. Together with Norwegian business and industry, a "digital display window" is being developed to present green and sustainable solutions created in Norway. The goal is also to take a clear position as a pioneer in the use of new technology for solving the world's climate and environmental challenges. The display window will be a channel for accessing the international markets. This is one of a number of important measures for supporting Norwegian companies in their export initiatives.

With offices in important international markets and a nationwide network of offices in Norway, Innovation Norway has an excellent starting point for contributing to international expansion for Norwegian business and industry. As part of being relevant to our customers, Innovation Norway conducts a regular evaluation of our presence abroad. In 2017, Innovation Norway altered its presence in a total of 11 countries in line with input from Norwegian business and industry, the markets and the strategy set for the company.

In 2017, we simplified the customer journey for Norwegian exporters when meeting with Innovation Norway. The new customer journey contributes to simplifying work processes, digitalisation of export services and clearer communication with the customers. Growth opportunities in international markets are a recurring theme in the company's customer dialogue,

both at home and abroad. Own internationalisation advisors mobilise to get more companies to operate outside of Norway's borders. They assess customer needs and qualify customers before they go international.

The digital self-test "Are you ready to export?" was launched in 2017 with the intention of informing customers about what is required for succeeding in the export market. Innovation Norway's Export Centre makes the company's expertise in international trade rules and the EU and EEA more easily available to customers. In 2017 there was high demand for trade information, courses and export advice from Norwegian companies and this was therefore a moderate increase on the previous year.

To provide awareness of the service to Norwegian exporters from a joint policy instrument system, Innovation Norway has established a joint export team together with Export Credit Norway, the Norwegian Guarantee Institute for Export Credits (GIEK) and GIEK Credit Insurance. Irrespective of which of the four above-mentioned policy instrument organisations that companies may contact, it shall be ensured that customers are linked to the services and support schemes that are relevant in each individual case.

It is the view of the Board that these changes will ensure that, in the future, Innovation Norway's international presence and services will be better adapted to the needs of business and industry and the assignments the company has received.

To ensure that more of our customers succeed, we must continually improve our services. In 2017, we introduced the first phase of a new and simplified service model in which expertise, advice and financial services are linked more directly to the customers' overall ambitions and needs. The introduction of the service model thereby supports a desired reassigning of capacity and expertise from case management to dialogue and discussion that are of greater value to the customer. The new solution also gives customers and employees easier and faster access to our combined expertise, irrespective of geography and organisational division.

The development and introduction of the service model are realised through investment in digitalisation, however would not have been possible without several years of effort devoted to designing joint information and process models in the company.

The new model has been launched and the changes that have been made have been the correct ones. The transition to a new service model changes both how our employees shall meet customers and the expertise they need to have. We underestimated these cultural challenges when we commenced use of the solution. During the year, we have intensified our training with both personnel and digital resources in order to train all employees in the correct use of the new solutions.

Innovation Norway continually endeavours to be a good partner for our customers. In 2017, the company launched a new customer satisfaction survey which focusses on the customer's views concerning the dialogue and contact with the advisors at Innovation Norway. Our goal is to provide good guidance, be a good "sparring partner", find correct solutions for the customer's needs and follow-up the customer during the entire process. Customer feedback is given directly to our advisors through a separate "dashboard" and is part of the company's work on improving the customer experience and customer dialogue. Average customer satisfaction in 2017 scored 5 out of a possible 6 points.

Innovation Norway shall be an innovation policy advisor for its owners and clients. The role as innovation policy advisor is twofold: the company shall provide input about policy formulation to its clients and contribute to issues that are relevant to the company achieving its goals being promoted in public discussion.

Innovation Norway is becoming increasingly more involved in the public sphere and public debate and has contributed towards encouraging debate about innovation policy. 2017 was a year of high activity and broad acceptance of our innovation policy suggestions. The National Export Strategy that the Government launched in 2017 is in accordance with Innovation Norway's proposal in Innovation Speech 2016 and was also followed-up by increased assignments for Innovation Norway associated with increased exports and foreign investments in the budget for 2018. We are also very pleased with having contributed to placing the topic of public-private innovation on the agenda with Innovation Speech 2017. In the Industry Report, the Government gave notice of a more prominent role for Innovation Norway in the area of public-private innovation and there was also increased funding for this initiative in the 2018 budget.

