



Annual report 2018

Annual accounts and board of director's report

[ANNUAL ACCOUNT 2018 \(pdf\)](#)

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 per cent) and the county councils (49 per cent). 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 general meeting.

Objectives and goals

Innovation Norway's objective is to be the policy instrument of the state and the county councils 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 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 the 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 between owners and principals. Innovation Norway's activities and priorities shall be in accordance with this goal structure.

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 and close to the market in more than 27 countries worldwide.

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 industry, 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.

Impact in 2018

In 2018, Innovation Norway continued its efforts to help achieve the Government's goal of restructuring the Norwegian economy. The company's principal focus in 2018 was to contribute to increased exports and internationalisation through risk mitigation and advice, better access to risk capital for Norwegian business and industry, and provide our principals with innovation policy advice.

In 2018, Innovation Norway received appropriations and assignments in letters of assignment from the Norwegian Ministry of Trade, Industry and Fisheries, Ministry of Local Government and Modernisation, Ministry of Agriculture and Food, Ministry of Climate and Environment, Ministry of Education and Research, Ministry of Culture, Ministry of Foreign Affairs, Ministry of Transport and Communications, the county councils, county governors and other public stakeholders. The common thread for the assignments is contributing to value creation and triggering commercially and socially profitable business development.

The Norwegian Parliament and the county councils allocated a total of NOK 4.1 billion to Innovation Norway. Together with the loan schemes, Innovation Norway contributed NOK 7.2 billion to business and industry in 2018. This included loans, grants, advisory services, profile raising, and networking through Innovation Norway's various services. Funds allocated by Innovation Norway triggered investments in business and industry totalling NOK 21.4 billion. 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 means that one krone from Innovation Norway in the form of capital or advice results in two kroner in own financing or other sources of financing for development projects and investments. In addition, having Innovation Norway as a "sparring partner" also triggers many other innovation and internationalisation activities by providing expertise and networking.

CAPITAL AND EXPERTISE

Financing and expert advice are mutually beneficial. Impact analyses conducted on assignment from Innovation Norway indicate that capital together with the provision of expertise produce better results for customers. That is why the development of the role of sparring partner and expert adviser is of such importance.

In 2018, Innovation Norway worked to ensure that ambitious small and medium-sized enterprises in every part of the country have easier access to the most important, business-oriented policy instruments. Innovation Norway has offices in every county in Norway and in 27 countries. Our employees therefore know the companies and their challenges and framework conditions in Norway and their opportunities in the markets that are most important for Norwegian business and industry.

Innovation Norway is a sparring partner for the small and medium-sized enterprises that offers expertise, networks and capital. Business and industry can spend their time on developing new products and services, rather than writing applications. They do not need to be aware of the different services. Innovation Norway's advisers will see the opportunities and challenges and inform the enterprises of the schemes that could be of assistance to them. If Innovation Norway cannot assist, the advisers will put the enterprises into contact with the other private and public stakeholders that can provide assistance. In this way, Innovation Norway builds bridges between expert communities, public funding agencies and investors.

EXPORTS AND INTERNATIONALISATION

In 2018, Innovation Norway intensified its focus on exports and internationalising Norwegian business and industry. The internationalisation services largely consist of expertise and advice. For several years, Innovation Norway has measured the effects of international market advice using the same model as the financial services. Enterprises that have taken advantage of international marketing advice experience 6.2 per cent higher growth in sales revenues and 3.3 per cent higher growth in value creation than a control group that did not receive such advice.

RISK CAPITAL

In 2018, Innovation Norway continued its work on making risk capital available to Norwegian

business and industry. Innovation Norway contributed a total of NOK 1.3 billion in innovation loans, risk loans and guarantees, as well as NOK 2.9 billion in grants to companies and programmes.

In cooperation with the European Investment Fund (EIF), guarantees were also pledged to commercial banks under the Growth Guarantee Scheme with an increased guarantee liability of NOK 46.6 million. These guarantees have contributed to approximately NOK 375 million in new financing for innovation growth companies. Innovation Norway has also contributed NOK 2.5 billion in low-risk loans.

In 2018, Innovation Norway provided total financing of NOK 1.6 billion for almost 1,700 international innovation projects. Innovation Norway continues to take high risks. The proportion of high risk cases has increased in recent years, if all schemes, both loans and grants, are taken into consideration.

