

ANNUAL ACCOUNTS INNOVATION NORWAY 2017



Innovation Norway

Notes to the 2017 Annual Accounts

NOTE 1

COMPANY INFORMATION AND ACCOUNTING PRINCIPLES

Company information

Innovation Norway is an enterprise established by special legislation and has the objective of being the State and the county councils' instrument for achieving value-creating business development throughout the entire country.

Innovation Norway's main purpose is to trigger business development that is profitable from both a commercial and socio-economic perspective, and for the regions to realise their commercial potential.

The Ministry of Trade, Industry and Fisheries is the principal owner with 51%, while the county councils own 49%. Innovation Norway manages funds from the Ministry of Local Government and Modernisation, Ministry of Trade, Industry and Fisheries, Ministry of Agriculture and Food, Ministry of Culture, Ministry of Education and Research, Ministry of Climate and the Environment, Ministry of Foreign Affairs, the county councils, and the county governors.

Innovation Norway offers five types of services:

- Financing services
- Expert services
- Advisory services
- Networking services
- Profiling services.

Basis for the preparation of the accounts

The annual accounts have been prepared in accordance with the Norwegian Accounting Act, generally accepted accounting principles for other companies and the Act relating to Innovation Norway.

Use of estimates

When preparing the annual accounts, estimates and discretionary assessments are used for uncertain amounts. The figures and assessments represent a best estimate on the date the accounts are submitted. The actual results may differ from the estimates. Innovation Norway's largest estimates and assessments relate to the assessment of write-downs on loans and guarantees, and valuations of shares and pensions to own employees.

Reclassification

In instances in which classification of items is changed, the figures for the previous year will also be restated to provide a comparison of the accounts.

Consolidation

No consolidated accounts are prepared for Innovation Norway and its subsidiaries pursuant to the exemption rule in Section 3-8 of the Norwegian Accounting Act. This is based on the subsidiaries not being deemed to be of importance when assessing Innovation Norway's financial position and result.

Assets and Liabilities in foreign currency

In the balance sheet, monetary items in foreign currencies are converted at the exchange rate on the balance sheet date. Revenues and expenses in foreign currencies are converted at the exchange rate on the transaction date. Changes in value that result from changes in the exchange rate between the transaction and balance sheet dates are entered in the profit and loss account.

Bank deposits, cash etc.

Bank deposits, cash etc. include cash, bank deposits and other means of payment with a maturity date of less than twelve months from acquisition.

Receivables

Accounts receivables and other receivables are entered at nominal value after deductions for provisions for expected loss. Provisions for loss are made based on an individual assessment of the individual receivables.

Intangible assets

Intangible assets are recognised in the balance sheet when:

1. It is probable that the future financial benefits associated with the asset will flow to the company, and
2. acquisition cost for the asset can be reliably measured.

Intangible assets are appraised at acquisition cost and written down to fair value if this is lower than book value and the decline in value is not expected to be temporary. Intangible assets with a limited useful life are depreciated over the expected period of use.



Tangible fixed assets

Assets intended for permanent ownership or use are classified as tangible fixed assets. Tangible fixed assets are appraised at acquisition cost and written down to fair value if this is lower than book value and the decline in value is not expected to be temporary. Tangible fixed assets with a limited useful life are depreciated over the expected period of use.

Loans, shares and financial obligations

General principles and definitions

Recognition and derecognition

Loans, shares, other financial assets, including borrowings from the Norwegian State, and other financial obligations are recognised in the balance sheet when Innovation Norway becomes a party to the instrument's contractual provisions.

Loans, shares and other financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire.

Borrowings from the Norwegian State and other obligations are derecognised from the balance sheet when they have ceased, i.e. when the obligation stipulated in the contract has been satisfied, cancelled or expired.

Definition of amortised cost

After initial recognition, loans and receivables, as well as borrowings from the Norwegian State and other financial obligations, are measured at amortised cost using the effective interest method. When calculating the effective interest rate, cash flows are estimated.

Loans

Innovation Norway's lending operations are divided into three types of loans:

1. Low-risk loans
2. Innovation and high-risk loans
3. Other loan schemes, including loans to seed capital and investment funds.

The establishment fee upon disbursement of innovation loans and other high-risk loans is entered as income on the disbursement date when the fee does not exceed the direct costs. The other loan schemes do not have an establishment fee.

Decline in value of loans

On the balance sheet date, an assessment is made of whether there are objective indications of loans having declined in value. Examples of loss events are serious financial problems with the debtor, weak finances, negative financial development, payment default, significant changes in conditions, negative changes in internal and external factors and bankruptcy, debt settlement proceedings or liquidation. There is a relatively high degree of uncertainty associated with the valuations of the security, both due to the location sometimes not being central, the collateral is specialised and the number of possible stakeholders is limited.

Individual write-downs

If objective indications exist, the loan is written down. The write-down is measured as the difference between the loan's capitalised value and the present value of the estimated future cash flows discounted by the effective interest rate on the financial asset. The write-down is recognised in the profit or loss.

Collective write-downs

Collective write-downs are also made for the low-risk loans. The portfolio is divided into groups with largely the same risk elements. Loans that are individually considered for being written down, but for which there is no objective evidence of a decline in value, are included in the group assessment of loans. Group write-downs are determined based on the risk classification system whereby calculated risk is calculated as the product of the expected operational risk and risk of inadequate security coverage.

Loss reserves

Loss reserves have been established for innovation and high-risk loans, guarantees and loans for the seed capital funds. The term loss reserve refers to funds that are intended to cover expected loss on these special loan schemes and guarantees. The funds are included in appropriations from the Norwegian State, either as separate appropriations or as part of the grant funds. The funds are set aside as a liability in the balance sheet. When a loan is written-down in a loan scheme which has a loss reserve, a corresponding income entry is made from the loss reserve. Write-downs and income recognition from the loss reserve are presented as gross amounts in the "Losses on loans and guarantees" and "Coverage of losses" items in the profit and loss account. Write-downs within the amount of the loss reserve will not have a net effect on earnings for Innovation Norway. Any losses that exceed the loss reserve shall be covered by the Norwegian State in the form of additional appropriations. For more detailed information see Note 33.



Detailed description of Innovation Norway's financing services

Low-risk loans

Low-risk loans are an offer to companies that need financing of their long-term capital requirements. The loans are provided at competitive, market interest rates. The high-risk loans shall be secured with collateral and are normally covered by a guarantee, but can have underabsorption of up to 25% on the date such loans are granted. Low-risk loans are prioritised for companies in rural areas and for projects in which the loans offered from other banks are limited due to risk assessments by the banks. There is no limit on the size of the company, but the loans are primarily given to small and medium-sized companies with up to 250 employees. Innovation Norway has a special responsibility for financing of companies in the fisheries industry, agriculture and in rural areas. Losses on these types of loans are covered by the interest margin and have an effect on earnings. Therefore, Innovation Norway bears the financial risk for these loans. The repayment period is normally 5-15 years. The loans are financed with interest-bearing borrowings from the Norwegian State. The profit from the scheme is repaid to the Norwegian State in its entirety given that the equity ratio of the scheme equals 10.5%.

High-risk loans

The high-risk loans are granted as loans with low collateralisation with a relatively high degree of risk and with, at times, favourable terms when concerning interest and repayment period in comparison with the project risk. High-risk loans can be used for partial financing of investment projects that involve newly incorporated companies, innovation, restructuring, internationalisation and development and for which it is difficult to find sufficient venture capital in the private market. Innovation Norway's involvement shall have a "triggering effect" for the project to be able to be implemented. Smaller loans can be given without collateral security, while larger loans have collateral security that can have underabsorption of between 25% and 75% on the date the loans are granted.

The interest rates for high-risk loans are somewhat higher than for loans in the private credit market and normally have slightly shorter terms. The target group is companies throughout the entire country and in all industries. Maximum commitment per customer is NOK 50 million. The maximum term for high-risk loans is 15 years, including instalment free periods. The loans are financed with interest-bearing borrowings from the Norwegian State. Losses on the loans are financed via loss reserves. This means that losses on high-risk loans do not have an effect on earnings and Innovation Norway does not bear the financial risk for these loans. Losses with associated coverage of losses are shown as a gross amount in the accounts. Profits from the scheme are repaid to the state and counties in their entirety.

Guarantees

Innovation Norway's guarantee schemes are primarily aimed at entrepreneurs and growth enterprises that have problems obtaining loans from private banks due to inadequate security. In practice, Innovation Norway's guarantees are collateral security that is provided to the company's local bank connection in order for the bank to be able to grant operating credit or investment loans. Our guarantees are primarily used as guarantees for operating credit.

Guarantees can be furnished as simple guarantees to banks with guarantee liability of normally up to 50%, but also up to 75% for companies less than 3 years old. For 50% guarantees, the guarantee commission is a minimum of 1%. For 75% guarantees, the guarantee commission is a minimum of 2%. Losses on guarantees are covered by loss reserves and have no effect on Innovation Norway's earnings. Therefore, Innovation Norway does not bear the financial risk for the guarantees. All guarantees that are provided are allocated to loss reserves. The scheme is under the sub-accounts for high-risk loans and entails that profits from the scheme are repaid to the state and counties in their entirety.

Seed capital schemes

Innovation Norway's seed capital schemes consists of both subordinated loans to seed fund companies and investments in shares. The schemes are financed via investment funds and loss reserves that are received from the Norwegian State. The schemes have no effect on Innovation Norway's earnings and we therefore bear no financial risk. When the schemes come to an end, any profits must be repaid to the Norwegian State in their entirety.

Subordinated loans to the seed capital funds

As a general rule, subordinated loans from Innovation Norway run without instalments with full repayment at par value 15 years from the date of the agreement between the fund and Innovation Norway. Interest is not paid on an ongoing basis, but is accumulated and added to the principal amount each year as of 31.12. The seed capital monies are used by the seed capital companies for equity investments in start-up companies. Instalments that are paid outside of normal due dates are entered as a repayment on the principal amount.

Loss reserves for loans to seed fund companies

A loss reserve has been allocated to each of the seed fund companies that is equivalent to 25% of the original loan capital. Up to 50% of realised losses in individual companies can be entered directly against the Innovation Norway loss reserve, with the maximum amount being the limit for the loss reserve. Only the principal amount without the addition of interest can be charged to the loss reserve. Lost interest income is covered by a separate appropriation from NFD. The remaining 50% of the losses are covered by the private investors in the seed capital companies. If the seed capital funds are insolvent on the settlement date, the Norwegian State must retrospectively cover losses that have been incurred on borrowings from the Norwegian State.



Shares in Seed capital funds

Innovation Norway contributes equity to the seed capital companies on behalf of the Norwegian State. The funds are financed in the form of equity, with a 50/50 split between private investors and Innovation Norway. However, Innovation Norway provides a premium of 15% in addition to what private investors contribute. With risk mitigation of 15% for private investors, this means that Innovation Norway's ownership stake is 42.5%. The minimum term for the funds is 10 years with an upper limit of 15 years. Any losses and write-downs on shares, restricted to 35% of the investment amount, are covered by loss reserves. Losses that exceed the amount in the loss reserve are covered by additional appropriations from the Norwegian State. Upon settlement of the scheme, profits must be repaid to the Norwegian State and any losses are covered by the loss reserve or additional appropriations from the Norwegian State. Innovation Norway therefore bears no financial risk associated with these schemes. Since Innovation Norway's ownership must never exceed 50% and we therefore will not have a controlling interest, the funds are treated as associated companies in the accounts.

