

2016 Annual Report

Innovation Norway in 2016

By Chairman of the Board Per Otto Dyb

As Chairman of the Board, it is a pleasure for me to see that Innovation Norway is meeting the objectives and requirements that the principals have given the company.

We find ourselves in a time when great challenges to an even greater extent than previously provide great opportunities. In terms of climate. In terms of health challenges. In terms of the major economic and social challenges posed by new technologies. In terms of Norway's loss of export earnings. It even applies to the growing uncertainty we see globally, where key institutions for trade and the environment are under pressure.

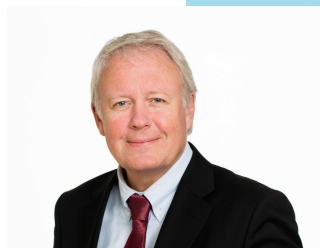


Foto: Trond Isaksen

Fortunately, many people are created in such a way that major challenges inspire them to do great things. Where others see problems, they see solutions. These are the kinds of people we need when problems pile up: Creative and savvy women and men who are able to create new products, new businesses and new ways of doing things.

Innovation Norway was established to increase innovation in industry throughout the country. The company was created to help innovators and entrepreneurs of this kind. And there has never been a greater need for such a public policy instrument than now, when we must restructure the Norwegian economy from being dominated by oil and gas to be based on diversity and sustainability. We want to bring more good entrepreneurs forward. We want more businesses with strong growth. And we will see more innovative business environments in which we connect industries, disciplines, technologies and brainpower.

In 2016, Innovation Norway received allocations and assignments 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 Foreign Affairs, the county municipalities, and other public bodies. Common for the missions is to contribute to wealth creation and economic

development throughout the entire country.

In 2016, Innovation Norway's management and employees worked hard to follow up on the owners' and principals' desire to contribute to the restructuring of the Norwegian industry. We have implemented a one-year package of measures to increase employment, including greater emphasis on pre-seeding, environmental technology and entrepreneurial grants. In general, Innovation Norway has provided more of what we know works well: OFU/IFU (currently known as innovation contracts), global entrepreneurship, environmental technology, entrepreneurial grants, cluster programs, innovation loans and secured loans. We have had a very visible, stronger emphasis on entrepreneurs, including follow-up of the government's entrepreneurial plan.

We have strengthened efforts on sustainability in general, and green innovation in particular. The latter is especially important, because the desire for sustainability is an answer to many of the challenges the world presents us with.

The total grant from our principals to Innovation Norway at NOK 3.7 billion was, along with our lending in 2016, helping to trigger additional NOK 12.6 billion in the form of other private and public

capital. In all, this meant an overall effort of NOK 20.1 billion in the form of capital for investment in the development of Norwegian enterprises last year. We are very satisfied with that.

Nine out of ten customers say that they could not have realised their project without support and advisory from Innovation Norway. That is indeed gratifying confirmation that we are succeeding.

Innovation Norway will also give our shareholders and clients advice on innovation policy. A small country such as Norway cannot bet equally on everything, but Norwegian expertise also holds great potential for innovation. We have tackled technological revolutions before, such as the transition from sail to steam and from shipping to supply ships, and we have managed to use innovation to utilize what nature has given us: hydropower and metals, oil and gas, fishing and aquaculture. Innovation Norway's assessment is that Norway must make some strategic choices, within the six areas of opportunity, across all traditional industry classifications, which Norwegian industry has pointed out previously in our Dream Commitment process. If we connect these areas towards great national projects on enabling technologies such as ICT and biotechnology, we will make the transition to a new special position.

I have had the pleasure of leading two international business delegations in the past year, to Italy and Canada. It is an important highlighting of Norwegian business in international markets, and contributes in a convincing manner to accentuate Norwegian expertise internationally. We depend on finding new markets to replace lost export earnings, and delegations are an important part of the work.

