



Annual Report 2016

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INTELLIGENCE FIRST

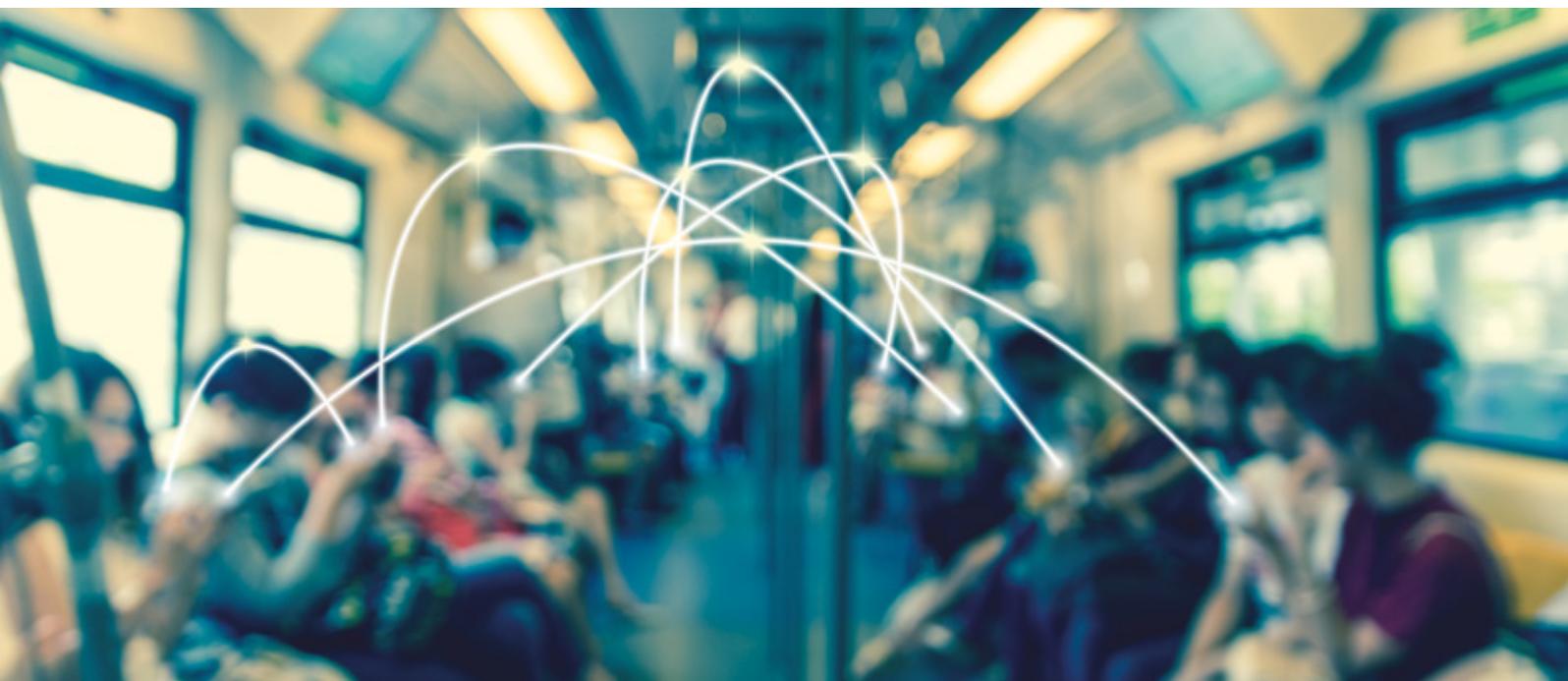
Machine learning has frequently made news headlines over the last year and found its way to the top of managers' and politicians' agendas. The extent of contexts in which artificial intelligence is now being discussed, not only reflects the impact this tool is beginning to have, but also the many moral and ethical issues that accompany it.

It is already clear that our new-found ability to utilize vast volumes of data will impact all areas of society. The tremendous computing power now at hand, will transform how we think and how we do things. Structured and unstructured data are being converted into information providing us with new insights

and new ways of solving problems that we could only imagine just a few years ago. For many companies, data has become their most valuable asset.

DISRUPTION CHANGES EVERYTHING

For many industries, however, new opportunities mean highly disruptive changes to their existing business models. Many companies' legacy IT-systems, which have been their basic business drivers for decades, have now become their greatest liability. IT solutions commonly used today, mirror and cement existing processes - making them inflexible "residuals" that prevent change.





For decades, students have been taught the following sequence of planning (Professor Chandler 1962 "Strategy and Structure"): Vision – Mission – Goals – Strategy – Structures (i.e. organizations) – Procedures – Systems. Consequently, IT- systems of the past were merely a consequence meant to support organizations by replicating and simplifying procedures and processes. To make the real world fit into the static IT world, simplification and standardization was needed. The cost of adapting and maintaining these systems explodes as market dynamics and complexity increases. To solve complexity, the systems themselves must become more complex. So, complexity was added to reduce complexity, creating a vicious circle of adding complexity.

According to the classical way of thinking, changing strategy means changing structures and, consequently, systems. The IT-tools, which used to be drivers of efficiency and productivity, have in many industries become the "ball and chain".

BUILDING INTELLIGENCE ACROSS SYSTEMS

The new generation of tools born in the Cloud and facilitated on the Microsoft Azure Platform, enables us to quickly change and rapidly scale. Large volumes of data can now be analyzed in real time and actions can be taken autonomously by self-learning systems that thrive on complexity. Complex optimization can be done dynamically based on what is actually happening in the real world. As a consequence, value chains become fragmented, new business models are developed, sector crossover partnerships are established, transaction costs are put under pressure, economies of scale are eroded and organizations implement flexible structures.

In eSmart Systems, we do not only embrace this development; we enable it – we drive it. Our Connected platform is built from the ground up utilizing the latest sensor-, communication-, recognition- and



programming-/ integration technologies to create completely new ways of generating value. This platform allows energy players to rapidly deploy solutions on top of existing ones, utilizing existing infrastructure rather than discarding or dismantling it.

SUSTAINABILITY THROUGH INTELLIGENCE

The energy industry is undergoing a fundamental transformation as it shifts from predominantly large scale centralized fossil generation and energy distribution, to decentralized self-optimizing energy ecosystems. Millions of decentralized energy resources (solar, wind, storage, electrical vehicles, cooling, heating, combined heat and power, etc.), smart meters and sensors are being installed, generating oceans of data and offering unprecedented optionality. Utilizing data to fine-tune the use and interaction of millions of resources in real time, holds huge

benefits for society, both economically and environmentally. It enables us to use our resources more efficiently and to handle extensive intermittent renewable resources.

What we do at eSmart is not only intellectually challenging and exciting, it is also very meaningful. We truly believe that our innovative and powerful solutions are the key to building a sustainable society. That is a meaningful purpose. By putting intelligence to work, our ambition is to release our customers from the ball of legacy systems and free them from the chain of inflexibility, so they can better use their resources wisely.

*Jørgen Kildahl,
Chairman of the Board,
eSmart Systems*

CEO COMMENTS

SHAPING A SHIFTING INDUSTRY

After a century in state of stability, the power industry is undergoing rapid disruption and reinvention, as its archaic infrastructure seeks to integrate and exploit 21st century digital opportunities. Anticipating this revolution early and in just a few years, eSmart Systems has built up a unique technological platform and position to facilitate, lead and shape the digitalization of the global power industry.

2016 was another fantastic year for eSmart Systems. It was a year that began with ambitious goals and expectations across all operational areas. It was a year that ended with milestones achieved, goals met and expectations exceeded in the areas of product development, project completion and acquisition, strategic partnerships, market expansion, sales pipeline and our own team of experts.



Last year, eSmart Systems delivered on more than 30 projects at the same time as we ran over 100 investor meetings. We grew the eSmart Systems team to 60, nearly doubled our top line turnover and ended the year with an order intake of nearly 100 MNOK vs. 23 MNOK the year before.

In 2016, we opened a US office and signed four important contracts there; with The Energy Authority (TEA) and Jacksonville Electric Authority (JEA) to pilot and deliver machine learning and analytics using Connected Grid. At home, we signed important contracts with Glitre Energi Nett and Norgesnett for the delivery of Connected Grid. Among the most exciting contracts won in 2016 was INVADE: A new Horizon 2020 project and the largest ever EU project coordinated from Norway. In December, we welcomed Kongsberg Digital as an important industrial partner in advanced analytics and as owner in eSmart Systems.

THE BEST PEOPLE, THE BEST PARTNERS, THE BEST RESULTS

All our accomplishments in 2016 were direct results of an outstanding organization with an outstanding commitment to excellence and, simply, a massive amount of hard work. Well done, team. I could not be more pleased, more proud or more inspired to begin the next leg in

our journey as a world-leading supplier of digital intelligence to the power industry.

I am also convinced that eSmart Systems' success is a direct result of our unusually competent Board of Directors, which must make us the envy of our industry. I wish to extend a special thanks to Joseph Sirosh for his shared vision and commitment, as well as his strategic involvement of eSmart Systems in keynote presentations at global conferences such as Build, Ignite and Future Decoded. I am also very appreciative of our new Chairman, Jørgen Kildahl, for his personal involvement and consistent engagement in our 2016 funding process, which helped ensure a solid financial foundation for our company in 2017.