The investment funds for Northwest Russia and Eastern Europe.

These investment funds can invest together with Norwegian business and industry on commercial terms in Northwest Russia and Eastern Europe. The target group consists of small and medium-sized Norwegian companies with international growth ambitions and prerequisites for succeeding in the funds' development areas. Innovation Norway contributes equity, possibly also in combination with subordinated loans.

The funds are financed with investment funds from the Norwegian State. If the schemes have positive results, a dividend of 75% of the profit for the year is repaid to the state, limited to the contributed capital multiplied by the interest rate for the Norwegian State's capital in the management enterprises. Losses are covered by the investment fund and Innovation Norway therefore bears no financial risk.

Shares

Shares are appraised using the cost method. For investments that are considered to be long-term, these are written-down to fair value when there is a decline in value that is not expected to be temporary. Investments that are deemed to be short-term, are appraised at the lower of acquisition cost and fair value. Dividends received from the companies are recognised as dividends from securities.

Associated companies are companies in which Innovation Norway has considerable influence. Innovation Norway is normally considered to have considerable influence when it has an ownership stake of 20% or more. Subsidiaries are considered companies which Innovation Norway exercises control over. Control normally exists when the company has an ownership stake of 50% or more. Associated companies and subsidiaries are recognised in the accounts using the cost method.

Grant funds

Innovation Norway has annual commitment budgets for grant schemes for various purposes. The following rules apply for grant schemes organised with funds:

Until they are disbursed, grant monies that are appropriated through the national budget are placed in earmarked accounts at Norges Bank that do not earn interest for Innovation Norway. The grant monies are recognised in the balance sheet of Innovation Norway and are classified as bank deposits with the contra entry being "Grant funds".

The commitments for the grant schemes will lapse if the monies are not used three years after the year they were granted at the latest. Unused grant monies for these schemes will be returned to the budget for the following year or to the Norwegian State depending on the rules for the grant scheme.

Grant monies that are disbursed to customers have no effect on Innovation Norway's earnings and are therefore not recognised as income or expensed in the profit and loss account. Costs associated with services provided under the direction of Innovation Norway are expensed in the profit and loss account and the associated cost coverage from grant monies is entered in the profit and loss account under "Income from public sources".

Principles for recognising income and expenses

Income

As a general rule, income is entered in the accounts in the same period as associated expenses. In the instances in which there is no clear connection between expenses and income, allocation is determined based on discretionary criteria. Other exemptions from the matching principle are stated when relevant.

Income from public sources

Public appropriations to Innovation Norway from the Norwegian State are recognised as income in line with costs accrued for the objectives the appropriations are intended to cover. This means that parts of the appropriation for one year can be transferred to the following year.

Interest support funds

The interest support fund consists of monies from the Norwegian State which are to cover agreed interest when interest-free, innovation loans are granted. Amounts contributed are set aside as a liability in the balance sheet on



the date they are paid in. When an interest-free loan is granted, the liability that is equal to the lost income is correspondingly recognised as income.

The scheme is financed by an annual allocation of grant monies to the interest support fund. The allocations must be taken from the annual grant budget for Regional Development from the Ministry of Local Government and Modernisation and the Innovation Scheme from the Ministry of Trade, Industry and Fisheries. Each year, sufficient funds must be set aside to cover the granting of exemptions from paying interest during the current year.

Expenses

As a main rule, expenses are recognised during the same period as associated income. In the instances in which there is no clear connection between expenses and income, allocation is determined based on discretionary criteria. Other exemptions from the matching principle are stated when relevant.

Interest income and expenses

Interest is entered in the profit and loss account after this has been earned as income or accrued as expenses.

Interest income and interest expenses relating to the loan and investment funds referred to in Note 36 are presented as gross amounts under "Interest on loans" and "Interest on borrowings". For the seed capital schemes, the interest expenses must be equal to the interest income. The seed capital scheme is arranged in such a way that it will not have any effect on the earnings of Innovation Norway.

Pensions

Innovation Norway recognises pension expenses and pension commitments in accordance with the Norwegian Accounting Standard, NRS 6 Pension Costs.

Defined-benefit pension

When recognising defined-benefit pensions in the accounts, the liability is expensed over the earnings period in accordance with the plan's earnings formula. The allocation method is equivalent to the plan's earnings formula unless most of the earnings occur towards the end of the earnings period. Straight-line earnings are therefore used as a basis. Thus, straight-line earnings are used for pension schemes in accordance with the Act relating to occupational pensions.

Discrepancies in estimates and the effect of changed assumptions are amortised over the expected remaining period of service if they exceed 10% of the higher of the pension commitment and the pension assets (corridor approach). The impact of plan changes with retroactive effect that are not conditional upon future employment are immediately recognised in the profit and loss account. Plan changes with retroactive effect that are conditional upon future employment are allocated on a straight line basis over the period until the benefit is no longer conditional upon future employment.

The net pension commitment is the difference between the present value of the pension commitments and the value of pension assets allocated for payment of the benefits. The pension assets are appraised at fair value. Pension commitments and pension assets are measured on the balance sheet date. Employers' contributions are included in the figures and are calculated by the net actual underfunding. The contractual early retirement pension (AFP) within the LO (Norwegian Confederation of Trade Unions)/NHO (Confederation of Norwegian Enterprise) scheme is a defined-benefit, multi-enterprise scheme, however this is entered in the accounts as a defined-contribution scheme because it cannot be quantified.

Cash flow statement

Liquidity reserves are defined as cash and bank deposits. The cash flow statement is prepared in accordance with the indirect method and is adapted to the various areas of operation.



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The nature of the business

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

Objectives and goals

Innovation Norway's objective is to be the policy instrument of the state and the county authorities for achieving value-creating business development throughout the country.

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

Each year, Innovation Norway receives more than 40 letters of assignment from ministries, county councils and county governors. Based on the national budget, the letters of assignment provide a combined overview of our principals' expectations and requirements of Innovation Norway's activities. The letters also set out Innovation Norway's allocation framework and guidelines relating to initiatives, programmes and services.

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

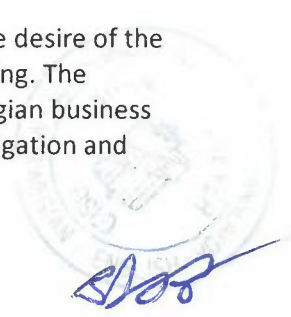
Innovation Norway offers financing services, advisory services, expert services, networking services and promotional services. Most of the company's staff are located close to customers in offices situated in all the counties in Norway or close to the market in more than 30 countries worldwide.

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

Positive impact in 2017

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

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export assistance, and provide our clients with innovation policy advice that leaves a lasting impression.

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

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

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

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

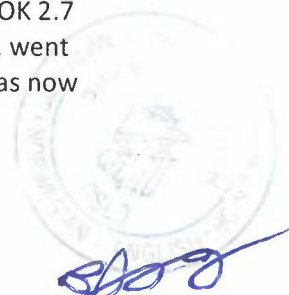
This means that one krone from Innovation Norway results in NOK 1.8 in own financing or other loan capital. In addition, Innovation Norway also triggers many other innovation and internationalisation activities by mobilising and providing expertise and networking.

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

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

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

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

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

The owners' expectations

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

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

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

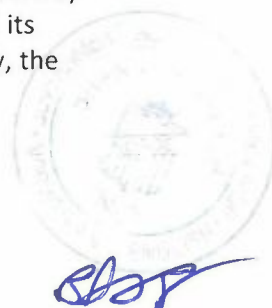
In 2017, the Government reaffirmed Norway's focus on **exports and internationalisation** through a national export strategy. Norway shall strengthen its position as a trading nation and the strategy includes measures for strengthening Invest in Norway, marketing Norwegian green solutions, establishing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

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

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

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In 2017, we simplified the customer journey for Norwegian exporters when meeting with Innovation Norway. The new customer journey contributes to simplifying work processes, digitalisation of export services and clearer communication with the customers. Growth opportunities in international markets are a recurring theme in the company's customer dialogue, both at home and abroad. Own internationalisation advisors mobilise to get more companies to operate outside of Norway's borders. They assess customer needs and qualify customers before they go international.

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

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

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

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

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

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

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

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

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

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

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

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

Cost-effective operation

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

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

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

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operating expenses during the same period showed a reduction from NOK 1.5 billion to NOK 1.4 billion (-6%).

We are now focussing ahead on phase 2 of the restructuring process (2018 - 2020). We see how experiences and new knowledge can be brought into the restructuring process and the solutions that can best produce an even more targeted and efficient Innovation Norway in the future. In this work, the Board, management, employee representatives and employees are a decisive driving force.

It is difficult to see from the annual accounts how the company's costs have developed, because the accounts include the company's delivery costs and customer-oriented activities and projects. The administration is therefore working on operational performance indicators that provide the Board and clients with information about the development of the company's cost-efficiency.

Cooperation with other public funding agencies

Innovation Norway, the Research Council of Norway and the Industrial Development Corporation of Norway (SIVA) are the three main agencies in the government's system of policy instruments aimed at business and industry. Both separately and together, these three agencies provide a significant and effective contribution to Norwegian business and industry's innovative power, internationalisation and value-creation. The three agencies have different roles, responsibilities, expertise and tasks, and are intended to complement each other throughout the value chain, from the birth of an idea up until the product/service is launched on the market. 2017 saw extensive collaboration at strategic and operative level on the Norwegian cluster programme, input for the "Industry Report", the development of the collaboration with the county councils and the establishment of SIVA's Catapult programme.

The county councils play a vital role as regional development players. This is a role that will be assigned even more importance with the new regions. Innovation Norway's district offices work closely together with each of the county councils at strategic and operative level. In 2017, Innovation Norway established a separate group that will work on further developing this cooperation, among other things, by better enabling the district offices to draw on the expertise available at the head office. We now have a factual basis in relation to the effects and results per region - something that will support our district offices in their innovation policy dialogue on a regional basis. The so-called collaborative model was also completed in 2017. This is a framework for strengthening the strategic dialogue with the county council and the regional policy instrument apparatus. The model has been developed as a collaboration between the county councils, the Research Council of Norway, SIVA and Innovation Norway. This will be rolled out in 2018.

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

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



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

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

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

About the annual accounts

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

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

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

Operating costs amounted to NOK 1,374 million, compared with 1,378 million in 2016, a reduction of NOK 4 million. Payroll expenses amounted to NOK 694 million in 2017, compared with NOK 691 million in 2016, which was a marginal increase compared with 2016. Other operating expenses amounted to NOK 209 million in 2017, compared with NOK 195 million in 2016. The increase was primarily due to higher IT costs compared with 2016. Direct project costs amounted to NOK 455 million in 2017, compared with NOK 484 million in 2016. The reduction was primarily due to lower promotional, office and communications costs compared with 2016.