Innovation Norway has participated in a number of arrangements throughout all of Norway, as well as some held abroad, to provide proposals regarding the development of the Norwegian

economy. The company has also made a number of written contributions to the national budget, strategies and notices to the Ministry of Trade, Industry and Fisheries.

In 2017, the company worked on strengthening internal specialist expertise in order to actively operate as a sounding board for our clients and owners and worked to a greater extent to set the agenda externally to be relevant by contributing to debate regarding innovation, business-oriented and regional policy issues.

In 2017, we had a special focus on strengthening Innovation Norway's role as an innovation policy advisor in the regional partnership. A separate regional team has been established to ensure more coordinated efforts and to strengthen the ability of the regional apparatus to provide professional innovation policy advice. Our focus in 2017 was also to establish stronger links to external groups, both nationally and internationally. The company signed a collaborative agreement with UiO and has been part of several international working groups, both under the European Network of Innovation Agencies' (TAFTIE) umbrella, Innovation Growth Lab (IGL) and the European Commission.

Cost-effective operation

The Board monitors the company's operations throughout the year and focusses on achieving goals, efficient operations and responsible administration of public funds.

In Phase 1 (2014-2017) of Innovation Norway's restructuring process, Innovation Norway has worked with improving and developing along three axes: (1) Work processes: the manner in which we work internally and together with others to provide the best possible services to our customers. (2) Organisation: how we organise our resources to provide customers with access to our expertise and ensure equal treatment irrespective of where they contact, and (3) Digital platforms: the tools we offer colleagues, customers, owners and society for insight, cooperation and self-service. The objective has been to derive greater benefit and efficiency by servicing a larger volume of assignments, spending more time on customers or through reduced costs.

In 2017, Innovation Norway delivered more to Norwegian business and industry with fewer resources. In 2017, Innovation Norway supplied services to business and industry totalling NOK 7.3 billion. This continues the trend from 2014-2017 when Innovation Norway's combined services increased from NOK 5.9 billion to NOK 7.3 billion (+24%). At the same time, the company's total operating expenses during the same period showed a reduction from NOK 1.5 billion to NOK 1.4 billion (-6%).

We are now focussing ahead on phase 2 of the restructuring process (2018 - 2020). We see how experiences and new knowledge can be brought into the restructuring process and the solutions that can best produce an even more targeted and efficient Innovation Norway in the future. In this work, the Board, management, employee representatives and employees are a decisive driving force. It is difficult to see from the annual accounts how the company's costs have developed, because the accounts include the company's delivery costs and customer-oriented activities and projects. The administration is therefore working on operational performance indicators that provide the Board and clients with information about the development of the company's cost-efficiency.

Cooperation with other public funding agencies

Innovation Norway, the Research Council of Norway and the Industrial Development Corporation of Norway (SIVA) are the three main agencies in the government's system of policy instruments aimed at business and industry. Both separately and together, these three agencies provide a significant and effective contribution 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. 2017 saw extensive collaboration at strategic and operative level on the Norwegian cluster programme, input for the "Industry Report", the development of the collaboration with the county councils and the establishment of SIVA's Catapult programme.

The county councils play a vital role as regional development players. This is a role that will be assigned even more importance with the new regions. Innovation Norway's district offices work closely together with each of the county councils at strategic and operative level. In 2017, Innovation Norway established a separate group that will work on further developing this cooperation, among other things, by better enabling the district offices to draw on the expertise

available at the head office. We now have a factual basis in relation to the effects and results per region - something that will support our district offices in their innovation policy dialogue on a regional basis. The so-called collaborative model was also completed in 2017. This is a framework for strengthening the strategic dialogue with the county council and the regional policy instrument apparatus. The model has been developed as a collaboration between the county councils, the Research Council of Norway, SIVA and Innovation Norway. This will be rolled out in 2018.

Export Credit Norway, GIEK, GIEK Credit Insurance, and Innovation Norway have a good collaborative arrangement for assisting Norwegian companies in succeeding in the wider world. The purpose of the collaboration is to provide added value to Norwegian companies by them being provided with the combined services of the organisations. The four organisations together arrange the Export Conference and award the year's best export company.