The figures for 2018 from Samfunnsøkonomisk Analyse AS (SØA)¹ indicate that the impact of support from Innovation Norway remains at a high level. Companies that have received support from Innovation Norway experience higher annual growth in all three impact indicators over a three-year period compared with the control group: an increase in annual growth in sales revenues of 9.4 percentage points (2017: 12.7), an annual increase in value creation of 6.7 percentage points (2017: 6.1 per cent), and an annual increase in productivity of 3.0 percentage points (2017: 2.1).

It is a demanding task to quantify the impact of Innovation Norway's overall activities. The Board is very satisfied that Innovation Norway has emphasised investigating, acquiring and communicating new knowledge about which services and schemes are most effective in business and innovation policy. At the same time, the Board also acknowledges that this is demanding work that is under continual development, and that contributions from Innovation Norway are one of several factors that play a part in the long-term development of a start-up, growth or cluster-oriented company.

Evaluations, reports, analyses and impact measurements 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

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

The owners set out 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

The Norwegian Government's export strategy for 2017 stipulated that Norway must increase exports and that Norwegian business and industry must take new global positions. Increased exports within existing industries are being promoted and new export industries must also be created. In line with this, Innovation Norway has strengthened its ambitions for growth and exports, as well as the overall export activities of the "Brand Norway" division. Establishing an export programme, strengthening Invest in Norway, marketing Norwegian green solutions, and increasing the focus on clusters were important activities in 2018.

The digital showcase "The Explorer" was launched by the Prime Minister during the Innovation Speech at Oslo City Hall in May 2018. The Explorer assists in 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.

By establishing Norway as a sustainability pioneer, the country will attract investors, talent and tourists. In 2018, Innovation Norway worked proactively to offer growth programmes and promotional activities to enable Norwegian businesses to strengthen their desired position.

With offices in important international markets and a nationwide network of offices in Norway, Innovation Norway has an excellent starting point for contributing to the international expansion

of Norwegian business and industry. As part of the work of being relevant to customers, Innovation Norway regularly conducts an evaluation of its presence overseas. Following close dialogue with business and industry and other stakeholders, two new offices in Munich and Dubai were opened in 2018.

International growth starts in Norway. Internationalisation advisers were added to the district offices in 2017. In 2018, Innovation Norway further strengthened its internationalisation expertise in all parts of its operations, and enhanced these roles in the organisation. This has contributed to increased ownership of the work with internationalisation at a local level and a stronger presence and expertise within exports and internationalisation in all parts of Norway.

In the opinion of the Board, these changes will ensure that Innovation Norway's international presence and nationwide services will, in the future, be better adapted to the needs of business and industry and for executing the assignments the company receives.

To ensure that more customers succeed, Innovation Norway must continually **improve the services** offered. In 2018, the organisation continued the work on implementing a more basic service model that will contribute to improving the connection between customer needs and the expertise, advice and financial services that are offered. Skills development, building a common culture and digital simplification have been important, including adapting capacity and expertise from case processing to dialogue and "sparring" that give added value to the customers.

In 2018, Innovation Norway launched simplified and more user-friendly websites. These provide customers with easier access to the services and advisers. In order to contribute towards a more seamless and united public support system, Innovation Norway has prioritised developing expertise that makes it possible to refer companies to relevant services, including outside of its own activities.

Innovation Norway is always striving to be a **good partner**. The 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. This is documented through customer satisfaction surveys which focus on the customers' views concerning their dialogue and contact with Innovation Norway's advisers. Customer feedback forms part of the company's work on improving the customer experience and customer dialogue. The average customer satisfaction score in 2018 was 5 out of a possible 6 points.

Innovation Norway must act as an **innovation policy adviser** for owners and principals. This role can be divided into four parts:

Innovation Norway functions as a sounding board in the national and international markets and conveys this knowledge back to the company and the owners. Innovation Norway must evaluate and quantify the impact of the services and programmes and ensure that they are working as intended. Innovation Norway must provide input that can contribute to the principals being better able to achieve their objectives. Innovation Norway must promote innovation policy in the public debate

It was a priority in 2018 to strengthen Innovation Norway's role as an innovation policy adviser in the regional partnership. The regional offices and county councils have been given better access to internal and external data as a factual basis for being able to develop effective regional innovation policies based on professional advice. The company's central and regional senior management together visited all regions for strategic meetings with the county mayors during 2018. The company has more actively adopted its function as a sounding board through a closer dialogue between the head office and the regional offices with the assistance of a separate regional team that supports the regional offices with their innovation policy advice.