With the management of large sums of public money, comes great responsibility. Therefore, social responsibility and good business practices are central to Innovation Norway's strategy. We require this from our clients, and we require it of ourselves. In 2009, we signed the UN Global Compact. With it, we are obliged to follow up and work for improvements in human rights, labour rights, environment and anticorruption. To many, this may seem obvious, but I can assure you it is not. On the other hand: the commitment to this work in Innovation Norway is strong and powerful.

As the Chairman of the Board, I am proud of the effort the management and administration of Innovation Norway has put in during 2016. The company appears to be well suited to the tasks it performs, and has shown strong willingness to restructure itself completely in line with the restructuring that our society is facing.

The Board of Directors of Innovation Norway



At the top: Chairman of the Board Per Otto Dyb

In the middle from left: Jørand Ødegård Lunde (Deputy Chairman of the Board), Heidi Wang, Arvid Andenæs, Helene Falck Fladmark and Wenche Kjøllås.

At the bottom from left: Jan Løking, Kristin Misund, Kim Daniel Arthur, Leela Borring Låstad and Gaute Hagerup.

(All photos: Trond Isaksen)

Annual accounts and Board of Directors' report

Annual accounts Innovation Norway

[Annual accounts 2016 \(pdf\)](#)

Board of Directors report

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 State and the county councils' policy instrument for achieving value-creating business development throughout the country.

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

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 business 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.

Innovation Norway receives annual 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.

Positive impact in 2016

In 2016, Innovation Norway expended a significant amount of effort in following up the desire of the owners and principals to contribute to a Norway that is undergoing a period of restructuring.

We have implemented our part of the Government's one-year package of measures to increase employment, with a particular focus on pre-seed capital funds, environmental technology and start-up grants. We have increased the focus on entrepreneurs through the active follow-up of the Norwegian government's Entrepreneurship Plan, established meeting places for growth and improved the expert services for entrepreneurs. We have increased the focus on sustainability in general and green innovation in particular as a response to many of the challenges, but also the opportunities, presented by the UN Sustainable Development Goals. In addition, we have continued and strengthened our efforts towards what we know works well for Norwegian business and industry.

In 2016, 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. The common denominator in all our assignments is that we should contribute to value creation and business development in the entire country.

Appropriations from the Norwegian Storting and county councils totalled NOK 3.7 billion. Together with our loan schemes, Innovation Norway contributed NOK 6.7 billion to business and industry in 2016. This included loans, grants, advisory services, promotion and networking through Innovation Norway's various services. The funds triggered investments totalling NOK 20.1 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 two kroner 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.

It is important for Innovation Norway as a company that manages public funds to document the effects of the services the company offers. Measuring effect is methodologically demanding and can always be improved. Therefore, together with the Ministry of Trade, Industry and Fisheries and the research department at SSB (Statistics Norway), the company continually works to improve its ability to measure the effects of Innovation Norway's work. In consultation with Innovation Norway, our owners and principals revised the indicators in the performance management and result monitoring system in 2016. The three effect indicators to be measured within all three sub-goals are higher annual growth in sales revenues, value creation and productivity.

The figures from SSB for 2016 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 12.3 percentage points (2015: 12.6), an annual increase in value creation of 6.2 percentage points (2015: 5.9%), and an annual increase in productivity of 2.2 percentage points (2015: 1.9). There have therefore only been minor changes compared with the previous year.

There has been a very positive development in the level of innovation in the past three years. In 2016, NOK 2.5 billion, which is equivalent to 41 per cent of all financing commitments, went towards projects with innovation potential at an international level. This was a doubling of the percentage since 2013 and shows that the strengthened focus on growth companies and internationalisation since 2014 is having an effect.

A goal is to have good documentation of the effect of all services that are offered. The company focusses on documenting the effect of expert and advisory services to contribute to providing a more accurate total picture of the company's overall activities.

The Board is very satisfied that Innovation Norway has increased the 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 it is demanding to document all effects 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.

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, principals and other stakeholders.

The owners' expectations

The Board of Innovation Norway is responsible for meeting the owners' expectations for the company and annual reporting in connection with this.