The Government has presented a separate strategy for developing the bioeconomy in Norway. One of the initiatives in the strategy is a more coordinated effort from the public funding agencies that are the Research Council of Norway, SIVA and Innovation Norway. In 2017 we prepared a joint work platform for our joint efforts within bioeconomics. The purpose of this is to become better coordinated within themed initiatives, simplified transition between policy instruments and joint information and dialogue with different stakeholders.

With the PILOT-E initiative, the Research Council of Norway, Enova and Innovation Norway have established a seamless service for Norwegian business and industry which enables the development process to be accelerated. When a PILOT-E project has been approved, financing and assistance can be expected during the entire process until the goal is achieved. In 2017, there was a call for applications within two topics: emissions-free transport on land and digitalised energy systems of the future.

In 2017, the company strengthened the strategic and operative collaboration with the Norwegian Association of Local and Regional Authorities (KS), Confederation of Norwegian Enterprise (NHO), the Agency for Public Management and eGovernment (DIFI) and the Research Council of Norway regarding renewal of the public sector and innovation in public procurements. The announcement, guidance and follow-up of Innovation Norway's new initiative for public-private innovation are implemented in close cooperation with the NHO Supplier Development Programme and DIFI

The Board considers Innovation Norway to have a good level of cooperation with the other policy instrument players and makes particular reference to the establishment of good and inclusive top management dialogue with SIVA and the Research Council of Norway in 2015 and the corresponding increased collaboration with Export Credit Norway, GIEK and GIEK Credit Insurance in 2017. This supports the ambition and further desire of having clear and coordinated agencies whose policy instruments complement and support each other and that are perceived as parts of a whole by business and industry, R&D institutions and the public authorities.

About the annual accounts The profit for the year 2017 was NOK 301 million, compared with NOK 211 million in 2016. In 2017, the profit before losses was NOK 251 million, compared with NOK 222 million in 2016.

Net interest income was NOK 416 million in 2017, compared with NOK 386 million the previous year. The increase in net interest income was due to higher interest rate margins. Dividends and losses on securities had losses of NOK 6 million in 2017, compared with losses of NOK 4 million in 2016. The net loss was primarily due to the reversal of previous write-downs of shares in the investment funds of NOK 7 million and loss from the sale of shares in the investment fund for Northwest Russia of NOK 13 million.

Total operating income was NOK 1,214 million, compared with NOK 1,217 million in 2016. The net reduction of NOK 3 million was due to an increase in income from public sources of NOK 14 million, a reduction in external revenues of NOK 29 million and an increase in miscellaneous operating income of NOK 12 million. The increase in miscellaneous operating income was principally due to a net foreign exchange gain in 2017 of NOK 1.5 million, while 2016 saw a net foreign exchange loss of NOK 12 million. The decrease in external revenues was primarily due to reduced demand from the tourism industry for our marketing channels and lower level of activity for billable services. The increase in income from public sources was a result of income recognition in relation to costs incurred not being covered by external revenues and miscellaneous operating income.

Operating costs amounted to NOK 1,374 million, compared with 1,378 million in 2016, a reduction of NOK 4 million. Payroll expenses amounted to NOK 694 million in 2017, compared with NOK

691 million in 2016, which was a marginal increase compared with 2016. Other operating expenses amounted to NOK 209 million in 2017, compared with NOK 195 million in 2016. The increase was primarily due to higher IT costs compared with 2016. Direct project costs amounted to NOK 455 million in 2017, compared with NOK 484 million in 2016. The reduction was primarily due to lower promotional, office and communications costs compared with 2016.

Net losses on loans amounted to income of NOK 50 million, compared with an expense of NOK 21 million in 2016. The net income is due to the reversal of provisions for losses for the previous year and is based on us having for each commitment recognised a significantly lower loss than expected at the end of the previous financial year and that our customers are currently well-able to service loans. Losses on loans largely relate to the low-risk scheme. It is expected that normal annual losses will be equivalent to 0.5% of the portfolio. In 2016 the loss ratio was 0.1%.