In 2018, Innovation Norway focussed on strengthening analysis expertise. The company has the strategy of building networks with more external analysis groups in academia. In 2018, the company also invested in the collaboration with the Department of Economics at the University of Oslo (UiO) on a long-term project to study the effects of its activities. A PhD has been hired and will work at the company for three years with guidance from UiO. This work will test out new and innovative forms of effect analyses.

Innovation Norway has made a number of written contributions to the national budget, strategies and reports to the Ministry of Trade, Industry and Fisheries and other ministries. In 2018, the company devoted considerable resources from both the head office and office in Brussels to providing input to the EU's next framework programme "Horizon Europe". Innovation Norway has also made a significant contribution to the work on the Governmental white paper on the health sector.

In 2018, Innovation Norway set the agenda of the public debate through the Export Conference, Innovation Speech and Arendal Week. These events enabled the company to place important innovation policy topics on the agenda of the public debate. The Innovation Speech was about Brand Norway and attracting foreign investment to Norway. The Export Conference raised the issue of uncertainty in trade policy. The company also participates in a number of regional, national and international events that address innovation and value creation.

An external evaluation was commenced in 2018 to assess Innovation Norway's role as innovation policy adviser in the period from 2012 to 2018. The result of the evaluation was presented in March 2019 and showed that Innovation Norway has taken several steps to become a better adviser and has built up capacity and devoted time and attention towards developing the role. However, achievement of objectives was considered somewhat weaker than what could be expected and it is noted that part of the reason for this could be the company, owners and principals having a different understanding of the company's role. The evaluation recommends that the company develops, in cooperation with owners and principals, new arenas for dialogue where the declaration of intent and role are clarified. It is also recommended that Innovation Norway uses, to a greater extent, its own data for analysis purposes and advisory services in the future. The company will follow up these recommendations in 2019.

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.

Innovation Norway has worked on improving and developing along three axes: (1) Work processes: the manner in which staff work internally and together with others to provide the best possible services to the customers, (2) Organisation: how resources are organised to provide customers with access to expertise and ensure equal treatment irrespective of where they contact; and (3) Digital channels: the tools employees, customers, owners and society can access for insight, cooperation and self-service. The objective is to derive greater benefit and efficiency by servicing a larger volume of assignments, spending more time on customers or by reducing costs.

In 2018, Innovation Norway supplied services to business and industry totalling NOK 7.2 billion. Deliveries were at the same level compared with 2017, while total costs were slightly higher. This development is in line with the targets for 2018 and reflects the company's focus on better guidance and advice to small and medium-sized enterprises in all parts of the country.

From 2014-2018, Innovation Norway's combined deliveries increased from NOK 5.9 billion to NOK 7.2 billion (+22 per cent). The company's total expenses during the same period remained unchanged at approximately NOK 1.5 billion.

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 management is therefore working on operational performance indicators that will 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 Corporation of Norway (SIVA) are the three main agencies in the Government's public support system focussed on 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. Innovation Norway, the Research Council of Norway, and SIVA also had extensive cooperation at the strategic and operational level in 2018.

The county councils play a key role as regional development actors and lead the regional partnership. This role will have greater importance in connection with the establishment of the new regions. 2017 marked the completion of the so-called collaborative model, which concerns the cooperation between the county councils and SIVA, the Research Council of Norway and Innovation Norway. The work on implementing the model commenced in 2018.

Concerning the work involving clusters, Innovation Norway and SIVA were involved in each

other's application assessments for Catapult and the Cluster Programme. There was also a joint study trip to Germany regarding the digitalisation of the industry, with participants from the clusters and Catapult Centres. The Research Council of Norway and SIVA were also involved in the audit of the Cluster Programme.

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. Once a project has received funds from PILOT-E, funding and assistance can be expected throughout the process until the goal is achieved. In 2018, there were announcements regarding zero-emission maritime transport 2.0 and the climate neutral industry of the future.