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.

Internationalisation. Norway's export revenues have declined significantly during the past few years, due to falling oil prices. Restructuring is required. There is a major need for developing new international products and businesses that provide employment and finance our welfare services.

In 2016, Innovation Norway continued its systematic work on developing the "Brand Norway" division that was established in December 2014. The goal is to increase Norway's ability to export Norwegian products and solutions, and to attract investment, knowledge and tourists to the country under the Export Norway, Visit Norway and Invest in Norway departments.

A new tourism director was appointed at Visit Norway in 2016.

There is a high demand for Innovation Norway's services from companies that wish to explore new business areas and markets globally. Innovation Norway provided more export advice in 2016 than it provided in 2015. We make expertise on internationalisation more readily available through digitalisation of market information, facilitate an increased level of self-service and combine key expertise at a joint export centre.

In 2016, Innovation Norway chose to gear its services towards multiple company programmes and one-to-many activities. The use of common learning programmes has increased. Demand from companies that want to be part of clusters and networks in order to succeed internationally is increasing.

Innovation Norway also improved its international advisory services at the regional offices and the work of qualifying customers before they go international. The collaboration with the Ministry of Foreign Affairs and other partners in team Norway has been strengthened.

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. In autumn 2016, Innovation Norway initiated an in-depth assessment of the company's international role and presence. The feedback from business and industry shows that Innovation Norway essentially already has a presence in the markets where Norwegian business and industry have both interests and consider there to be potential. Therefore, Innovation Norway has primarily placed emphasis on how to prioritise the use of limited resources within the markets where the company already has a presence. In 2017, Innovation Norway will commence implementation of the approved changes to its international presence.

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

Simplification of the company's processes and policy instrument portfolio has been an ongoing task. The need for more basic services, new expectations from our customers for digital coordination and, not least, increased assignment volume together with clear requirements for operational efficiency, have been key driving forces.

In 2016, the company redesigned the entire service portfolio. The new service model is integrated with the company's information model and customer relationship management (CRM) system. Our account managers can more easily take customer needs into consideration when the company offers and provides services. We gain increased flexibility and can implement changes to the service portfolio more quickly when needs change. Innovation Norway will also strengthen its ability to provide analyses and reporting on the quality and effects of all of the services we have provided.

Good customer dialogue and positive customer experience were given high priority in 2016. During the year, the company implemented skills development programmes for all advisers within business modelling and customer dialogue. The goal is to improve our ability to discuss ideas with the customer, clarify customer requirements and be able to provide quality both in relation to our own services and when being able to connect the customer to other potential partners. The company continues the active use of customer service questionnaires as a basis for working with development and improvements.

Innovation Norway launched "My Site" in 2016 and the first version of a new digital application solution for market start-up grants to entrepreneurs. The company also combined all processing of these grants at the Entrepreneurship Centre in Førde. The Centre has specialist expertise in relation to guidance for entrepreneurs who are in an early phase.

Innovation Norway shall be an **innovation policy advisor** for its owners and principals by developing good and relevant knowledge and expertise for the development of own strategies and service development.

Innovation Norway is becoming increasingly more involved in the public sphere and public debate and has contributed towards encouraging debate about innovation policy. 2016 was a year of high activity and broad acceptance of our innovation policy proposals. In the Innovation Speech, the company presented proposals for a new direction for Norway based on input from the "Dream Commitment" and its innovation policy recommendations.

In 2016, the company has intensified the development of the data and methods used for measuring effects of own services and of the interaction between these. The goal is to improve the company's knowledge of the effects of the company's advisory and expert services and

support to recipients that are not organised as limited liability companies. In 2016 the company tested, among other things, a new performance measurement for these services.

Innovation Norway has participated in a number of arrangements throughout all of Norway, as well as some held abroad, to provide suggestions regarding the development of the Norwegian economy. The company has also made a number of written submissions to the national budget, and strategies and notices to the Ministry of Trade, Industry and Fisheries.