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

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

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

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

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

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

The company did not incur any costs or make investments related to R&D in 2017. External evaluations and analyses are carried out of the company's activities and use of policy instruments. The company uses the knowledge they provide in the development of our services, organisation and work processes.

Risk management

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

Financial risk

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

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

Liquidity risk. The liquidity risk is the risk associated with Innovation Norway's ability to finance an increase in loans and ability to settle its obligations when these fall due. The size of borrowings

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and loans is managed through letters of assignment from the Ministry of Trade, Industry and Fisheries. The liquidity risk is therefore minimal.

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

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

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

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

Loss reserves have been established for innovation and high-risk loans and guarantees, and for loans to seed capital fund companies. The purpose of loss reserves is to make it possible for Innovation Norway to mitigate risks for innovative projects with a growth potential and thus contribute to the realisation of more profitable projects that would otherwise find it difficult to obtain sufficient venture capital in the market. For a smaller portion of this loan portfolio, the European Investment Fund (EIF) shares the risk of loss with Innovation Norway on a 50/50 basis.

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

Operational risk

Operational risk comprises all the potential loss sources relating to Innovation Norway's day-to-day operations. Examples of such sources include procedural failure, computer system failure, lack of competence and breach of trust on the part of employees. Internal control is an important tool in reducing operational risk.

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

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Going concern

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

Working environment

Innovation Norway is an Inclusive Workplace (IW) enterprise and has a corporate health service at both its head office and the district offices. Regional safety delegates have been elected in each of the six regional offices abroad and works councils/working environment committees have been established in the largest offices in Norway. An internal control system has been established for matters relating to health, safety and the environment (HSE) as an integrated part of the organisation's overall quality assurance. Procedures for notification (whistleblowing) have been established.

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

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

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

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

Gender equality and diversity

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

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

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

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The proportion of women by position:

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

The pay ratio between women and men.

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

*Fewer than 4 employees on the committee.

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

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

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

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

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Innovation Norway includes a diversity statement in all job advertisements. It emphasises that our recruitment process aims to ensure diversity with respect to gender, age and cultural background. Innovation Norway has a general arrangement for this diversity.

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

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

Internal restructuring and organisation.

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

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

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

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

Skills and management development

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

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

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

Innovation Norway is a distributed organisation. Cooperation and knowledge across offices therefore constitute an important part of our expertise. On the job training is Innovation Norway's efficient

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

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

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

External environment

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

Corporate social responsibility

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Application of profit

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

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Dividend allocated to the Ministry of Trade, Industry and Fisheries as an owner, from:

Low-risk loan scheme	NOK	245,990,695
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To be transferred to the Ministry of Trade, Industry and Fisheries from:

Innovation loans and guarantees	NOK	24,882,017
---------------------------------	-----	------------

To be transferred to the county councils as owners,
from:

High-risk loans and guarantees	NOK	15,743,308
--------------------------------	-----	------------

Distributed as follows:

Møre og Romsdal County Council	NOK	3,105,600
Troms County Council	NOK	2,644,617
Trøndelag County Council	NOK	2,188,082
Finnmark County Council	NOK	1,562,077
Nordland County Council	NOK	1,528,185
Sogn og Fjordane County Council	NOK	1,437,010
Hedmark County Council	NOK	1,023,046
Hordaland County Council	NOK	741,371
Telemark County Council	NOK	630,737
Oppland County Council	NOK	506,270
Aust - Agder County Council	NOK	170,104
Buskerud County Council	NOK	132,402
Aust - Agder County Council	NOK	67,912
Østfold County Council	NOK	5,895
		<hr/>
		15,743,308

-
Transferred from retained earnings:

The Investment Fund for Northwest Russia	NOK	2,503,379
The Investment Fund for Eastern Europe	NOK	7,040,962
		<hr/>
		9,544,341

Transferred to retained earnings:

Low-risk loan scheme	NOK	23,428,911
Service deliveries and grant administration	NOK	-

Grand total **300,500,590**

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Prospects for 2018

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

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

Innovation Norway is ready to make a strong and clear contribution in line with the Government’s ambitions. The company's strategy for 2020 specifies the direction and priorities for the company until 2020, at a time when Norway is facing a period of major readjustment. The company is and will be a relevant, competent and beneficial partner for regions, companies and entrepreneurs that will create the sustainable workplaces and companies of the future.

In 2018, Innovation Norway shall contribute to “a Norway in transformation” by improving access to venture capital, contributing to increased exports of sustainable solutions and providing innovation policy advice that leaves a lasting impression. This shall be achieved through efforts for more successful entrepreneurs, more enterprises capable of growth and more innovative business clusters.

Oslo, 1 March 2018

The Board of Directors of Innovation Norway

Per Otto Dyb
(Chairman)

Jørand Ødegård Lunde
(Deputy Chairman)

Arvid Andenæs

Kim Daniel Victor Arthur

Kristin Misund

Helene Falch Fladmark

Wenche Kjølås

Jan Løkling

Heidi Wang

Leela Borring Låstad
(Employee elected)

Gaute Hagerup
(Employee elected)

Anita Krohn Traaseth
(CEO)

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NOTE 2

SUB-ACCOUNTS - RESULT

Amounts in NOK - 1 000 000

Innovation Norway has 7 sub-accounts based on regulations from clients and owners. Each sub-account has a separate income statement and balance sheet, as well as separate rules for equity and application of profit. See Note 37.

	Low-risk lending schemes		High-risk loans targeting the districts		Innovation and high-risk loans and other schemes		Service deliveries and grant administration		Seed Capital Funds		Investment funds in Northwest Russia and Eastern Europe.		Joint equity		Total	
	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16	31.12.17	31.12.16
Interest on loans	430	433	57	56	84	77	0	0	23	28	0	0	-	-	594	595
Interest on bank deposits	2	2	0	0	0	0	4	4	-	-	1	1	-	-	7	8
Total interest income	431	436	57	56	84	78	4	4	23	28	1	1	-	-	601	603
Interest on borrowings	87	113	6	7	8	9	-0	-0	23	28	-	-	-	-	124	157
Borrowing commission	49	48	5	5	7	6	-	-	-	-	-	-	-	-	61	59
Total interest expenses	136	161	10	12	15	16	-0	-0	23	28	-	-	-	-	185	216
Net interest income	295	275	47	45	69	62	4	4	-	-	1	1	-	-	417	387
Income from public sources	-	-	-	-	-	-	1 068	1 052	3	5	-	-	-	-	1 071	1 057
External revenues etc.	0	1	1	2	3	2	137	154	3	-	-6	-4	-	-	138	156
Total operating income	0	1	1	2	3	2	1 204	1 206	6	5	-6	-4	-	-	1 209	1 213
Total operating expenses	75	89	32	28	47	39	1 209	1 210	6	5	6	6	-	-	1 374	1 378
Profit before losses	221	186	16	18	25	26	0	0	-0	0	10	8	-	-	251	222
Losses on loans and guarantees	-49	9	29	13	65	26	1	2	31	-11	-1	2	-	-	77	41
Coverage of losses	-	-	-29	-13	-65	-26	-1	-1	-31	11	-	-	-	-	-126	-31
Total net losses on loans and guarantees	-49	9	-	-	-	-	-0	-0	-	-	1	2	-	-	-50	10
Result	269	177	16	18	25	26	-0	-0	-0	0	-10	-10	-	-	301	211
Allocation of profit:																
Dividends/transfer to owner	246	158	16	18	25	26	-	-	-	-	-	-	-	-	287	201
From loan and investment funds	-	-	-	-	-	-	-	-	-	-	-10	-10	-	-	-10	-10
To retained earnings	23	20	-	-	-	-	-	-	-	-	-	-	-	-	23	20
Total allocated	269	177	16	18	25	26	-	-	-	-	-10	-10	-	-	301	211



NOTE 2

SUB-ACCOUNTS - CONTINUED, BALANCE SHEET

115 IN NOK 1.000.000.

	Low-risk lending schemes		High-risk loans targeting the districts		Innovation and high-risk loans and other schemes		Service deliveries and grant administration		Seed Capital Funds		Investment funds in Northwest Russia and Eastern Europe.		Joint equity		Total	
	Accounts	31.12.16	Accounts	31.12.16	Accounts	31.12.16	Accounts	31.12.16	Accounts	31.12.16	Accounts	31.12.16	Accounts	31.12.16	Accounts	31.12.16
Assets																
Bank deposits	244	145	955	899	1 501	1 328	1 975	1 990	1 489	1 600	240	249	-	-	6 403	6 210
Gross lending	14 153	14 016	1 190	1 056	1 986	1 700	187	252	1 200	1 227	5	8	-	-	18 721	18 259
Write-downs for losses	-312	-399	-162	-145	-219	-203	-	-	-285	-270	-4	-5	-	-	-982	-1 021
Net lending	13 841	13 618	1 028	911	1 767	1 497	187	252	915	956	1	3	-	-	17 739	17 238
Shares and units	-	-	-	-	-	-	0	0	-	4	40	33	-	-	40	38
Ownership interests in associated companies	-	-	-	-	-	-	-	-	176	108	-	-	-	-	176	108
Ownership interests in group companies	-	-	-	-	-	-	0	0	-	-	-	-	-	-	0	0
Intellectual property rights	46	17	-	-	-	-	-	-	-	-	-	-	-	-	46	17
Tangible fixed assets	28	29	-	-	-	-	-	-	-	-	-	-	-	-	28	29
Other assets	-	85	118	124	-	-	114	54	308	187	62	3	-	-	622	474
Costs not yet incurred and earned income not yet received	83	-	10	9	14	12	61	75	-	-	-	-	-	-	168	96
Total assets	14 242	13 895	2 111	1 943	3 281	2 837	2 337	2 372	2 888	2 855	342	289	20	20	25 221	24 210
Liabilities and equity																
Borrowings from the State	12 445	12 200	1 307	1 188	1 938	1 632	-	-	-	-	-	-	-	-	15 690	15 020
Other liabilities	334	256	38	43	139	148	701	632	529	415	64	0	-	-	1 805	1 493
Provisions for liabilities	10	8	766	713	1 205	1 057	1 530	1 634	441	471	6	6	-	-	3 958	3 889
Loan and investment funds	-	-	-	-	-	-	-	106	1 917	1 970	273	282	-	-	2 190	2 252
Equity	1 453	1 430	-	-	-	-	106	106	-	-	-	-	20	20	1 579	1 555
Total liabilities and equity	14 242	13 895	2 111	1 943	3 281	2 837	2 337	2 372	2 888	2 855	342	289	20	20	25 221	24 210

Explanation of difference between annual accounts and combined sub-accounts:

Balance sheet total - sub-accounts

25 221 24 210

Balance sheet total - annual accounts

24 941 24 043

Difference

280 167

Internal receivable presented under other assets and other liabilities that is entered as net amount in the annual accounts, but not in the sub-accounts.

-162 -43

Remainder after split of sub-accounts "high-risk loans and guarantees".

-41 -44

Reclassification between other assets and other liabilities in the sub-accounts.

