



ANNUAL REPORT 2014



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THIS IS ESMART - PIONEERING THE SMART GRID REVOLUTION

EVOLUTION OF ESMART – SUPPLIER OF NEXT GENERATION SMART GRID SOLUTIONS

eSmart Systems is stacked with deep market knowledge experts with a long, strong history of developing and delivering pioneering IT-system solutions on a world-class scale to world-leading energy players. With decades of experience in energy trading, risk management, systems operation, customer information systems and smart grid software solutions, eSmart's team boasts an average 15 years international experience at delivering IT solutions to physical and financial power exchanges in Europe, North America, Asia and Australia.

As a part of the institute for Energy Technology, eSmart represents the core achievers from the development and delivery of the world's first power exchange to Nord Pool, the Nordic Power Exchange, in 1991. IFE spun-off these activities in 1996 forming Hand-El Skandinavia, which focused its resources and brain power on building enterprise system solutions for

power exchanges. These systems were delivered to energy exchanges like EEX in Germany, PowerNext in France, California Power Exchange and many more. Seeing the tremendous upside in a solution that optimizes the profitability of commodity traders and producers, Hand-El Skandinavia was merged with OMX Group and subsequently acquired by NASDAQ.

As a consequence of the deregulation processes during the '90's, fundamental changes in SCADA/EMS systems, decision support systems and physical market systems were required. Due to these new requirements, Hand-El delivered several new solutions and products related to TSO/ISO (Transmission System Operator/Independent System Operator) operational centers. These solutions empowered users to monitor and control the grid and the market according to the new market rules.



"Utilities will face a number of difficulties in upcoming years that will disrupt business processes and create new opportunities, as well as challenge incumbent technology providers and their solutions."

- Gartner 2013

When the opportunity presented itself in 2003, the executive team bought out the ETRM (Energy Trading and Risk Management Systems) and Physical power exchanges business and renamed it Navita. Navita developed and delivered its portfolio solutions, Pomax, to prominent energy companies globally, such as EDF, E.ON, Fortum, Mercuria, SEMO (Ireland's IMO- Independent Market Operator), IMO in Perth Australia, Koch Industries in US, Bruce Power in Canada and many more.

The eSmart management team was also the initiator and key team members behind the development of customer Information systems, which were acquired by Tieto and renamed CAB.

The CAB system has been delivered to a number of energy sales and grid companies, and is today a clear market leader in the Nordics with more than 3,5 million end-users handled by the system. These activities represent the ability to process huge data flows, accommodate massive changes due to market dynamics and the need for high quality systems supporting business-critical functions. We are persuaded that this experience is vital to developing the next generation smart grid software that will empower the industry to bridge the transition to an optimal energy system with optimal response capability and demand flexibility. Our history tells a lot about our future.

POSITIONED TO LEAD

POWERING SMART, GREEN GRIDS

THE REALITY: INNOVATIVE
DISRUPTIVE TECHNOLOGY

The utility industry is undergoing a paradigm-shattering transformation triggered by the relentless onslaught from every side of new technologies such as distributed renewables, smart electronics, demand response solutions and information and communication technologies.

The impact of these disruptions, already being felt in the massive erosion of wholesale prices in European markets, will eventually threaten governing utility business models as forward-thinking players embrace new opportunities made possible by new technological realities. Other players, however, either unable or unwilling to adapt, will likely “wither and die”, as RWE, one of Europe’s largest utilities, summarizes industry prospects.

In particular, the introduction of smart technology to energy production, distribution and consumption is producing a tsunami of raw, real-time data completely overwhelming to existing utility IT and OT infrastructures. Buried in this data deluge is an untapped treasure of actionable insights energy market participants can utilize to optimize investments, reduce carbon footprint, and reap green profits

through faster, better, safer energy decisions. Capitalizing on current capabilities however requires vast new system solutions, which do not yet exist. In the face of these new technologies and trends, and in the absence of extreme data handling tools, questions arise concerning the industry’s stability and survivability.

THE OPPORTUNITY:
BIG DATA, REAL TIME, ADAPTABLE,
INTELLIGENT ANALYTICS

Investment in utility analytics is already growing exponentially and forecasted by GTM Analytics to reach \$20.6 bn by 2020. Harnessing the power of extreme data handling to extract such insights has huge demands however: lightning-fast analytics and massive computing power. It requires pioneering new IT systems capable of drilling through vast data volumes and performing deep, real-time analysis and producing clear, actionable information.

