



eSmart
SYSTEMS

Annual Report 2017



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CEO COMMENTS

The traditional levers of production, capital investment and labor, are in decline as is their ability to propel future economic growth. A new factor, however, has the potential to introduce new sources of growth, changing how work is done and reinforcing the role of people to drive growth in business. This new factor is digital intelligence: the ability to transform vast digital data into real-time, actionable, customer-centric insights.

Critical to digital intelligence in the power industry is deep grid domain knowledge, a data engine able to prepare huge amounts of data for AI algorithms, as well as machine learning and AI expertise. eSmart Systems has great coverage in all three, which is why we are among the very first in AI operations in power markets.

2017 highlights

2017 was a good year of great product development progress for eSmart, due in part to a share issue during the year. The issue proceeds, as directed by the board, were used to develop and strengthen eSmart's product portfolio and sales. Sales in the last quarter of 2017 were very good and order in-take in the last seven weeks was 40 MNOK. Despite this, we sold half of what we anticipated for the year, largely due to low market maturity. Clearly, eSmart has been early into an immature market. We see, however, very good signs of maturity accelerating everywhere.

One of our proudest accomplishments in 2017 was receiving in-field proof that eSmart technology works, saving both capital and operational expenses. JEA, a key US partner for eSmart, deployed our Thundercloud solution amid the hurricane Irma fallout to rapidly restore power to more than 6 million homes.

"We have benefited greatly from these services because there are areas we weren't able to see. This has helped us not only with power restoration, but also with the safety of our crews", Geri Boyce, Jacksonville Electric Authority, on Thundercloud storm damage assessment in Florida.

This is only one strategic partnership eSmart strengthened and cultivated in 2017. Another proud eSmart partner is Microsoft, who awarded eSmart in 2017 with their Partner of the Year award for the second time. eSmart also signed an agency agreement with **Border State Electronics (BSE)** to bring eSmart Systems' Thundercloud, Connected Drone and Connected Grid systems to customers in the 48 contiguous states, representing a very important milestone for eSmart Systems and our continued growth in the US market.

We also signed new partners including ATEA, the leading supplier of IT infrastructure in Norway and the second largest in Europe, and Stanley, a fortune 200 company and the world's largest supplier of electronic security. Both partners hold tremendous potential to develop new products, open new markets and sell concrete eSmart solutions.

On the project side, in 2017 we made very good progress on the Horizon 2020 projects; EMPOWER and INVADE. In terms of new products, eSmart developed several new during the year including a smart EV charging solution under SmartLiv, a full scope trading system for EDF and licensed in the UK and, not to mention, Thundercloud, which was conceived, developed and launched all in 2017. Additionally, we completed the third of four Connected Drone development stages together with 12 utility partners. The final stage

will commence in 2018 and will be completed during the year.

The first deliveries of Connected Grid took place in 2017, which were to Norgesnett and Glitre Energi. eSmart also delivered Connected Prosumer to one of the biggest prosumers in Norway, ASKO.

eSmart signed new contracts including a 3-year contract with Statnett to further develop artificial intelligence in drones and another contract with Statnett and Hafslund to further develop demand response management.

Ground-breaking technologies make our markets exciting; maturing markets open vast opportunities. We ended 2017 with great enthusiasm, energy and expectations for a breakthrough year in 2018, which will be very much due to our extremely competent and hard-working team.



Halden, April 2018
Knut Johansen, CEO



2017 IN REVIEW

PARTNERSHIPS

In 2017, eSmart deepened existing partnerships and cultivated new ones. With Microsoft, a key partner since our founding, we strengthened our relationship as we were again awarded by Microsoft with their Partner of the Year award for the second time.

In the US, we have built a solid relationship with TEA, which uses Connected Grid to perform big data analytics for JEA and other public utilities. In 2017, eSmart was proud to be a key player for JEA in the post-Irma hurricane recovery efforts. Thundercloud was deployed to quickly and safely identify grid faults and rapidly restore power to more than six million homes. TEA has great market coverage and is using its position to help eSmart systematically target and reach across the US market. We expect several new sales deals in the US in 2018 as a result of our TEA alliance.

NEW PARTNERS

Atea, the leading supplier of IT infrastructure in Norway and the second largest in Europe, was added to eSmart's portfolio of important partnerships in 2017. This highly complemen-

tary partnership is strategic both in terms of innovation and concrete sales of eSmart Systems' solutions to the energy, health and municipal sectors.

In August, eSmart signed an agreement with **Stanley**, a fortune 200 company and the world's largest supplier of electronic security. Working together to explore new technological opportunities in emerging markets such as Internet of Things (IoT), Smart Office, Smart Home, Welfare Technology and Smart City, we began developing new security applications for the holistic protection of information and personnel, demonstrating the breadth of the platform's applications. Stanley is an enthusiastic partner, which eSmart has very good cooperation with. There is tremendous national and international opportunity for the solutions we are developing for Stanley.

In June, eSmart signed an agency agreement with **Border State Electronics** (BSE) to bring eSmart Systems' Thundercloud, Connected Drone and Connected Grid systems to customers in the 48 contiguous states, representing a very important milestone for eSmart Systems and our continued growth in the US market.



In April, eSmart Systems signed an agreement with **Kongsberg Geospatial** (KG) an Ottawa-based developer of real-time, mission critical, geospatial visualization software and a provider of technology for military UAV platforms for over a decade. KG has partnered with eSmart to develop a simple, portable display for civilian UAV operators that provides a unified situational awareness display combining a wide range of live data feeds. It enables multiple drones to be managed simultaneously by a single operator and provides real-time calculation of communications line-of-sight to enable BVLOS operations.

DELIVERIES

After a two and half year industrial research and development program to develop Connected Grid, eSmart's advanced analytics platform, signed the first delivery agreements with Norgesnett and Glitre. Connected Grid is the core system for AMI reading and management and the foundation needed to capture value from the AMI and the "Smart Power" initiative.

August was a big month for eSmart, which was delightfully capped when eSmart was deeply privileged and highly honored to host the Crown Prince and Princess of Norway, Haakon Magnus and Mette-Marit, at eSmart Systems' headquarters at Remmen Business Park. The Royal Highnesses' genuine interest in the development of advanced technologies, such as artificial intelligence, and their particular interest in eSmart's application of advanced technologies was greatly evident, inspiring and appreciated by all of us here at eSmart.

PRODUCT LAUNCH

Thundercloud was conceived, developed and

launched all in 2017. Thundercloud is a revolutionary full-scope, end-to-end solution featuring a sensor-packed drone interconnected with a mobile operations center, enabling faster, safer, cheaper identification of power line and grid faults. Thundercloud's effectiveness and efficiency at collecting high resolution images and real-time analytics was proven in the successful restoration works following hurricane Irma.

Introduced by US State Senator John Hoeven, eSmart officially and proudly launched Thundercloud in the US. Thundercloud was received with a storm of enthusiasm and post-launch feedback was overwhelming. With our partners TEA and BSE, eSmart began work to roll-out Thundercloud across the US.

ORGANIZATION

eSmart both expanded and right-sized the organization in 2017. Mid-level staff were reduced and top-level personnel with not only experience and skills, but great expertise was added. eSmart has a very competent organization with great competitive advantage due to its unique expertise.

eSmart earned a lot of new attention in 2017 from government bodies such as NVE and the Norwegian Water Resources and Energy Directorate, which visited eSmart during the year. We had good conferences and seminars with NVE during which we discussed improving regulatory frameworks to better utilize and bring technological advantages to market. This dialogue is needed to avoid unnecessary infrastructure investments by using AI and eSmart solutions to improve system performance instead. Doing so can yield a staggering 40% savings in operational and capital expenditures.

2017 was a year that brought several new breakthroughs as we succeeded at operationalizing AI - mainly through our Connected Drone solution but also substation load prediction and distribution networks, the use of drones for storm damage assessment, and the “virtual nursing home” solution developed and delivered to Halden municipality where the eSmart platform is utilized for following up patients directly within their homes after discharging from hospital. This saves the municipality for tremendous costs associated with nursing homes and increases patient welfare and satisfaction.

CONNECTED GRID

In 2017, eSmart completed a three-year project to establish a big data platform to handle data from meters and sensors. A new three-year project was begun to add on more artificial intelligence and functionality into the platform to use smart meter data to optimize grid operations. The system was also expanded into district heating and sold to utilities in Denmark as well as Norway.

SMART CITY

eSmart developed virtual short term-stay functionality and daily operations. It went into operation as part of the new digital health system for Halden municipality. This has been a great success for patients who enjoy the comfort of being at home but with the same level of medical security, and the municipality, which saves more than 1 MNOK per patient - allows patients to be home if they can, which they prefer with same or better security.