The Board believes that the dialogue with our principals and owners in 2016 was constructive and characterised by a shared desire and ambition of achieving learning and development in the best interests of Norwegian business and industry.

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 2016, Innovation Norway delivered more to Norwegian business and industry with fewer resources. Innovation Norway received increased funding in the national budget and in 2016 supplied services to business and industry for NOK 6.7 billion. This continues the trend from 2014-2016 when the value of Innovation Norway's combined services increased from NOK 5.9 billion to NOK 6.7 billion (+13.6%). At the same time, the company's total operating expenses during the same period show a reduction from NOK 1.5 billion to NOK 1.4 billion (-6%).

Amendments to the Act relating to Innovation Norway provide the Board of Innovation Norway with greater scope to develop customer contact, procedures and decision-making systems that are in the best interests of entrepreneurs, companies and innovation and business clusters.

In 2016, the company established the foundation for improved efficiency by work processes being redesigned and digitalised, the adjustment of the organisational structure in Norway and abroad, collocation of critical expertise (Entrepreneurship Centre, Export Centre etc.) and the specialisation of knowledge employees. The number of regions in Norway was reduced, the regional boards were disbanded and regional credit committees have been established. The decision has been made to increase the company's international presence. The introduction of a new service model and information model strengthen the company's ability to provide accurate analyses and reporting of the quality of all of the services we provide.

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 principals 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 Council 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 that will complement each other throughout the value chain, from idea to market. In 2016, there was extensive cooperation at strategic level which has been formalised through the works council with managers from the three organisations. The 2016 Innovation Speech was jointly given by the three CEOs.

The county councils play a vital role as regional development stakeholders. Innovation Norway has developed close cooperation with each of the county councils at strategic and operative level which seeks to safeguard the need for a coordinated effort within the framework of regional and national prioritise. This work was continued in 2016.

Within the area of the environment in general and the environmental technology scheme in particular, Innovation Norway has close cooperation with the Research Council of Norway and Enova. In 2016, the three organisations established PILOT-E as a joint financing service to Norwegian business and industry. Pilot E will speed up the development through greater predictability of funding, closer monitoring and stronger coordination between the public funding agencies.

In 2016, Export Credit Norway, GIEK, GIEK Credit Insurance and Innovation Norway established a joint export team that will together meet with Norwegian companies that have ambitions to succeed in the wider world. The purpose of the project is to test out whether there is added value for Norwegian companies in having a combined service from the four organisations.

The Board considers Innovation Norway to have good cooperation with the other public funding agencies and makes particular reference to the establishment of a good and inclusive executive management dialogue with SIVA and the Research Council of Norway in 2016. 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.

Overview of the annual accounts

The profit for 2016 was NOK 211 million, compared with NOK 263 million in 2015. In 2016, the profit before losses was NOK 222 million, compared with NOK 284 million in 2015.

Net interest income was NOK 386 million in 2016, compared with NOK 426 million the previous year. The fall in net interest income was due to lower interest margins. Dividends and losses on securities were NOK 4 million in 2016 compared with a profit of NOK 14 million in 2015. The decrease relates to net losses on sales of shares in the Northwest Russia investment fund.

Total operating income amounted to NOK 1,217 million, compared with NOK 1,231 million in 2015. Public and external revenues were at approximately the same level as in 2015. The fall was in various operating revenues and was primarily due to a net foreign exchange loss of NOK 12 million in 2016 while there was a net foreign exchange gain of NOK 9 million in 2015.

Operating costs amounted to NOK 1,378 million, compared with 1,387 million in 2015, a reduction of NOK 9 million. Payroll expenses amounted to NOK 691 million in 2016, compared with NOK 713 million in 2015. The net decrease of NOK 22 million was primarily due to lower pension expenses and fewer FTEs. Provisions were made for restructuring costs of NOK 17 million. Other operating expenses amounted to NOK 195 million in 2016, compared with NOK 190 million in 2015. The change was largely due to a lower VAT refund in 2016 than in 2015. Direct project costs amounted to NOK 484 million in 2016, compared with NOK 481 million in 2015. The increase was related to a slightly higher level of activity.