In 2018, Innovation Norway and the Research Council of Norway joined the board of the National Programme for Supplier Development (Confederation of Norwegian Enterprise (NHO), Norwegian Association of Local and Regional Authorities (KS) and the Agency for Public Management and eGovernment (Difi)). In the past year, the programme partners have cooperated on identifying barriers and opportunities for further commitment to public-private innovation. In the final quarter of 2018, Innovation Norway entered into an agreement with the Research Council of Norway for the joint announcement of a public-private partnership in 2019. The Research Council of Norway will finance projects that require research and support a pre-commercial process, while Innovation Norway will finance the innovation partnership. The employees in the regions will contribute to mobilising attractive public stakeholders and innovation projects from the entire country.

Innovation Norway cooperates well 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. This will help us realise our ambition and continued desire to have 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.

In 2019, the Norwegian Government will conduct an area review of the public support system for business and industry in Norway. This will include stakeholders and policy instruments which have the aim of promoting business development and where the users are primarily companies. The area review will assess the public support system for business and industry in its entirety and how the policy instruments and stakeholders function together. This involves making assessments and recommending measures for how to achieve orderly interfaces and defined roles, an appropriate organisation, a user-friendly public support system, good interaction between policy instruments at different geographical levels, effective models for administration fees, good assignment management and corporate governance and stakeholders with correct and good expertise.

The Board has seen the need to assess the overall situation and simplify access to the combined public support system and thus welcomes the area review.

About the annual accounts

The profit for the year was NOK 208 million in 2018, compared with NOK 301 million in 2017. The profit before losses was NOK 231 million in 2018, compared with NOK 251 million in 2017.

Net interest income was NOK 415 million in 2018, compared with NOK 416 million the previous year. The fall in net interest income was due to lower interest margins. Dividends and losses on securities showed a loss of NOK 5 million in 2018, compared with a loss of NOK 6 million in 2017. The net loss was principally due to a change in the write-down of shares in the investment funds for Eastern Europe.

Total operating income was NOK 1,279 million, compared with NOK 1,214 million in 2017. The net increase of NOK 65 million was due to an increase in income from public sources of NOK 70 million, an increase in external revenues of NOK 11 million and a decrease in miscellaneous operating income of NOK 16 million. The increase in income from public sources was a result of income recognition in relation to total operating expenses that are not covered by external revenues and miscellaneous operating income. The increase in external revenues was principally due to revenues associated with marketing campaigns in Germany and Asia. The decrease in miscellaneous operating income was principally due to a net foreign exchange loss in 2018 of NOK 11 million, while 2017 saw a net foreign exchange gain of NOK 1.5 million.

Operating costs amounted to NOK 1,459 million, compared with 1,374 million in 2017, an increase of NOK 84 million. Payroll expenses amounted to NOK 723 million in 2018, compared with NOK

694 million in 2017. The increase of NOK 29 million was primarily due to the 2018 pay settlement. Depreciation increased by NOK 15 million compared with 2017. This was due to increased investments relating to the digitalisation of the company. Direct project costs were at the same level as the previous year. Other operating expenses amounted to NOK 251 million in 2018, compared with NOK 209 million in 2017. The increase was primarily due to higher IT costs.

Our loan customers have enjoyed good operating conditions for some time, which has resulted in lower losses on loans. Net losses on loans amounted to NOK 23 million, compared with income of NOK 50 million in 2017. The net loss was principally due to an increase in group write-downs for the low-risk loan scheme. A normal annual loss on low-risk loans equivalent to 0.5 per cent of the portfolio is expected. In 2018, the loss percentage was 0.15 per cent 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 loans and guarantee schemes amounted to NOK 36.5 million in 2018, compared with NOK 94 million in 2017. These lending activities are expected to involve a higher risk profile than the low-risk loan scheme and losses over time of close to 5 per cent of the portfolio per year. The losses in 2018 amounted to 1 per cent (2.9 per cent in 2017) of the portfolio.

In 2018, the seed capital funds had losses of NOK 29 million, compared with losses of NOK 31 million in 2017. The loans were granted during the period from 2006 to 2008. Changes in losses are closely linked to fluctuations in the economy.

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 129 million, compared with an increase of NOK 193 million in 2017.