The answer to this IT challenge, lies in the convergence of social, mobile, cloud and big data technologies, which are revolutionizing old business models and creating new opportunities. Gartner calls these technologies the “Nexus of Forces” and declares it the technology platform of the future.

The Nexus of Forces have conspired to create a formidable new IT platform with enormous capacity to exploit never-before energy market capabilities.

POSITIONED TO LEAD

Timing is always a critical success factor. The IT revolution has only just begun. As the world awakens to today’s new utility realities, the rush to develop a highly effective operational intelligence system and bridge the transition to an optimal energy system is a new “race to the Pole”.

With decades of deep energy industry insight and IT solution development experience, eSmart’s founders recognized early both the impact and opportunities of disruptive technologies to utilities as well as the frontier opportunity of uniting the Nexus of Forces into an intelligent energy management system (iEMS).

In this “race to the Pole”, eSmart has already secured pole position. It’s a race we intend to win and win prime-mover advantages. Our goal is not to participate in shaping the future of the utility industry. Our goal is to lead it.

Our clear aim is to deliver disruptive technology based on the Nexus of IT forces to the energy industry and to be the number one challenger to traditional vendors.

THE DRIVING FORCE:
ESMART SOLUTIONS

Pooling the powers of these formidable forces, eSmart is developing an operational intelligence solution to uniquely exploit extreme data volumes, generate real-time analytics, and uncover buried actionable insights – insights with the power to reduce energy consumption, reduce energy investment and reduce carbon footprints.

eSmart’s iEMS will optimize the entire energy eco-system enabling grid companies, large energy consumers, prosumers and retailers to enhance their response capabilities and demand flexibility; reduce their energy consumption, minimize capital investments, and climate emissions; and maximize profits by trading their available flexibility.

CEO COMMENTS

A YEAR OF INSPIRING SUCCESS

eSmart Systems launched into 2014 against the backdrop of a highly successful start-up year in 2013, which saw us build our team, assemble technology partners and sign several development agreements. Building on this momentum, we ambitiously set out to deploy our first system solution in the market, Connected Grid, and secure on-site customer operations in H2. We achieved both major milestones as planned. These achievements combined with other major developments in key resources, technology and profitability made our second year of operation an inspiringly great success.

2014 wasn't only a year of achievement but also of confirmation. The successful operational launch of Connected Grid critically confirmed that we accurately interpreted the big data, machine learning, IoT and predictive analytics trends back in 2012. Further, it confirmed that our decision to build the world's first smart grid solution platformed on Microsoft's powerful, cloud-based Azure was strategically advantageous. Azure is ultra fast, ultra flexible and undeniably the market's most secure.

2014 was an intense year. It was a year of fierce activity and fast paced progress on across fronts, just as we hoped and just as we expected. We are immensely proud that our technology platform is now tried, tested and customer proven. We are equally proud that our eSmart Systems team has developed a truly disruptive smart grid solution that will empower the energy industry to save energy, cost and the environment in real time and in a revolutionary new way.


POWERING THE FUTURE WE WANT

We are deeply driven by a desire to solve the energy industry's future needs and ensure it seizes its many new opportunities. Being able to utilize market flexibility can save grid companies from massive infrastructure investments. Emerging local markets need new functionality and communication. The IoT will make end-user interactions possible and highly valuable. Once addressed, these trends spell a highly automated, real-time market that's not only effectively optimized but also market personalized. As yet, there is no single, unified solution. eSmart is motivated to find the energy industry's "solution for everything", which is why we intensified our development efforts in 2014 and will further in the years ahead.

I am personally pleased with the many new experts who chose to join our rapidly expanding team last year. Their capacity and capabilities will be key to outperforming ourselves in 2015 and reaching next year's increasingly ambitious product and market development targets.

Thank you to our people, our partners and new customers who made 2014 an inspiring success for eSmart Systems.





"The audacious move by Tesla and Panasonic will be the subject of heated crisis discussions in board rooms around the world... (It) sounds a death knell for some companies ...and signals a new frontier opportunity for many others."

- Chet Lyons

THE POWER OF VALUES

Leading an industry requires more than just having a sense of what you are and who you want to be. It requires a clearly and consciously defined persona embedded in our collective personality, in every single business process, and consistently lived out. At the heart of this are an organization's values. We believe that organizational values drive organizational performance. At eSmart, values-driven processes position our customers at the center of all we do and critically contribute to our competitive advantage in the global marketplace. This is the real power of values and why we value integrity, teamwork, excellence and innovation above all else.

Integrity: We conduct ourselves ethically, openly, honestly, and respectfully to build strong and successful relations with all our stakeholders based on mutual trust and care.