We saw a very good link into utilities' grid operating systems. It's possible to build on and transfer the same functionality to protect people out on the grid. The system can recognize dangerous situations, monitor and report on them.



MARKET OUTLOOK AND OPPORTUNITIES

CHALLENGES AHEAD

One of eSmart's greatest challenges is the sheer pace of technological change. The challenge of following 3rd party toolkits or new algorithms, which are continuously changing, while also developing new true-future features is immense. The speed of change will only accelerate and keeping up requires a leading, agile, and adaptive organization. Accordingly, eSmart will continue to add more of the best people as we go.

Related, but more specific is the risk of AI. eSmart is using AI to do things no one has done before, which represents higher risk and expense.

Scaling eSmart is a key challenge and to do this eSmart needs many contact points. As one scaling strategy, eSmart will capitalize on several strategic partners including Microsoft, ATEA and Crayon, as well as organic growth. Scaling requires products, which eSmart will have during the 2nd half of 2018, including Connected Drone, Connected Grid and Connected Prosumer.

THE MARKET AHEAD

eSmart is an early mover in a new space. With proven technology and proven benefits, one of eSmart's greatest opportunities is simply market maturity. Our timing will prove critical.

Energy markets are experiencing dramatic change. The key drivers of change are clearly technology, such as AI, machine learning, big data, etc., as well as climate change and the shift in energy production to end users produced, which is now very visible.

There is no doubt our thinking and focus on new technologies was right on. eSmart was, however, a little early. Energy market maturity

will accelerate in 2018 as smart meter rollout continues towards completion in 2019/2020 and grid companies increasingly turn to new and data-driven technology to cope with growing energy demands, cut capital and operational expenditures and cope with climate change impacts. In addition, as a result of the increasing number of EV options, interest in PV panels and battery solutions now coming to market, local market consumers activity will grow in 2018.

Steadily growing energy demands as well as the increased need to cut peaks and fill valleys, will require utilities and energy companies to seek new tools to cope. More companies, like Statnett, will uncover the benefits of using eSmart's flexibility toolkit to handle grid congestion and use software as alternative to grid investments in 2018, and further drive open the flexibility toolkit market.

The drone market represents a completely new way to focus on asset performance by rapidly processing data and accurately identifying infrastructure components in need replacing. Drones have great potential to reduce costs and increase worker safety. As a result of completed proofs of concept for eSmart's drone solution in Norway and France in 2017, there will be greater opportunities for drone contracts in 2018. In 2018, eSmart will transition from R&D to finished and delivered product versions. The first drone contracts are expected to come from the UK and Germany.

The Utility market also shows signs of maturity as grid companies around the globe are increasingly using new technologies, such as drones, intelligent connected systems and eSmart's end to end solution. Following



hurricane Irma, interest grew exponentially as utilities saw that they can quickly make practical use of technology. Utilities will continue to become data driven in 2018 as they see the benefits of real-time data, for example, after storms.

Smart cities is an exciting area that enables municipalities to cross fertilize their businesses by removing silos between water, energy, healthcare, transport, etc. By doing so, cities can cross link and deliver more value by accessing more data than has otherwise been possible. Norway, with its focus on EVs as well as the number of EVs on the roads, has good competitive advantage. Transport, for example, is growing as shipping and ports shift to electricity. This shift will put considerable stress on grids. Coping with such trends will require new data from newly accessed sources.

In addition, the regulatory environment will experience significant change in the coming years. The authorities responsible for regulations are moving in the right direction as they migrate to the cloud themselves and change rules for drones to help reduce blackout time. We see these changes everywhere, but most quickly in the Nordics and US.

On the market side, as a result of increasing energy demands and smart meter implementation, we will see changes in the way grid companies price as they seek to utilize their flexibility to reduce energy peaks. The alternative is new infrastructure investments, which would be much more expensive for customers. New tariffs are already being addressed in Norway by NVE and will be by similar organizations in other countries.

STRATEGIC FOCUS IN 2018

As an early mover in an emerging market, eSmart began with a broad product focus. In 2018, eSmart will concentrate focus on two product areas. Firstly, intelligent asset management where the overarching idea is to gather massive and diverse information from grids by means of sensors, drones, mobiles, etc., into an AI engine. The engine output is clear advice for utilities on how to prioritize their maintenance and prevent blackouts.

Secondly, is flexibility management to help utilities and other energy service providers balance supply and demand on an increasingly distributed and multi-directional grid, find new ways to reduce capital and operational expenses, and launch services that generate new revenue streams and improve customer engagement by offering customers more energy choice and flexibility.

Across all our products, eSmart will continue to develop more artificial intelligence and utilize more machine learning in 2018.

CUSTOMERS AND PARTNERS

To continue and to accelerate progress, eSmart Systems is dependent on customers and partners who value innovation. In 2017, we focused on growing business as we signed new contracts with industry heavyweights including Statnett, Statkraft, Stanley and Troms Kraft, among others; signed new partners; launched new products in both Norway and the US.

US HEADQUARTERS

In 2016, eSmart Systems signed key contracts with The Energy Authority (TEA) and their customer Jacksonville Electricity Authority (JEA) in the United States. Together with JEA we conducted a successful pilot. In 2017, we entered into a SaaS agreement and opened our US headquarters in Bellevue, WA. The Bellevue location positions eSmart close to two strategic partners, Microsoft and TEA, both of which provide us with a base to accelerate expected growth.

“This is not only an important step into the US market, but also a big step in eSmart Systems’ global expansion,” Knut Gustavsen, President of North America operations, eSmart Systems.

“It is a pleasure to have eSmart Systems here in Bellevue, and we look forward to further joint engagements that grow analytical utility services in the US market,” Tom Harvey, CIO of The Energy Authority.

NEW CUSTOMERS, NEW STRATEGIC PARTNERS

We signed several important contracts in 2017. Among them were two projects with the Norwegian Transmission System Operator (TSO) Statnett, and a SaaS agreement with Statkraft - Norway’s largest energy producer.

In November eSmart partnered-up with Stanley Security to collaborate on deliveries of innovative forward-looking solutions in the welfare and security sectors.

“For a long time, we have been looking for an innovative partner who can lift our own digitization process, while also being so complementary that we can have a concrete market cooperation. This collaboration between Stanley and eSmart Systems provides this combination, enabling us to deliver smart and future-oriented security services to our customers,” Morten Munch-Olsen, Director of Business Development at Stanley Security.

At the very end of 2017, Troms Kraft Nett joined the Astrum project, which is a three-year R&D project focusing on AMI operations, power grid operations, grid development and maintenance.

The project objective is to make an intelligent decision support tool for the operation and advantage of smart grids. The project addresses solutions for the industry based on brand new technology using artificial intelligence and machine learning.

“The grid industry and Troms Kraft Nett are facing major pending challenges. As aging power grids require new investments, it’s important to think new and smart to make the most effective use of our resources. Doing so requires good decisions based on available and relevant information. We are therefore very pleased to be part of the Astrum project, led by eSmart Systems,” Erling Dalberg, CEO of Troms Kraft Nett.