Losses on loans related to Innovation Norway's high-risk loan schemes and seed capital funds are covered by loss reserves, and are therefore not reflected in Innovation Norway's financial performance figures. Losses on loans relating to high-risk loan and guarantee schemes amounted to NOK 94 million in 2017, compared with NOK 40 million in 2016. These lending activities are expected to involve a higher risk profile than the low-risk loan scheme and with losses over time of close to 5% of the portfolio per year. In 2017, the losses incurred represented 2.9% (1.5% in 2016) of the portfolio. In 2017, the seed capital funds had losses of NOK 31 million, compared with loss reversals of NOK 11 million in 2016. The loans were granted during the period from 2006 to 2008.

Changes in losses are closely linked to fluctuations in the economy. Our loan customers have enjoyed good operating conditions for some time, which has resulted in lower losses on loans.

The cash flow shows that large gross payments are received and disbursed by Innovation Norway every year. This is particularly due to a large part of the borrowings from lending activities being refinanced approximately every three months. Net liquidity increased by NOK 193 million, compared with an increase of NOK 93 million in 2016.

Innovation Norway's balance sheet total at year end was NOK 24.9 billion, which is NOK 900 million more than in 2016 (NOK 24.0 billion).

Net loans amounted to NOK 17.7 billion as of 31 December 2017 (NOK 17.2 billion as of 31 December 2016). In 2017, NOK 3.0 billion was paid out in new loans (NOK 3.0 billion in 2016) and NOK 2.7 billion in grants (NOK 2.9 billion in 2016).

The company did not incur any costs or make investments related to R&D in 2017. 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

The company makes annual assessments of factors important for the company's goal attainment at the overall level. Extraordinary risk assessments are conducted in the event of significant changes in the Norwegian economy or the company's assignment situation, or if the four-monthly reports on goal attainment show significant deviations. When necessary, risk assessments of critical functions and limited areas are carried out at a lower level.

Financial risk

The financial risk largely consists of foreign exchange risk, liquidity risk, credit risk and interest rate risk.

Foreign exchange risk. Innovation Norway has revenues and expenses in foreign currencies. The foreign exchange risk associated with settlement of costs is largely offset by the company having bank accounts in foreign currencies for the most important currencies that we trade in.

Liquidity risk. The liquidity risk is the risk associated with Innovation Norway's ability to finance an increase in loans and ability to settle its obligations when these fall due. The size of borrowings and loans is managed through letters of assignment from the Ministry of Trade, Industry and Fisheries. The liquidity risk is therefore minimal.

Credit risk. Credit risk is financial risk relating to the lending activities, and constitutes a significant risk at Innovation Norway. Developments in the loan portfolio are reported to the Board every four months. The risk profile is adjusted if there are significant negative deviations in relation to the targets. A separate review of the largest loan commitments is conducted once a year. All

major commitments and commitments with loss events are reviewed in connection with the presentation of our annual accounts.

Low-risk loans are granted on market conditions. The risk must be moderate for a project to be granted funding. The risk is therefore limited by relatively stringent security requirements. In addition to risk associated with individual commitments, there is also structural risk associated with the sectoral division of the loan portfolio which differs from what is normal for corporate portfolios at banks. Approximately 40% is financing of fishing vessels, while the portfolio is otherwise roughly equally divided between agriculture and industry.

Innovation and high-risk loans are a form of lending that primarily aim 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, but on the condition that the customer's ability to service the loan is deemed to be satisfactory. The risk for these types of loans is relatively high.

Loans to seed capital fund companies are given as subordinated loans that match private equity and loan capital. The loans have a high risk profile.

Loss reserves have been established for innovation and high-risk loans and guarantees, and for loans to seed capital fund companies. 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. For a smaller portion of this loan portfolio, the European Investment Fund (EIF) shares the risk of loss with Innovation Norway on a 50/50 basis.

Interest rate risk. The interest rate 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 loan portfolio.

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.

The company's steering documents are collated and made available in a separate database. Innovation Norway has contingency plans and carries out exercises on a regular basis. A separate compliance function contributes to the company reducing the risk of incurring public sanctions, financial loss or loss of reputation due to failure to comply with external and internal regulations. One of the duties of the compliance function is to deal with whistleblowing cases. In 2017, 15 cases were heard in accordance with the procedure for managing whistleblowing cases. The majority of the cases (60%) concerned claims regarding censurable conditions that involved customers of Innovation Norway.

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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.