Teamwork: We trust and support each other to bring out and build on the best from our combined talents, experiences, knowledge and cultures. We believe that only by sharing ideas, technologies and talents can we achieve and sustain profitable growth for all our stakeholders.

Excellence: We take pride in our work, continuously improve our skills and abilities, and bring every resource in our arsenal to bear to meet or exceed our customers' expectations.

Innovation: We strive to embrace change, encourage and support new ideas, methods, and remain committed to continuous improvement as we seek out the most creative solutions to solving our customers' challenges, enabling them to seize new, more profitable opportunities.

Halden, March 5, 2015
Knut Johansen, CEO



2014 IN REVIEW

FROM R&D TO **PRODUCT LAUNCH**

Although our product development roadmap runs until H2 2016, in 2014 we began transitioning from an R&D company to a sales driven company, which is no small endeavour. Prior to launching Connected Grid, in April we conducted a proof of concept pilot project together with our partners Fredrikstad Energi and Sogn og Fjordane Energi. The pilot was conducted at Hvaler. With 8 300 meter points, Hvaler is small but has Norway's second largest AMS installation and represents the highest AMS concentration in Norway to date (Norway will rollout 2.8 million meters by 2018). The pilot was an important success. With only minor modifications made to the system, Connected Grid was then launched just two months later.

FIRST COMMERCIAL SALES

We acquired our first commercial customer already in August, Ringeriks-Kraft with 21 000 meter points. Deploying eSmart's cloud-based solution, it took us just four weeks from contract signing to commercial operation; something we strongly consider a key competitive advantage of our platform. Ringeriks-Kraft is already estimating annual cost savings in the range of 2-4 MNOK.

In September, we won our first international contract sale as a partner to Bredesen Consulting, providing services and key software solutions to the Southern African Power Pool (SAPP). Bredesen selected eSmart to help develop the market-clearing engine software, which is a key component of SAPP's new trading platform. Another quickly followed this international deal, as eSmart became the technology partner of choice for EDF's exchange traded derivatives solution.

EXTENDED MARKET OFFERING

Building energy management systems is another market eSmart has strategically targeted, which we are doing with our Connected Building solution. Connected Building was our second product launch in 2014. In December, we signed our first agreement with Fredrikstad Energi using their office building at Stabburveien 18. The project is a pilot and demonstration of Connected Building, a cloud solution based on our new platform, which monitors, visualizes and optimizes energy use in buildings in real time.

NEW DEVELOPMENT PARTNERS

In 2014 we also signed several partner agreements. Among the most interesting was a dramatically strengthened partnership agreement with Microsoft. In Q4 we become an official partner, signing new development and support agreements, which include joint marketing and sales activities, innovative Azure Machine Learning projects and more.

In addition to sales and partner agreements, we continued and strengthened our focus on research, development and innovation. In October, eSmart won support from the Norwegian Research Council for more than 10 MNOK for our ambitious R&D project, ChargeFlex.

Also in October, eSmart became a partner in a new 3-year, 50 MNOK, EU project under the Horizon 2020 program, entitled EMPOWER.

NEW DEVELOPMENT PROJECTS

In December, we signed a contract with Energi Buskerud (EB) for Phase 3 and 4 of an Innovation Norway Research and Development Program (RDP) signed in 2013. EB is one of the ten largest, most innovative and tech-leading grid companies in Norway. Critical for them are effective grid management, multi-utility capability and enhanced customer satisfaction. EB explored many potential providers but in the end, we are proud to say, EB choose eSmart. The agreement represents important funding and a growth in our development budget of 10% as well as competence in the areas of AMS infrastructure and customer market penetration. Ringeriks-Kraft will join the program in March 2015, giving us four very demanding project partners.

INCREASED R&D FOCUS

To provide deeper input into new software development needs, last year we established our own R&D department and recruited two dedicated research scientists with nearly three decades of combined experience in energy technology, markets and software development as well as R&D project initiation with innovation focus. eSmart's Systems' continued and intense focus on research, development and innovation will ensure we stay well ahead of the market.

We strengthened not just R&D but our whole organization last year. We grew from 15 to 19 adding key people in product design, development, integration as well as sales. In 2014 we grew our team, doubled our revenue and nearly tripled our bottom line. 2014 was a very good year from which to launch the next.

We don't, however, rest very long on our past accomplishments. We are already looking ahead. Next year we look forward to anchoring the dominant position in our home market and ramping-up sales capabilities and capacity for international activities. Our own ambitions of delivering disruptive, leading-value technology to the energy industry won't easily be satisfied, which is why excellence and innovation are among the core values powering eSmart Systems success.