-77 -80

Total

0 0



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NOTE 3**INTEREST ON LOANS**

(Amounts in NOK 1,000)

	2017	2016
Interest on ordinary low-risk loans	116 717	123 583
Interest on fishing vessel loans	182 919	171 160
Interest on agricultural loans	129 912	138 718
Interest support for and interest on innovation and high-risk loans	141 156	133 454
Interest support for and interest on loans from seed capital funds	23 360	28 044
Interest on other loans	305	431
Total	594 369	595 390

NOTE 4**INTEREST ON BORROWINGS**

(Amounts in NOK 1,000)

	2017	2016
Interest on borrowings for low-risk loans	86 721	112 799
Interest on borrowings for innovation and high-risk loans	13 801	16 251
Interest on seed capital funds	23 360	28 044
Other interest expenses	32	57
Total	123 915	157 152

NOTE 5**BORROWING COMMISSION**

(Amounts in NOK 1,000)

	2017	2016
Borrowing commission for low-risk loans	49 161	48 284
Borrowing commission for innovation and high-risk loans	11 777	11 163
Total borrowing commission to the Norwegian State	60 939	59 447
Commission on growth guarantees	85	-
Total borrowing commission	61 024	59 447

Innovation Norway pays a 0.4% commission to the State for all borrowings.

NOTE 6**DIVIDENDS AND NET GAINS/LOSSES ON SECURITIES**

(Amounts in NOK 1,000)

	2017	2016
Dividends received	74	100
Change in depreciated value of shares	7 213	-4 683
Profit on sales of shares	176	2 025
Loss on sales of shares	-13 137	-1 259
Total	-5 674	-3 818

NOTE 7

INCOME FROM PUBLIC SOURCES

(amounts in NOK 1,000)

Specification of recognised income from public sources:

Ministry, chapter and item in national budget	2017	2016	
Ministry of Trade, Industry and Fisheries			
Chapter 2421 Item 50	Innovation - projects, funds	48 070	44 401
Chapter 2421 Item 70	Business development and administration	173 934	148 150
Chapter 2421 Item 71	Innovative business clusters	21 169	14 178
Chapter 2421 Item 72	Research and development contracts	23 156	21 019
Chapter 2421 Item 74	Tourism, networking and skills programmes	455 323	482 742
Chapter 2421 Item 76	Environmental technology	47 153	46 285
Chapter 2421 Item 77	Grants to pre-seed capital funds	1 247	1 422
Chapter 2421 Item 80	Business initiatives in Svalbard	1 554	1 610
Chapter 2415 Item 75	Marine value creation programme	330	1 686
The Ministry of Local Government and Modernisation			
Chapter 550 Item 62	Business-oriented loans and grants to rural areas	52 362	5 000
Chapter 550 Item 70	Business-oriented programmes in the districts	7 928	-
Chapter 551 Item 60	Grants to county councils for regional development	22 575	71 426
Chapter 551 Item 61	Funds for regional development targeted at business and industry, compensation for increased employers' contributions	3 502	3 781
Chapter 552 Item 72	National initiatives for regional development	30 616	66 515
Chapter 553 Item 65	Restructuring programmes in the labour market	6 615	-
Chapter 553 Item 74	Innovation for clusters and innovation environments	1 280	-
Ministry of Agriculture and Food			
Chapter 1149 Item 72	Grants for increased use of wood	2 615	2 672
Chapter 1149 Item 74	Biorefinery programme	-	290
Chapter 1150 Item 50	For implementing agricultural agreement	86 888	86 444
Chapter 1151 Item 51	For implementing reindeer husbandry agreement	2 868	1 842
Ministry of Foreign Affairs			
Chapter 117 Item 76	EEA financing schemes	33 252	10 583
Chapter 118 Item 01	Operating costs for initiatives in Northern Areas	3 737	3 651
Chapter 118 Item 70	Barents 2020 / Russia Collaboration	1 110	-
Chapter 163 Item 70	Noreps	11	-
Chapter 169 Item 70	Vision 2030	1 210	425
Ministry of Education and Research			
Chapter 285 Item 53	Strategic initiatives	11 056	3 664
Ministry of Culture			
Chapter 325 Item 71		4 560	-
Ministry of Climate and Environment			
Chapter 1422 Item 70	Climate and environmentally friendly shipping	484	203
Other income from public sources		26 529	39 470
Total recognised income from public sources		1 071 134	1 057 463

Other income from public sources consists of income from county councils, the EU, and other public institutions.



NOTE 7

INCOME FROM PUBLIC SOURCES - CONTINUED

amounts in NOK 1,000)

Specification of available budgets and appropriations via letters of assignment:

Ministry, chapter and item in national budget	2017	2016
Ministry of Trade, Industry and Fisheries		
Chapter 2421 Item 50 Innovation - projects, funds	573 500	553 500
Chapter 2421 Item 51 Loss reserves - seed capital funds	46 400	44 625
Chapter 2421 Item 53 New seed capital funds, risk mitigation	-	22 500
Chapter 2421 Item 70 Business development and administration	166 489	168 970
Chapter 2421 Item 71 Innovative business clusters	116 500	116 500
Chapter 2421 Item 72 Research and development contracts	278 700	306 100
Chapter 2421 Item 74 Tourism, promotion and expertise	517 400	517 900
Chapter 2421 Item 76 Environmental technology	534 500	464 500
Chapter 2421 Item 77 Grants to pre-seed capital funds	50 000	100 000
Chapter 2421 Item 78 Administrative support for seed capital funds targeting the district	4 400	4 400
Chapter 2421 Item 80 Business initiatives in Svalbard	-	-
Chapter 0900 Item 21 Additional Assignment 2017 regarding strengthened focus on Gr	1 690	
The Ministry of Local Government and Modernisation		
Chapter 550 Item 62 Business-oriented borrowing and grant schemes	56 000	-
Chapter 550 Item 70 Business-oriented programmes in the districts	24 500	-
Chapter 551 Item 60 Grants to county councils for regional development	-	46 000
Chapter 552 Item 72 National initiatives for regional development	-	178 700
Chapter 553 Item 65 Restructuring programme in connection with critical changes in th	15 000	-
Chapter 553 Item 74 National initiative for clusters and innovation environments	107 800	-
Ministry of Agriculture and Food		
Chapter 1137 Item 70 To the programme for industrial biorefining	2 780	-
Chapter 1149 Item 72 Grants for increased use of wood	6 800	19 500
Chapter 1149 Item 74 Biorefinery programme	-	2 740
Chapter 1150 Item 50 For implementing agricultural agreement	766 500	613 500
Chapter 1151 Item 51 For implementing reindeer husbandry agreement	5 500	8 200
Ministry of Foreign Affairs		
Chapter 118 Item 01 Operating costs for initiatives in Northern Areas	4 400	4 400
Chapter 118 Item 70 Arctic 2030 (previously Barents 2020 / Russia Collaboration	25 600	25 600
Chapter 163 Item 70 Noreps	40 000	43 000
Chapter 169 Item 70/73 Vision 2030 (Assignment from Norad)	30 000	10 000
Chapter 169 Item 70 Enterprise Development for Jobs (Assignment from Norad)	6 000	-
Ministry of Education and Research		
Chapter 285 Item 53 Strategic initiatives	27 200	25 800
Ministry of Culture		
Chapter 314 Item 21 Special operating costs	-	500
Chapter 325 Item 71 Cultural and creative industries	29 900	-
Ministry of Climate and Environment		
Chapter 1400 Item 76 Support for biogas pilot projects	5 000	20 000
Chapter 1422 Item 70 Climate and environmentally friendly shipping	-	41 000
The County Councils		
Total	3 844 659	3 742 048

Innovation Norway also has assignments for, among others, the EU.

Available budgets and appropriations will be higher than recognised income from public sources in the table above because the available amount also includes what goes directly to customers and that is not recognised as income by Innovation Norway.



NOTE 8

EXTERNAL REVENUES

amounts in NOK 1,000)

	2017	2016
User fees - promotion of Norway as a travel destination	56 197	71 320
User fees - Joint Norwegian stands abroad	31 399	28 617
Revenues from partners	4 156	6 918
Other user fees	31 865	45 745
Total	123 618	152 600

Geographical distribution

	2017	2016
Norway	57 150	64 445
Europe	35 178	46 606
America	18 721	23 195
Asia	9 816	15 135
Africa	2 754	3 220
Total	123 618	152 600

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NOTE 9

PAYROLL EXPENSES

Amounts in NOK 1,000)

	2017	2016
Wages	499 876	473 992
Employer's contributions	60 025	61 720
Pension expenses	97 264	87 151
Other benefits	36 806	68 506
Total	693 972	691 369

Payroll expenses for 2016 include restructuring costs of NOK 17 million.

Loans to employees	1 469	1 698
Average number of full-time equivalents	685	689

Loans to employees are interest-free and without security. The CEO and Chairman do not have loans in the company.

The CEO has an agreement for compensation for loss of office. The payment is 6 months of fixed salary from the date employment was terminated.

Payments to senior employees:	Wages/fees	Other	Total
Management:			
Anita Krohn Traaseth, CEO	2 732	12	2 744
Rodin Lie	1 390	226	1 616
Yvonne Fosser	1 542	12	1 554
Hans Martin Vikdal	1 510	12	1 522
Cathrine Pia Lund	1 502	12	1 515
Per Eckehard Niederbach	1 473	12	1 485
Bjørn Olav Olsen	1 427	12	1 439
Inger Solberg	1 355	19	1 375
Pål Thorvik Næss	1 309	17	1 326
Mona Skaret	1 159	25	1 183
Silje Aspholm Hole (until 31 July) ¹	900	8	908
Pål Aslak Hungnes (from 24 June - 30 November) ¹	419	6	425
Kristin Welle-Strand (from 1 July) ²	706	7	714
Frank Langva (until 31 July) ²	554	22	577
Total	17 977	404	18 382

¹ Hungnes replaced Hole for a period after Hole left her position.

² Langva deputised during Welle-Strand's period of leave.

Senior employees are covered by the same pension schemes as other employees in the company.

Board of Directors			
Per Otto Dyb, Chairman of the Board	300	-	300
Jørund Ødegård Lunde, Deputy Chairman	180	24	204
Jan Løkkling	149	23	172
Kristin Misund	149	15	164
Arvid Andenæs	149	12	161
Helene Falch Fladmark	149	9	158
Heidi Wang	149	3	153
Wenche Kjølås	149	1	150
Kim Daniel Victor Arthur	149	-	149
Gaute Hagerup, Employee Representative	96	-	96
Leela Borrying Låstad, Employee Representative	96	-	96
Total directors' remuneration paid in 2017	1 716	87	1 804

Declaration regarding stipulation of pay and other remuneration to senior employees.

The declaration concerning remuneration to the CEO and the management group is in accordance with:

- The provisions in the Norwegian Public Limited Liability Companies Act, cf. Section 6-16a.
- Norwegian Accounting Act.
- Guidelines for pay and other remuneration to senior executives in enterprises and companies with State ownership (stipulated by the Ministry of Trade, Industry and Fisheries with effect from 13 February 2015).
- Norwegian recommendation for corporate governance, cf. Chapter 12.



NOTE 9

PAYROLL EXPENSES - CONTINUED

Key principles

Guidelines for pay and other remuneration

Innovation Norway follows the key principle that executive pay in companies with full or partial state ownership must be competitive, but not wage-leading compared with equivalent companies. The principle applies for all employees and not specifically for the CEO and management group. This means that there are generally no separate incentive schemes that exclusively apply for senior employees.