LAUNCH OF DRONE TECHNOLOGY AND HIGH-END ANALYTICS

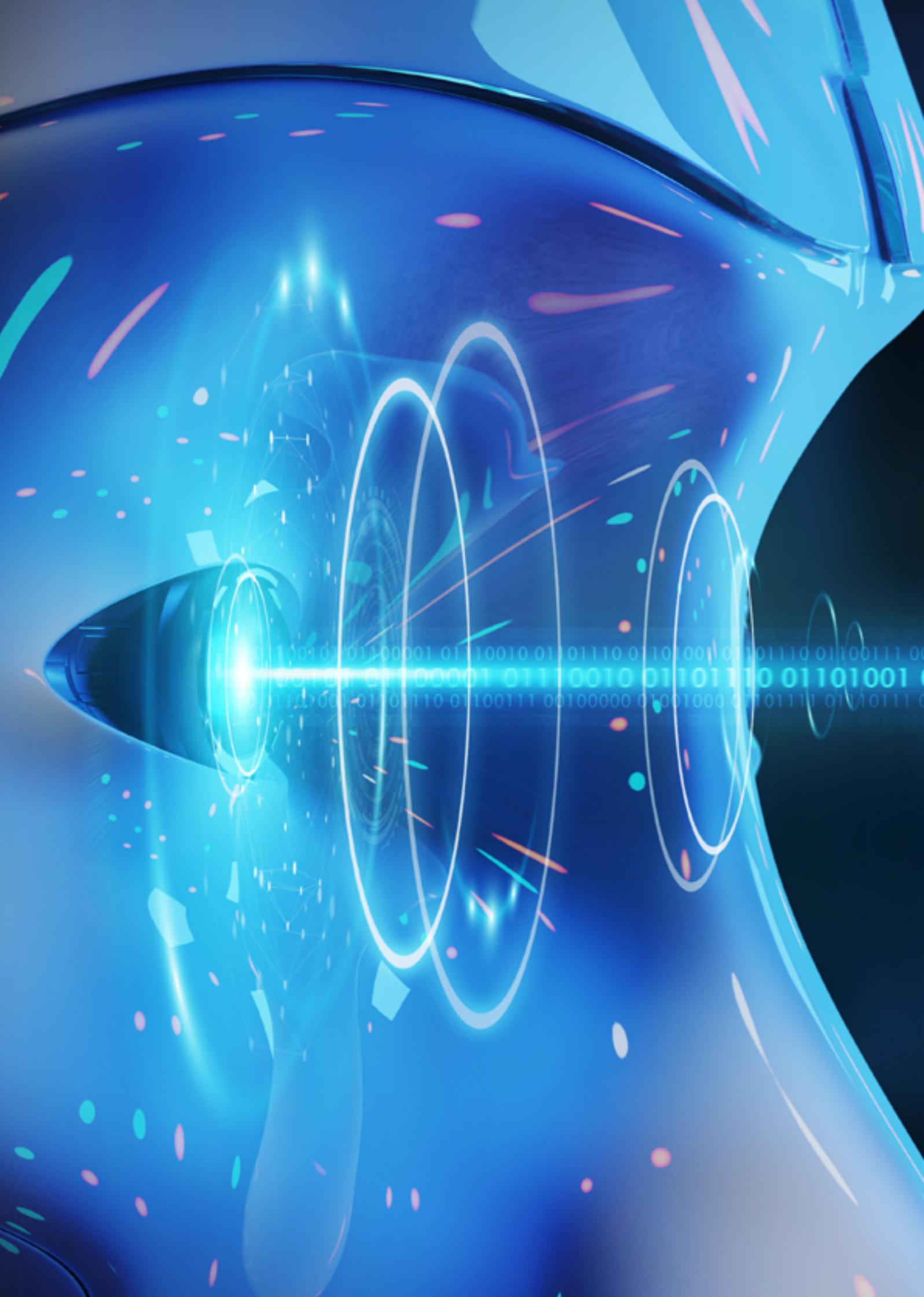
Throughout the year, there was a lot of activity related to our intelligent drone inspection offerings. We launched Thundercloud in June - an end-to-end solution for infrastructure inspections. Thundercloud is a fully equipped, mobile operations center that supports planning and execution of drone-assisted inspections, including real time operations monitoring and decision-support aided by artificial intelligence.

The Connected Drone concept went from R&D to production to market launch in 2017 as it was rapidly deployed following Hurricane Irma to aid JEA in its post-storm recovery.

“We benefited greatly from these services because there are areas we weren’t able to see. Connected Drone helped us not only with power restoration, but also with crew safety,” Geri Boyce, Jacksonville Electric Authority.

Together with Border States Electric (BSE) eSmart Systems finalized an agency agreement to provide Thundercloud, Connected Drone and Connected Grid systems to the US utility industry.

“The Thundercloud, Connected Drone and Connected Grid solutions from eSmart Systems are just what our utility, gas and oil customers have been asking for. We are thrilled about our new relationship with eSmart Systems and the high-quality, end-to-end, complete solutions that we will supply to the utility and industrial markets,” Gerald “Poke” Buck, Senior Vice President Utility Sales, Border State Electric.



RESEARCH AND DEVELOPMENT

ANALYTICS: TOWARDS INDUSTRIAL-GRADE MACHINE LEARNING

AI and Machine Learning are undoubtedly soon to become pervasive technologies across society. The range of applications and the power of deployable solutions is growing rapidly. With this comes the growing need for replicable, robust, monitorable, maintainable, and scalable solutions. This set of properties forms the basis of what we can call Industrial-Grade Machine Learning. Apart from simple one-of-a-kind or proof-of-concept applications, handcrafted models deployed, for example, as dedicated web services are insufficient when the value to be extracted spans a large number of assets, each requiring a personalized model.

The energy and power utilities sectors are characterized by high multiplicities that

require scalable and replicable solutions. A representative example is load monitoring and forecasting at secondary substations. A typical electrical power distribution utility has from a few hundred to several thousand substations, each one having a unique load profile and requiring a tailor-made prediction model. Manually developing, deploying, integrating, operating, monitoring, and maintaining thousands of prediction models is neither feasible nor sustainable. Similar examples from the same industry are production forecasts for residential solar power installations, load forecasts for EV charging stations, flexibility forecasts for prosumers, and automated analysis of inspection data, such as imagery.

Industrial-Grade Machine Learning entails,



in our view, a set of basic requirements, illustrated in the following example of predictive analytics services, though the same principles apply equally well to inspection and other analytics services.

STANDARDIZATION. Prediction services require a unified interface (API) to facilitate standardization, maintainability, and interchangeability between services. This also allows “consumers” to query the forecasting capability of each prediction service.

LOGGING AND MONITORING. The activity and performance of each prediction service should be logged and monitored to ensure traceability and early detection of performance degradation which might trigger a prediction model update or re-training. Supporting tools for large scale monitoring such as graphical dashboards provide additional support.

AUTOMATED ROUTING. A prediction request should be automatically routed to the best available prediction service that can handle the request. Alternative services can potentially be available that differ in performance profile and data requirements, and a mechanism to select the best available service given the current conditions and constraints makes the system significantly more robust, for example in the case of missing data.

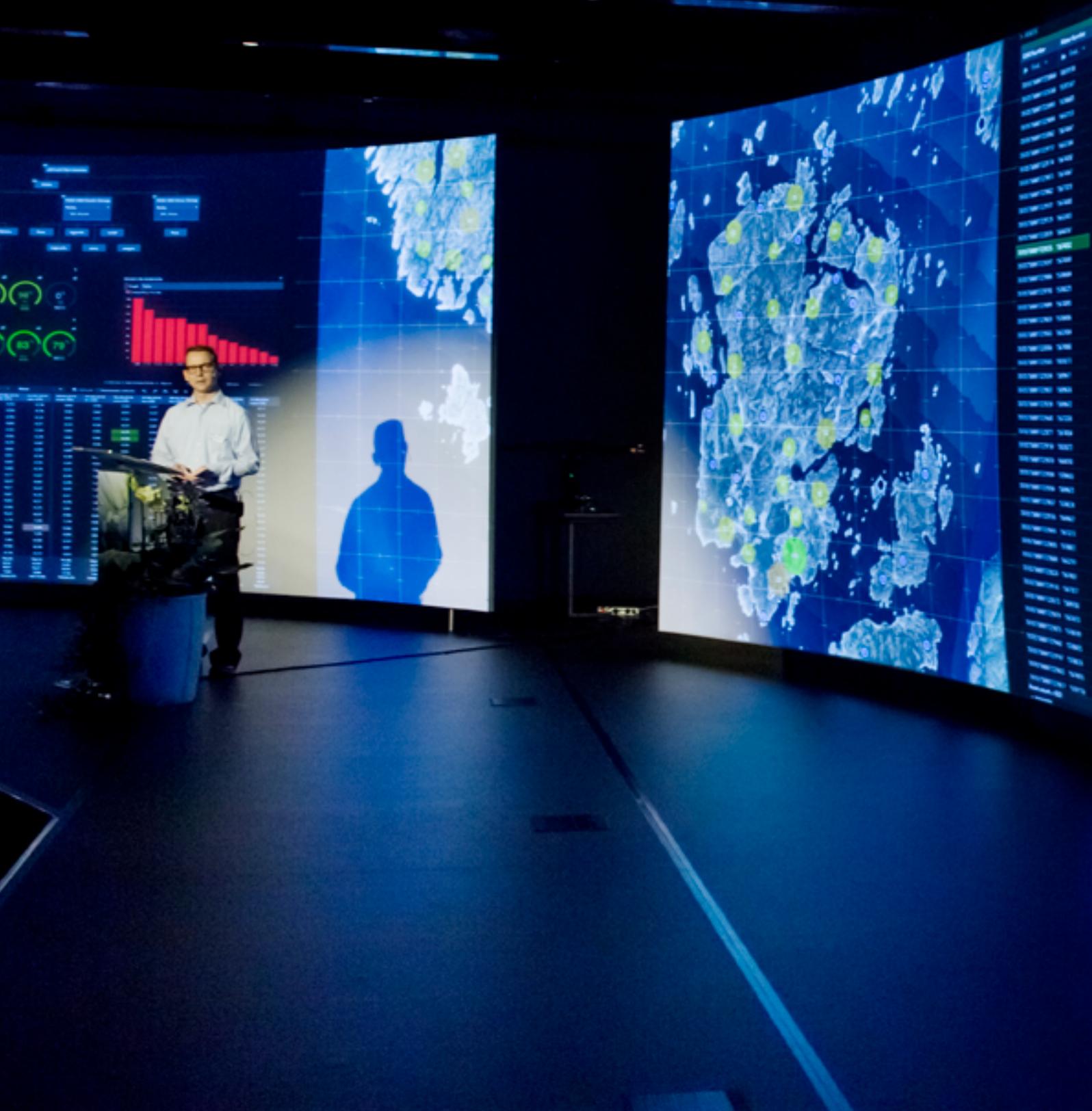
AUTOMATED RE-TRAINING. Re-training prediction service instances, either on a schedule, on demand, or triggered by observed performance degradation, must be possible.