Net losses on loans were NOK 10 million, compared with NOK 21 million in 2015. Losses on loans largely relate to the low-risk scheme. The losses for low-risk loans were barely 0.1% (0.1% in 2015) of the loan portfolio. It is expected that normal annual losses will be equivalent to 0.5% of the portfolio.

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 40 million in 2016, compared with NOK 25 million in 2015. 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 2016, the losses incurred represented 1.5 % (0.9 % in 2015) of the portfolio. Seed capital funds had loss reversals of NOK 11 million in 2016, compared with NOK 45 million in 2015. 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 98 million, compared with an increase of NOK 173 million in 2015.

Innovation Norway's balance sheet total at year end was NOK 24.0 billion, which is NOK 400 million more than in 2015 (NOK 23.6 billion).

Net loans amounted to NOK 17.2 billion as of 31 December 2016 (NOK 16.9 billion as of 31 December 2015). In 2016, NOK 2.9 billion was paid out in new loans (NOK 2.4 billion in 2015) and NOK 2.9 billion in grants (NOK 2.7 billion in 2015).

The company did not incur any costs or make investments related to R&D in 2016. 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

Sound risk management is an important prerequisite for ensuring that Innovation Norway is able to achieve its goals at different levels over time. Innovation Norway bases its risk assessment and management on the methodology document "Risk management in the government

administration". Risk management is an integrated part of the company's corporate governance. The risk management process is coordinated with the company's strategy processes.

The Board has overall responsibility for ensuring that Innovation Norway has established appropriate and effective processes for risk management and internal control. A risk management committee has been established as an advisory forum for the company's management in connection with the work on coordinating, developing and maintaining Innovation Norway's system for risk management and internal control. The Board has established an internal audit to improve the follow-up of the company's internal control.

Strategic risk

Strategic risk relates to factors that are important for Innovation Norway achieving its long-term goals.

The company makes annual assessments of factors important for the company's goal attainment at an 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 required, risk assessments are made of critical functions and specific areas at lower levels.

After the annual national budget has been presented, the company reports to the Norwegian Ministry of Trade, Industry and Fisheries about the risk of not achieving the company's goals and on the need for measures, if any.

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

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 terms. Projects must only be associated with a moderate risk to receive funding. The risk is therefore limited by relatively stringent security requirements.

Innovation and high-risk loans are a form of lending that primarily aims to help small and medium-sized enterprises that require risk mitigation in investment projects by providing top financing 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 companies are subordinated loans to seed capital companies that are equivalent to 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. Hence, Innovation Norway does not bear the risk for these loans, as any losses will be covered by the loss reserves or additional appropriations. The purpose of the loss reserves is to enable Innovation Norway to mitigate risks for innovative projects with growth potential and thus help to realise more profitable projects that would otherwise find it difficult to find sufficient venture capital in the market.

Interest rate risk. The interest rate risk is managed and reduced by adapting lending terms to borrowing terms. Borrowing shall correspond to the loans and ensure the liquidity required to operate the schemes. The borrowings reflect the interest-rate profile of the loan portfolio.

Operational risk

Operational risk consists of all the potential sources of loss related to Innovation Norway's

ongoing operations. Examples of such sources include procedural failures, computer system failures, lack of expertise and breach of trust on the part of the employees. Internal control is an important tool for reducing the 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. The ethical guidelines emphasise impartiality and the duty of confidentiality, dilemma training and corporate social responsibility (CSR). A separate compliance function contributes to the company not incurring public sanctions, financial loss or loss of reputation as a consequence of failure to comply with laws, rules and standards.

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 since the end of the financial year that are of material 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 (whistle-blowing) have been established.

In 2016, absence due to sickness was 3.6 %, compared with 3.3 % in 2015. In comparison, absence due to sickness in central government administration was 6.1% and 7.9% in municipal government administration. Two injuries that required visits to the doctor were reported in 2016.