Working environment 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 delegates have been elected in each of the six regional offices abroad and works councils/working environment committees have been established in the largest offices in Norway. An internal control system has been established for matters relating to health, safety and the environment

(HSE) as an integrated part of the organisation's overall quality assurance. Procedures for notification (whistleblowing) have been established.

In 2017, absence due to sickness was 2.92%, compared with 3.6% in 2016. In comparison, absence due to sickness in public administration and the defence forces and national insurance schemes under public administration was 6.4%. There were no reported injuries in 2017.

Innovation Norway is considered an attractive workplace by both the company's own employees and potential job seekers. In 2017, the company was named Norway's most attractive employer among economics graduates in a survey conducted by Universum.

Employee turnover in 2017 totalled 9.6% (including temporary employees, employees on assignment and retirees). If we only look at turnover among permanent employees (excluding retired employees), this figure is 6.8%. 52 new employees were recruited externally, while the company made 34 internal recruitments (internal mobility).

The employee satisfaction survey has been postponed until spring 2018 due to an ongoing tender process.

Gender equality and diversity Gender equality and diversity are implemented in the company's routines and guidelines. Awareness of this shall be a natural part of the manner in which the company operates.

The Board of Directors consists of eleven members, of whom six are women and five are men. In 2017, the proportion of women in the executive management group was six of eleven (54%).

The proportion of women at Innovation Norway was 55% at the end of 2017. The proportion of new employees in 2017 who are women was around 60%.

The proportion of women by position:

Job category	2017	2016
CEO	52%	44%
Lawyer	50%	43%
Head of Department	49%	47%
Special Adviser	36%	32%
Senior Adviser	50%	48%
Adviser	79%	78%
Consultant	83%	81%

The pay ratio between women and men.

Position level	Difference in average base salary (women/men)	
	2017	2016
CEO	-2.44 %	1.10%
Head of Department	-3.81%	-1.40 %
Special Adviser	-3.73%	-4.40 %
Senior Adviser	-2.75%	-2.80%
Adviser	-2.83%	-4.10%
Consultant	Not available*	-4.40 %

*Fewer than 4 employees on the committee.

The table shows the difference between the average pay for women as a percentage of the average pay for men. The result indicates that the average pay for women is slightly less than the average pay for men for positions that are at the same level.

Innovation Norway has an active and conscious attitude towards equal pay in connection with new appointments and internal mobility, which is an important tool given the level of mobility at the enterprise. We are generally aware of the differences in pay at individual position level and actively work towards safeguarding the principle of equal pay.

As of 31 December 2017, 29 of the 697 employees worked part-time. 66% of these were women.

The company complies with the guidelines for terms of employment for managers in government

enterprises and corporations.

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 a general arrangement for this diversity.

The focus on diversity is still prioritised in Innovation Norway's HR strategy for 2017-2020. We have a defined target of a minimum of 10% diversity (cultural background) for the company's new appointments in Norway.

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.

Internal restructuring and organisation. Innovation Norway's restructuring process (INChange) commenced in 2014. With a new government, new chairman, new CEO and a significant cut in the company's budgets in 2015, the company commenced a restructuring process that involved setting a new course for clarifying and improving the efficiency of the company's services, objectives and relevance to a Norway in transformation.

At the end of 2017, Innovation Norway had completed the first phase (2014-2017) of our restructuring process. During these years, we worked on improvements in relation to work processes, organisation and new digital platforms. The change processes are based on a solid knowledge base, consisting of analyses that show what our customers are concerned with, what our owners desire and how we can simplify and provide a more efficient work day for our employees.

Now the time has come for us to all take a breather, gather our thoughts and summarise experiences and evaluations before we commence implementation of phase two. Internal evaluations have therefore been conducted that are linked to several of the measures initiated from phase one and experiences and new insights shall be included in the continued work. This is done in close collaboration with the employee representatives, key people at the INChange projects and all middle managers in the company. In 2018 we will focus on phase 2 of the restructuring phase (2018 - 2020) and create a milestone schedule for selected activities that will contribute to an even more relevant, purposeful and efficient Innovation Norway in the future.

The Board considers the company's efforts and results associated with the internal restructuring work in 2017 to be very satisfactory.