CONTINUOUS INTEGRATION. Changes in prediction service code trigger automated unit tests, code quality checks, configurations, and deployment.

As machine learning and AI applications continue to mature, there will be an increasing need for mass produced intelligent systems, replacing handcrafting with automation, just as conveyor belts and assembly lines replaced artisan workshops and revolutionized the manufacturing industry.

At eSmart, we have continuous focus on industrial-grade machine learning, starting with large scale cloud deployment of deep learning models for automated image analysis, to our newest Robust Predictive Analytics Architecture (RPAA) for deploying prediction models at scale. We firmly believe this is a fundamental strategic advantage for delivering economy of scale value to our customers.

FINANCIAL STATEMENT 2017



INCOME STATEMENT

| Parent company | | | | Group | |
|-----------------------------------|--------------------|--|-------------|--------------------|-------------------|
| 2016 | 2017 | | Notes | 2017 | 2016 |
| OPERATING REVENUE | | | | | |
| 33 830 459 | 40 912 107 | Sales | 7,24 | 48 136 235 | 33 832 698 |
| 6 918 396 | 9 081 129 | Other operating income | 8 | 9 128 371 | 6 918 396 |
| 40 748 855 | 49 993 236 | TOTAL OPERATING REVENUE | | 57 264 606 | 40 751 094 |
| OPERATING EXPENSES | | | | | |
| 4 563 770 | 9 286 004 | Cost of sales | 24 | 16 906 774 | 2 623 429 |
| 18 123 084 | 23 627 617 | Personnel expenses | 18,19,22 | 30 406 772 | 20 123 579 |
| 14 064 046 | 32 275 853 | Other operating expenses | 20,21,22,24 | 34 702 303 | 15 032 652 |
| 36 750 900 | 65 189 474 | TOTAL OPERATING EXPENSES | | 82 015 849 | 37 779 660 |
| 3 997 955 | -15 196 238 | EBITDA | | -24 751 243 | 2 971 434 |
| 3 810 571 | 6 955 165 | Depreciation | 9,10,11 | 7 013 430 | 3 810 571 |
| 187 384 | -22 151 403 | EBIT | | -31 764 673 | -839 137 |
| FINANCIAL INCOME AND COST | | | | | |
| 48 774 | 195 594 | Interest income | 24 | 83 076 | 34 150 |
| 140 158 | 536 007 | Other financial income | | 536 007 | 140 158 |
| 0 | 0 | Share of results of associated companies | 5 | -491 929 | -2 684 980 |
| 642 023 | 56 902 | Interest expenses | 24 | 66 718 | 642 649 |
| 272 598 | 487 486 | Other financial expenses | | 271 051 | 272 598 |
| -725 689 | 187 213 | NET FINANCIAL PROFIT | | -210 615 | -3 425 919 |
| -538 305 | -21 964 190 | PROFIT BEFORE TAXES | | -31 975 288 | -4 265 056 |
| -683 119 | -5 387 793 | Income tax expense | 17 | -5 356 939 | -674 510 |
| 144 814 | -16 576 397 | NET PROFIT | | -26 618 349 | -3 590 546 |
| OTHER COMPREHENSIVE INCOME | | | | | |
| 0 | 0 | Other comprehensive income | | -273 128 | 74 024 |
| 0 | 0 | NET OTHER COMPREHENSIVE INCOME | | -273 128 | 74 024 |
| 144 814 | -16 576 397 | TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | -26 891 477 | -3 516 522 |
| TRANSFERS | | | | | |
| 144 814 | -16 576 397 | Allocated to retained earnings | | | |
| 144 814 | -16 576 397 | TOTAL TRANSFERS | | | |

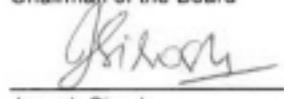
BALANCE SHEET

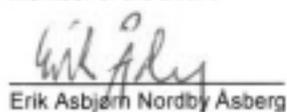
| Parent company | | ASSETS | Notes | Group | |
|-----------------------|--------------------|--------------------------------------|----------|--------------------|--------------------|
| 2016 | 2017 | | | 2017 | 2016 |
| FIXED ASSETS | | | | | |
| 2 098 625 | 7 486 418 | Deferred tax assets | 17 | 7 486 418 | 2 098 625 |
| 39 500 240 | 71 676 009 | Capitalized development cost | 10,12 | 71 676 009 | 39 500 240 |
| 30 400 | 1 036 800 | Licences and other intangible assets | 9 | 1 036 800 | 30 400 |
| 2 450 101 | 3 632 500 | Operating equipment | 9,25 | 4 068 153 | 2 450 101 |
| 9 838 | 120 229 | Shares in subsidiaries | 5 | 0 | 0 |
| 19 075 000 | 19 244 500 | Investments in asociated companies | 5 | 16 067 591 | 16 390 020 |
| 30 000 | 830 000 | Other shares | 5 | 830 000 | 30 000 |
| 1 074 358 | 13 842 202 | Loan to Group company | 24 | 0 | 0 |
| 0 | 159 300 | Other long term assets | | 159 300 | 0 |
| 64 268 562 | 118 027 958 | TOTAL FIXED ASSETS | | 101 324 271 | 60 499 386 |
| CURRENT ASSETS | | | | | |
| 13 283 542 | 8 619 003 | Trade receivables | 13,24,25 | 9 771 238 | 12 797 577 |
| 4 857 697 | 4 868 270 | Other short term receivables | 13,24 | 6 428 724 | 4 937 247 |
| 79 399 112 | 14 862 003 | Cash and cash equivalents | 14 | 16 386 373 | 79 481 657 |
| 97 540 351 | 28 349 276 | TOTAL CURRENT ASSETS | | 32 586 335 | 97 216 481 |
| 161 808 913 | 146 377 234 | TOTAL ASSETS | | 133 910 606 | 157 715 867 |

| Parent company | | EQUITY AND LIABILITIES | Notes | Group | |
|--------------------------------|--------------------|--------------------------------------|-------|--------------------|--------------------|
| 2016 | 2017 | | | 2017 | 2016 |
| EQUITY | | | | | |
| Subscribed equity | | | | | |
| 842 894 | 842 894 | Share capital | 15,23 | 842 894 | 842 894 |
| 119 100 018 | 119 100 018 | Share premium fund | 15 | 119 100 018 | 119 100 018 |
| 0 | 0 | Translation differences | | -199 104 | 74 024 |
| 119 942 912 | 119 942 912 | Total subscribed equity | | 119 743 808 | 120 016 936 |
| Retained equity | | | | | |
| 10 979 517 | -5 596 880 | Retained earnings | | -19 374 192 | 7 244 157 |
| 10 979 517 | -5 596 880 | Total retained equity | | -19 374 192 | 7 244 157 |
| 130 922 429 | 114 346 032 | TOTAL EQUITY | | 100 369 616 | 127 261 093 |
| NON CURRENT LIABILITIES | | | | | |
| 0 | 0 | Deferred income tax liability | 17 | 0 | 0 |
| 844 841 | 734 673 | Borrowings | 25 | 1 116 960 | 844 841 |
| 844 841 | 734 673 | TOTAL NON CURRENT LIABILITIES | | 1 116 960 | 844 841 |
| CURRENT LIABILITIES | | | | | |
| 7 468 948 | 5 168 934 | Trade payables | 24 | 5 414 448 | 6 990 185 |
| 0 | 0 | Payable tax | 17 | 0 | 0 |
| 4 763 657 | 4 175 456 | Public duties payable | 14 | 4 378 061 | 4 763 657 |
| 17 809 038 | 21 952 139 | Other current liabilities | 16,24 | 22 631 521 | 17 856 091 |
| 30 041 643 | 31 296 529 | TOTAL CURRENT LIABILITIES | | 32 424 030 | 29 609 933 |
| 161 808 913 | 146 377 234 | TOTAL EQUITY AND LIABILITIES | | 133 910 606 | 157 715 867 |