In 2016, we completed an important part of the initial restructuring process that was commenced in 2015 which involved downsizing, strengthening and adding new HR expertise at the company and introducing a management programme for the company's middle management. In addition, five secondment programmes and a series of team development programmes were conducted. The company's flexitime arrangement has been changed for all employees as part of making the organisation even more dynamic.

Innovation Norway is considered an attractive workplace by both the company's own employees and potential job seekers. The company was named as the company's second most attractive workplace in Universum's rankings of the most attractive employers in the "Business" category among Young Professionals.

In the annual employee survey, our employees score highly in terms of both commitment and motivation, even during a demanding adjustment process. It is positive to see that the response percentage has increased to 89% (2015: 87%) and that the average score (3.98) remained unchanged at the same high level as in 2015.

Assessit provided the following assessment of the results from the survey: *"The results from Innovation Norway 2016 are compared with employees to a group of high-performer, young leaders from more than 70 Norwegian companies. The average results in Innovation Norway is not far from the average for this group. The results presented in the Innovation Norway employee survey 2016 are good. Innovation Norway's employees are satisfied and appear to be well motivated and engaged."*

Gender equality and diversity

Gender equality and diversity are implemented into the company's routines and guidelines and awareness of this must be included as 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 2016, the proportion of women in the executive management group was six out of twelve (50 %).

At year-end 2016, the proportion of female employees in Innovation Norway was 54%. 54% of the applicants for available positions at Innovation Norway in 2016 were women. 31 of a total of 43 (63%) new employees during 2016 were women.

The proportion of women by position:

Job category	2016	2015
Director	44 %	44 %
Lawyer	43 %	63 %
Head of Department	47 %	48 %
Special Adviser	32 %	30 %
Senior Adviser	48 %	47 %
Adviser	78 %	78 %
Consultant	81 %	75 %

The pay ratio between women and men:

Position level	Average deviation in pay	
	2016	2015
Director	1.10 %	4.80 %
Head of Department	-1.40 %	0.30 %
Special Adviser	-4.40 %	-8.30 %
Senior Adviser	-2.80 %	-2.60 %
Adviser	-4.10 %	0.20 %
Consultant	-4.40 %	-8.50 %

Of the 714 employees as of 31 December 2016, 31 worked part-time. 67% of these were women. The average position is 67% for women and 62% for men.

The company follows guidelines for terms of employment for managers in government enterprises and companies.

Innovation Norway has a diversity statement when advertising all vacancies which emphasises that the recruitment aims to ensure diversity with respect to gender, age and cultural background. Innovation Norway has implemented general measures to promote diversity (ethnicity, age, gender, functional impairment). As of 31 December 2016, 26.5% of all employees at Innovation Norway were of foreign origin.

Focus on diversity is still prioritised in Innovation Norway's HR strategy for the period from 2017 to 2020. We have a defined goal that a minimum of 10% of the company's new appointments in Norway will be of foreign origin.

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 organisational development

Innovation Norway is a knowledge organisation where the ability to provide relevant and high quality services and advice depends on our ability to link the correct people together, develop their skills and facilitate a digital and flexible workday. After the company's first decade, a new CEO was appointed in 2014 to lead the development of the company.

In 2016, Innovation Norway expended a great deal of effort in developing the company's ability to rejuvenate and implement the tasks which we have been assigned. In December 2015, the Board approved of an internal restructuring programme for the company. As part of this, an internal development programme was initiated in 2016 with principal activities within digitalisation, sustainability, Brand Norway, innovation policy and expertise and culture.

The digitalisation programme will provide guidance for all future development work and will

influence all of our activities, processes and employees in the coming years. The work on introducing a sustainability perspective for all of the company's activities was a major focus in 2016 and it is pleasing that this so clearly manifests itself in the customer-oriented work. About half of the financing commitments in 2016 promote green, technological solutions and these come from all industries.