We begin 2017 with a dramatically different set of developmental and commercial ambitions, for which we are well positioned to not only achieve but to take the lead in, in an extremely exciting, fast-changing and rapidly evolving industry. With complete confidence, I look forward to great achievements with eSmart Systems' leading people, Board and partners in 2017.

Halden, April 2017

Knut Johansen, CEO



2016 IN REVIEW

INCREASING COMMERCIAL FOCUS

One of our most important ambitions for 2016 was to begin transforming eSmart Systems from a successful R&D-driven company to a successful sales-driven company. 2016 was a turnaround year for the sales organization as we expanded our sales team, established subsidiaries in Singapore, England and the US and signed numerous new sales agreements.

We closed the year with several key contracts signed. In 2016, we signed our first Connected Grid SaaS agreements with Norgesnett and Glitre. We signed up ten new Norwegian utilities into our three-year Connected Drone project, bringing the number of project partners to 12 and the project budget to 32 MNOK. We also signed a three-year contract with FEAS, SFE, Glitre and Ringerikskraft to develop and deliver an intelligent asset management system, valued at 25 MNOK. These contracts provide a solid foundation for new sales in Norway and internationally in 2017.

INTERNATIONAL EXPANSION - PENETRATING THE US MARKET

eSmart Systems established and strengthened the business in five key regions in 2016,

including Denmark, Germany, UK, Singapore and the US. The US is a key market for our global ambitions and we saw the US market open in 2016 – as we made our first US delivery to The Energy Authority (TEA). TEA is a public owned national portfolio management company with 52 public power clients and 30 000 MW of generated power. In 2016, eSmart Systems successfully delivered a proof of concept, which turned into a three-year SaaS agreement worth 150 000 USD annually. By year's end, we were in the final stages of negotiations to expand our TEA partnership further – a partnership in which we see great potential. In 2017, we will develop and adapt new products and services for TEA, and deliver off-the-shelf solutions. In addition, we will develop a joint marketing plan with TEA to deliver platform and analytics as a service (Connected Grid) to TEA's clients.

IMPROVED FINANCIAL PERFORMANCE

Commercially, we accomplished a lot in 2016. As a result of successfully expanding into new markets and signing new contracts, we doubled our turnover in 2016 and ended the year with an order intake of nearly 100 MNOK, compared to just 23 MNOK a year earlier. Our accomplishments in 2016 are key



to eSmart systems' further growth and solid sales performance in 2017. Sales will continue to be a primary focus in 2017 as we continue to expand our team, international offices and sales efforts further.

STRATEGIC PARTNERSHIPS

eSmart Systems' solutions are built from the ground up, using Microsoft's integrated cloud services, Microsoft Azure, and taking full advantage of the latest technologies in Big Data, Artificial Intelligence and Machine Learning to deploy intelligence across our suite of solutions. Building the best means partnering with the best, which is why we have partnered with many leading industry players, not just in the Nordics but globally. In 2016, we extended our list of strategic partners to include Kongsberg Digital, as we signed a global partner agreement with them.

In addition, we worked intensively and tirelessly last year to secure further funding for eSmart Systems. This work paid off as Kongsberg Digital also joined the list of eSmart Systems

owners. Kongsberg Digital invested 100 MNOK in eSmart Systems, acquiring 34 percent stake and giving us a very strong financial platform going into 2017.

The partnership positions Kongsberg Digital and eSmart Systems as a world-leading supplier of digital intelligence in the growing market for digital solutions within renewable energy. Kongsberg has deep knowledge, technical capabilities and global reach, making it easier for eSmart Systems to scale and enter into new markets such as oil, maritime and defence. We see that we can leverage the strengths of both companies, to better assist large energy companies at home and around globe to seize digital opportunities through artificial intelligence.

CONNECTED GRID

We were very pleased to finish the three-year development project of Connected Grid in 2016 with our partners FEAS, SFE, Ringeriks-Kraft and Glitre. We also signed a new three-year development project with the same



Oslo

partners to develop Connected Grid into the next generation intelligent Asset Management system.

CONNECTED DRONE IN THE LEAD

Connected Drone is already a great success for eSmart Systems. It has impressive application possibilities and functionalities, and received remarkable attention again in 2016. During the year, we dramatically expanded Connected Drone's customer portfolio as we signed up six new utilities – bringing the total to twelve. Collectively, they represent more than 40% of the Norwegian power grid, positioning eSmart Systems ahead of the competition.

Most of our ideas, including object recognition, tree fall recognition and the ability to analyze up to 60 images per second, were realized by year's end. Connected Drone has now been granted most of the permissions necessary to operate. We established a very good dialogue with the Norwegian Civil Aviation Authority and were granted permission to fly close to roads. Utilities can now test and fly beyond line of

sight, which will contribute to greatly reducing operational costs.

Our impressive partner list now boasts Hafslund, Skagerak, Ringeriks-Kraft, Lyse Elnett, Troms Kraft, Gudbrandsdal Energi, Alta Kraftlag, Hurum Energiverk, Kragerø, Vesterålskraft, Fosen Nett, Vokks, Microsoft, Robot Aviation, Telenor M2M, Teleplan Globe, NTNU AMOS, Norut Institute, Eker Design, University of Oslo UNIK, and IRIS Group.

Next year, together with Microsoft, research and test centers, we will begin testing Connected Drone in North Dakota. We are currently halfway into a three-year project to fully develop a leading drone solution and what can only be called an enormous technological development. Connected Drone will be commercially ready by the second half of 2017.

SMART CITIES – SMART HEALTH

eSmart Systems' suite of smart city solutions offers tremendous new opportunities, savings and improved living conditions to both cities



and citizens, as activities can be optimized and crises managed effectively in real time. In 2016, eSmart Systems made great progress in developing our new Connected City and Connected Health products.

After a year-long joint research project with Halden municipality, Microsoft, NCE Smart Energy Markets, Østfold University College, Nordic Media Lab and eSmart Systems, we successfully deployed our innovative Connected Health application in November. Halden municipality launched their new department called Virtual Short Term Department using our health solution. The digital solution enables patients who typically would have been admitted to a public institution for short-term stays, to receive the same care and direct follow-up from their physicians via sensors, alarms and video from the comfort and flexibility of their own home. Institution stays cost is estimated to be 1.2 MNOK per patient per year in Halden. The project launched with 15 pilot patients, representing a dramatic saving to Halden Municipality.

CONNECTED CITY DASHBOARD

In 2016, we developed a prototype for the municipality of Oslo. They wanted to gain insight on the traffic patterns and air quality in the city. The dashboard shows the vehicle spread divided into EV's, conventional cars and heavy duty vehicles. The dashboard also includes the number of passings by pedestrians and bicycles, with a possibility to drill down on locations. Predictions on upcoming traffic patterns is included in the dashboard.

WONDERWALL

We also began developing an exciting and revolutionary response center in 2016, called Wonderwall. Wonderwall utilizes big screen functionality, to allow data and key insights from what was formerly kept separately in silo-based systems to be run and displayed simultaneously. With key data from for example buildings, energy consumption, local pollution and patient health, tracked and displayed together, the traditional silo

thinking can be avoided and all activities can be coordinated in real-time – making proactive cost-savings and effective crisis handling measures possible for the first time.

CONNECTED PROSUMER

Increased digitalization of the energy infrastructure changes the way energy services are delivered and demanded. eSmart Systems' Connected Prosumer solution portfolio help energy companies cater for the new possibilities and demands for energy services as customers develop from pure consumers of producers to become a combination – prosumers. Utilizing market knowledge and machine learning the eSmart Systems Connected Prosumer solutions increase both energy efficiency, reduce peak load costs and empower the prosumers as this market is rapidly developing.

Through 2016 the Connected Prosumer solutions has been applied to commercial buildings, energy customer portfolios and industrial processing plants. The Horizon 2020 project EMPOWER has been material for developing solutions for the Connected Prosumer portfolio, as well as applying the solutions to the market. The Empower project will be completed in 2017 and the solutions market ready. A new Horizon 2020 project,

INVADE, will continue the development for Connected Prosumer Solutions as the market matures. Both projects have cross European and global applications.

MARKET OUTLOOK

Transitioning to new, intelligent systems is a major challenge for industry players. With the roll-out of smart meters and the massive data they produce, although new technology must soon be deployed, many legacy systems will still be necessary for some years. New solutions will require high scalability and frequent, rapid updates that are seamlessly integrated without service interruptions. Next generation solutions must entail IoT connectivity to tap them as critical information sources. Cloud solutions will be essential to eliminate massive hardware and software investments as well as maintenance costs. A platform encompassing all these features is nothing short of revolutionary. This is the platform we have built. The market still needs time to understand both their need for and the possibilities that such technology offers them.

Cloud-based solutions are increasingly gaining acceptance. Much of this is owed to Microsoft, which has had great success in raising comfort levels among utility operators. We also see increasing support from authorities



and regulators for utilities. These trends will continue to accelerate in 2017.

Due to the penetration of renewable energy, loads are fluctuating fast. The need to predict and analyze loads is quickly becoming a big challenge for utility operations. There is also a growing need to predict substation loads with short notice because of the penetration of unregulated power flowing into grid. With systems already developed to address these market challenges, eSmart Systems is well positioned to capture these market segments.