RESEARCH & DEVELOPMENT

Never before has the energy industry faced such fundamental and disruptive changes as it faces today. To manage and capitalize on these changes, developing new solutions, business models and competitive advantages through R&D are vital. R&D is a primary focus area for eSmart Systems. During 2014, execution of R&D projects continued, new project proposals won funding, and our staff was strengthened with the addition of two dedicated research scientists.

DEVID

DeVID (Demonstration and Verification of Intelligent Distribution Grids) is a national research and demonstration project in Norway that is exploring smart grid technology potential in two different parts of the country (Smart Energy Hvaler and Demo Steinkjer). One of the work packages is dedicated to exploration of user flexibility. eSmart Systems has been closely involved in a pilot denoted HYTTEFLEX, where end-user flexibility of summer houses during winter has been investigated. HYTTEFLEX uses a group of such residences as a source for local demand-response operations. The concept developed piggybacks an existing Home Automation System (HAS) and business model that provides commercial home support.

CHARGEFLEX

Resulting from strong political incentives, Norway is a forerunner in electric vehicles (EVs). A consequence however is that it is also the first to face the challenges of EV charging. When many EVs need charging simultaneously, the distribution grid may experience capacity shortages requiring costly investments. An alternative to grid reinforcements is efficient utilization of flexibility, both from connected EVs (smart charging) and other resources such as demand response from buildings. With the R&D project "Charge Flex, - increased network capacity for electric vehicle charging through smart management of flexibility" - eSmart Systems is developing solutions that will increase local network capacity by 25 percent generating dramatic savings for utility companies and all online customers. The project is funded by the Research Council of Norway through a special call "Pioneering research - new concepts in business", and commences at the beginning of 2015. In addition to research activities, the project will also develop Connected Vehicle for commercial use and run two or three pilot/ demonstration projects. We are very proud to have a broad consortium of partners participating on the project: Fredrikstad Energi, Sogn og Fjordane Energi, NTNU, Østfold County, Værste, Proxll, Fortum Charge & Drive, Smart Innovation Østfold, in addition to eSmart Systems, which is both the project owner and project manager.

EMPOWER

In close cooperation with NCE Smart Energy Markets and partners in four other countries, eSmart drafted an application to Horizon 2020 call H2020-LCE-2014-3. The project, named EMPOWER, was awarded funding with a total budget of approximately 50 MNOK. The objective of the project is to develop an entirely new energy market in Europe where consumers can buy and sell locally produced green energy from decentralized production sources. The result will be the offloading of central and regional electricity grids, increased local electricity production and cheap, renewable electricity to consumers. eSmart Systems are responsible for work package WP5 Local Smart Grids Control Cloud, which includes IT systems for the marketplace and market players.

Sub-targets are to:

- Develop a new market design for local trading and involvement of consumers/prosumers
- Develop prosumer oriented business models relevant for the market design developed
- Develop an ICT based monitoring and management system accommodated in the SESP
- Develop full bidirectional and secure communication between the market and business
- Integrate the project parts and demonstrate the viability of the concept in up to 3 physical regions in Europe (Norway, Germany and Malta)

The project initiates at the beginning of 2015 and will run for three years. The project partners are Smart Innovation Østfold/NCE Smart Energy Markets, Schneider Electric, Fredrikstad Energi, University of St. Gallen (Switzerland), NewEn (Germany), Miema (Malta) and Citcea (Spain).

New eSmart research scientists: In 2014 eSmart Systems strengthened its R&D team with two new employees: Dang Ha The Hien and Stig Ødegaard Ottesen.

Dang started in eSmart Systems in September 2014. He will take a PhD degree in a project funded through the Business PhD arrangement at the Research Council of Norway. The project has the working title "Machine learning - Big data, Big Data analytics for prosumers, aggregators and grid operators in the future energy system". Dang has already implemented models for short-term prediction of load in a transformer station. This work has been done in close cooperation with Microsoft and their machine learning team. The functionality will be tested in a pilot study in the Braadland project at Hvaler at the beginning of 2015. On his PhD project, Dang will be supervised by Professor Olaf Owe, Department of Informatics, University in Oslo. Subsidiary supervisor is professor Roland Olsson, Høgskolen i Østfold.

Stig will serve as Head of R&D in eSmart Systems from January 1st 2015. However, through his PhD project "Techno-economic models in SmartGrids" Stig has already been working closely with eSmart Systems. His main topics are optimization, decision support modelling and business models/market design with special focus on value creation from demand side flexibility.