"Guidelines for pay and other remuneration to senior executives in enterprises and companies with State ownership" stipulated by the Ministry of Trade, Industry and Fisheries with effect from 13 February 2015, outline the expectations in this field. The key principles from previous guidelines were continued, but there were cutbacks in the areas of pension commitments and severance pay and it was explicitly stated that the companies will strive for moderation when concerning executive salaries. Innovation Norway follows these guidelines and will practice moderation when concerning executive salaries.

Decision-making process

The salary of the CEO is determined by the board and communicated by the Chairman.

Salaries to the management group are jointly determined by the CEO and Chairman and communicated by the CEO.

Key principles for remuneration in the coming financial year

Innovation Norway comes under the collective wage agreement between the Employers' Association Spekter (Innovation Norway), the principal organisations (Norwegian Confederation of Trade Unions - LO and Confederation of Vocational Unions - YS) and local organisations (Association of Academic Organisations in Spekter - SAN, Confederation of Unions for Professionals, Norway - Unio, and Federation of Norwegian Professional Associations - Akademikerne). Employees in senior positions do not come under the agreement, however, in practice, the majority of points in the agreement are also followed for these employees. Innovation Norway has a pay system that is based on the following factors: the type of position an individual holds, the performance of the person holding that position, and the wage level in the market in general.

Total remuneration to the CEO and management group is reflected in the role and responsibilities of the position, as well as the work load, and the scope and complexity of the enterprise. The arrangements are transparent and in accordance with principles for good corporate governance.

1. Fixed salaries

Innovation Norway follows the basic principle from the guidelines that the principal element in the remuneration arrangement should be the fixed basic salary. The basic salary is assessed on an annual basis and adjusted with effect from 1 April.

2. Bonus

Innovation Norway has no bonus programme for its executives.

3. Shares, options or other forms of remuneration that are linked to shares.

Innovation Norway is an enterprise established by special legislation and has no stock or options programmes for its executives.

4. Pension benefits

Senior employees are covered by the same pension schemes as all other employees in the company. Pension schemes at Innovation Norway are the Norwegian Public Service Pension Fund or the closed scheme at DnB Livsforsikring for employees who came from the former Norwegian Export Council. Pensionable income is limited to 12 G (G - National Insurance base amount).

5. Severance pay and termination payment arrangements

The CEO has a termination payment agreement that grants the right to compensation equivalent to six months of fixed salary. There is no contractual severance pay or termination payment arrangements in addition to this for other senior positions at Innovation Norway.

6. Variable elements in the remuneration or special benefits

Other remuneration in addition to ordinary monthly salary include fixed car allowance, insurance and coverage of electronic communications services.

The scheme for one-time payments was discontinued from and including 2017. This scheme previously enabled payments to be made to employees who made an extraordinary effort beyond what was expected of the position. This was an arrangement that applied for all employees at Innovation Norway and was part of the negotiated pay settlement.

Remuneration principles

The principles for the preceding financial year were also used in 2017.

Reporting

The board is presented with an annual overview of the total pay and other remuneration to senior employees in accordance with the guidelines.



NOTE 10**INTELLECTUAL PROPERTY RIGHTS**

(Amounts in NOK 1,000)

	Application development
Acquisition cost as of 1.1	21 383
Additions	41 811
Disposals	-
Acquisition cost as of 31.12	63 194
Accumulated depreciation as of 1.1	4 062
Depreciation for the year	13 283
Accumulated depreciation for disposals	-
Accumulated depreciation as of 31.12	17 345
Book value as of 31.12	45 849

Depreciation rate 33%

Intellectual property rights relate to application development, i.e. expenses for system design, programming, installation and testing of systems.

NOTE 11**TANGIBLE FIXED ASSETS**

(Amounts in NOK 1,000)

	Equipment and fixtures	Buildings and real estate	Total
Acquisition cost as of 1.1	4 557	64 071	68 629
Additions	964	771	1 734
Disposals	-	-	-
Acquisition cost as of 31.12	5 521	64 842	70 363
Accumulated depreciation as of 1.1	1 493	37 889	39 381
Depreciation for the year	704	2 003	2 707
Accumulated depreciation for disposals	-	-	-
Accumulated depreciation as of 31.12	2 197	39 892	42 089
Book value as of 31.12	3 324	24 950	28 275

Rates of depreciation 17-25% 2-20%



NOTE 12**DIRECT PROJECT COSTS**

Amounts in NOK 1,00

	2017	2016
Profiling and marketing costs	229 814	239 351
External services	127 565	135 799
Office and communication expenses	50 572	63 154
Travel expenses	47 485	46 185
Total	455 436	484 489

NOTE 13**OTHER OPERATING EXPENSES**

Amounts in NOK 1,00

	2017	2016
Costs for premises	83 047	80 997
Rental of IT systems and software	54 021	33 730
External services	41 364	48 166
Miscellaneous operating expenses	30 510	31 965
Total	208 941	194 858

Auditor's fee (excluding VAT):	2017	2016
Statutory audit	550	719
Other certification services	87	36
Services other than audit	177	75
Total	815	830

NOTE 14**EXPENSED LEASE AGREEMENTS**

Amounts in NOK 1,000

	2017	2016
Rental of premises	73 523	72 378
Rental of IT systems and software	54 021	33 730
Total	127 545	106 108

Innovation Norway has entered into lease agreements in Norway and abroad. The agreements are for the rental of office premises and the rental of housing.

The lease agreements for office premises have a duration of 5 to 10 years with an option to extend for 3 to 5 years. The lease agreements for housing have a duration of 2 to 3 years, with an option to extend for 1 to 2 years, relating to the employment agreements of the employees stationed aboard.

Innovation Norway has entered into lease agreements for basic IT operating tasks. The principal agreement expires in mid-January 2019. There are ongoing processes for modernising and transforming the IT portfolio for public cloud solutions.



NOTE 15

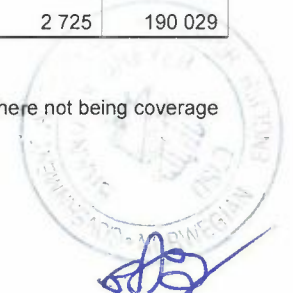
LOSSES ON LOANS AND GUARANTEES

(Amounts in NOK 1,000)

All losses on innovation and high-risk loans, seed capital funds, Rural Development Fund (BU) loans (with the exception of outlays) and guarantees are covered by loss reserves and have no effect on earnings. Innovation Norway therefore bears no risk associated with these loans. There is no coverage of losses for the low-risk loan schemes and investment funds. For more detailed information about the loss reserves, see Note 33.

	Low-risk lending schemes	Innovation and high-risk loans	Seed capital funds, investment funds and rural	Total loans	Guarantees	Total loans and guarantees
Write-downs						
Individual write-downs on loans as of 1.1, including the principal amount, interest owing and outlays.	171 751	347 241	275 135	794 126	4 245	798 371
Increased and new, individual write-downs on the principal amount	54 080	145 213	27 820	227 113	3 268	230 382
Change in individual write-downs on interest owing and outlays	-5 551	-996	82 879	76 331	-	76 331
Reversed individual write-downs on principal amount	-62 009	-62 897	-	-124 906	-532	-125 438
Realised loss on principal amount with individual write-downs	-33 546	-47 760	-96 264	-177 570	-2 725	-180 295
Total individual write-downs on loans as of 31.12, including the principal amount, interest owing and outlays.	124 726	380 801	289 569	795 096	4 256	799 351
Collective write-downs as of 1.1	227 000	-	-	227 000	-	227 000
Change in collective write-downs	-40 000	-	-	-40 000	-	-40 000
Total collective write-downs as of 31.12	187 000	-	-	187 000	-	187 000
Book loss						
Increased and new, individual write-downs on the principal amount	54 080	145 213	27 820	227 113	3 268	230 382
Reversed individual write-downs on principal amount	-62 009	-62 897	-	-124 906	-532	-125 438
Realised loss on principal amount with individual write-downs	-33 546	-47 760	-96 264	-177 570	-2 725	-180 295
Total changes in individual write-downs on principal amount	-41 474	34 557	-68 444	-75 362	11	-75 351
Changes in individual write-downs on outlays	-614	180	-	-434	-	-434
Change in collective write-downs	-40 000	-	-	-40 000	-	-40 000
Recognised loss on principal amount and outlays, including paid in for previous write-downs	33 197	56 204	100 174	189 576	2 725	192 301
guarantees	-48 891	90 941	31 730	73 780	2 736	76 516
Coverage of losses from loss reserves, ref. note 16	-	-90 941	-32 479	-123 420	-2 736	-126 156
Net losses on loans *	-48 891	-	-749	-49 640	-	-49 640
Recognised loss on principal amount						
Recognised loss on principal amount without individual write-downs	90	8 616	1 028	9 734	-	9 734
Realised loss on principal amount with individual write-downs	33 546	47 760	96 264	177 570	2 725	180 295
Total recognised loss on principal amount	33 636	56 375	97 293	187 304	2 725	190 029

*Net losses on loans linked to seed capital funds, investment funds and Rural Development Fund (BU) loans are due to there not being coverage of losses for investment funds and outlays for BU loans.



NOTE 16**COVERAGE OF LOSSES**

(Amounts in NOK 1,000)

	2017	2016
Nationwide innovation loans	-63 698	-28 382
High-risk loans targeting the districts	-26 932	-14 208
Rural development high-risk loans for agriculture	-311	787
Total innovation and high-risk loans	-90 941	-41 803
Loans from Seed Capital Funds	-31 451	10 743
Investment loans for agriculture (BU-loans)	-1 028	-1 497
Total loans from Seed Capital Funds and Investment Loans for Agriculture	-32 479	9 246
Nationwide guarantees	-125	1 100
Nationwide guarantees European Investment Fund	-768	-
Guarantees targeting the districts	-1 843	835
Total guarantees	-2 736	1 935
Total coverage of losses on loans and guarantees	-126 156	-30 623

Coverage of losses is the sum total of losses on loan, guarantee and share schemes that have loss reserves. Ref. Note 15.

NOTE 17**LOCKED-IN BANK DEPOSITS**

(Amounts in NOK 1,000)

	2017	2016
For investment in subordinated capital	1 169 252	1 233 879
For disbursement of grants	1 234 124	1 332 057
For coverage of loss on loans and guarantees	2 908 243	2 732 023
Total locked-in deposits at Norges Bank	5 311 619	5 297 959
<u>Ordinary bank deposits which are locked-in:</u>		
Tax withholding funds	27 796	27 589

Locked-in deposits at Norges Bank are earmarked funds for the various grant schemes.

NOTE 18**LOW-RISK LOANS AND INNOVATION AND HIGH-RISK LOANS**

(Amounts in NOK 1,000)

Low-risk loans	2017	2016
Ordinary low-risk loans	3 704 355	3 805 573
Loans for agriculture	4 589 242	4 649 184
Loans for fishing vessels	5 858 990	5 561 724
Total	14 152 587	14 016 480
Innovation and high-risk loans	2017	2016
Nationwide innovation loans	1 851 800	1 565 815
High-risk loans targeting the districts	1 190 112	1 055 742
High-risk loans for agriculture	133 840	133 944
Total	3 175 752	2 755 501

In 2016, loans to the Norwegian State Environment Fund constituted a separate scheme and was presented on a separate line. This scheme has now ended and the remaining loans were transferred to Nationwide innovation loans.