Innovation Norway's balance sheet total at year end was NOK 26.1 billion, which is NOK 1.2 million more than in 2017 (NOK 24.9 billion). Of this, net loans amounted to NOK 18.6 billion as at 31 December 2018 (NOK 17.7 billion as at 31 December 2017). In 2018, NOK 3.4 billion was paid out in new loans (NOK 3.0 billion in 2017) and NOK 2.7 billion in grants (NOK 2.7 billion in 2017).

The company incurred no costs and made no investments related to R&D in 2018. External evaluations and analyses are carried out of the company's activities and use of policy instruments. The company uses the knowledge these in the development of our services, organisation and work processes.

Risk management

The company makes annual assessments of factors important for Innovation Norway's achievement of goals 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 necessary, risk assessments of critical functions and limited areas are carried out at a lower level.

FINANCIAL RISK

The financial risk largely consists of currency 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 the company trades in.

Liquidity risk. The liquidity risk is the risk associated with Innovation Norway's ability to fund an increase in loans and the borrower's 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 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 requirements concerning security. In addition to the 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 per cent is financing for fishing vessels, while the portfolio is otherwise almost equally divided between agriculture and industry/business services.

Innovation and high-risk loans are a form of lending that is primarily intended to help small and medium-sized enterprises that require risk mitigation in 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 associated with 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 objective of loss reserves is to enable Innovation Norway to mitigate risks for innovative projects with 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 lending 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 sources of loss 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 special database. Innovation Norway has contingency plans and carries out exercises on a regular basis. A dedicated compliance function helps the company reduce the risk of incurring public sanctions, financial losses or reputational harm due to a failure to comply with external and internal regulations.

One of the duties of the compliance function is to deal with whistleblowing cases. In 2018, 22 cases were heard in accordance with the procedure for managing whistleblowing cases. This was seven more cases than in 2017. There was an increase in the number of whistleblowing cases that involved Innovation Norway's own employees.

Innovation Norway's activities are governed by the Norwegian Freedom of Information Act, albeit with some exceptions. The company is a visible social institution and is therefore continually in contact with the media. In 2018, Innovation Norway was the focus of major media attention due to specific events and circumstances concerning the company. Both the Board and management followed-up the contact with the media in connection with these cases.

Going concern

The annual accounts have been prepared on the basis of a 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 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 established in each of the offices abroad and separate work 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.

The sick leave rate was 3.8 per cent in 2018, compared with 2.9 per cent in 2017. By comparison, the sick leave rate in public administration and the armed forces, as well as national insurance schemes under public administration, was 6.2 per cent in the third quarter of 2018. Two injuries were reported in 2018.

Employee turnover in 2018 totalled 7.6 per cent (including temporary employees, employees on assignment and retirees). If we only look at turnover among permanent employees (including retirees), this figure is 6.2 per cent. 89 new employees were recruited externally, while the company made 50 internal recruitments.

The 2018 employee satisfaction survey was conducted in April and the results in each department were followed up until the summer holidays. The total response rate to the survey was 86 per cent.

The survey was prepared by Difi and provides a benchmark in relation to 35,000 public sector employees. Principal features of the survey:

- Innovation Norway is an engaging workplace with good execution capacity.
- Employees are motivated by their social assignment and are proud to work at Innovation Norway.
- 3 out of 4 employees have a very high or high level of enthusiasm.
- Employees believe that they have development opportunities, that they are able to make use of their expertise and that their work is challenging. In addition, they find their work days to be good, professional and varied.
- Points of improvement are information, training and (digital) work tools.

Innovation Norway is considered an attractive workplace by both the company's employees and potential job seekers. For the second year in a row, in a survey conducted by Universum, Innovation Norway was voted as the most attractive employer among people in the work force with an educational background in economics.

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 five are women and six are men. At the end of 2018, the proportion of women in the executive management group was six out of twelve (50 per cent).

The proportion of women at Innovation Norway was 56 per cent at the end of 2018. The proportion of new employees in 2018 who are women was around 60 per cent.