In the retail and consumerization space, there is an increasing need to utilize and control load and renewable production through demand side management. Large projects funded by states and local governments testing software, are underway. eSmart Systems is, and will be, an increasing part of these programmes, which will enable us to deploy demand side management and aggregator service applications already in 2017, aimed at the residential and commercial sides of the market.

US AND EUROPEAN MARKETS

The US is increasingly rolling out more smart meters and generating more data, which is quickly creating a huge need for advanced platforms and applications such as ours, especially on the analytics side. The need for better solutions that add value to operations and reduce investment costs will grow quickly each year.

The US market naturally holds huge potential and we plan to move quickly into the market. eSmart Systems will open a second US office in Seattle, close to both Microsoft and TEA, from which to address the market.

In Europe, the roll out of smart meters is also accelerating. By 2020, Germany will roll out 80% of its planned meters, totaling 40 million. eSmart Systems is well positioned with both expertise and applications in place for meter management, grid operations and optimization. Our prospects here look very good.

eSmart Systems has two strong paths into the European market in general, which we will exploit at full speed. Firstly, through an agreement signed with Aalborg Energi – a development contract to monitor meter readings and provide an overview of district heating readings and assets, which includes a Connected Grid district heating module. Secondly, eSmart Systems will open new offices in Germany, Denmark and Sweden in 2017.

LOOKING AHEAD

eSmart Systems' key ambitions for 2017 are to grow business in our selected regions, build a strong "Intelligence First" offering into all our products, strengthen our SaaS offering together with Microsoft and their Cloud First business focus, continue our strong focus on innovation and R&D through our EU2020 funded projects and partners, and to continue to grow top line revenues within our three core offerings: Utility, Energy Markets and City.

With our existing competence, leading partners and solid financial foundation, much is already in place to make 2017 another fantastic year for eSmart Systems. Key to achieving our ambitions again in 2017 will be the further expansion of our talented team, building a strong artificial intelligence practice and establishing a strong local presence in our selected regions.

RESEARCH & DEVELOPMENT

Deploying innovative products with global market impact is essential for eSmart Systems. Our focus on research and development, including active participation in several major EU projects, has earned us a position at the forefront of the digital transformation. During 2016, we further strengthened our R&D activities. New projects won funding and execution of projects continued.

INVADE

In 2016, we expanded our R&D portfolio with a new Horizon 2020 project. The project is called "INVADE - Smart system of renewable energy storage based on integrated EVs and batteries to empower mobile, distributed and centralized energy storage in distribution grids" and is the largest ever EU-project coordinated from Norway. The project will deliver a cloud-based flexibility management system integrated with EVs and battery storages at mobile, distributed and centralized levels. The goal is to change the way energy is used, stored and generated, by utilizing renewable energy more effectively and thereby optimizing electricity supply and making services more end-user centric.

The project consists of twelve partners from six different European countries. It will run for three years, starting early 2017, and will have pilots in Germany, Spain, Bulgaria, Norway and the Netherlands.

EMPOWER

The EMPOWER-project, funded through Horizon 2020, has the following target: "Develop and verify a local marketplace and innovative business and operational methods to encourage micro-generation and the active participation of prosumers to exploit the flexibility created to the benefit of everyone connected to a local grid". The project commenced at the beginning of 2015, with eSmart Systems as the work package leader for Local Smart Grids Control Cloud, as well as being involved in several other work packages.

IOTSEC

The IoTSec – Security in IoT for Smart Grids initiative – was established in 2015 to promote the development of a safe and secure Internet of Things (IoT) enabled smart power grid infrastructure. The research project received funding from RCN to contribute to a safe information society. During 2016, eSmart Systems hired an industrial PhD-candidate to work with IoTSec.

CHARGEFLEX

The aim of ChargeFlex is to develop methods that increase network capacity for electric vehicle charging through the smart management of flexibility. The project, which started in 2015, will run for three years.





Jacksonville

CUSTOMERS AND PARTNERS

Forward-looking customers and partners are essential for maintaining rapid growth. 2016 was a fantastic year of new partnerships and key contracts for eSmart Systems, giving us a solid foundation for further growth both domestically and internationally.

STRATEGIC ENTRY INTO USA

During the year, we signed important contracts in the US with The Energy Authority (TEA) and one of their clients, Jacksonville Electric Authority (JEA). Together with these partners, eSmart Systems completed a successful pilot, The Zero Consumption Project. It is the first of four in which the Connected Grid application will deliver machine learning and analytics.

The project collected water and electricity meter data from JEA's 700 000 smart meters. By using algorithms developed by TEA and eSmart Systems, all water meters reporting zero water consumption have been analyzed to see which are most likely damaged and must be replaced. JEA's service department uses the

data to plan which water meters to replace.

"eSmart Systems' Connected Grid is creating value to JEA that we have not experienced before." Ken O. Mathis, Manager Utility Analytics, JEA.

NEW INDUSTRIAL PARTNER WITHIN DIGITAL DEVELOPMENT

In December, we welcomed Kongsberg Digital as an important industrial partner and owner in eSmart Systems.

Kongsberg Digital is a provider of next generation software and digital solutions to customers within maritime, oil & gas and renewables & utilities. The partnership is comprehensive, involving digital development and services for advanced analytics and machine learning to Norwegian and international customers in the power sector.

"In just a few years, eSmart Systems has built up an impressive technological platform and a strong position for digitalization in the



Tore Morten Wetterhus, CEO, Glitre Energi Nett



Eilert Henriksen, CEO, Norgesnett

power industry. The company has leading expertise within advanced analytics and machine learning, which is a perfect match for Kongsberg Digital's competence, in addition to our industrial experiences and global positions. This partnership establishes a strong Norwegian alliance with international capabilities", says Hege Skryseth, President of Kongsberg Digital.

ENHANCED COOPERATION WITH KEY NORWEGIAN GRID OPERATORS

Since 2013, eSmart Systems has been developing Connected Grid in close cooperation with DSOs Sogn og Fjordane Energi, Norgesnett, Ringeriks-Kraft Nett and Glitre Energi Nett through an industrial research and development project. The project phase concluded in December 2016, and the cooperation between the companies was further reinforced with the commencement of Astrum, a continuation of the IRD project.

Important milestones were also achieved when Glitre Energi Nett and Norgesnett signed contracts for the delivery of Connected Grid. These contracts established the foundation needed to capture value for our customers.

"Connected Grid is critical for us to operate the "Smart Power" project optimally, and an important element in establishing intelligent

future grid operations. With this, Glitre Energi is taking a giant leap into very exciting and very valuable technology," says Tore Morten Wetterhus, CEO of Glitre Energi Nett.

"We are only in the starting blocks of the tremendous changes ahead. Over the next few years we will see major changes in how power grids are managed and operated. Connected Grid is Norgesnett's most important digital investment in its bid to realize a truly smart grid," says Eilert Henriksen, CEO of Norgesnett.

GLOBAL REACH MADE POSSIBLE BY MICROSOFT

Microsoft has been an important partner for eSmart Systems from day one. eSmart employees have been developing software using Microsoft tools for more than 15 years. Our experience and Microsoft's commitment to cloud computing combined with their Azure platform, makes this partnership a perfect match.

"First and foremost, eSmart Systems is unique as they are "born in cloud". They have positioned themselves as a player with high relevance for the industries, and they are world-leading in the use of machine learning and neural networks technology." John Henrik Andersen, CTO, Microsoft Norway.

THE ACCELERATION OF MACHINE LEARNING AND ITS VERTICAL REALIZATIONS

Machine learning development is accelerating at an unprecedented pace as new breakthroughs and applications are being announced or demonstrated on an almost weekly basis. Driving the acceleration is a combination of advances in machine learning methods, such as deep learning, advances in hardware and GPU-accelerated computing, as well as a continuously increasing focus in machine learning R&D by all the major technology centers, universities, and giants such as Google, Facebook, Microsoft, Baidu, and the like. Further, development is now in a positive feedback loop, thanks to the extraordinary openness of the AI community, demonstrated both by the pace of results publication as well as the adoption and contribution to open source initiatives, by academia and industry alike.

It is no surprise then that open source frameworks and tools have become the de facto standard and best available technology in

this field. Microsoft, in particular, has proven to be a champion of this transformation, recently topping the list of organizations with the most open source contributions on GitHub.

The evolving venture capital landscape is another indicator of the acceleration of machine learning and AI in general. While it is a fact that venture capital funding is rushing into machine learning and AI startups, growing according to CB Insights from \$589M in 2012 to over \$5B in 2016, it's important to distinguish between horizontal AI startups delivering generic tools and AI services across industries, and vertical AI startups that solve full-stack industry problems, as correctly pointed out by Bradford Cross of DCVC. We fully share his view that if a company isn't solving a full-stack problem, it will soon face an increasingly commoditized world of "shallow" AI services, and will likely end up either being acquired or wound-down due to lack of traction. Vertical AI startups, such as eSmart Systems, solve



full-stack, concrete industry problems that require deep domain expertise, access to unique proprietary data, and a product that utilizes machine learning and AI to deliver its core value proposition. This puts eSmart Systems in the unique position of being able to identify real customer needs at all levels of the organization that can be better met with AI, or new needs that can't be met without AI.