Skills and management development

Innovation Norway is an organisation with a continual need to restructure in order to remain relevant to our customers and Norwegian business and industry. This is largely achieved by improving/adjusting the skills development of our employees to ensure that they remain relevant for new jobs and changes in skills requirements, and ensuring that we have a regular supply of necessary expertise from outside the company.

Innovation Norway is a knowledge-based organisation where the ability to provide relevant and good quality solutions depends on our ability to link the right people together, develop their skills and facilitate a digital and flexible work day. In 2017, a competence strategy and digital learning platform were developed for skills development at Innovation Norway.

In September 2017, an overall competence strategy was presented to all of Innovation Norway's employees.

Innovation Norway is a distributed organisation. Cooperation and knowledge across offices therefore constitute an important part of our expertise. On the job training is Innovation Norway's efficient method of developing this expertise. Cooperation is facilitated in projects, within specialist areas, and in the sharing and exchange of experiences. The introduction of a joint sharing platform makes it possible to utilise new technology in skills development through the establishment of interest groups and digital project spaces. An internal secondment scheme was also conducted in 2017. The scheme is a valuable and effective means of skills transfer and cooperation across Innovation Norway's offices. The scheme will be continued in 2018.

Management development is highly prioritised at Innovation Norway. After two years of systematic focus, we see the effect of this work. Innovation Norway uses an extensive range of methods and content, and the managers themselves provide feedback on whether these are effective. A separate management development model has been developed and own HR resources have been established with the principal task of advancing our management

development initiative.

All managers at Innovation Norway are part of a mentor group with 4-5 other managers in the organisation. This is a safe arena for supporting and challenging one another and an important arena for promoting cooperation between the main office, district offices and offices abroad.

External 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 social responsibility

Innovation Norway shall strive to strengthen the work on corporate social responsibility and prevention of corruption, both internally in the company and with the company's customers.

Innovation Norway's Sustainability Strategy (2016-2020) sets frameworks for all work at Innovation Norway and uses the UN Sustainable Development Goals, the principles in the UN Global Compact, the OECD's guidelines of multinational companies and UN Guiding Principles for Business and Human Rights as a basis for the work with the strategy and implementation. The requirements we set for customers and partners are stated in the document "Good business practice - Innovation Norway's expectations of customers and partners", which is based on the same guidelines and principles - all of which are recognised standards in the area of corporate social responsibility.

Innovation Norway's expectations and requirements for own employees, employee representatives and consultants who perform services for the company are described in the company's "Ethical Guidelines and Anti-corruption Policy". The ethical guidelines also contain a separate chapter on business ethics in which it is emphasised that ethics and corporate social responsibility must be part of the assessment criteria when using services and when selecting collaborative partners and suppliers. Innovation Norway's corporate social responsibility work and ethical framework are also a separate part of the company's procedure for "onboarding" of new employees.

Corporate social responsibility is an integrated part of Innovation Norway's services and it is a requirement that all parties that receive services from Innovation Norway maintain good business practices in accordance with globally recognised guidelines. This also entails that customers and partners demonstrate the willingness and ability to make improvements in line with relevant principles and guidelines and best practices for their respective sectors. The regulations for this are also included in Innovation Norway's standard terms and conditions.

A separate "Guide for an overall evaluation of sustainability in financing matters" is available to the company's customers and financing advisors. For Innovation Norway's expert services, some of the programmes provide a separate module on corporate social responsibility that is specially adapted to companies with an international focus.

For advisory and expert services that are provided by Innovation Norway, the principles for good business practice are followed up through, among other things, cluster projects in which specific issues pertaining to sustainability and whether the company reports in accordance with various corporate social responsibility frameworks, being included in the zero point and compliance analysis.

Innovation Norway manages several assignments that assist companies in demanding markets. In 2017, good business practices, with an emphasis on understanding the requirements and expectations that are set for having a responsible approach to avoiding complicity in the violation of human rights, damage to the environment, corruption or harm to consumers and society, have been on the agenda at multiple seminars and meeting places within the framework of Innovation Norway's assignments. Participants have been both Norwegian and foreign companies, public funding agencies and government representatives.