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NOTE 19

OTHER LOANS

(Amounts in NOK 1,000)

	2017	2016
Subordinated loans from the seed capital funds	1 199 948	1 226 579
Rural development loans for agriculture	185 971	250 438
Subordinated loans to investment fund for Northwest Russia	4 942	5 016
Subordinated loans to investment fund for Eastern Europe	-	3 096
Loans to employees	1 469	1 698
Total	1 392 331	1 486 828

Rural development loans for agriculture are administered on behalf of the Agricultural Development Fund.

Loans from the seed capital funds to the individual seed capital companies are given as subordinated loans and run without instalments with full repayment after 15 years. Interest is not paid on an ongoing basis, but is accumulated and added to the principal amount each year as of 31.12. The seed capital monies are used by the seed capital companies for equity investments in start-up companies.

NOTE 20

LIQUIDITY RISK

(Amounts in NOK 1,000)

The liquidity risk is the risk associated with Innovation Norway's ability to finance an increase in loans and ability to settle its obligations when these fall due. The size of borrowings and loans is managed through letters of assignment from the Ministry of Trade, Industry and Fisheries. The liquidity risk is therefore minimal. The Norwegian Ministry of Trade, Industry and Fisheries is the only lender and provides loans in accordance with the company's needs. Borrowings are adapted to lendings and secure the liquidity required to operate the schemes.

Liquidity maturity as of 31.12.2017.	Undefined	Up to 1 month	From 1 to 3 months	From 3 to 12 months	More than 1 year	More than 5 years	Total
Ordinary bank deposits	1 091 365	-	-	-	-	-	1 091 365
Locked-in deposits in Norges Bank	5 311 619	-	-	-	-	-	5 311 619
Low-risk loans	9 280	710	2 110	24 955	546 526	13 569 006	14 152 587
Innovation and high-risk loans	33 306	1 109	2 137	30 598	1 040 852	2 067 750	3 175 752
Other loans	191	155	288	153 925	916 398	321 373	1 392 331
Total assets	6 445 762	1 974	4 535	209 478	2 503 776	15 958 129	25 123 655
Borrowings from the Norwegian state, low-risk	-	3 000 000	6 360 000	2 160 000	770 000	155 000	12 445 000
Borrowings from the Norwegian state, innovativ	-	1 000 000	1 940 000	305 000	-	-	3 245 000
Total liabilities	-	4 000 000	8 300 000	2 465 000	770 000	155 000	15 690 000

NOTE 21

INTEREST RATE RISK

(Amounts in NOK 1,000)

The interest rate risk is the risk of loss that arises from changes in the interest rate. For long-term loans (fixed interest) the maturity structure of the borrowings is adjusted to the fixed interest periods and the conditions for the loans. This is done as part of the work with managing the interest rate risk in the portfolio.

The majority of borrowings are short-term loans (variable interest) with terms of three months or less. These finance lending to customers with loans that have variable conditions, i.e. loans with interest rates that can be changed with six months' notice. The interest rate risk for these loans is limited to the notice period and is considered as having a moderate effect on earnings. Interest on borrowings reflects the interest rate profile of the loan portfolio.



NOTE 22

CREDIT RISK

(Amounts in NOK 1 000)

Innovation Norway's loan portfolio consists of various types of loans with different risk profiles. In the table below, the different types of loans within low-risk loans, innovation and high-risk loans and guarantees are classified into three groups with high, normal and low risk. The figures exclude subordinated loans to the Seed Capital Funds, Investment Fund for Northwest Russia and Investment Fund for Eastern Europe and Investment loans for agriculture (BU-loans).

Risk groups	Gross loans principal amount	Individual write-downs principal amount	Individual write-downs of gross loan	Loans without individual write-downs	Group write-downs
High risk*					
High-risk loans	3 167 794	372 691	11,8 %	2 711 242	-
Risk guarantees	65 982	4 256	6,4 %	58 331	-
Total high risk	3 233 776	376 947	11,7 %	2 769 573	-
Normal risk**					
Loans for industry and service provision	3 701 380	117 773	3,2 %	3 439 312	112 000
Loans for fishing fleet	5 857 579	-		5 857 579	60 000
Total normal risk	9 558 959	117 773	1,2 %	9 296 891	172 000
Low risk***					
Loans for agriculture	4 584 883	5 509	0,1 %	4 572 983	15 000
Total low risk	4 584 883	5 509	0,1 %	4 572 983	15 000
Grand total	17 377 618	500 229	2,9 %	16 639 447	187 000

* **The high-risk group** includes innovation and high-risk loans and guarantees. For these loans and guarantee schemes, allocations are made to the loss reserve to cover future losses. See Note 33 concerning loss reserves. Smaller loans can be given without collateral security, while larger loans have collateral security that can have underabsorption of between 25% and 75% on the date granted.

****The normal risk group** includes low-risk loans for fishing vessels and for industry and service provision. Low risk loans for fishing vessels are secured with collateral in the vessels and presently have good coverage in the collateral and quota values. Low-risk loans for industry and service provision shall be secured with collateral and must normally be covered by a guarantee, but can have underabsorption of up to 25% on the date the loan is granted.

*****The low-risk group** includes low-risk loans for agriculture. When approved, the loans are secured within 90% of the agricultural rate and the borrower normally has personal debtor liability.

Defaulted loans within the low and normal risk groups, as well as the high-risk group in accordance with the division above.

Gross default > 90 days	Low-risk loans (risk group - low and normal)		Innovation and high-risk loans and guarantees (risk group - high)	
	NOK million	of gross portfolio	NOK million	of gross portfolio
31.12.2013	318	2,4 %	195	6,5 %
31.12.2014	307	2,2 %	194	6,4 %
31.12.2015	221	1,6 %	143	5,3 %
31.12.2016	312	2,2 %	219	7,8 %
31.12.2017	144	1,0 %	137	4,3 %

NOTE 23

SHARES AND UNITS

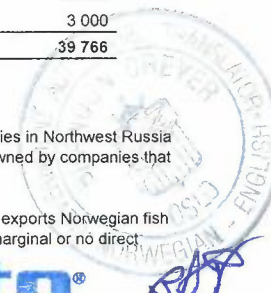
(Amounts in NOK 1 000)

Name of company	% ownership stake	Acquisition price	Write-down/change in value	Book value
Scandinavian Tourist Board Aps	50	274	-274	-
The Investment Fund for Eastern Europe	1-34	56 640	-19 875	36 766
The Investment Fund for Northwest Russia	23-35	3 920	-920	3 000
Balance as of 31 December		60 834	-21 069	39 766

None of the companies are listed on stock exchanges and therefore no known market values exist.

Innovation Norway has received appropriations from the Norwegian State to make investments in companies that have business activities in Northwest Russia and Eastern Europe. The lines "Investment Fund for Eastern Europe" and "Investment Fund for Northwest Russia" consist of shares owned by companies that have business activities in these areas.

None of the funds' investments have been directly affected by the Norwegian sanctions against sanctions. Kirkenes Trading AS, which exports Norwegian fish to the Russian market, has been affected by the Russian prohibition on the import of foodstuffs. The restrictive measures have had a marginal or no direct impact on other investments.



NOTE 24

OWNERSHIP INTERESTS IN ASSOCIATED COMPANIES

(Amounts in NOK 1,000)

Name of company	Acquired	Office	Ownership stake
Alliance Venture Spring AS	9.7.2014	Oslo	42%
ProVenture Seed II AS	9.7.2014	Trondheim	41%
Skagerak Maturo Seed AS	7.12.2016	Kristiansand	43%
Sarsia Seed Fond II AS	28.1.2017	Bergen	42%

Name of company	Committed capital	Share capital	Number of shares	Equity	Result
Alliance Venture Spring AS	509 700	23 531	235 314	118 835	-13 371
ProVenture Seed II AS	525 000	12 982	129 821	48 899	-25 949
Skagerak Maturo Seed AS	300 000	3 990	16 957	7 716	-1 272
Sarsia Seed Fond II AS	270 395	270 395	3 081	30 814	

accounts because the annual accounts for 2017 had not been submitted on the date Innovation Norway's annual accounts were prepared.

NOTE 25

OWNERSHIP INTERESTS IN SUBSIDIARIES

(Amounts in NOK 1,000)

Name of company	Acquired	Office	Ownership stake
VisitNorway AS	1.7.1999	Oslo	100%
Såkorinvest Midt-Norge AS	16.12.2014	Trondheim	80%

Name of company	Currency	Share capital	Number of shares	Equity	Result
VisitNorway AS ¹⁾	NOK	300	300	345	5
Såkorinvest Midt-Norge AS	NOK	60 489	604 887	-7 431	26 800

¹⁾ Equity and financial result for 2016.

NOTE 26

OTHER ASSETS

(Amounts in NOK 1,000)

	2017	2016
Accounts receivable	29 390	29 919
Receivables from the Norwegian State	299 868	160 770
Receivables from seed capital companies	8 120	26 186
Other receivables	4 165	4 871
Total	341 543	221 746

Receivables from the Norwegian State principally relate to reported loss on seed capital loans that exceed loss reserves and claims for interest support.

NOTE 27**OUTSTANDING ACCOUNTS WITH SUBSIDIARIES**VisitNorway AS:

As of 31 December 2017, the parent company had liabilities to the subsidiary of NOK 3,000. As of 31 December 2016, the parent company had liabilities to the subsidiary of NOK 63,016.

Såkorinvest Midt-Norge AS:

As of 31 December 2017, the parent company had receivables from the subsidiary of NOK 50,694,616, while the parent company had receivables from the subsidiary of NOK 68,574,461 as of 31 December 2016.

NOTE 28**COSTS NOT YET INCURRED AND EARNED INCOME NOT YET RECEIVED**

(Amount in NOK)

	2017	2016
Accrued, unmatured interest on loans	107 049	105 961
Accrued, non-invoiced operating revenue	24 088	48 406
Non-accrued operating expenses (paid in advance)	36 535	26 346
Total	167 673	180 713

NOTE 29**BORROWINGS FROM THE STATE**

(Amount in NOK)

	Maturity	Borrowings	Effective interest rate		Maturity	Borrowings	Effective interest rate
Low-risk loans	2018	11 520 000	0,5 %	Innovation and			
	2019	310 000	2,0 %	high-risk loans	2018	3 245 000	0,4 %
	2020	295 000	1,5 %				
	2021	165 000	0,9 %				
	2022	-	-				
	2023-2026	155 000	1,7 %				
Total		12 445 000	0,6 % *	Total		3 245 000	0,4 %

* Total effective interest rate represents the average interest rate. This is calculated as an average of the effective interest rate in relation to total borrowings as of 31 December 2017.