Among other applications, eSmart Systems focuses on using AI to meet new load management needs of utilities, as well as their increasing needs for intelligent asset management. This is achieved, for example, by advanced load prediction models at different aggregation levels, predictions for distributed generation and storage, and with deep learning enabled drone-based inspection of power transmission and distribution infrastructure. These AI implementations are at the core of two of eSmart Systems's full-stack solutions, Connected Grid and Connected Drone

respectively, that support power utilities in their day to day operations and deliver tangible value to our customers.

Taking the example of Connected Grid as a case in point, the concrete feedback gathered from two early adopter mid-sized Norwegian DSOs reveal that in one year, these two DSOs combined saved about \$1.5M in faster fault detection and recovery, and close to \$4.7M in smarter investments and better use of existing infrastructure. A conservative estimate of \$6M savings per year for these two DSOs extrapolated to the whole country, shows potential savings of about \$240M per year; This with existing infrastructure and technology in Norway alone.

We are convinced that machine learning and AI technology will continue accelerating and that eSmart Systems' full-stack vertical approach will continue strengthening our strategic position and market share.

FINANCIAL STATEMENT 2016



INCOME STATEMENT

Parent company			Notes	Group
2015	2016			2016
OPERATING REVENUE				
32 625 350	33 830 459	Sales	7,24	33 832 698
7 477 000	6 918 396	Other operating income	8	6 918 396
40 102 350	40 748 855	TOTAL OPERATING REVENUE		40 751 094
OPERATING EXPENSES				
5 209 262	4 563 770	Cost of sales	24	2 623 429
14 811 896	18 123 084	Personnel expenses	18,19,22	20 123 579
10 282 332	14 064 046	Other operating expenses	20,21,22,24	15 032 652
30 303 490	36 750 900	TOTAL OPERATING EXPENSES		37 779 660
9 798 860	3 997 955	EBITDA		2 971 434
680 834	3 810 571	Depreciation	9,10,11	3 810 571
9 118 026	187 384	EBIT		-839 137
FINANCIAL INCOME AND COST				
17 139	48 774	Interest income	24	34 150
104 148	140 158	Other financial income		140 158
0	0	Share of results of associated companies	5	-2 684 980
49 344	642 023	Interest expenses	24	642 649
73 993	272 598	Other financial expenses		272 598
-2 050	-725 689	NET FINANCIAL PROFIT		-3 425 919
9 115 976	-538 305	PROFIT BEFORE TAXES		-4 265 056
1 790 780	-683 119	Income tax expense	17	-674 510
7 325 196	144 814	NET PROFIT		-3 590 546
OTHER COMPREHENSIVE INCOME				
0	0	Other comprehensive income		74 024
0	0	NET OTHER COMPREHENSIVE INCOME		74 024
7 325 196	144 814	TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-3 516 522
TRANSFERS				
7 325 196	144 814	Allocated to retained earnings		
7 325 196	144 814	TOTAL TRANSFERS		

BALANCE SHEET

Parent company		ASSETS	Notes	Group
2015	2016			2016
FIXED ASSETS				
0	2 098 625	Deferred tax assets	17	2 098 625
23 804 707	39 500 240	Capitalized development cost	10,12	39 500 240
56 200	30 400	Licences	9	30 400
2 612 601	2 450 101	Operating equipment	9,25	2 450 101
0	9 838	Shares in subsidiaries	5	0
75 000	19 075 000	Investments in associated companies	5	16 390 020
0	30 000	Other shares	5	30 000
0	1 074 358	Loan to Group company	24	0
26 548 508	64 268 562	TOTAL FIXED ASSETS		60 499 386
CURRENT ASSETS				
31 849 910	13 283 542	Trade receivables	13,24,25	12 797 577
1 957 778	4 857 697	Other short term receivables	13,24	4 937 247
5 571 720	79 399 112	Cash and cash equivalents	14	79 481 657
39 379 408	97 540 351	TOTAL CURRENT ASSETS		97 216 481
65 927 916	161 808 913	TOTAL ASSETS		157 715 867

Parent company				Group
2015	2016	EQUITY AND LIABILITIES	Notes	2016
EQUITY				
Subscribed equity				
550 135	842 894	Share capital	15,23	842 894
22 849 944	119 100 018	Share premium fund	15	119 100 018
0	0	Translation differences		74 024
23 400 079	119 942 912	Total subscribed equity		120 016 936
Retained equity				
10 834 703	10 979 517	Retained earnings		7 244 157
10 834 703	10 979 517	Total retained equity		7 244 157
34 234 782	130 922 429	TOTAL EQUITY		127 261 093
NON CURRENT LIABILITIES				
70 557	0	Deferred income tax liability	17	0
3 467 542	844 841	Borrowings	25	844 841
3 538 099	844 841	TOTAL NON CURRENT LIABILITIES		844 841
CURRENT LIABILITIES				
1 724 129	7 468 948	Trade payables	24	6 990 185
0	0	Payable tax	17	0
8 042 028	4 763 657	Public duties payable	14	4 763 657
18 388 878	17 809 038	Other current liabilities	16,24	17 856 091
28 155 035	30 041 643	TOTAL CURRENT LIABILITIES		29 609 933
65 927 916	161 808 913	TOTAL EQUITY AND LIABILITIES		157 715 867

Halden, March 28th 2017



Jørgen Kildahl
Chairman of the Board



Erling Sande
Member of the Board



Bjørn Svendsen
Member of the Board



Joseph Sirosh
Member of the Board



Hege Skryseth
Member of the Board



Knut Johansen
Member of the Board/CEO

STATEMENT OF CASH FLOW

The statement of cash flow is a systematic overview showing how the Company has received and used cash and cash equivalents during the year. The statement of cash flow presents the development of operation, investment and financing during the periods.

Parent company			Group
2015	2016		2016
		Cash flow from operational activities	
9 115 976	-538 305	Operating result before tax	-4 265 056
0	0	Paid taxes	-8 609
680 834	3 810 571	Depreciation and write-offs	3 810 571
0	0	Change in pension commitments	2 684 980
-29 058 145	18 566 368	Changes in receivables	19 052 333
-1 194 477	5 744 819	Changes in trade payables	5 266 056
22 952 613	-6 758 130	Changes in other current assets/debt items	-6 716 603
2 496 801	20 825 323	Net cash flow from operating activities	19 823 672
		Cash flow from investment activities	
-15 000	-19 039 838	Purchase of shares	-19 030 000
0	-1 074 358	Loan to Group company	0
-1 481 945	-646 683	Purchase of operating equipment	-646 683
-10 299 682	-18 671 120	Capitalized development costs	-18 671 120
-11 796 627	-39 431 999	Net cash flow from investment activities	-38 347 803
		Cash flow from financial activities	
3 047 295	0	Proceeds from other borrowings	0
-65 264	-2 622 701	Payment of long term debt	-2 622 701
3 400 000	95 056 769	Issue of shares	95 056 769
6 382 031	92 434 068	Net cash flow from financial activities	92 434 068
-2 917 795	73 827 392	Net changes in cash and cash equivalents	73 909 937
8 489 515	5 571 720	Cash and cash equivalents 01.01	5 571 720
5 571 720	79 399 112	Cash and cash equivalents 31.12	79 481 657
5 571 720	79 399 112		79 481 657
0	0		0

STATEMENT OF CHANGES IN EQUITY

Parent company	Share Capital	Share Premium Fund	Translation Differences	Other Equity	Total
Equity 01.01.2015	510 135	19 489 944	0	3 509 506	23 509 585
Capital increase	40 000	3 360 000	0	0	3 400 000
Total comprehensive income	0	0	0	7 325 197	7 325 197
Equity 31.12.2015	550 135	22 849 944	0	10 834 703	34 234 782
Equity 01.01.2016	550 135	22 849 944	0	10 834 703	34 234 782
Capital increase 20.09.2016	4 590	996 030	0	0	1 000 620
Capital increase 16.12.2016	288 169	99 711 831	0	0	100 000 000
Cost of capital	0	-4 457 787	0	0	-4 457 787
Total comprehensive income	0	0	0	144 814	144 814
Equity 31.12.2016	842 894	119 100 018	0	10 979 517	130 922 429

Group	Share Capital	Share Premium Fund	Translation Differences	Other Equity	Total
Equity 01.01.2016	550 135	22 849 944	0	10 834 703	34 234 782
Capital increase 20.09.2016	4 590	996 030	0	0	1 000 620
Capital increase 16.12.2016	288 169	99 711 831	0	0	100 000 000
Cost of capital	0	-4 457 787	0	0	-4 457 787
Total comprehensive income	0	0	0	-3 590 546	-3 590 546
Translation differences	0	0	74 024	0	74 024
Equity 31.12.2016	842 894	119 100 018	74 024	7 244 157	127 261 093

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

eSmart Systems AS develops, sells and delivers software products and services for energy markets where user flexibility and efficient utilization of energy markets are central.

The Company's products and services are based on the active use of advanced measuring and control systems (AMI) through integrated IT solutions where user flexibility is automatically analyzed and optimized in energy markets. eSmart Systems is "intelligence first", and utilizes artificial intelligence and machine learning for predictions and functionality in all its solutions.

Deliveries are primarily to the Norwegian and Nordic markets as well as the USA and England.

eSmart Systems AS is a Norwegian company, headquartered in Halden. The Company has subsidiaries in the USA and England, as well as representative offices in Singapore. See note 5.

The financial statements were approved by the Board on March 28, 2017.