The company continued compulsory anti-corruption training for all employees in 2017. The purpose of the training is to ensure that everyone who performs work or services for Innovation Norway is not only aware of the applicable legal framework, but also undergoes regular training in identifying and tackling situations that might arise. There is a goal to conduct dilemma training for all employees twice a year.

The corruption risk is a key part of the company's ethical guidelines and is further specified in a separate anti-corruption policy. Innovation Norway also has more detailed guidelines for impartiality, the right to hold honorary positions and secondary occupations, as well as rules for

ownership and securities trading.

Innovation Norway has established a separate Compliance function as an independent control function in the company's internal control system. This regularly monitors and reports the company's exposure to inadequate compliance. Annual assessment activities are carried out to identify the services and company processes that are exposed and the measures that should be implemented to reduce the risk.

In November 2017, Innovation Norway launched an electronic whistleblowing channel that is also available for external users. The whistleblowing channel, which is available on both the intranet and Innovation Norway's website, makes it possible for the company to communicate with anonymous whistleblowers without the whistleblower losing his/her anonymity.

Since 2016, Innovation Norway has had a license from the Norwegian Data Protection Authority to conduct an Integrity Due Diligence of customers and suppliers. A separate process has been prepared that reflects the principal conditions in the license.

The EU General Data Protection Regulation "GDPR" enters into force on 25 May 2018. Innovation Norway focusses on the company's governing documentation and systems being in compliance with the new regulations.

As part of the work on establishing corporate social responsibility work in all of Innovation Norway, a separate competence team has been established with resource personnel across offices. These shall support our employees and implement training initiatives to increase general awareness of corporate social responsibility in the company.

Application of profit The 2017 accounts show a profit of NOK 301 million. For further details about the dividend rules, reference is made to Note 37. The Board proposes the following allocation of the profit for the year:

Dividend allocated to the Ministry of Trade, Industry and Fisheries as an owner, from:		
Low-risk loan scheme	NOK	245 990 695
To be transferred to the Ministry of Trade, Industry and Fisheries from:		
Innovation loans and guarantees	NOK	24 882 017
To be transferred to the county councils as owners, from:		
High-risk loans and guarantees	NOK	15 743 308
Distributed as follows:		
Møre og Romsdal County Council	NOK	3 105 600
Troms County Council	NOK	2 644 617
Trøndelag County Council	NOK	2 188 082
Finnmark County Council	NOK	1 562 077
Nordland County Council	NOK	1 528 185
Sogn og Fjordane County Council	NOK	1 437 010
Hedmark County Council	NOK	1 023 046
Hordaland County Council	NOK	741 371
Telemark County Council	NOK	630 737
Oppland County Council	NOK	506 270
Aust - Agder County Council	NOK	170 104
Buskerud County Council	NOK	132 402
Aust - Agder County Council	NOK	67 912
Østfold County Council	NOK	5 895
		<u>15 743 308</u>
Transferred from retained earnings:		
The Investment Fund for Northwest Russia	NOK	2 503 379
The Investment Fund for Eastern Europe	NOK	7 040 962
		<u>9 544 341</u>
Transferred to retained earnings:		
Low-risk loan scheme	NOK	23 428 911
Service deliveries and grant administration	NOK	-
Grand total		300 500 590

Prospects for 2018

The Government has presented its new Jeløya Platform and has made it clear that Norway is still undergoing a period of transformation. The first challenge is to "transform the Norwegian economy to create growth, new jobs and ensure that there is more than one leg to stand on".

The focus on corporate research, innovation and entrepreneurship is clear, and the ambition of Norway being among the leading countries in Europe for innovation is clearly expressed. Entrepreneurship, an entrepreneurial culture and access to capital are listed as key elements for creating new companies and jobs.

Innovation Norway is ready to make a strong and clear contribution in line with the Government's ambitions. The company's strategy for 2020 specifies the direction and priorities for the company until 2020, at a time when Norway is facing a period of major readjustment. The company is and will be a relevant, competent and beneficial partner for regions, companies and entrepreneurs that will create the sustainable workplaces and companies of the future. In 2018, Innovation Norway shall contribute to "a Norway in transformation" by improving access to venture capital, contributing to increased exports of sustainable solutions and providing innovation policy advice that leaves a lasting impression. This shall be achieved through efforts for more successful entrepreneurs, more enterprises capable of growth and more innovative business clusters.