Stig's main target is to perform research that can be commercialized in eSmart solutions. He is supervised by Professor Asgeir Tomasgard (NTNU – Institute for Industrial Economics and Technology management) and Professor Magnus Korpås (NTNU – Institute for Electrical Power Engineering). Stig actively uses master students to support his work.

"The combination of Big Data Analytics, smart metering and censoring, distributed energy resources and smart market designs and business models is turning the electricity market upside down. Active involvement in interdisciplinary and applied R&D projects is crucial for us in eSmart to develop solutions so our customers can capitalize on these changes."

- Stig Ødegaard Ottesen,
Head of R&D



OUR PARTNERS

A state-of-the-art IT-system which harnesses today's massive data volumes, extracts buried data, and unleashes trapped Smart Grid capabilities requires proven, pioneering, powerhouse partners. In 2014 we further developed relationships with our impressive

technology and distribution partners. eSmart Systems recognizes becoming number one, requires partnering with the best. eSmart Systems has established partnerships with numerous reputable, industry-leading companies.



Norwegian enterprises have access to a broad business support system as well as financial resources through Innovation Norway. Innovation Norway provides competence, advisory services, promotional services and network services. In 2014, eSmart participated in several educational programs through Innovation Norway including Global Entrepreneurship Training (GET) in Boston and Sales and Marketing training in New York.



NCE Smart Energy Markets is a cluster and a competence center that develops smart and sustainable energy solutions through innovation and business development. This environment is a pioneer in energy market design and implementation. In 2014 eSmart participated in several projects together with NCE. Smart Rural Grid and the DeVID project were two important projects that are contributing to further competence and product development in eSmart Systems



Esri inspires and enables people to positively impact the future through a deeper, geographic understanding of the changing world around them. eSmart includes world-class technology from Esri in a system solution that gives users the best possible geographic information (GIS) experience.



Geodata is the leading provider of software and services for geographic information systems (GIS) in Norway. They deliver both Esri software and own software specially adapted to the Norwegian market. Geodata is a perfect partner for eSmart in map solutions and related information sources. Revolutionizes buildings with software.



Lucid pioneered behavioural efficiency and occupant engagement technology in commercial buildings. Its next endeavour is to transform the energy management industry with a building operating system. Their system is a good fit with eSmart Systems' solution and eSmart Systems is the preferred distributor of Lucid in Northern Europe.

PARTNER



Being the productivity and platform company for the mobile-first and cloud-first world, Microsoft will reinvent productivity to empower every person and every organization on the planet to do more and achieve more. This requires great innovative software and services, and it requires assertive partners.

eSmart Systems employees have been developing software using Microsoft tools for more than 15 years. Our experience and Microsoft's commitment to cloud computing combined with their Azure platform, makes this partnership a perfect match. In 2014 we further developed our Microsoft partnership in many areas, including joint marketing and sales activities, innovative Azure Machine Learning projects and more.

"With domain insight and knowledge, and decades of experience within the Power and Utilities industry, eSmart Systems is a valuable business partner to Microsoft. eSmart Systems is a spearhead when it comes to adopting new technology to drive innovation. The solutions from eSmart Systems are blueprints of how Utilities can be empowered to do more and achieve more."

- Per Christian Honningsvåg,
Power and Utilities Lead, Microsoft Norway.

eSmart Systems truly understand the power in Microsoft's platform and services, being an early adopter of eg Machine Learning and Azure IoT Services. The customer will achieve competitive advantages in their partnership with eSmart Systems and Microsoft.

"Opportunities are only limited by your imagination in a mobile first, cloud first world. eSmart Systems has taken the Microsoft Azure platform and turned their customer's imagination into reality!"

- Jon Arnold, Managing Director,
Worldwide Power & Utilities Industry



OUR CUSTOMERS

During 2014 eSmart Systems established a number of new customer relationships. A few of them are members of a three-year R&D partnership.

Through an industrial research and development contract with Innovation Norway, eSmart Systems is developing next generation intelligent Energy Management Systems for forward-thinking companies to operate on Smart Grids. These companies are Fredrikstad Energi (FEAS), Sogn and Fjordane Energi (SFE) and Energiselskapet Buskerud (EB). In addition, we signed license and support agreements with Ringeriks-Kraft and a support agreement with EDF Trading in London. We also signed an R&D agreement with the Norwegian Research Council to take the lead position on the new ChargeFlex project focused on EV charging flexibility, and as a subcontractor to NCE Smart Energy Markets in delivering the EU Horizon 2020 program.