In 2016, major emphasis was also placed on management development since the next phase of the restructuring work will be implemented and led via middle managers throughout all of Norway and internationally. In addition, several skills development programmes have been implemented to increase the focus on linking different parts of the company through the introduction of knowledge hubs, for example, Smart cities and societies, and increased cultural work with a focus on increasing the ability to cooperate, transparency and knowledge sharing.

The natural environment

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

Corporate social responsibility

Innovation Norway has worked with corporate social responsibility over a long period of time and this responsibility is also specifically referred to in the Ministry of Trade, Industry and Fisheries' annual letter of assignment to Innovation Norway.

In 2015, the Board of Innovation Norway adopted a new Sustainability Strategy for 2016-2020. This strategy sets the frameworks for all of Innovation Norway's work and, among other things, makes reference to the UN Global Compact, OECD's guidelines for multinational companies, and the UN Guiding Principles on Business and Human Rights, which are all 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 management group adopted its own principles for "*Good business practice - Innovation Norway's expectations of customers and partners*" in April 2016. The principles are based on Innovation Norway's ethical guidelines and sustainability strategy and now represent the guiding document for the corporate social responsibility work at Innovation Norway.

Everyone who receives services from Innovation Norway must comply with minimum requirements for good business practice. It is expected that the customer demonstrates the willingness and ability to make improvements in line with the relevant principles and guidelines for best practice in its sector. The focus on this must be a consistent factor in customer dialogue and service deliveries.

Corporate social responsibility has been integrated into Innovation Norway's financing and advisory services in different forms over a long period of time. The principles for "*Good business practice - Innovation Norway's expectations of customers and partners*" have partly been implemented and are partly in the process of being implemented in the different services.

For the **financing services**, the updated principles for good business practice were implemented into the guidelines and assessment criteria in 2016. A separate "*Guide for an overall evaluation of sustainability in financing matters*" has also been prepared (April 2016). 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. In the FRAM programme, a separate module on corporate social responsibility has been provided as a compulsory part of the service.

Innovation Norway manages several assignments that assist companies in entering demanding markets. In 2016, good business practice, with a primary emphasis on anti-corruption, was on the agenda at a number of conferences and seminars within the framework of Innovation Norway's assignments. Participants have been both Norwegian and foreign companies, public funding agencies and government representatives.

In line with the principles of good business practice, corruption is a topic in both e-applications and in agreements with customers and suppliers.

Knowledge about and vigilance surrounding the risk of corruption are among the most important measures for preventing and combating corruption in the company and among suppliers and customers. In 2016, Innovation Norway completed an anti-corruption training programme for all employees which included identification of risk and areas of improvement. The results are aggregated at company level and are part of the basis for facilitating the work in this area in 2017.

Corruption is central to the company's ethical guidelines and is further elaborated on 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.

The company has an electronic reporting channel for employees and employee representatives which enables anonymous notification to the compliance function.

Innovation Norway's compliance function monitors and regularly reports the company's exposure to corruption. 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 December 2016, Innovation Norway established a new structure for the work on corporate social responsibility with a separate corporate social responsibility team.

At the start of 2017, the corporate social responsibility team will assess the status of the implementation of the principles for good business practice within all of Innovation Norway's services. The goal is to harmonise expectations and requirements that are set for customers and the follow-up of these. Part of this assessment will also consist of evaluating scaling and measures in relation to the risk level within each unit/service. Administrative routines will also be included as part of the assessment. The goal is to have an approved action plan in place before the summer that is based on identified requirements for improvements and updates.

For an even better assessment of financing and advisory matters, the corporate social responsibility expertise of case managers and customer advisers will be improved.

An internal project has also been planned with a focus on improving routines and procedures for Innovation Norway's own offices in demanding markets, including our management of and assistance to customers.

Innovation Norway's electronic reporting channel is currently only available to the company's employees and hired personnel. It has been decided that the electronic reporting channel will be made available to external parties. During 2017, Innovation Norway will update current internal control documentation relating to the handling of whistleblower cases.