NOTE 2 - ACCOUNTING PRINCIPLES

2.1 Basis of preparation

The financial statements of eSmart Systems AS and the Group have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations as adopted by the EU.

The financial statements and consolidated financial statements are prepared under the historical cost convention.

Preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires Company management to exercise its judgement in the process of applying the Company's accounting policies. Areas involving a higher degree of judgement or complexity, or areas in which assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

The consolidated financial statements have been prepared under the going concern assumption.

2.2 Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies; normally as a result of holding more than half of the voting rights. When determining whether a controlling influence exists, the effect of potential voting rights that are currently exercisable or convertible is included on the balance sheet date. Subsidiaries are consolidated from the date on which control is transferred to the Group and are deconsolidated from the date that control ceases. See note 5 for listing of subsidiaries.

The purchase method of accounting is used for the acquisitions of subsidiaries. The cost of an acquisition is measured as the fair value of: the assets given as consideration for the acquisition, equity instruments issued and liabilities incurred in transferring control, and direct costs associated with the acquisition. Identifiable assets acquired and liabilities are recorded at fair value at the acquisition date, irrespective of any minority interests. The acquisition cost above the fair value of identifiable net assets acquired is recorded as goodwill. If the acquisition cost is lower than the fair value of net assets in the subsidiary, the difference is recognized on the acquisition date.

Intercompany transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator for impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the Group's accounting policies.

2.3 Segment reporting

The Company is organized as a single operational segment. Since the Company is still in the product development stage, there is no split of sales based on product groups or geography. Therefore, segment reporting of sales based on IAS 14 has not been prepared.

2.4 Foreign currency translation

(a) Functional and reported currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are reported in NOK which is the Company's functional and reporting currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using prevailing transaction date exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from year-end translations, exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(c) Group companies

The income statement and balance sheet for the consolidated entities with a functional currency different from the presentation currency are translated as follows:

- i. the balance is converted to the closing rate on the balance sheet date
- ii. income statement is converted using average exchange rates
- iii. exchange differences are recognized directly in equity and specified separately

2.5 Operating equipment

All machinery and equipment are stated at historical cost less depreciation. Historical cost includes expenditures directly attributable to item acquisitions. Subsequent costs are included in an asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

All other repairs and maintenance expenses are charged to the income statement during the financial period in which they were incurred.

Depreciation of all assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives.

Asset residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.6).

Gains and losses on disposals are determined by comparing proceeds with carrying amounts. These are included in the income statement.

2.6 Intangible assets

Computer software

Costs associated with maintaining computer software programs are recognized as an expense as they are incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use
- management intends to complete the software product and use or sell it
- the software product can be used or sold
- it can be demonstrated how the software product will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available, and
- the expenditure attributable to the software product during its development can be reliably measured

Costs directly attributable, which are capitalized as part of the software product, include software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense as incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

Computer software development costs recognized as assets are amortized over their estimated useful lives, which does not exceed three years.

2.7 Impairment of non-financial assets

Operating equipment and intangible assets with a definite useful life are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized as the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or if the normal operating cycle of the business is longer), they are classified as current assets. If not, they are reported as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

2.9 Cash and cash equivalents

Cash and cash equivalents include cash on-hand and deposits held at call with banks with original maturities of three months or less.

2.10 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or if the normal operating cycle of the business is longer). If not, they are stated as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.11 Share capital and premiums

Shares are ordinarily classified as equity. Costs directly attributable to the issuance of new shares less taxes are recorded as a reduction in proceeds in equity.

2.12 Loans

Loans are recognized initially at fair value, net of transaction costs incurred. Loans are subsequently carried at amortized cost; any difference between proceeds (net of transaction costs) and redemption value is recognized in the income statement over the period of the loan using the effective interest method.

2.13 Taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken on tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between an asset's tax bases and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.14 Employee benefits

(a) Pension obligations

The company has a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior period. The company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is possible.

(b) Profit-sharing and bonus plans

The company recognizes a liability and an expense when it is contractually obliged or where there is a past practice that has created a constructive obligation. There are no such provisions in the accounts of 2015 or 2016.

2.15 Revenue recognition

Revenue comprises the fair value of consideration received or receivables for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, estimated returns, rebates and discounts. Sales of goods are recognized when a Group entity has delivered products to a customer; a customer has accepted the products and collectability of the related receivables is reasonably assured.

Consultancy services are recognized as revenue incrementally as the service is performed or on a straight-line basis during the period in which the service is performed.

2.16 Leases

Leases in which a significant portion of ownership risks and rewards are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease. The Company has no financial leases.

2.17 Provisions

Provisions are recognized when the Company has an obligation as a result of past events, and when it is likely that a financial settlement will occur as a result of the obligation and the amount can be measured reliably. Generally speaking, provisions are based on historical data and a weighting of possible outcomes against the probability they will occur. If the time value is significant, the provision will be the net present value of the expected amount required to meet the obligation.

2.18 Classifications

Assets related to the product or service cycle, or that fall due within 12 months, are classified as current. Other assets are classified as long term. Similarly, liabilities related to product or service cycle, or that fall due within 12 months are current liabilities. Other liabilities are classified as long term.

NOTE 3 - FINANCIAL RISK MANAGEMENT

Financial risk factors

The Company's activities are exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out under policies approved by the board of directors.

Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Entity's functional currency.

Credit risk

The Company has no significant concentrations of credit risk. It has policies in place to ensure that wholesale sales of products and services are made to customers with an appropriate credit history.

Interest rate risk

As the Company has no significant interest-bearing assets or interest-bearing liabilities, the Company's income and operating cash flows are substantially independent of changes in market interest rates.

Liquidity risk

The Company is in a development phase, and it is expected to take some time before the Company shows positive cash flow. The Board monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and planned investments while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 26).

NOTE 4 - CHANGES IN COMPANY STRUCTURE

In 2016, the Company established subsidiaries in the United States and England, and established a representative office in Singapore. In addition, the claims the Company had against Smartliv AS of 19 million NOK were converted into equity in Smartliv AS. The Company's stake in Smartliv AS did not change as a result of the conversion. The Company bought a 50% stake in Smartliv AS in 2015. The shares were purchased for 15 000 NOK and is treated in the accounts as an investment in associated companies.

NOTE 5 - INVESTMENT IN SHARES

The following subsidiaries are included in the consolidated accounts:

Company	Homeland	Main business activity	Cost price	Ownership	Voting rights
eSmart Sysmtems US Inc	USA	Product sales / supplies	8 777	100%	100%
eSmart Sysmtems UK Ltd	England	Product sales / supplies	1 061	100%	100%
		Total	9 838		

The Parent company owns shares in the following associated companies pr 31.12.2016:

Company	Office	Share	Cost price	Result 2016	EQ 31.12.16
Smartliv AS	Hønefoss	50%	19 015 000	-5 249 960	32 780 040
Smart Simulation AS	Halden	20%	60 000	-924 021	-2 290 153
			19 075 000		

Overview of investments in associated companies in Group accounts:

Company	31.12.2015	Additions/ Disposals	Recognized Results	Other Changes	31.12.2016
Smartliv AS	0	19 015 000	-2 624 980	0	16 390 020
Smart Simulation AS	0	60 000	-60 000	0	0
Total	0	19 075 000	-2 684 980	0	16 390 020

As of 31.12.2016, the Parent company and Group owned shares in the following companies:

Company	Number of Share	Cost Price
E2U Systems AS	300 000	30 000
Total		30 000

NOTE 6 - ESTIMATION UNCERTAINTY

In the process of applying IFRS compliant accounting policies, management has made several judgements and estimates. All estimates are assessed to the most probable outcome based on the management's best knowledge. Changes in key assumptions may have significant effect and may cause material adjustments to the carrying amounts of assets and liabilities, equity and net results.

The Company's most important accounting estimates are the following items:

- Write-down/reversal of other intangible fixed assets and tangible fixed assets
- Accrual of unearned revenue and obligations related to sales agreements.

The Company annually tests whether intangible assets have suffered impairment in accordance with IAS 36. The impairment tests are shown in note 12.

The Company's capitalized intangible assets are tested annually for impairment and reversal of previous write-downs

Estimates of unearned revenue and obligations related to sales agreements are calculated annually. Some deliveries continue for several years and may be subject to changes in estimates.

NOTE 7 - OTHER OPERATING INCOME

	Parent Company		Group
	2016	2015	2016
Sales of products	12 217 073	16 768 724	12 219 312
Consultancy services	16 044 890	15 856 626	16 044 890
Total operating revenue	28 261 963	32 625 350	28 264 202

NOTE 8 - OTHER OPERATING INCOME

Other operating income includes public funding related to development projects from Innovation Norway, The Research Council of Norway and the EU.

NOTE 9 - OPERATING EQUIPMENT

Parent Company and Group	Licences	Operating equipment
Acquisition cost 1.1.2016	129 225	3 794 817
Additions	0	646 683
Disposals	0	0
Acquisition cost 31.12.2016	129 225	4 441 500
Accumulated depreciation 1.1.2016	73 025	1 182 216
Depreciation charge	25 800	809 183
Accumulated depreciation 31.12.2016	98 825	1 991 399
Net book value 31.12.2016	30 400	2 450 101
Economic lifetime	5 years	3-5 years

NOTE 10 - CAPITALIZED DEVELOPMENT COSTS

Parent Company and Group	Research & Development
Acquisition cost 1.1.2016	23 804 707
Additions	18 671 120
Disposals	0
Acquisition cost 31.12.2016	42 475 828
Accumulated depreciation 1.1.2016	0
Depreciation charge	2 975 588
Accumulated depreciation 31.12.2016	2 975 588
Net book value 31.12.2016	39 500 240
Economic lifetime	8 years

Capitalized development costs are depreciated over the useful life of products. Expected income on capitalized development costs and booked value are tested for impairment at the time the balance sheet is prepared, and written off if necessary; see note 12.