NOTE 30

OTHER LIABILITIES

(Amo

	2017	2016
Accounts payable	79 964	79 278
Undisbursed grants	183 522	166 366
Allocated dividends	286 616	201 498
Liabilities to the Norwegian State	299 216	228 727
Public duties owing	17 934	22 770
Miscellaneous liabilities	12 267	44 856
Total	879 519	743 495

NOTE 31

COSTS INCURRED AND UNEARNED INCOME RECEIVED

(Amo

	2017	2016
Accrued, unmatured interest on borrowings	299 396	285 480
Accrued fees on borrowings that have not fallen due	60 939	59 447
Accrued operating expenses	72 490	80 979
Operational and grant appropriations not recognised as income	215 437	174 626
Other non-accrued income received	10 679	17 056
Total	658 940	617 588



NOTE 32

PENSION COMMITMENTS

(Amounts in NOK 1,000)

Innovation Norway is obligated to have an occupational pension scheme in accordance with the Act relating to compulsory occupational pensions.

The pension schemes are all defined-benefit plans and include 564 active members and 499 pensioners. The commitments are covered through insurance companies, principally the Norwegian Public Service Pension Fund, and Gabler Pensjonstjenester AS. The pension schemes satisfy the requirements in this Act.

There are presently three different pension schemes at Innovation Norway. The schemes cannot be transferred between one another and are therefore not entered as a net amount. Employees at Innovation Norway are also affiliated with AFP schemes.

	2017	2016
<u>Economic assumptions:</u>		
Discount rate	2,40%	2,60%
Expected return on pension assets	4,10%	3,60%
Expected wage growth	2,50%	2,50%
Expected adjustment of pensions being paid, public scheme	1,50%	1,50%
Expected adjustment of pensions being paid, private scheme	2,25%	2,25%
Expected adjustment of National Insurance base amount (G)	2,25%	2,25%
<u>Demographic assumptions</u>		
Mortality table used	K2013	K2013
Disability rate used	200% x K63	200% x K63
Voluntary withdrawal	5% / 0%	5% / 0%
Likelihood of drawing on AFP	5% / 15%	5% / 15%

The pension costs for the year are as follows:

Present value of current year's pension benefits earned	67 206	62 065
Interest cost of pension commitments	38 103	37 139
Return on pension assets	-38 352	-34 574
Administration costs	3 190	3 040
Employers' contributions on pension costs	9 891	9 542
Recognised actuarial losses	21 573	18 215
Total net pension costs	101 612	95 427

Pension commitments and pension assets are as follows:

	Assets < Commitments	Assets < Commitments
Accrued pension commitments	1 590 218	1 485 339
Value of pension assets	-1 082 894	-1 067 084
Accrued employers' contributions	71 533	58 974
Unrecognised effect of actuarial gains/losses	-417 989	-370 942
Net capitalised pension commitments	160 868	106 287



The unrecognised effect of actuarial gains/losses is accrued over 11 years or the remaining earnings period in the relevant scheme

Actuarial assumptions

The assumptions from NRS 6 Pension Costs as of 31 December 2017 are used as actuarial assumptions for demographic factors and withdrawal.

Economic assumptions

The pension assumptions are updated based on the market situation as of 31 December 2017 and the applicable recommendation from the Norwegian Accounting Standards Board (NRS).

The pension scheme's assets at Gabler Pensjonstjenester AS have been invested in a portfolio with a moderate investment profile and with a low equity portion. Some is invested in property, however the majority is invested in bonds with a high credit rating. For the pension scheme with the Norwegian Public Service Pension Fund, a fictitious fund has been established for the calculation of returns since the scheme is directly financed in the national budget.

Contractual early retirement scheme (AFP)

Employees at Innovation Norway have two different AFP schemes depending on whether they are associated with the pension scheme for the Norwegian Public Service Pension Fund or whether they are associated with the AFP scheme in the private sector.

The employees at Innovation Norway who have their pension scheme with the Norwegian Public Service Pension Fund, the AFP scheme is continued, cf. Act relating to contractual early retirement pension for members of the Norwegian Public Service Pension Fund. The obligation relating to this scheme is calculated and is included in the pension commitment.

The closed scheme at Gabler Pensjonstjenester AS is managed for accounting purposes as a defined-contribution pension scheme for which premium payments are recognised as costs on an ongoing basis and no provisions are made in the accounts. This is because there is no reliable means of measuring and allocating the commitments and funds in the scheme.



NOTE 33

LOSS RESERVES

(Amounts in NOK 1,000)

	2017			2016		
	Remaining loss reserves	Net loans, guarantees and shares	Commitments, loans and guarantees	Remaining loss reserves	Net loans, guarantees and shares	Commitments, loans and guarantees
Loan, guarantee and share schemes						
Nationwide innovation loans and guarantees	1 071 276	1 603 122	606 336	992 200	1 409 443	570 120
Nationwide innovation loans and guarantees European Investment Fund	60 323	87 318	185 195	-	-	-
High-risk loans and guarantees targeting the districts	725 765	1 018 974	409 598	699 807	921 359	407 034
High-risk loans targeting the districts European Investment Fund	22 913	22 800	138 200	-	-	-
High-risk loans for agriculture	48 422	124 617	20 742	43 516	124 480	22 449
Loans to seed capital funds	67 582	702 243	-	64 812	704 294	-
Shares in seed capital funds	238 050	175 950	-	282 675	107 950	-
Shares in seed capital co-investment funds	46 400	-	-	-	-	-
Risk mitigation fund for seed capital shares	88 950	-	-	123 450	-	-
Total	2 369 682	3 735 024	1 360 071	2 206 460	3 267 526	999 603

Description of loss reserves for high-risk loans and guarantees

Loss reserves have been established for innovation loans, high-risk loans and guarantees. The purpose of loss reserves is to make it possible for 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. This entails that Innovation Norway can provide loans and guarantees with better terms than the risks associated with the projects would otherwise warrant.

For commitments associated with innovation loans, high-risk loans and guarantees, allocations are made to the loss reserve to cover future losses. Confirmed losses are charged to loss reserves, including lost interest and expenses, and changes in provisions for losses. The remaining loss reserves will cover losses from net loans and approved, but not yet disbursed, commitments. Net loans/net guarantees are gross loans/guarantees reduced by provisions for losses. The funds in the loss reserve will be placed in earmarked accounts at Norges Bank and do not earn interest for Innovation Norway.

For all innovation loans, high-risk loans and guarantees, Innovation Norway must ensure that there is an adequate ratio between the size of the loss reserve and the assessed risk in the portfolio. For nationwide innovation loans, high-risk loans targeted at the districts, and guarantees, Innovation Norway is responsible for replenishing the loss reserve if the calculated portfolio risk has a negative deviation of more than 10 percent of the loss reserve. As a basis for the assessment, the potential loss (calculated risk) is compared with the remaining loss reserve in the part of the portfolio where individual write-downs and commitments are not made.

In January 2017, Innovation Norway entered into an agreement with the European Investment Fund (EIF) under the InnovFin SME Guarantee in the EU's framework programme for research and innovation - Horizon 2020, which strengthens Innovation Norway's lending capacity and also involves risk sharing with EIF. The loans that come under the partnership must be a minimum of NOK 4 million and a maximum of NOK 50 million, have a maximum repayment period of 10 years and also satisfy defined criteria for growth and innovation. The agreement applies for two years for a loan portfolio of up to NOK 900 million. 50% of the losses on these loans are covered by loss reserves, while EIF covers the other 50%.

Innovation Norway also entered into an agreement with EIF under the same framework programme in which Innovation Norway guarantees for loans granted by Norwegian banks. The scheme, known as the Growth Guarantee, has the objective of strengthening the ability of innovative or rapidly-growing small and medium-sized companies to access bank financing. The guarantee is an additional form of security in situations in which the borrower is considered creditworthy, but has inadequate security for receiving bank financing. Innovation Norway's guarantee is 75% in certain cases, but has a limit for coverage of losses at portfolio level of 20%. During a pilot period of two years, Innovation Norway has entered into collaborative agreements with three Norwegian banks within a lending framework totalling NOK 300 million. The agreement for risk mitigation with EIF entails that EIF is obligated to cover 50% of Innovation Norway's losses under the Growth Guarantee Scheme. As of 31 December 2017, the calculated portfolio risk is assessed as being 33% for all nationwide innovation loans and guarantees, while the remaining loss reserves amount to 46%. The calculated risk for all high-risk loans and guarantees targeted at the districts is 27%, while the loss reserve amounts to 48%. The calculated risk for high-risk loans for agriculture is 17%, while the loss reserve amounts to 33%. The loss reserves are therefore considered to be at a satisfactory level when viewed in relation to the risk calculated for the portfolio and there are grounds for providing loans in 2018 with lower provisions to loss reserves in relation to the calculated risk for new commitments.

Description of the loss reserves for loans to the seed capital funds.

A loss reserve has been assigned for each of the seed capital funds. The loss reserve is charged 50% of the loss on individual investments made by the seed capital companies until 25% of the loan capital is lost. Only the principal amount without the addition of interest can be charged to the loss reserve. Interest recognised as a loss is covered by a special appropriation from the Ministry of Trade, Industry and Fisheries. The seed capital funds are a state scheme whereby the interests of the Norwegian State are managed by Innovation Norway. It is therefore an underlying requirement that losses that exceed the loss reserves must not be charged to Innovation Norway's earnings and equity, but be covered by the Norwegian State.

Description of loss reserves for shares

Innovation Norway receives an appropriation from the Norwegian State that shall cover any loss due to the dissolution of the fund. This constitutes 35% when the basis for calculation is the equity from Innovation Norway deducted by the risk mitigation for the private investors. Loss reserves for shares are linked to the seed capital funds

Description of risk mitigation fund for seed capital shares

Innovation Norway contributes up to 50% of the equity to new seed capital funds approved by the Storting. Of this, risk mitigation for the private investors constitutes 15% of the capital from Innovation Norway. This is expressed by Innovation Norway subscribing to a premium share, and therefore receiving a smaller ownership stake than the private investors in the fund. All else being equal, Innovation Norway then subscribes for 42.5% of the capital and the private investors subscribe for 57.5%. The private investors can increase the limit of committed capital in the fund if this is desirable. The risk mitigation and loss reserve are not changed as a result of such an increase.

NOTE 34

INTEREST SUPPORT FUNDS

(Amounts in NOK 1,000)

	2017	2016
Opening balance as of 1.1	23 943	31 549
Allocated interest support contributed to fund	15 000	-
Interest support recognised as income charged to fund	-10 534	-7 605
Closing balance as of 31.12	28 409	23 943

Innovation and high-risk loans can be interest-free for a defined period. An interest support fund has been established to cover the lost income from interest-free loans.

NOTE 35

GRANT FUNDS

(Amounts in NOK 1,000)

	Appropriation	2017	2016
Ministry of Trade, Industry and Fisheries	Chapter 2421.50	260 962	262 666
Ministry of Trade, Industry and Fisheries	Chapter 0962.51	5 961	6 331
Ministry of Local Government and Modernisation	Chapter 0550.70	3 850	-
Ministry of Local Government and Modernisation	Chapter 0552.72	273 939	321 361
Ministry of Local Government and Modernisation	Chapter 0553.65	737	-
Ministry of Local Government and Modernisation	Chapter 0553.74	25 266	-
Ministry of Local Government and Modernisation / County Councils	Chapter 0550.62	60 664	-
Ministry of Local Government and Modernisation / County Councils	Chapter 0551. 60 / 61	545 443	667 559
Ministry of Agriculture and Food	Chapter 1150.50	203 795	255 687
Total		1 380 616	1 513 605

NOK 2.7 billion in grants was paid out in 2017.