FREDRIKSTAD ENERGI AS

Fredrikstad Energi AS, is a leading Norwegian energy company. Fredrikstad Energi operates the Smart Energi Hvaler project, and is at the forefront of adapting to new technology to push the energy industry's efficiency frontier. Fredrikstad Energi and its subsidiaries are widely known as one of the most efficient energy companies in Norway. Visit www.feas.no

"We see major changes ahead in the energy industry. Fredrikstad Energi is taking a leading position by developing Smart Energy Hvaler, which requires completely new ICT systems. eSmart Systems is our primary partner in new and innovative industry system development. eSmart's expertise and ability to adopt the latest technology helps us to succeed."

- Eilert Henriksen,
CEO of Fredrikstad EnergiNett



SOGN AND FJORDANE ENERGI (SFE)

Sogn and Fjordane Energi (SFE), is a leading energy distributor, green energy producer and retailer in Norway. SFE's vision is "Power to influence the future". SFE is at the forefront of technology innovation and actively seeks better processes and business models to remain at the top of the Norwegian energy industry. Visit www.sfe.no

"Today we see the beginnings of a paradigm shift in the entire power industry. Access to large amounts of data is paving the way for a smarter and more efficient operation of our power grid and production facilities, and not at least new, value-creating services for our power customers. This shift will only happen however, if we succeed at capitalizing on the full potential of this new, big data. Sogn and Fjordane Energi have chosen eSmart Systems as our partner in this development, and together we'll seize the coming opportunities, which is completely in line with our vision: The power to influence the future"

- Asgeir Aase,
Interim Group Director of
Sogn and Fjordane Energi



Ringeriks-Kraft

RINGERIKS-KRAFT AS

Ringeriks-Kraft AS is a Norwegian group in Ringerike, which manufactures, sells, and distributes energy. The group consists of 5 companies including Ringeriks-Kraft Nett which aims to offer customers a reliable power supply within the given financial framework. Visit www.ringeriks-kraftnett.no

"The rollout of AMS has forced us to find a way to handle large amounts of data. We are now collecting more data in a day than we did previously in two years. eSmart systems' IT solutions have made it possible for us to exploit this big data and better utilise our grid."

- Jan Erik Brattbakk,
CEO of Ringeriks-Kraft Nett



EB NETT

EB Nett is a grid company in the EB group established in 2001. They aim to be among Norway's three most efficient grid operators. Visit www.eb-nett.no

"For EB Nett AMS, Smart Grid represents a major technology shift. Going forward we will operate the grid differently - we will develop and invest differently in the grid - and we will interact with the customer in a quite different manner. A key partner for us in enabling this major technology shift will be eSmart Systems."

- Tore Morten Wetterhus,
CEO of EB Nett



EDF TRADING

EDF Trading is a leading player across global energy markets. It manages a portfolio of assets, which give it the ability to source, supply, transport, store, blend, and convert physical commodities across wholesale energy markets. Visit www.edftrading.com

"eSmart Systems is a technology partner for our Exchange Traded Derivatives solution. We appreciate the partnership and are looking forward to working with eSmart to deliver high quality and innovative solutions that will meet our future business needs."

- Anthony Waite,
Head of Solution Delivery Europe & Asia

Financial Statement 2014

Income Statement

	NOTE	2014	2013
OPERATING REVENUES			
Sales	6,24	10 036 075	4 565 410
Other operating income	7	3 360 000	2 900 000
TOTAL OPERATING REVENUES		13 396 075	7 465 410
OPERATING EXPENSES			
Cost of sales		2 007 861	706 057
Personnel expenses	18,19,22	3 155 454	2 852 833
Other operating expenses	20,21,22,24	4 751 894	2 883 935
TOTAL OPERATING EXPENSES		9 915 209	6 442 825
EBITDA		3 480 866	1 022 585
Depreciation	8,9,10	438 604	135 803
EBIT		3 042 262	886 782
FINANCIAL INCOME AND EXPENSES			
Interest income		40 160	22 181
Other financial income		6 709	1 121
Interest expenses		27 667	3 300
Other financial expenses		21 398	8 837
NET FINANCIAL PROFIT		-2 196	11 165
PROFIT BEFORE TAXES		3 040 066	897 947
Income tax expense	17	277 382	-88 971
NET PROFIT		2 762 684	986 918
OTHER COMPREHENSIVE INCOME			
Other comprehensive income		0	0
NET OTHER COMPREHENSIVE INCOME		0	0
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		2 762 684	986 918
TRANSFERS			
Allocated to retained earnings		2 762 684	986 918
TOTAL TRANSFERS		2 762 684	986 918