Total capitalized development costs as of 31.12.2016 totalling 39 500 240 NOK (23 804 707 NOK in 2015) regard products that were not commercialized or available in the market.

NOTE 11 - DEPRECIATION

Parent Company and Group	2016	2015
Operating equipment (see note 8)	834 983	680 834
Capitalized development costs (see note 9)	2 975 588	0
Total	3 810 571	438 604

NOTE 12 - IMPAIRMENT TEST OF GOODWILL AND INTANGIBLE ASSETS

Recognized capitalized development costs in the Company as of 31.12.2016 amounted to 39,5 MNOK (23,8 MNOK i 2015). These relate mainly to development of products based on active use of advanced measuring and control systems (AMS) through integrated IT solutions, where user flexibility is automatically analyzed and optimized for energy markets.

The company as a whole is considered to be the only cash generating unit (CGU) since it is not possible to isolate and measure the cash flow for any of the units or the products alone.

The impairment test is carried out by the Company's accounting department. The valuation was done in December 2016. The recoverable amount is set to the estimated value in use. The value in use is estimated as the net present value of the anticipated cash flow before tax, using a discount rate taking into account the duration of the cash flows and the expected risk. Projected cash flows have been determined on financial budget and approved by Company management. Cash flows are determined based on the financial budget for 2017 and forecasts for the period 2018 - 2021.

The following assumptions are used in impairment testing:

- * Revenue is expected to grow.
- * Operating expenses are expected to increase.
- * The discount rate used for calculating the net present value of the cash flow is 25 %. This is based on a risk free rate of 5 % and a risk premium of 20 %. The risk premium is based on uncertainty related to growth expectations.
- * Terminal value of products has not been calculated.

Sensitivity to changes in the key assumptions:

As of 31.12.2016 the value in use of capitalized development cost amounted to 90,7 MNOK, compared to a total booked value of 39,5 MNOK.

A sensitivity analysis based on reasonable possible changes to growth and margin assumptions shows the following value reduction (amounts in MNOK) following capitalized development cost write-downs (amounts in MNOK):

Reduced revenue	Increased op. exp.	Value in use	Write off
5%	0%	69,3	0,0
5%	5%	52,4	0,0
10%	0%	47,9	0,0
10%	5%	31,0	-8,5
15%	0%	26,5	-13,0
15%	5%	9,6	-29,9

NOTE 13 - TRADE AND OTHER RECEIVABLES

Trade receivables

Trade receivables as of 31.12.2016 and 31.12.2015 are valued at nominal value less impairment losses, and were 13 283 542 NOK and 31 849 910 NOK for the Parent company. For the Group, trade receivables as of 31.12.2016 were 12 797 577 NOK after impairment deductions.

Recognized losses on receivables for both the Parent company and the Group totaled 25 000 NOK in 2016 and 0 NOK in 2015.

Other receivables	Parent company		Group
	2016	2015	2016
Skattefunn	2 743 927	518 803	2 743 927
Accrued public funding	1 421 640	553 999	1 421 640
Pre-paid costs	677 505	876 114	760 309
Other	14 625	8 862	11 371
Total	4 857 697	1 957 778	4 937 247

NOTE 14 - BANK DEPOSITS AND CASH

Parent company and Group

As of 31.12.2016, 1 492 575 NOK total cash and cash equivalents was withheld tax (1 117 614 NOK in 2015).

Liabilities associated with withheld tax as of 31.12.2016 was 1 487 813 NOK (1 113 398 NOK in 2015).

NOTE 15 - SHARE CAPITAL AND SHAREHOLDERS

Total share capital of the company as of 31.12.16 was 842 894 NOK divided over 842 894 shares with a nominal value of 1.00 NOK.

Changes in share capital and share premium fund	Numbers of shares	Share capital	Share premium fund
Issued shares as of 31.12.2014	510 135	510 135	19 489 944
Capital increase	40 000	40 000	3 360 000
Issued shares as of 31.12.2015	550 135	550 135	22 849 944
Issued shares as of 31.12.2015	550 135	550 135	22 849 944
Capital increase	4 590	4 590	996 030
Capital increase	288 169	288 169	99 711 831
Issued shares as of 31.12.2016	842 894	842 894	123 557 805

Result per share and fully diluted result per share figures can be found in note 23.

Shareholders as of 31.12.2016		Numbers of shares	Ownership interest
Kongsberg Digital AS		288 169	34,19%
eCapital AS*		172 956	20,52%
Fredrikstad Energi		81 834	9,71%
Sogn og Fjordane Energi		76 728	9,10%
Energi og IKT Invest AS*		22 692	2,69%
Fryden Consulting AS		18 155	2,15%
Joseph Sirosh	Member of the Board	15 141	1,80%
Rostskydd AS		15 039	1,78%
Jørgen Kildahl	Chariman of the Board	14 590	1,73%
Knut Eirik Gustavsen		14 474	1,72%
t-hox AS		14 053	1,67%
Forksound AS		14 039	1,67%
Yngvar Seteklev		13 013	1,54%
Jo Morten Sletner		12 422	1,47%
Frode Teigen		9 000	1,07%
DataSET		7 419	0,88%
Roy Einar Angell		5 480	0,65%
Thomas Norrsèn		4 852	0,58%
Hovengen Invest AS		3 750	0,44%
Davide Roverso		3 750	0,44%
Total 20 largest shareholders		807 556	95,81%
Other shareholders		35 338	4,19%
Total numer of shares		842 894	100,00%

* eCapital AS and Energi og IKT Invest AS are owned by CEO and board member Knut Johansen.

NOTE 16 - OTHER CURRENT LIABILITIES

Other current liabilities	Parent company		Group
	2016	2015	2016
Advances from customers	0	6 455 521	0
Unearned revenue	13 437 959	8 045 000	13 437 959
Accrued vacation pay	2 988 264	2 174 075	2 988 264
Debt to eCapital AS	172 649	176 002	172 649
Accrued salary	30 834	49 511	30 834
Accrued expenses	1 179 332	1 488 769	1 226 385
Total	17 809 038	18 388 878	17 856 091

NOTE 17 - TAXES

Income taxes	2016	2015
Tax payable		
Changes in deferred tax	0	2 037 336
Total income taxes	-683 118	-246 556
Total income taxes	-683 118	1 790 780

Tax effect of share issue costs in 2016 of 1 486 064 NOK is recorded directly against share premium.

Reconciliation from nominal to actual tax rate	2016	2015
Profit before taxes	-538 305	9 115 976
Estimated income tax at nominal tax rate (25 / 27%)	-134 576	2 461 314

Tax effect on following items:

Skattefunn	-685 982	-690 158
Changed tax rate	87 443	-5 645
Non taxable income	-497	-2 157
Non-deductible costs	50 494	27 426
Total income taxes	-683 118	1 790 780
Effective tax rate	126,9 %	19,6 %

Specification of tax effects of temporary differences and losses to be carried forward:

	2016		2015	
	Asset	Liability	Asset	Liability
Operating assets	0	280 121	0	320 558
Receivables	40 800	0	0	0
Provisions	0	0	250 000	0
Losses carried forward	2 337 946	0	0	0
Total	2 378 746	280 121	250 000	320 558
Non-capitalized deferred tax assets	0		0	
Net deferred income tax assets/liability	2 098 625	0	0	70 558

As of 31.12.2016, the Parent company had a tax loss to be carried forward of 9 741 442 NOK (0 NOK in 2015). Deferred tax assets are recognized on the basis of expected future earnings.

Group

2016 tax expense is calculated as follows:	2016
Payable tax	8 609
Changes in deferred taxes	-683 118
<hr/>	<hr/>
Tax on ordinary profit	-674 509

Tax effect of share issue costs in 2016 totalling 1 486 064 NOK is recorded directly against share premium.

Reconciliation from nominal to actual tax rate	2016
Profit before taxes	-4 265 056
<hr/>	<hr/>
Estimated income tax at nominal tax rate (25 %)	-1 066 264

Tax effect on following items:

Change in unrecognized deferred tax assets	328 097
Skattefunn	-685 982
Other tax rates in subsidiaries	-59 046
Changed tax rate	87 443
Share of results of associated companies	671 245
Non taxable income	-497
Non-deductible costs	50 494
<hr/>	<hr/>
Total income taxes	-674 510
Effective tax rate	15,8 %

Specification of tax effects of temporary differences and losses to be carried forward:

	2016	
	Asset	Liability
Operating assets	0	280 121
Receivables	40 800	0
Provisions	0	0
Losses carried forward	2 666 043	0
<hr/>	<hr/>	<hr/>
Total	2 706 843	280 121
Non-capitalized deferred tax assets	328 097	
Net deferred income tax assets/liability	2 098 625	0

As of 31.12.2016, the Parent company had a tax loss to be carried forward of 10 835 100 NOK. Deferred tax assets are recognized on the basis of expected future earnings.