NOTE 36

LOAN AND INVESTMENT FUNDS

(Amounts in NOK 1,000)

	Seed capital funds	Investment fund for North Western Russia	Investment fund for Eastern Europe	Total
Contributed capital 1.1	1 969 698	150 000	120 000	2 239 698
Allocated capital	182 479	-	-	182 479
Returned Capital	-234 887	-	-	-234 887
Contributed capital 31.12	1 917 289	150 000	120 000	2 187 289
Retained earnings 1.1	-	26 147	-13 919	12 229
Return for the year	-	-2 503	-7 041	-9 544
Retained earnings as of 31.12	-	23 644	-20 960	2 684
Total capital 31.12	1 917 289	173 644	99 040	2 189 974

Contributed capital from the Norwegian State consists of funds earmarked to provide loans and for investments in shares in companies that invest in Northwest Russia and Eastern Europe.

Returned capital includes repayments and losses on seed capital loans, as well as unused investment monies.

NOTE 37**EQUITY**

(Amounts in NOK 1,000)

The various schemes have different rules for equity and the allocation of profits. The ratio between the owners and distribution of dividends is regulated in the ownership agreement

High-risk loans and guarantees:

The entire profit/loss is transferred to the owners. Dividends to the counties are based on the county councils' share of the loan portfolio relating to high-risk loans targeted at the districts.

Investment funds:

Dividends must amount to 75% of the profit for the year, limited to the contributed capital multiplied by the interest rate for the State's capital in the management enterprises.

Low-risk lending scheme:

The profit from the scheme exceeding the equity capital requirement of 10.5% will be distributed as dividends. The equity capital requirement is considered to be the ratio between net low-risk loans as of 31 December and the equity in the scheme as of 31 December.

Service deliveries and grant administration:

No dividend is paid for the scheme.

	Joint	High-risk loans and guarantees and investment funds	Low-risk lending scheme	Service delivery and grant administration:	Total
Paid-up equity	19 600	-	619 788	26 257	665 645
Retained earnings	-	-	810 073	79 503	889 576
Total equity 1.1.	19 600	-	1 429 862	105 760	1 555 222
Share of the profit (loss) for the	-	31 081	269 420	-	300 501
Transfer/dividends to owners	-	-40 625	-245 991	-	-286 616
earnings in loan and investment funds	-	9 544	-	-	9 544
Transferred to retained earnings	-	-	-23 429	-	-23 429
Paid-up equity	19 600	-	619 788	26 257	665 645
Retained earnings	-	-	833 502	79 503	913 005
Total equity 31.12	19 600	-	1 453 290	105 760	1 578 651

NOTE 38**OWNERS**

(Amounts in NOK 1,000)

Owner	Share of contributed capital
The State, represented by the Ministry of Trade, Industry and Fisheries	51,0 %
Akershus County Council	2,58%
Aust-Agder County Council	2,58%
Buskerud County Council	2,58%
Finnmark County Council	2,58%
Hedmark County Council	2,58%
Hordaland County Council	2,58%
Møre og Romsdal County Council	2,58%
Nordland County Council	2,58%
Oppland County Council	2,58%
The Municipality of Oslo	2,58%
Rogaland County Council	2,58%
Sogn og Fjordane County Council	2,58%
Telemark County Council	2,58%
Trøndelag County Council	5,16%
Troms County Council	2,58%
Vest-Agder County Council	2,58%
Vestfold County Council	2,58%
Østfold County Council	2,58%
Total	100,0 %

There is an ownership agreement of 24 March 2010.



NOTE 39**CONTINGENT LIABILITIES**

(Amounts in NOK 1,000)

Guarantees

	2017	2016
High-risk guarantees targeting the districts	15 501	10 451
Nationwide high-risk guarantees	29 500	41 425
Nationwide guarantees European Investment Fund ¹	20 981	-

¹ The guarantee commitment is contractual in such a way that Innovation Norway shall cover the entire guarantee commitment in relation to the banks that have entered into an agreement associated with the scheme. Innovation Norway can then make a request to the European Investment Fund for coverage of half the guarantee amount.

The stated guarantee amount is the maximum commitment that can be payable.

Losses on guarantees are covered by loss reserves for each of the schemes, cf. Note 33.

Disputes

As of 31 December 2017, Innovation Norway was not involved in any disputes that would likely result in significant loss in excess of the provisions made in the accounts.



Innovation Norway

Income Statement

(Amounts in NOK 1,000)

	Notes	2017	2016
Interest on loans	3	594 369	595 390
Interest on bank deposits		7 042	7 596
Total interest income		601 411	602 987
Interest on borrowings	4	123 915	157 152
Borrowing commission	5	61 024	59 447
Total interest expenses		184 938	216 599
Net interest income		416 472	386 388
Dividends and net losses on securities	6	-5 674	-3 818
Income from public sources	7	1 071 134	1 057 463
External revenues	8	123 618	152 600
Miscellaneous operating income		19 649	6 758
Total operating income		1 214 401	1 216 821
Payroll expenses	9	693 972	691 369
Depreciation on tangible fixed assets and intellectual property rights	10, 11	15 990	6 802
Direct project costs	12	455 436	484 489
Other operating expenses	13, 14	208 941	194 858
Total operating expenses		1 374 339	1 377 518
Profit before losses		250 860	221 873
Losses on loans and guarantees	15	76 516	41 038
Coverage of losses	16	-126 156	-30 623
Total net losses on loans and guarantees	15	-49 640	10 415
Profit (loss) for the year		300 501	211 458
Dividend and transfers to owners	37	286 616	201 498
Transferred from retained earnings in loan and investment funds	36, 37	-9 544	-9 915
Transferred to retained earnings	37	23 429	19 875
Total transfers and allocations	37	300 501	211 458



Innovation Norway

Assets

(Amounts in NOK 1,000)

	Notes	2017	2016
Ordinary bank deposits	17	1 091 365	912 009
Locked-in deposits in Norges Bank	17	5 311 619	5 297 959
Total bank deposits		6 402 984	6 209 968
Low-risk loans	18	14 152 587	14 016 480
Innovation and high-risk loans	18, 27	3 175 752	2 755 501
Other loans	19	1 392 331	1 486 828
Total gross lending		18 720 670	18 258 808
- Write-downs on individual loans	15	-795 096	-794 126
- Write-downs on groups of loans	15	-187 000	-227 000
Total net lending		17 738 575	17 237 682
Shares and units	23	39 766	37 845
Ownership interests in associated companies	24	175 950	107 950
Ownership interests in group companies	25	300	300
Intellectual property rights	10	45 849	17 320
Tangible fixed assets	11	28 275	29 247
Other assets	26	341 543	221 746
Costs not yet incurred and earned income not yet received	28	167 673	180 713
Total assets		24 940 914	24 042 771

Innovation Norway

Liabilities and Equity

(Amounts in NOK 1,000)

	Notes	2017	2016
Borrowings from the Norwegian state, low-risk loans	29	12 445 000	12 200 000
Borrowings from the Norwegian state, innovation and high-risk	29	3 245 000	2 820 000
Total borrowings from the Norwegian State		15 690 000	15 020 000
Other liabilities	30	879 519	743 495
Costs incurred and unearned income received	31	658 940	617 588
Pension commitments	32	160 868	106 287
Write-downs on guarantees	15	4 256	4 245
Loss reserves	33	2 369 682	2 206 460
Interest support funds	34	28 409	23 943
Grant funds	35	1 380 616	1 513 605
Total provisions for liabilities and charges		3 943 831	3 854 540
Capital contributions to loan and investment funds	36	2 187 289	2 239 698
Retained earnings in loan and investment funds	36	2 684	12 229
Total capital in loan and investment funds	36	2 189 974	2 251 927
Paid-up equity	37	665 645	665 645
Retained earnings	37	913 005	889 576
Total equity	37	1 578 651	1 555 222
Total liabilities and equity		24 940 914	24 042 771

Oslo, 31 December 2017

1 March 2018

The Board of Directors of Innovation

Per Otto Dyb
(Chairman)

Jørand Ødegård Lunde
(Deputy Chair)

Arvid Andenæs

Heidi Wang

Helene Falch Fladmark

Jan Løkling

Kim Daniel Victor Arthur

Kristin Misund

Wenche Kjølås

Gaute Hagerup
(Employee representative)

Leela Borring Låstad
(Employee representative)

amesto[®]
Amesto Translations AS
Smeltinggaten 1, 0195 Oslo
Org.nr. NO 956 153 557 MVA

Anita Krohn Traaseth
(CEO)



[Handwritten signature]

Innovation Norway
Cash flow statement
(Amounts in NOK 1,000)

	2017	2016
Profit (loss) for the year	300 501	211 458
Ordinary depreciation	15 990	6 802
Change in provisions for losses on loans	-39 031	-101 191
Change in write-downs on equity investments	-11 545	6 673
Profit on sales of shares	-	-2 025
Loss on sales of shares	16 756	1 235
Difference expensed/paid pensions	54 581	26 012
Change in other accruals	290 282	288 914
Amounts received on loans	2 346 845	2 610 776
Amounts paid on loans	-3 005 442	-3 016 110
Amounts received from principals for grant activities	2 530 521	2 619 258
Grants disbursed	-2 735 026	-2 864 737
Amounts received from the Norwegian State to risk mitigation fund	46 400	68 860
Disbursed to investors for seed capital investments	-34 500	-8 550
Repaid to the Norwegian State from loss reserves	-82 229	-49 835
A - Net cash flow from operations	-305 897	-202 462
B-Refunded/contributed investment funds to/from owner	-52 409	177 998
Payments received on amounts borrowed	45 635 000	45 365 000
Payments made for amounts borrowed	-44 965 000	-45 170 000
C - Net cash flow from financing activities	670 000	195 000
Purchase of shares	-81 342	-49 996
Sale of shares	6 210	3 423
D - Net cash flow from securities	-75 132	-46 573
Amounts paid for the purchase of tangible fixed assets	-43 546	-25 971
E - Net cash flow from investment activities	-43 546	-25 971
A+B+C+D+E = net change in liquidity	193 016	97 993
Liquidity as of 01.01	6 209 968	6 111 975
Liquidity as of 31.12	6 402 984	6 209 968



To the enterprise meeting in Innovation Norway

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements for Innovation Norway, which show a profit of NOK 300,500,590. The financial statements comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with the law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with the provisions of the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including the International Standards on Auditing (ISAs). Our responsibilities under those standards are described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the audit of the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway. The management is also responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

True translation certified – Government Authorized Translator

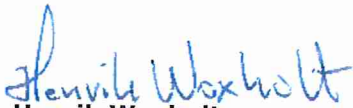


Dana Fossum

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 1 March 2018
Deloitte AS



Henrik Woxholt
State Authorised Public Accountant



Dana Fossum