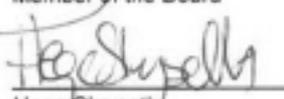
Halden, April 23rd 2018

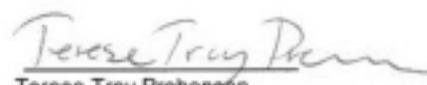

 Jørgen Kildahl
 Chairman of the Board


 Joseph Siros
 Member of the Board


 Erik Asbjørn Nordby Asberg
 Member of the Board


 Erling Sande
 Member of the Board


 Hege Skryseth
 Member of the Board


 Terese Troy Prebensen
 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 | |
|--|--------------------|---|--------------------|--------------------|
| 2016 | 2017 | | 2017 | 2016 |
| Cash flow from operational activities | | | | |
| -538 305 | -21 964 190 | Operating result before tax | -31 975 288 | -4 265 056 |
| 0 | 0 | Paid taxes | -30 854 | -8 609 |
| 3 810 571 | 6 955 165 | Depreciation and write-offs | 7 013 430 | 3 810 571 |
| 0 | 0 | Result of associated companies | 491 929 | 2 684 980 |
| 0 | 0 | Loss from disposal of operating equipment | 39 440 | 0 |
| 18 566 368 | 4 664 539 | Changes in receivables | 3 026 339 | 19 052 333 |
| 5 744 819 | -2 300 014 | Changes in trade payables | -1 575 737 | 5 266 056 |
| -6 758 130 | 3 385 027 | Changes in other current assets/debt items | 2 409 862 | -6 716 603 |
| 20 825 323 | -9 259 473 | Net cash flow from operating activities | -20 600 879 | 19 823 672 |
| Cash flow from investment activities | | | | |
| -19 039 838 | -1 079 891 | Purchase of shares | -969 500 | -19 030 000 |
| -1 074 358 | -12 767 844 | Loan to Group company | 0 | 0 |
| 0 | | Sales of operating equipment | 86 682 | 0 |
| -646 683 | -3 716 097 | Purchase of operating equipment | -4 257 257 | -646 683 |
| -18 671 120 | -37 603 636 | Capitalized development costs | -37 603 636 | -18 671 120 |
| -39 431 999 | -55 167 468 | Net cash flow from investment activities | -42 743 711 | -38 347 803 |
| Cash flow from financial activities | | | | |
| 0 | 0 | Proceeds from other borrowings | 382 287 | 0 |
| -2 622 701 | -110 168 | Payment of long term debt | -110 168 | -2 622 701 |
| 95 056 769 | 0 | Issue of shares | 0 | 95 056 769 |
| 92 434 068 | -110 168 | Net cash flow from financial activities | 272 119 | 92 434 068 |
| 73 827 392 | -64 537 109 | Net changes in cash and cash equivalents | -63 072 471 | 73 909 937 |
| 0 | 0 | Effect of currency changes | -22 813 | 0 |
| 5 571 720 | 79 399 112 | Cash and cash equivalents 01.01 | 79 481 657 | 5 571 720 |
| 79 399 112 | 14 862 003 | Cash and cash equivalents 31.12 | 16 386 373 | 79 481 657 |
| 79 399 112 | 14 862 003 | | 16 386 373 | 79 481 657 |
| 0 | 0 | | 0 | 0 |

STATEMENT OF CHANGES IN EQUITY

| Parent company | 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 |
| Net profit | 0 | 0 | 0 | 144 814 | 144 814 |
| Equity 31.12.2016 | 842 894 | 119 100 018 | 0 | 10 979 517 | 130 922 429 |
| Equity 01.01.2017 | 842 894 | 119 100 018 | 0 | 10 979 517 | 130 922 429 |
| Net profit | 0 | 0 | 0 | -16 576 397 | -16 576 397 |
| Equity 31.12.2017 | 842 894 | 119 100 018 | 0 | -5 596 880 | 114 346 032 |

| 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 |
| Net profit | 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 |
| Equity 01.01.2017 | 842 894 | 119 100 018 | 74 024 | 7 244 157 | 127 261 093 |
| Net profit | 0 | 0 | 0 | -26 618 349 | -26 618 349 |
| Translation differences | 0 | 0 | -273 128 | 0 | -273 128 |
| Equity 31.12.2017 | 842 894 | 119 100 018 | -199 104 | -19 374 192 | 100 369 616 |

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

eSmart Systems provides solutions for the energy ecosystem using cutting edge technology that takes advantage of the opportunities in IoT, big data, artificial intelligence, and the cloud.

The Company's products and services are based on the active use of data from advanced measuring infrastructure (AMI) in the power grid, and real-time data from distributed energy resources at the grid edge. The data flows are processed in our unique Connected platform, and delivers optimization and management solutions heavily based on the use of predictions and machine learning for intelligent decision-support. Our customers are DSO's, TSO's, energy retailers, industrial and commercial size prosumers and cities and municipalities. Our value proposition is cost savings and new revenue streams from better utilization on existing infrastructure and energy assets. eSmart Systems' core purpose is to deliver digital intelligence in excellent solutions for our customers, and by this accelerate our transition to sustainable societies.

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, England, Germany, Sweden and Denmark. See note 5.

The financial statements were approved by the Board on April 23, 2018.

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 kroner (kr) 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 2017 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 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 2017, the Company established subsidiaries in Germany, Sweden and Denmark. The representative office in Singapore was terminated as a result of reallocating resources to eSmart Systems US. eSmart Systems AS has also invested in Smart Cognition AS (25 % ownership) and Raven AS (27 % ownership) in 2017.

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 kr 19 million were converted into equity in Smartliv AS. The Company's stake in Smartliv AS did not change as a result of the conversion.

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% |
| eSmart Systems Germany Gmbh | Germany | Product sales / supplies | 1 | 100% | 100% |
| eSmart Systems Danmark Aps | Denmark | Product sales / supplies | 61 635 | 100% | 100% |
| eSmart Systems Sverige AB | Sweden | Product sales / supplies | 48 755 | 100% | 100% |
| | | Total | 120 229 | | |

The Parent company owns shares in the following associated companies pr 31.12.2017:

| Company | Office | Share | Cost price | Result 2017 | EQ 31.12.17 |
|---------------------|----------|-------|-------------------|-------------|-------------|
| Smartliv AS | Hønefoss | 50% | 19 015 000 | -1 755 000 | 31 933 000 |
| Smart Simulation AS | Halden | 20% | 60 000 | 1 654 411 | -1 465 913 |
| Smart Cognition AS | Halden | 25% | 7 500 | 0 | 30 000 |
| Raven AS | Tromsø | 27% | 162 000 | -152 077 | 347 923 |
| | | | 19 244 500 | | |

Overview of investments in associated companies in Group accounts:

| Company | 31.12.2016 | Additions/ Disposals | Cost price | Other Changes | 31.12.2017 |
|---------------------|-------------------|----------------------|-----------------|---------------|-------------------|
| Smartliv AS | 16 390 020 | 0 | -423 520 | 0 | 15 966 500 |
| Smart Simulation AS | 0 | 0 | 0 | 0 | 0 |
| Smart Cognition AS | 0 | 7 500 | 0 | 0 | 7 500 |
| Raven AS | 0 | 162 000 | -68 409 | 0 | 93 591 |
| Total | 16 390 020 | 169 500 | -491 929 | 0 | 16 067 591 |

As of 31.12.2017, the Parent company and Group owned shares in the following companies:

| Company | Number of Share | Cost price |
|----------------|-----------------|----------------|
| E2U Systems AS | 460 000 | 830 000 |
| Total | | 830 000 |

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 - SALES

| Parent company | Parent company | | Group | |
|--------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| BA Utility | 31 124 717 | 20 725 918 | 38 396 087 | 20 728 157 |
| BA Energy Markets and City | 18 868 519 | 20 022 937 | 18 868 519 | 20 022 937 |
| Total operating revenue | 49 993 236 | 40 748 855 | 57 264 606 | 40 751 094 |