Balance Sheet

ASSETS	NOTE	2014	2013
FIXED ASSETS			
Capitalized development costs	9,12	13 505 025	5 237 155
Licences	8	82 000	107 800
Operating equipment	8,25	1 785 690	1 606 700
TOTAL FIXED ASSETS		15 432 715	6 951 655
CURRENT ASSETS			
Trade receivables	13	2 791 765	618 181
Other short term receivables	13	4 336 716	2 201 734
Cash and cash equivalents	14	8 489 515	4 294 571
TOTAL CURRENT ASSETS		15 617 996	7 114 486
TOTAL ASSETS		31 050 711	14 066 141

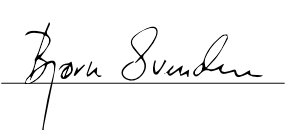
Balance Sheet

EQUITY AND LIABILITIES	NOTE	2014	2013
EQUITY			
Subscribed equity			
Share capital	15,23	510 135	333 333
Non registered capital	15	0	1 999 999
Share premium fund	15	19 489 944	7 666 667
Total subscribed equity		20 000 079	9 999 999
Retained equity			
Retained earnings		3 509 506	746 822
Total retained equity		3 509 506	746 822
TOTAL EQUITY		23 509 585	10 746 821
NON CURRENT LIABILITIES			
Deferred tax liabilities	17	317 113	135 286
Debts to credit institutions	25	485 511	538 239
TOTAL NON CURRENT LIABILITIES		802 624	673 525
CURRENT LIABILITIES			
Trade payables		2 918 606	535 685
Tax payable	17	0	0
Unpaid government charges	14	907 078	766 117
Other current liabilities	16,24	2 912 818	1 343 993
TOTAL CURRENT LIABILITIES		6 738 502	2 645 795
TOTAL EQUITY AND LIABILITIES		31 050 711	14 066 141

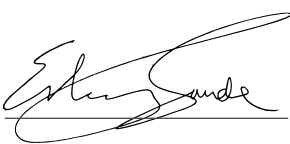
Halden, April 30th 2015



Bjarne Tarjei Haugen
Chairman of the Board



Bjørn Svendsen
Member of the Board



Erling Sande
Member of the Board



Erik Åsberg
Member of the Board



Knut Johansen
Member of the Board / CEO

Statement of Cash Flows

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

	2014	2013
Cash flow from operating activities		
Operating result before tax	3 040 066	897 947
Tax paid	0	0
Depreciation and impairment	438 604	135 803
Change in accounts receivables	-2 173 584	-406 509
Change in trade payables	2 382 921	345 984
Change in other current assets/debt items	-520 752	-509 508
Net cash flow from operating activities	3 167 255	463 717
Cash flow from investment activities		
Purchase of shares	-60 000	0
Purchase of operating equipment	-591 793	-1 751 698
Purchase of intangible assets	-8 267 870	-4 406 574
Net cash flow from investment activities	-8 919 663	-6 158 272
Cash flow from financing activities		
Proceeds from issuance of long-term debt	0	538 239
Issue of shares	10 000 080	8 999 999
Net cash flow from financing activities	9 947 352	9 538 238
Net changes in cash and cash equivalents	4 194 944	3 843 683
Cash and cash equivalents 01.01	4 294 571	450 888
Cash and cash equivalents at 31.12	8 489 515	4 294 571

Statement of Changes in Equity

	Share Capital	Non registered capital	Share premium fund	Other Equity	Total Equity
Equity 01.01.2013	100 000	0	0	-174 889	-74 889
Issue of share capital	207 017	0	6 792 983	0	7 000 000
Merger	26 316	0	873 684	-65 207	834 793
Issue of share capital	0	1 999 999	0	0	1 999 999
Total comprehensive income	0	0	0	986 918	986 918
Equity 31.12.2013	333 333	1 999 999	7 666 667	746 822	10 746 821
Equity 01.01.2014	333 333	1 999 999	7 666 667	746 822	10 746 821
Registration of capital	59 154	-1 999 999	1 940 845	0	0
Issue of share capital	117 648	0	9 882 432	0	10 000 080
Total comprehensive income	0	0	0	2 762 684	2 762 684
Equity 31.12.2014	510 135	0	19 489 944	3 509 506	23 509 585

Notes to the Financial Statements

Note 1 - General information

eSmart Systems AS develops, sells and delivers software products and services for energy markets where user flexibility and efficient utilization of energy markets are central. The Company also delivers consulting services to the same markets. The Company's products and services are based on active use of advanced measuring and control systems (AMS) through integrated IT solutions where user flexibility is automatically analyzed and optimized in energy markets.