In the summer of 2016, Innovation Norway was granted a license from the Norwegian Data Protection Authority to process personal data in connection with Integrity Due Diligence (background checks on customers, suppliers and collaborative partners). In the time ahead, Innovation Norway will prepare guidelines that provide a detailed description of the instances in which an IDD shall be carried out.

Application of the profit

The accounts for 2016 show a profit of NOK 211 million. For further details about the dividend rules reference is made to Note 36. The Board proposes the following allocation of the profit for the year:

Application of the profit

The accounts for 2016 show a profit of NOK 211 million. For further details about the dividend rules reference is made to Note 36. The Board proposes the following allocation of the profit for the year:

2016		
Allocated dividends to the owner, the Ministry of Trade, Industry and Fisheries, from:		
Low-risk scheme	NOK	157 577 940
Transferred to the owner, the Ministry of Trade, Industry and Fisheries, from:		
Innovation loans and guarantees	NOK	25 558 246
Transferred to the owners, the county councils, from:		
High-risk loans and guarantees	NOK	18 361 852
Distributed to:		
Møre og Romsdal county council	NOK	3 768 503
Troms county council	NOK	3 026 734
Nordland county council	NOK	1 819 824
Nord-Trøndelag county council	NOK	1 733 705
Finnmark county council	NOK	1 622 558
Sogn og Fjordane county council	NOK	1 259 895
Hedmark county council	NOK	1 141 814
Sør-Trøndelag county council	NOK	1 273 748
Hordaland county council	NOK	999 959
Telemark county council	NOK	727 933
Oppland county council	NOK	600 202
Aust - Agder county council	NOK	177 739
Buskerud county council	NOK	106 504
Vest - Agder county council	NOK	94 227
Østfold county council	NOK	8 507
		18 361 852
Transferred from retained earnings:		
Investment fund for Northwest Russia	NOK	7 855 388
Investment fund for Eastern Europe	NOK	2 059 656
		9 915 044
Allocated to retained earnings:		
Low-risk scheme	NOK	19 874 999
Service deliveries and grant administration	NOK	-
Total		211 457 993

Prospects for 2017

The company's strategy for 2016-2020 specifies the direction and priorities for the company until 2020, at a time when Norway is facing major changes. 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 2017, 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 has a tangible effect. If our efforts are to succeed, we have to continue to ensure sustainability in all of our activities, develop partnerships with private and public development stakeholders in the restructuring of business and industry and grasp the opportunities presented by increased digitalisation.

In the work on ensuring relevant services for a Norwegian economy in a restructuring phase, the company itself is in a restructuring situation. The Board finds the company's efforts and results in connection with the internal restructuring work in 2016 to be highly satisfactory.

Amendments to the Act relating to Innovation Norway entered into force on 1 January 2017. Among other things, the amendments include the discontinuation of the previous comprehensive owner guarantee for the company's liabilities. The starting point is now the opposite, i.e. that the owners are not liable to the creditors for the company's obligations. However, this presupposes that each principal will be responsible for the company safeguarding obligations relating to the loan and guarantee schemes assigned to the company. The amendments will entail that the company becomes more responsible for its own obligations. This will particularly apply to obligations relating to the operation of the company.

The statutory amendments give the Board somewhat different duties and responsibilities and set different requirements for the company's equity. New requirements for subordinated capital are

part of the regular owner follow-up. Future requirements for capital contributions in the company may be in the form of different methods of calculation for pension expenses and liabilities, including as a result of ongoing assessments of amendments to accounting laws.

Oslo, 23 March 2017
Board of Directors of Innovation Norway

Per Otto Dyb
(Chairman)

Jørund Ødegård Lunde
(Deputy Chair)

Arvid Andenæs

Kim Daniel Victor Arthur

Kristin Misund

Helene Falch Fladmark

Wenche Kjøllås

Jan Løking

Heidi Wang

Leela Borring Låstad
(Employee Representative)

Gaute Hagerup
(Employee Representative)

Anita Krohn Traaseth
CEO