THE PROPORTION OF WOMEN BY POSITION:

The proportion of women by position:

| Job category | 2018 | 2017 | 2016 |
|--------------------|------|------|------|
| CEO | 63% | 52% | 44% |
| Lawyer | 43% | 50% | 43% |
| Head of Department | 56% | 49% | 47% |
| Special Adviser | 38% | 36% | 32% |
| Senior Adviser | 53% | 50% | 48% |
| Adviser | 75% | 79% | 78% |
| Consultant | 79% | 83% | 81% |

PAY RATIO BETWEEN WOMEN AND MEN FOR ALL OF INNOVATION NORWAY:

Pay ratio between women and men for all of Innovasjon Norge:

| Position level | Difference in average base salary (women/men) | | |
|--------------------|---|----------------|--------|
| | 2018 | 2017 | 2016 |
| CEO | -7.7% | -2.44% | 1.10% |
| Head of Department | -0.5% | -3.81% | -1.40% |
| Special Adviser | -0.7% | -3.73% | -4.40% |
| Senior Adviser | -5.6% | -2.75% | -2.80% |
| Adviser | -2.0% | -2.83% | -4.10% |
| Consultant | Not available* | Not available* | -4.40% |

* Fewer than 4 employees in the sample.

The table shows the difference between the average pay for women and men. The results indicate 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 in the company. We are generally aware of the differences in pay at individual position level and actively work towards safeguarding the principle of equal pay.

As at 31 December 2018, 32 of the 723 employees worked part-time. Of these, 72 per cent 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. This 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.

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.

New Board of Directors

A new Innovation Norway Board of Directors was appointed for 2018-2020 at the general meeting on 3 May 2018. A total of four of the nine owner-elected board members were new. Gunnar Bovim was elected as the new chairman.

Internal restructuring and organisation

Innovation Norway's restructuring process commenced in 2014 and the company has delivered clear results up to the present day. During these years, there has been work on improvements in relation to work processes, organisation and new digital channels.

The digitalisation process has been more demanding and has taken more time than originally planned. The company has moved its entire application portfolio to cloud and launched a sharing platform and joint information model for services for all employees. A new website has been launched and important systems for customer and case processing have been simplified, however the company has not progressed as far as it would have liked in digitalising customer dialogue.

Innovation Norway is one of the first enterprises in the public sector to move all of its solutions to cloud. This is an important prerequisite for being able to realise the company's continued ambitions of digital transformation in the coming years.

The Board wants the company's digital ambitions to be assessed in the impending work of developing a new strategy for the company and that the groundwork is laid for a change of tempo in the digitalisation work in the coming years.

In 2018, Innovation Norway adjusted its office structure to fit the new county boundaries and prioritised strengthening cooperation in the regional partnerships. The role as innovation policy advisor for regional clients is strengthened by all offices being offered good support in this work from the innovation policy department and regional team at the head office.

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.

About corporate social responsibility

Innovation Norway will strengthen the company's work on corporate social responsibility and the prevention of corruption, both internally and at 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 stipulated in the document "Good business practice – Innovation Norway's expectations of customers and partners". These are 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 our employees, employee representatives and consultants who perform services for the company are described in the company's Code of Conduct and Anti-Corruption Policy. The Code of Conduct also contains a special chapter on business ethics that stresses that ethics and corporate social responsibility must be included in the assessment criteria when using services and selecting collaborative partners and suppliers. Innovation Norway's corporate social responsibility work and ethical framework are also special topics in the company's procedure for training new employees.

Corporate social responsibility forms an integral part of Innovation Norway's services and all parties that receive services from Innovation Norway are required to comply with good business practices in line with globally recognised guidelines. This also entails that customers and partners are familiar with their own major areas of risk relating to corruption, negative impact on the environment, human rights, employee rights and/or other aspects relating to business ethics, and that they implement measures for managing these. Provisions concerning this are also included in Innovation Norway's standard terms and conditions for loans, grants and guarantees.

A special "Guide for evaluating overall sustainability in funding cases" is available to the company's customer and funding advisers. In some of Innovation Norway's expert services, the programmes provide a special module on corporate social responsibility that has been specially adapted to companies with an international focus.

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

Innovation Norway has several assignments that involve assisting companies in demanding markets. In 2018, good business practice, with a primary emphasis on understanding the requirements and expectations that are set, was on the agenda at a number of seminars and meeting places within the framework of Innovation Norway's assignments.

The company continued compulsory anti-corruption training for all employees in 2018 through ethical dilemma training. 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. The goal is for all employees to undergo dilemma training twice a year.