NOTE 18 - PENSION LIABILITIES

Employees in the Parent company and subsidiaries have a defined contribution plan. As of 31.12.2016, the plan covered 49 employees in the Parent company and 50 employees in the Group (35 in 2015).

Total payments associated with the pension plan in 2016 amounted to 980 984 NOK for the Parent company (715 736 NOK in 2015) and 1 017 547 NOK for the Group.

NOTE 19 - PAYROLL EXPENSES

	Parent company		Group
	2016	2015	2016
Salaries*	11 083 593	9 561 765	12 925 385
Employers' contribution	4 252 516	3 076 313	4 318 389
Pension costs, see note 18	980 984	715 736	1 017 547
Other payroll costs	1 805 991	1 458 082	1 862 259
Total	18 123 084	14 811 896	20 123 579

Average number of FTEs	40	28	42
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* 16 894 459 NOK of salaries were capitalized as research and development costs in 2016 (10 409 154 NOK in 2015).

NOTE 20 - OTHER OPERATING EXPENSES

	Parent company		Group
	2016	2015	2016
Premises	1 523 254	1 231 724	1 523 254
Office cost	1 459 208	1 154 690	1 504 073
IT services	2 133 826	2 001 093	2 138 193
Meetings, training	339 071	806 428	339 071
Accounting, audit, lawyers	1 654 717	1 389 142	2 137 748
Consultants	2 696 216	1 342 338	2 992 811
Travel	2 755 092	1 468 302	2 831 482
Sales and marketing	1 035 591	701 427	1 061 578
Losses on receivables	195 000	0	195 000
Other costs	272 074	187 188	309 443
Total	14 064 049	10 282 332	15 032 652

NOTE 21 - FUTURE LEASE OBLIGATIONS

The Company has a future lease obligation related to office rental and rental of office equipment. Rental costs are index regulated annually.

Annual rental costs in 2016 amounted to 1 852 560 NOK (1 465 418 NOK in 2015).

Future accumulated minimum payments related to lease obligations:

	2016	2015
Mature within one year	1 418 007	1 562 701
Mature between one and five years	4 583 908	2 439 594
Mature later than 5 years	2 087 208	0

NOTE 22 - FEES AND REMUNERATION

Remuneration and other fees to:	Managing director	Chairman of the board	Board
Remuneration	2 000 615	33 333	80 000
Other benefits	5 072	0	0
Pension costs	40 560	0	0

Of the remuneration paid to the chairman, 20 000 NOK was paid to the previous chairman and 13 333 NOK to the new chairman.

The managing director has an agreement to receive at least one year's salary and other benefits in the event of resignation.

Loan to managing director, members of the board and shareholders

There were no loans to the managing director, members of the board or shareholders as of 31.12.2016 or 31.12.2015.

Auditor

Expensed auditing fees in 2016

Mandatory audits	118 000
Tax consulting	8 000
Other services	111 000
Total fees	237 000

NOTE 23 - NET PROFIT PER SHARE

Net profit per share is calculated by dividing net profit before prospective minority interests by the average number of issued shares during the year.

	2016	2015
Net profit	-3 590 546	7 325 196
Average number of issued shares	522 015	513 423
Net profit per share	-6,88	14,27
Net comprehensive income	-3 516 522	7 325 196
Average number of issued shares	522 015	513 423
Net comprehensive income per share	-6,74	14,27

Since the Company has not issued options, fully diluted net profit per share is equal to net profit per share.

NOTE 24 - RELATED-PARTY TRANSACTIONS

The Company rents offices from a company where the managing director and member of the board has ownership interests. Paid rent in 2016 amounted to 1 626 485 NOK (1 231 724 NOK in 2015).

The Company has a short term debt to a company related to the managing director and member of the board for 172 649 NOK as of 31.12.2016 176 002 NOK in 2015). No interest was calculated on the debt in 2016 or 2015.

In 2016, the Company had income from consulting services equal to 917 897 NOK from companies where the managing director and member of the board has ownership interests (2 015 377 NOK in 2015). eSmart Systems AS also bought services totaling 1 447 077 NOK in 2016 (604 244 NOK in 2015) from companies where the managing director and member of the board has ownership interests.

In 2016, eSmart Systems AS sold consulting services and products to the associated company Smartliv AS for 1 832 486 NOK (licenses for 19 000 000 NOK in 2015). eSmart Systems AS is obligated to provide services in the future in connection with the 2015 sale. A portion of the sale price is therefore treated as unearned income as of 31.12.2016 and 31.12.2015. As of 31.12.2016 the Company has trade receivables with Smartliv AS totalling 244 879 NOK (23 750 000 NOK in 2015).

In 2016, the Parent company and the Group borrowed 7 265 163 NOK from some of the shareholders. The loan was repaid in full in December 2016. Overall 298 032 NOK was paid in interest on loans in 2016.

The parent company bought services from the subsidiaries in 2016 for a total of 1 952 323 NOK (0 NOK in 2015), including the cost of goods. As of 31.12.2016, the Parent company had payables to subsidiaries of 502 877 NOK (0 NOK in 2015). The Parent company sold services to its subsidiaries in 2016 for 874 608 NOK (0 NOK in 2015). As of 31.12.2016, the Parent company had receivables from subsidiaries totalling 874 608 NOK (0 NOK in 2015).

As at 31.12.2016, the Parent company had loans to subsidiaries for 1 074 358 NOK (0 NOK in 2015). 2016 loan interest is estimated at 14 624 NOK (0 NOK in 2015).

NOTE 25 - BORROWINGS / PLEDGED ASSETS

The parent company and the Group has the following secured loans:	2016	2015
Loan DNB	844 841	967 542
Loan Innovation Norway	0	2 500 000
Total	844 841	3 467 542

Par value of pledge

Cars	1 090 218	1 090 218
Operating equipment	18 000 000	5 000 000
Receivables	18 000 000	5 000 000
Total	37 090 218	11 090 218

Booked value of pledged assets

Cars	1 039 000	1 217 700
Operating equipment	1 411 101	1 394 901
Receivables	13 283 542	31 849 910
Total	15 733 643	34 462 511

152 981 NOK of the loans from DNB will be repaid more than five years after the end of the financial year end. The loan from Innovation Norway is paid in full.

NOTE 26 - SUBSEQUENT EVENTS

Subsidiaries in Germany, Denmark and Sweden will be established in 2017.



AUDITORS REPORT

MYRDAHL OG SVEEN
STATSAUTORISERTE REVISORER

Myrdahl og Sveen as
Støperivn. 26, Postboks 123,
N-2011 Strømmen, Norway
Telefon: + 47 63 89 46 60
Telefax: + 47 63 89 46 61
www.myrdahl-sveen.no
Org.nr./Revisornr. NO 942 254 962
Statsautoriserte revisorer:
TOM-MORTEN MYRDAHL
INGE SVEEN
MORTEN RUGTVEIT
Registrert revisor:
LISBETH SØRENSEN

To the Shareholders' Meeting of eSmart Systems AS

Independent auditor's report (translated from Norwegian)

I kontorfellesskap
med registrert revisor:
TORE D. RAASØK - Revisornr. 962 605 435

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of eSmart Systems AS (the Company), in our opinion:

- The financial statements are prepared in accordance with the law and regulations
- The accompanying financial statements, showing a profit of NOK 144 814, give a true and fair view of the financial position of the parent company as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9.
- The accompanying financial statements, showing a loss of NOK 3 516 522, give a true and fair view of the financial position of the group as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements comprise

- The financial statements of the parent company, which comprise the balance sheet at 31 December 2016, income statement, statement of comprehensive income, changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- the financial statements of the group, which comprise the balance sheet at 31 December 2016, income statement, statement of comprehensive income, statement of changes in equity, cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, included International Standards on Auditing (ISAs). Our responsibilities under those standards are further 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 we 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 information included in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.



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Medlem av Den norske Revisorforeningen

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 are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act section 3-9, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management 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 and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Refer to <https://revisorforeningen.no/revisjonsberetninger> which contains a description of Auditor's responsibilities.

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.

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.

Strømmen, 28. mars 2017

Myrdahl og Sveen AS



Morten Rugtvedt

State Authorized Public Accountant (Norway)

BOARD OF DIRECTORS' REPORT 2016

OPERATIONS AND LOCATIONS

eSmart Systems AS develops next generation software systems for grid companies, utilities, large energy consumers, prosumers and retailers. The solutions are helping customers benefitting from price fluctuations in the energy market, reducing energy consumption and greenhouse gas emissions. The Company's systems and solutions are also applicable in rapidly growing areas such as smart buildings and smart cities.

By combining in-depth industry know-how with system design and machine learning, solutions have been developed which facilitate the utilization of the vast volumes of data which are now becoming available.

Integrity and teamwork coupled with ambitions of excellent deliveries and innovation, forms the basis for eSmart Systems' values. Value-driven processes put the customers in the center and contribute to our competitive advantage in the global marketplace.

The Company's headquarters are in Halden, Norway, which over the last two decades has developed into the most innovative and competent energy IT cluster in Norway. eSmart Systems AS (Parent company) has established the British subsidiary eSmart Systems UK Ltd.,

with offices in London; the subsidiary eSmart Systems US Inc. located in Palo Alto (CA), USA; as well as representative offices in Singapore (eSmart Systems Singapore).