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 | Licenses | Operating equipment |
|--|------------------|----------------------------|
| Acquisition cost 1.1.2017 | 129 225 | 4 441 500 |
| Additions | 1 279 455 | 2 436 642 |
| Disposals | 0 | 0 |
| Acquisition cost 31.12.2017 | 1 408 680 | 6 878 142 |
| Accumulated depreciation 1.1.2017 | 98 825 | 1 991 399 |
| Depreciation charge | 273 055 | 1 254 243 |
| Accumulated depreciation 31.12.2017 | 371 880 | 3 245 642 |
| Net book value 31.12.2017 | 1 036 800 | 3 632 500 |
| Economic lifetime | 5 years | 3-5 years |

| Group | Licenses | Operating equipment |
|--|------------------|----------------------------|
| Acquisition cost 1.1.2017 | 129 225 | 4 441 500 |
| Additions | 1 279 455 | 2 977 802 |
| Disposals | 0 | -61 126 |
| Acquisition cost 31.12.2017 | 1 408 680 | 7 358 176 |
| Accumulated depreciation 1.1.2017 | 98 825 | 1 991 399 |
| Depreciation charge | 273 055 | 1 312 508 |
| Accumulated depreciation disposals | 0 | -13 884 |
| Accumulated depreciation 31.12.2017 | 371 880 | 3 290 023 |
| Net book value 31.12.2017 | 1 036 800 | 4 068 153 |
| Economic lifetime | 5 years | 3-5 years |

NOTE 10 - CAPITALIZED DEVELOPMENT COSTS

| Parent Company and Group | Research & Development |
|--|-----------------------------------|
| Acquisition cost 1.1.2017 | 42 475 828 |
| Additions | 37 603 636 |
| Disposals | 0 |
| Acquisition cost 31.12.2017 | 80 079 464 |
| Accumulated depreciation 1.1.2017 | 2 975 588 |
| Depreciation charge | 5 427 867 |
| Accumulated depreciation 31.12.2017 | 8 403 455 |
| Net book value 31.12.2017 | 71 676 009 |
| 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 31.12.2017 totalling kr 16 718 148 (kr 39 500 240 in 2016) regard products that were not commercialized or available in the market.

NOTE 11 - DEPRECIATION

| Parent Company | 2017 | 2016 |
|---|------------------|------------------|
| Operating equipment (see note 9) | 1 527 298 | 834 983 |
| Capitalized development costs (see note 10) | 5 427 867 | 2 975 588 |
| Total | 6 955 165 | 3 810 571 |
| Group | 2017 | 2016 |
| Operating equipment (see note 9) | 1 585 563 | 834 983 |
| Capitalized development costs (see note 10) | 5 427 867 | 2 975 588 |
| Total | 7 013 430 | 3 810 571 |

NOTE 12 - IMPAIRMENT TEST OF GOODWILL AND INTANGIBLE ASSETS

Recognized capitalized development costs in the Company as of 31.12.2017 amounted to 71,7 MNOK (39,5 MNOK i 2016). 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 2017. 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 2018 and forecasts for the period 2019 - 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 31.12.2017 the value in use of capitalized development cost amounted to 167,4 MNOK, compared to a total booked value of 71,7 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 % | 5 % | 111,7 | 0,0 |
| 5 % | 10 % | 88,0 | 0,0 |
| 10 % | 5 % | 79,7 | 0,0 |
| 10 % | 10 % | 56,0 | -15,7 |
| 15 % | 5 % | 47,6 | -24,1 |
| 15 % | 10 % | 24,0 | -47,7 |

NOTE 13 - TRADE AND OTHER RECEIVABLES

Trade receivables

Trade receivables as 31.12.2017 and 31.12.2016 are valued at nominal value less impairment losses, and were kr 8 619 003 and kr 13 283 542 for the Parent company. For the Group, trade receivables as of 31.12.2017 and 31.12.2016 were kr 9 771 238 and kr 12 797 577 after impairment deductions.

Recognized losses on receivables for both the Parent company and the Group totaled kr 0 in 2017 and kr 25 000 in 2016.

| Other receivables | Parent company | | Group | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Skattefunn | 2 505 877 | 2 743 927 | 2 505 877 | 2 743 927 |
| Accrued revenue and funding | 1 722 444 | 1 421 640 | 2 341 306 | 1 421 640 |
| Pre-paid costs | 607 940 | 677 505 | 1 409 675 | 760 309 |
| Other | 32 009 | 14 625 | 171 866 | 11 371 |
| Total | 4 868 270 | 4 857 697 | 6 428 724 | 4 937 247 |

NOTE 14 - BANK DEPOSITS AND CASH

Parent company and Group

As of 31.12.2017, kr 2 137 937 total cash and cash equivalents was withheld tax (kr 1 492 575 in 2016). Liabilities associated with withheld tax as of 31.12.2017 was kr 2 131 352 (kr 1 487 813 in 2016).

NOTE 15 - SHARE CAPITAL AND SHAREHOLDERS

Total share capital of the company as of 31.12.17 was kr 842 894 divided over 842 894 shares with a nominal value of kr 1.00.

| Changes in share capital and share premium fund | Numbers of shares | Share capital | Share premium fund |
|---|-------------------|----------------|--------------------|
| 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 |
| Issued shares as of 31.12.2016 | 842 894 | 842 894 | 123 557 805 |
| Changes in 2017 | 0 | 0 | 0 |
| Issued shares as of 31.12.2017 | 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 31.12.2017 | Numbers of shares | Ownership interest |
|--------------------------------------|-----------------------|--------------------|
| Kongsberg Digital AS | 288 169 | 34,19% |
| eCapital AS1 | 172 956 | 20,52% |
| Fredrikstad Energi | 81 834 | 9,71% |
| Sogn og Fjordane Energi | 76 728 | 9,10% |
| Energy and ICT Invest AS1 | 22 692 | 2,69% |
| Fryden Consulting AS | 18 155 | 2,15% |
| Joseph Sirosh | Member of the Board | 15 141 |
| Rostskydd AS2 | 15 039 | 1,78% |
| Jørgen Kildahl | Chairman of the Board | 14 590 |
| 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% |

1 CEO and board member Knut Johansen is the owner of ECapital AS (100%) and ECapital AS owns 35,02% of the shares of Energy & ICT Invest AS.
2 Rostskydd AS is owned by CTO and board member Erik Åsberg.

NOTE 16 - OTHER CURRENT LIABILITIES

| Other current liabilities | Parent company | | Group | |
|----------------------------------|-----------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Advances from customers | 7 930 113 | 0 | 7 930 113 | 0 |
| Unearned revenue | 6 497 528 | 13 437 959 | 6 497 528 | 13 437 959 |
| Accrued vacation pay | 4 636 212 | 2 988 264 | 4 636 212 | 2 988 264 |
| Debt to eCapital AS | 172 649 | 172 649 | 172 649 | 172 649 |
| Accrued salary | 276 143 | 30 834 | 303 786 | 30 834 |
| Accrued expenses | 2 439 494 | 1 179 332 | 2 903 043 | 1 226 385 |
| Total | 21 952 139 | 17 809 038 | 22 443 331 | 17 856 091 |

NOTE 17 - TAXES**Parent company**

| Income taxes | 2017 | 2016 |
|-------------------------|-------------|-------------|
| Tax payable | 0 | 0 |
| Changes in deferred tax | -5 387 793 | -683 118 |
| Total income taxes | -5 387 793 | -683 118 |

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

| Reconciliation from nominal to actual tax rate | 2017 | 2016 |
|---|-------------|-------------|
| Profit before taxes | -21 964 191 | -538 305 |
| Estimated income tax at nominal tax rate (24 / 25 %) | -5 271 406 | -134 576 |
| Tax effect on following items: | | |
| Skattefunn | -601 410 | -685 982 |
| Changed tax rate | 325 496 | 87 443 |
| Non taxable income | -1 536 | -497 |
| Non-deductible costs | 161 063 | 50 494 |
| Total income taxes | -5 387 793 | -683 118 |
| Effective tax rate | 24,5 % | 126,9 % |

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

| | 2017 | | 2016 | |
|---|------------------|----------------|------------------|----------------|
| | Asset | Liability | Asset | Liability |
| Operating assets | 0 | 248 578 | 0 | 280 121 |
| Receivables | 737 852 | 0 | 40 800 | 0 |
| Provisions | 59 886 | 0 | 0 | 0 |
| Losses carried forward | 6 937 258 | 0 | 2 337 946 | 0 |
| Total | 7 734 996 | 248 578 | 2 378 746 | 280 121 |
| Non-capitalized deferred tax assets | 0 | | 0 | |
| Net deferred income tax assets/liability | 7 486 418 | 0 | 2 098 625 | 0 |

As of 31.12.2017, the Parent company had a tax loss to be carried forward of kr 30 161 993 (kr 9 741 442 in 2016). Deferred tax assets are recognized on the basis of expected future earnings.