The risk of corruption is an important issue in the company's Code of Conduct and is also described in more detail in a special 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 General Data Protection Regulation entered into force in the EU from 25 May 2018 and in Norway from 20 July 2018. Innovation Norway has worked systematically to ensure the company's governing documentation, systems and processes are in compliance with the new Regulation and will continue this work in 2019.

In November 2017, Innovation Norway launched an electronic whistleblowing channel which is also available to external parties. The whistleblowing channel is available on both the intranet and Innovation Norway's website and allows the company to communicate with anonymous whistleblowers without them compromising their anonymity.

Innovation Norway has a risk-based approach to Integrity Due Diligence (background checks) of customers, suppliers and stakeholders that Innovation Norway links customers to. Governing documentation is prepared that stipulates the instances in which background checks must be carried out. The actual execution of the background check is regulated by a separate procedure.

As part of the work of incorporating corporate social responsibility work throughout Innovation Norway, a special, expert team of resource personnel has been established. This team has been tasked with providing support to staff and conducting training measures to raise awareness of corporate social responsibility in the company.

Application of profit

The 2018 accounts show a profit of NOK 208 million. For further information about the rules concerning dividends please see Note 37. The Board proposes the following allocation of the

| | | 2018 |
|--|--|-------------------|
| | Dividend allocated to the Ministry of Trade, Industry and Fisheries as an owner, from: | |
| | Low-risk loan scheme | NOK 152 702 101 |
| | To be transferred to the Ministry of Trade, Industry and Fisheries from: | |
| | Innovation loans and guarantees | NOK 24 459 023 |
| | To be transferred to the county councils as owners, from: | |
| | High-risk loans and guarantees | NOK 17 509 915 |
| | Distributed as follows: | |
| | Møre og Romsdal County Council | NOK 3 187 959 |
| | Troms County Council | NOK 2 984 504 |
| | Trøndelag County Council | NOK 2 176 409 |
| | Nordland County Council | NOK 2 059 230 |
| | Finmark County Council | NOK 1 874 985 |
| | Sogn og Fjordane County Council | NOK 1 637 710 |
| | Hedmark County Council | NOK 1 208 739 |
| | Oppland County Council | NOK 746 935 |
| | Telemark County Council | NOK 684 462 |
| | Hordaland County Council | NOK 468 921 |
| | Buskerud County Council | NOK 192 054 |
| | Aust - Agder County Council | NOK 156 467 |
| | Vest - Agder County Council | NOK 125 529 |
| | Østfold County Council | NOK 6 011 |
| | | <u>17 509 915</u> |
| | Transferred from retained earnings: | |
| | The Investment Fund for Northwest Russia | NOK 2 243 600 |
| | The Investment Fund for Eastern Europe | NOK 7 548 113 |
| | | <u>9 791 713</u> |
| | Transferred to retained earnings: | |
| | Low-risk loan scheme | NOK 22 863 057 |
| | Service deliveries and grant administration | NOK - |
| | Grand total | 207 742 383 |

Outlook for 2019

Anita Krohn Traaseth stepped down from her position as Innovation Norway CEO at the end of 2018. Hans Martin Vikdal became acting CEO from January 2019. The process of recruiting a new CEO is underway and it is expected that the person selected will start in the position during the second half of 2019.

The Norwegian Government presented its political platform at Granavolden on 17 January 2019. The principal direction of business and innovation policy will remain the same, with the objective of restructuring the Norwegian economy to create growth, new jobs and ensure it has “more legs to stand on”. The commitment to knowledge, research and innovation to create new jobs with a high level of value creation will continue. The Government’s objective is for Norway to be an innovative country and will strength its commitment to business-oriented research and innovation. Innovation Norway is ready to provide strong and clear support to the Government’s ambitions by contributing to increased value creating business development throughout the entire country and giving local ideas global opportunities.

The results of the Government’s area review of the public support system for business and industry in Norway will be presented during 2019. The objective of the area review is to assess the overall scope of and simplify access to the public support system and in doing so propose changes that will impact on Innovation Norway in the years ahead. During 2019, the Board will commence work on developing the company’s strategy for a new strategy period and the results of the area review will be part of this work.

Oslo, 29 March 2019

The Board of Directors of Innovation Norway