FOCUS ON CUSTOMERS, PRODUCTS AND FINANCING IN 2016

The Company doubled its revenue from 2013 to 2014, and again from 2014 to 2015. 2016 was, however, a year with focus on product development and, attracting funding for rapid growth and expansion abroad. The revenues for 2016 only showed a minor growth compared to 2015, whilst the order backlog was 2,8 times larger at the start of 2017 compared to the start of 2016.

The Company is experiencing a strong and increasing interest in the market for its solutions. The use of Connected Grid is growing in scale among existing and new customers. The marketing of a broader product portfolio has been well received in the market, where Connected Prosumer, Connected Health and Connected City all resulted in the signing of several large contracts in the second half of the year.

In a rapidly developing market, a prerequisite for further growth is to ensure eSmart Systems a solid financial basis. A milestone was reached

when, after a thorough process, Kongsberg Digital AS was offered an ownership stake in eSmart Systems in December 2016, and injected NOK 100 million into the Company. This gave Kongsberg Digital a shareholding of 34.19 percent. Kongsberg Digital does not only bring capital to eSmart Systems, but also valuable knowledge and a global network to additional industries. End 2016, the Company is well equipped to realize its growth ambitions in the Nordic, Europe, USA and Asia.

2016 saw a further development and strengthening of the partnership with Microsoft. There was also significant focus on the collaboration in and around the IT cluster in Halden with the continuation of the three-year program "Empower", which is part of the EU's Horizon 2020 program. In November, the Halden -cluster was awarded another EU Horizon 2020 project with a budget of € 16.5 million. The "Invade" project builds on Empower and the objective is to develop ground-breaking decentralized energy solutions. The three-year ChargeFlex program, run by The Research Council of Norway (RCN), has also had a good momentum in 2016.

At year-end 2016, the Company submitted its final report to Innovation Norway on Connected Grid's successful, three-

year product development process. The R&D contract was established in 2013, in collaboration with demanding customers and Innovation Norway. By the completion of the project, several customers signed commercial contracts for the use of solutions developed during the course of the project.

NOTES TO THE FINANCIAL STATEMENTS

eSmart Systems AS turnover of 40.7 (40.1) MNOK in 2016 was at the level of 2015. The Group had a turnover of 40.8 MNOK in 2016. The Parent company's net income for the year was 0.1 MNOK compared to 7.3 MNOK in 2015. On Group level, the net result was -3.5 MNOK. The focus in 2016 was to build a foundation for future growth, and eSmart Systems AS entered 2017 with a record high order backlog. The financial results of Parent company and Group in 2016 were however lower than expected. In 2017 the focus will be on growth in turnover and continued international expansion.

In 2016, research and development (R&D) costs amounted to 29.1 MNOK (18.7 MNOK in 2015). Of total R&D costs, product development amounted to 18.7 MNOK (10.3 MNOK in 2015), which was activated. The balance sheet disclosure requirements are considered to be met. All development takes place in the Parent company.

Total cash flow from operating activities in the Parent company was 20.8 MNOK in 2016 (2.5 MNOK in 2015), and operating profit before tax for the Parent company amounted to -0.5 MNOK (9.1 MNOK in profits in 2015). The difference is mainly due to changes in other accruals (-6.8 MNOK), receivables (18.6 MNOK), changes in trade payables (5.8 MNOK) and depreciation (3.8 MNOK). The Group had a cash flow from operating activities in 2016 of 19.8 MNOK, profit before tax in 2016 was -4.3 MNOK. The difference is mainly due to changes in other accruals (-6.7 MNOK), receivables (19.1 MNOK), changes in trade payables (5.3 MNOK), depreciation (3.8 MNOK), and profit share in affiliate company (-2.7 MNOK).

The Parent company's liquidity reserves 31.12.2016 was 79.4 MNOK while the Group's

liquidity reserves were 79.5 MNOK. This forms a solid basis for funding eSmart Systems' and its subsidiaries' investments.

The Parent company's short-term debt as of 31.12.2016 amounted to 97.3% of total debt, compared to 88.8% on 31.12.2015. This increase is mainly due to the fact that the Group no longer has long-term loans. The loan from Innovation Norway was repaid. The Group's short-term debt as of 31.12.2016 was 29.6 MNOK, 97.2% of total debt. The Group's very sound financial position is adequate to settle short-term debt as of 31.12.2016 with the Group's liquid assets.

Total assets at the end of the year for the Parent company was 161.8 MNOK compared to 65.9 MNOK in 2015. The increase is due to an equity issue to Kongsberg Digital AS raising NOK 100 million. For the Group, total equity 31.12.2016 amounted to 157.7 MNOK. The equity ratio for the Parent company was 80.9% compared to 51.9% the year before. The Group had an equity ratio of 80.7% as of 31.12.2016. local presence in our selected regions.

FINANCIAL RISK

GENERAL OVERVIEW OF OBJECTIVES AND STRATEGY

The Group currently has limited exposure to financial risk in most areas. The Group's strategy does not involve the use of financial instruments, although their use is under continuous evaluation by the Board of Directors.

MARKET RISK

The Group is to a limited extent exposed to currency exchange rate risk, as most of its revenue is in local currency (NOK). The Group has not entered into derivatives or other agreements to reduce exchange rate risk or market risk. The Group is currently not exposed to changes in interest rates.

CREDIT RISK

The risk of losses on receivables is considered to be low. The Group has not yet experienced any losses on receivables, and is not anticipating that this will change. Gross credit risk exposure as of 31.12.2016 was 18.1 MNOK for the Parent company. This is a reduction from 2015 when the exposure was 33.8 MNOK. eSmart Systems AS has not entered into any derivative agreements in order to reduce the

Group's credit risk exposure and no provisions have been made.

LIQUIDITY RISK

The Group's liquidity situation is robust due to the NOK 100 million capital increase made in 2016. On average, credit terms from suppliers is 20 days. There are currently no plans to renegotiate the terms.

GOING CONCERN

In accordance with Section 3-3a of the Accounting Act, the Board of Directors confirms that the Company has basis for continued operations. This assumption is based on solid liquidity per 31.12.16, and the Group's long-term, strategic forecasts.

WORKING ENVIRONMENT AND EMPLOYEES

Absence due to illness was a total of 1,205 hours for the Group in 2016 (1,047 hours in 2015), which corresponds to approximately 1.3% (2.1% in 2015) of the total number of working hours in the Group. The Group considers this figure to be satisfactory. Right from the start the Company has focused on ensuring a good physical and social working

environment, and all employees are offered the opportunity to participate in health & fitness programs.

There has been no incidents or reports on work-related accidents resulting in significant material damage or personal injury during the year.

The working environment is considered to be good, and improvement efforts are made on an ongoing basis.

EQUAL OPPORTUNITIES

The Group offers a workplace where there is full equality between women and men. The objective to ensure that there is no gender discrimination in matters such as salary, promotion and recruiting is incorporated in the Group's policy. The Group has traditionally recruited from areas where men are overrepresented.

The Group has 49 employees, of which eleven are women. The chair of the Board is male but there are women in management positions in the company. The Group conducts a working environment survey annually to, among other things, detect gender discrimination concerning salaries, promotion and participation in internal offers of in-service training. Working hours' arrangements are determined by roles and are not gender dependent.

DISCRIMINATION

The purpose of the Norwegian Anti-Discrimination Act is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination based on

ethnicity, national origin, descent, skin color, language, religion or faith. 9 nationalities are represented in the eSmart Group and the Group is systematically promoting the Act's purpose within its business. Focus areas are recruiting, salary and working conditions, promotion, development opportunities and protection against harassment.

ENVIRONMENTAL REPORT

The Group's operations do not pollute the environment beyond what is reasonable and necessary for the operation of the Group. To actively contribute to a better environment, all employees use the Group's electric cars (Tesla S) for short and medium distance work trips.

FUTURE PROSPECTS

In accordance with its business plan, eSmart Systems launched the second major release of its system portfolio second half of 2016, significantly strengthening its product portfolio. The equity issue to Kongsberg Digital AS facilitates further growth in accordance with eSmart Systems' Strategy and the business plan. In addition, Kongsberg Digital AS' participation as shareholder and industrial partner gives access to new market segments with a large potential.

The fundamental changes taking place in the energy sector fit well with the Group's ground-breaking and innovative solutions designed for a complex energy landscape. Order intake is satisfactory. On this basis, the Board of Directors is confident that the Group will develop according to its business plans, and thus confirm that the prerequisites for continued operations are present.

ALLOCATION OF NET INCOME

The Board of Directors proposes the following allocation of profit for eSmart Systems AS:

Other equity NOK 144,814

Total allocated NOK 144,814

The proposal is based on the owners' desire to strengthen the capital structure of the Company.

Halden, March 28th 2017



Jørgen Kildahl
Chairman of the Board



Erling Sande
Member of the Board



Bjørn Svendsen
Member of the Board



Joseph Sirosh
Member of the Board



Hege Skryseth
Member of the Board



Knut Johansen
Member of the Board/CEO



Tel: +47 950 55 888
info@esmartsystems.com

Norway:
Håkon Melbergs vei 16,
1783 Halden, Norway

US:
Innovation House,
470 Ramona Street
Palo Alto, CA 94301-1707