Group

| Income taxes | 2017 | 2016 |
|---------------------------|-------------------|-----------------|
| Tax payable | 30 854 | 8 609 |
| Changes in deferred tax | -5 387 793 | -683 119 |
| Total income taxes | -5 356 939 | -674 510 |

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

| Reconciliation from nominal to actual tax rate | 2017 | 2016 |
|---|-------------------|-----------------|
| Profit before taxes | -31 975 287 | -4 265 056 |
| Estimated income tax at nominal tax rate (24 / 25 %) | -7 674 069 | -1 066 264 |
| Tax effect on following items: | | |
| Change in unrecognized deferred tax assets | 1 705 159 | 328 097 |
| Skattefunn | -601 410 | -685 982 |
| Other tax rates in subsidiaries | 696 179 | -59 046 |
| Changed tax rate | 293 416 | 87 443 |
| Share of results of associated companies | 118 063 | 671 245 |
| Non taxable income | -1 536 | -497 |
| Non-deductible costs | 107 259 | 50 494 |
| Total income taxes | -5 356 939 | -674 510 |
| Effective tax rate | 16,8 % | 15,8 % |

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

| | 2017 | | 2016 | |
|---|------------------|----------------|------------------|----------------|
| | Asset | Liability | Asset | Liability |
| Operating assets | 0 | 248 578 | 0 | 280 121 |
| Receivables | 0 | 0 | 40 800 | 0 |
| Provisions | 59 886 | 0 | 0 | 0 |
| Losses carried forward | 9 708 366 | 0 | 2 666 043 | 0 |
| Total | 9 768 252 | 248 578 | 2 706 843 | 280 121 |
| Non-capitalized deferred tax assets | 2 033 256 | | 328 097 | |
| Net deferred income tax assets/liability | 7 486 418 | 0 | 2 098 625 | 0 |

As of 31.12.2017, the Group had a tax loss to be carried forward of kr 44 017 531 (kr 10 835 100 in 2016). 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 31.12.2017, the plan covered 65 employees in the Parent company and 68 employees in the Group (49 and 50 in 2016).

Total payments associated with the pension plan in 2017 amounted to kr 1 513 921 for the Parent company (kr 980 984 in 2016) and kr 1 720 335 for the Group (kr 1 017 547 in 2016).

NOTE 19 - PAYROLL EXPENSES

| | Parent company | | Group | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Salaries* | 13 359 830 | 11 083 593 | 19 276 141 | 12 925 385 |
| Employers' contribution | 6 557 417 | 4 252 516 | 7 114 427 | 4 318 389 |
| Pension costs, see note 18 | 1 513 921 | 980 984 | 1 720 580 | 1 017 547 |
| Other payroll costs | 2 196 449 | 1 805 991 | 2 310 802 | 1 862 259 |
| Total | 23 627 617 | 18 123 084 | 30 421 951 | 20 123 579 |
| Average number of FTEs | 65 | 40 | 66 | 42 |

* Kr 29 534 488 of salaries were capitalized as research and development costs in 2017 (kr 16 894 459 in 2016).

NOTE 20 - OTHER OPERATING EXPENSES

| | Parent company | | Group | |
|----------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Premises | 2 922 502 | 1 523 254 | 3 497 189 | 1 523 254 |
| Office cost | 1 949 318 | 1 459 208 | 2 008 305 | 1 504 073 |
| IT services | 2 936 455 | 2 133 826 | 3 108 966 | 2 138 193 |
| Meetings, training | 1 597 009 | 339 071 | 1 597 009 | 339 071 |
| Accounting, audit, lawyers | 2 307 789 | 1 654 717 | 3 446 652 | 2 137 748 |
| Consultants | 10 740 462 | 2 696 216 | 9 188 211 | 2 992 811 |
| Travel | 3 151 560 | 2 755 092 | 4 296 700 | 2 831 482 |
| Sales and marketing | 3 139 918 | 1 035 591 | 3 629 993 | 1 061 578 |
| Losses on receivables | 3 038 051 | 195 000 | 3 038 051 | 195 000 |
| Other costs | 492 789 | 272 071 | 891 226 | 309 443 |
| Total | 32 275 853 | 14 064 046 | 34 702 303 | 15 032 652 |

NOTE 21 - FUTURE LEASE OBLIGATIONS

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

Annual rental costs in 2017 amounted to kr 4 483 731 (kr 1 852 560 in 2016).

Future accumulated minimum payments related to lease obligations:

| | 2017 | 2016 |
|-----------------------------------|------------|-----------|
| Mature within one year | 4 302 764 | 1 418 007 |
| Mature between one and five years | 13 704 460 | 4 583 908 |
| Mature later than 5 years | 13 013 891 | 2 087 208 |

NOTE 22 - FEES AND REMUNERATION

| Remuneration and other fees to: | Managing director | Chairman of the board | Board |
|---------------------------------|-------------------|-----------------------|-------|
| Remuneration | 2 069 575 | 60 000 | 0 |
| Other benefits | 5 072 | 0 | 0 |
| Pension costs | 42 288 | 0 | 0 |

The former Chairman of the board has received kr 80 000 in remuneration in 2017.

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 31.12.2017 or 31.12.2016.

Auditor

Expensed auditing fees in 2017

| | |
|-------------------|----------------|
| Mandatory audits | 172 000 |
| Tax consulting | 8 500 |
| Other services | 70 000 |
| Total fees | 250 500 |

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.

| | 2017 | 2016 |
|---|---------------|---------------|
| Net profit | -26 618 349 | -3 590 546 |
| Average number of issued shares | 842 894 | 522 015 |
| Net profit per share | -31,58 | -50,17 |
| Net comprehensive income | -26 891 477 | -3 516 522 |
| Average number of issued shares | 842 894 | 522 015 |
| Net comprehensive income per share | -31,90 | -50,69 |

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 2017 amounted to kr 4 264 467 (kr 1 626 485 in 2016).

The Company has a short term debt to a company related to the managing director and member of the board for kr 172 649 as of 31.12.2017 (kr 172 649 in 2016). No interest was calculated on the debt in 2017 or 2016.

In 2017, the Company had income from consulting services equal to kr 686 329 from companies where the managing director and member of the board has ownership interests (kr 917 897 in 2016). eSmart Systems AS also bought services totaling kr 3 787 659 in 2017 (kr 1 447 077 in 2016) from companies where the managing director and member of the board has ownership interests.

In 2017, eSmart Systems AS sold consulting services and products to the associated company Smatliv AS for kr 2 167 774 (kr 1 832 486 in 2016). As of 31.12.2017 the Company has trade receivables with Smartliv AS totalling kr 112 166 (kr 244 879 in 2016).

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

The parent company bought services from the subsidiaries in 2017 for a total of kr 666 591 (kr 1 952 323 in 2016). As of 31.12.2017, the Parent company had payables to subsidiaries of kr 0 (kr 502 877 in 2016). The Parent company sold services to its subsidiaries in 2017 for kr 4 375 678 (kr 874 608 in 2016). As of 31.12.2017, the Parent company had receivables from subsidiaries totalling kr 0 (kr 874 608 in 2016).

As at 31.12.2017, the Parent company had loans to subsidiaries for kr 13 842 202 (kr 1 074 358 in 2016). Interest on the loans amounted to kr 112 518 in 2017 (kr 14 624 in 2016).

NOTE 25 - BORROWINGS / PLEDGED ASSETS

| The parent company and the Group has the following secured loans: | 2017 | 2016 |
|--|-------------|-------------|
| Loan DNB | 734 673 | 844 841 |
| Total | 734 673 | 844 841 |
| Par value of pledge | | |
| Cars | 1 090 218 | 1 090 218 |
| Operating equipment | 10 000 000 | 18 000 000 |
| Receivables | 10 000 000 | 18 000 000 |
| Total | 21 090 218 | 37 090 218 |
| Booked value of pledged assets | | |
| Cars | 860 300 | 1 039 000 |
| Operating equipment | 2 772 200 | 1 411 101 |
| Receivables | 8 619 003 | 13 283 542 |
| Total | 12 251 503 | 15 733 643 |

The loans from DNB will be fully repaid within five years after the end of the financial year end.

To the Shareholder's Meeting of cSmart Systems AS

Independent auditor's report (translated from Norwegian)

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of cSmart 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 loss of NOK 15 576 397, give a true and fair view of the financial position of the parent company as at December 31, 2017, 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 D-9.
- The accompanying financial statements, showing a loss of NOK 26 691 477, give a true and fair view of the financial position of the group as at December 31, 2017, 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 as at 31 December 2017, income statement, 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 as at 31 December 2017, income statement, 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 (ISA). 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.



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 4-10, 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://revisorforeninger.no/revisjonsherenninger> 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.

Stamminer, April 28th 2017

Myrdahl og Sveen AS

Morten Rugevold

State Authorized Public Accountant (Norway)

BOARD OF DIRECTORS' REPORT 2017

Seventeen of the warmest 136 years recorded by NASA have occurred since 2001. This confirms the world's climate challenge and the urgency to change the way the world sources and consumes energy.

Today, more than 80% of the world's energy supply is fossil fuels based, accounting for more than 40% of global CO₂ emissions. Approximately 25% of emissions emanate from the transport sector. In order to curb climate change and its impact on people's living conditions, both the energy and transport sectors must be fundamentally redesigned. A prerequisite for this transformation is new technology. New technology is the heart of eSmart's business: enabling the global transformation from fossil to renewable, intermittent energy supply, and electrification of the transport sector.

Exploiting the vast volume of data generated by millions of sensors and applying machine learning, eSmart is able to radically optimise and efficiently manage energy systems, ensuring security of supply, reducing costs and minimizing global CO₂ footprint.

In 2017, eSmart's strategic focus was not only accelerating existing product development, but also launching new ones. In second half of the year, focus shifted to sales and marketing, resulting in very strong fourth quarter sales. Entering 2018, eSmart's order book equalled its total turnover in 2017. 2017 results reflect heavy investments.

SUSTAINABILITY IS THE CORE OF ESMART BUSINESS

eSmart Systems AS develops next generation software systems for grid companies, utilities, large energy consumers, prosumers and retailers. Our solutions help customers benefit from energy

market price fluctuations, reducing energy consumption and greenhouse gas emissions. eSmart's systems and solutions are equally applicable in other rapidly growing areas such as smart buildings and smart cities.

By combining in-depth industry know-how with system design and machine learning, eSmart's solutions, which unite domain insight, data engineering and machine learning, enable the exploitation of vast data volumes now becoming available.

The Company is headquartered in Halden, Norway, which over the last two decades has developed into the most innovative and competent energy IT cluster in Norway.

In addition to subsidiaries established in 2016, eSmart Systems AS (Parent company) continued to establish international presence throughout 2017 with new subsidiaries in Sweden, Denmark and Germany. The representative office in Singapore was closed and resources reallocated to the US office in 2017.

FOCUS ON PRODUCT DEVELOPMENT AND INCREASED INTERNATIONAL PRESENCE

Following the share issue with Kongsberg Digital AS in December 2016, the Company entered 2017 with ambitions to significantly invest in further product development as well as increase its international presence in the US, the Nordics and in Germany. eSmart and Kongsberg Digital established a platform for closer cooperation based on their complimentary products.

Although eSmart's main focus for 2017 was strengthening product development and establishing a position as the leading AI company in the energy segment, Group revenue grew

strongly (41 %), compared to 2016. Towards the end of 2017, eSmart experienced a strong growth in new orders, and the Company's order backlog as of 31.12.2017 gives strong signals for further growth in 2018.

eSmart enjoys strong and increasing interest in the market for its solutions. The use of Connected Grid has continued to grow in scale among existing as well as new customers. Throughout 2017, new functionality, new products in addition to further product portfolio enhancements were developed. In particular, new order intake for Energy Markets was strong in second half of 2017. The marketing of a broader product portfolio has been well received by the market. Connected Drone and the Thundercloud concepts gained significant market interest towards the end of 2017, positioning the Company at the very forefront of operationalised AI delivery.

In 2017, eSmart established a new project for Connected Grid involving several demanding customers for a 3-year continuation of the project that ended successfully in 2016. Collaboration with demanding customers has been, and still is, crucial to successful development of groundbreaking software for the industry.

NOTES TO THE FINANCIAL STATEMENTS

eSmart Systems AS turnover of 49.9 (40.7) MNOK in 2017, an increase of 23% compared to 2016. The Group had a turnover of 57.3 (40,7) MNOK in 2017, an increase of 41% compared to 2016. The Parent company's net income for the year was — 16,6 MNOK compared to + 0,1 MNOK in 2016. On Group level the net result was -26,6 MNOK compared to - 3.5 MNOK in 2016. In 2017 there has been a strong focus on investing in both products and market presence.

In 2017, research and development (R&D) costs amounted to 41,0 MNOK (29,1 MNOK in 2016). Of total R&D costs, product development amounted to 37,6 MNOK (18,7 MNOK in 2016), which

was activated. The balance sheet disclosure requirements are considered to be met. All development takes place in the Parent company. All investments in market presence has been booked to cost.

Total cash flow from operating activities in the Parent company was -9,3 MNOK in 2017 (20,8 MNOK in 2016), and operating profit before tax for the Parent company amounted to -21,9 MNOK (-0,5 MNOK in profits in 2016). The difference is mainly due to changes in other accruals (2,3 MNOK), receivables (4,6 MNOK), changes in trade payables (-2,3 MNOK) and depreciation (6,9 MNOK). The Group had a cash flow from operating activities in 2017 of -20,6 MNOK (19,8 in 2016), and profit before tax in 2016 was 31,9 (-4.3 MNOK in 2016). The difference is mainly due to changes in other accruals (1,3 MNOK), receivables (3,0 MNOK), changes in trade payables (-1,6 MNOK), depreciation (7,0 MNOK), and profit share in affiliate company (0,5 MNOK).

The Parent company's liquidity reserves 31.12.2017 was 14,8 MNOK while the Group's liquidity reserves were 16,4 MNOK. This forms a good basis for funding eSmart's and its subsidiaries' investments.

The Parent company's short-term debt as of 31.12.2017 amounted to 97.7% of total debt, compared to 97,3% on 31.12.2016. This increase is mainly due to down payment of long term debt. The Group's short-term debt as of 31.12.2016 was 32.4 MNOK, 96.7% of total debt.

Total assets at the end of the year for the Parent company was 146,4 MNOK compared to 161,8 MNOK in 2016. The decrease is due to market investments made in 2017. For the Group, total equity 31.12.2014 amounted to 133,9 MNOK (157.7 MNOK in 2016). The equity ratio for the Parent company was 78,1% compared to 80,9% the year before. The Group had an equity ratio of 75,0% as of 31.12.2017, compared to 80,7% as of 31.12.2016.

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 31.12.2017 was 14,5 MNOK for the Parent company. This is a reduction from 2016 when the exposure was 18,1 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 good. 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 satisfactory liquidity per 31.12.17, and the Group's

long-term, strategic forecasts and funding plans.

WORKING ENVIRONMENT AND EMPLOYEES

Absence due to illness was a total of 3.971 hours for the Group in 2017 (1.205 hours in 2016), which corresponds to approximately 2,95% (1,3% in 2016) 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 the 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 74 employees, of which 20 are women. The board consist of 5 men and two 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 in order 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 colour, 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

Since the establishment of eSmart in 2012,

the company has invested in building strong competencies and has managed to create an enthusiastic, innovative and competent organisation with unique skills. Entering 2018, the Company is well positioned to continue to move forward with its growth ambitions in the Nordic, Europe and USA.

The company will continue to work closely with the IT cluster in Halden on Horizon 2020 program projects, Kongsberg Digital, Microsoft as well as with strategic customer projects on significant Research and Development projects.

The challenges transforming the supply and use of energy can only be done by using new technological solutions. It requires, however, changes in the way companies are organising themselves, culture and operations.

Being mindful of the long lead times related to sales, the company still expect a substantial growth in 2018.

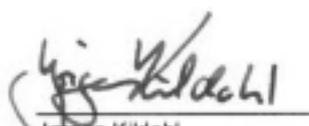
ALLOCATION OF NET INCOME

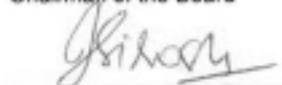
The Board of Directors proposes the following allocation of profit for eSmart Systems AS:

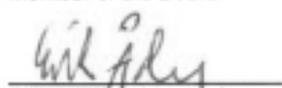
Other equity NOK - 16,576,397

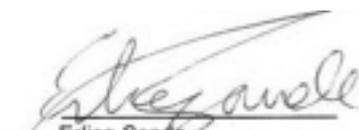
Total allocated NOK - 16,576,397

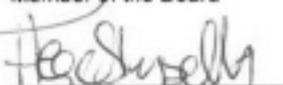
Halden, April 23rd 2018

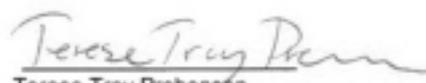

Jørgen Kildahl
Chairman of the Board


Joseph Siros
Member of the Board


Erik Asbjørn Nordby Asberg
Member of the Board


Erling Sande
Member of the Board


Hege Skryseth
Member of the Board


Terese Troy Prebensen
Member of the Board


Knut Johansen
Member of the Board / CEO



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