Deliveries are primarily to the Norwegian, Nordic and US markets.

eSmart Systems AS is a Norwegian company, headquartered in Halden. The company does not have any subsidiaries or shares in other companies.

These financial statements have been approved for issue by the Board of Directors on April 30th 2015.

Note 2 - Summary of significant accounting policies

2.1 Basis of preparation

The financial statements of eSmart Systems AS have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations.

Preparation of financial statements in conformity 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 where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

2.2 Segment reporting

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

2.3 Foreign currency translation

(a) Functional and reported currency

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

(b) Transactions and balances

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

2.4 Operating equipment

All machinery and equipment is 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 are charged to the income statement during the financial period in which they are 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 amount. These are included in the income statement.

2.5 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.

2.6 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 for 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 suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.7 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 in 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.

2.8 Cash and cash equivalents

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

2.9 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 in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.10 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 loans using the effective interest method.

2.11 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 the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets 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 of 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 utilised.

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.

2.12 Employee benefits

(a) Pension obligations

The company has a defined contribution plans. 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 the future payments is available.

(b) Profit-sharing and bonus plans

The company recognises a liability and an expense where 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 2013 or 2012.

2.13 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable 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 the customer; the customer has accepted the products and collectibility 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.

2.14 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. There are no financial leases in the company.

2.15 Provisions

Provisions are recognized when the company has an obligation as a result of past events, and when it is probable that there will be a financial settlement as a result of this 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 amount expected to be required to meet the obligation.

Note 3 - Financial risk management

Financial risk factors

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise 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 cashflow. The Board monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and planed investments while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 26).

Note 4 - Changes in the Company's structure

In 2013 the company merged with Smart Energy AS. There were no changes in 2014.

Note 5 - 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 the net result.

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

- Write-down/reversal of other intangible assets and of fixed assets

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

The Companys capitalized intangible assets are tested annually for impairment and any reversal of previous write-downs.

Note 6 - Operating revenue

	2014	2013
Sales of products	7 391 000	2 624 000
Consultancy services	2 645 075	1 941 410
Total operating revenue	10 036 075	4 565 410

Note 7 - Other operating income

Other operating income includes public funding related to development projects from Inovasjon Norge. The funding amounts to NOK 3.360.000 in 2013 (NOK 2.900.000 in 2013).

Note 8 - Operating equipment

	Licences	Operating equipment
Cost 1.1.2014	129 225	1 721 078
Additions	0	591 794
Disposals	0	0
Cost 31.12.2014	129 225	2 312 872
Accumulated depreciation 1.1.2014	21 425	114 378
Depreciation charge	25 800	412 804
Accumulated depreciation 31.12.2014	47 225	527 182
Net book amount 31.12.2014	82 000	1 785 690
Economic lifetime	5 years	3-5 years

Note 9 - Capitalized development cost

	Capitalized dev. cost
Cost 1.1.2014	5 237 155
Additions	8 267 870
Disposals	0
Cost 31.12.2014	13 505 025
Accumulated depreciation 1.1.2014	0
Depreciation charge	0
Accumulated depreciation 31.12.2014	0
Net book amount 31.12.2014	13 505 025
Economic lifetime	3-10 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 31.12.2014 of NOK 13.505.025 (NOK NOK 5.237.155 in 2013) pertain to products that are not commercialized or available on the market. The first products are expected to be available in the market in the second half of 2015.

Note 10 - Depreciation

	2014	2013
Operating equipment (see note 8)	438 604	135 803
Capitalized development cost (see note 9)	0	0
Total	438 604	135 803

Note 11 - Write off

	2014	2013
Operating equipment (see note 8)	0	0
Capitalized development cost (see note 9)	0	0
Total	0	0

Note 12 - Impairment test of intangible assets

Recognized capitalized development cost in the Company as of 31.12.2014 amounts to MNOK 13,5 (MNOK 5,2 in 2013). This relates mainly to product development based on active use of advanced measuring and control systems (AMS) through integrated IT solutions, where user flexibility is automatically analysed and optimised 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 of 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 2013. 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. The cash flows are determined based on the financial budget for 2015 and forecasts for the period 2016 - 2019.

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 45 %. This is based on a risk free rate of 5 % and a risk premium of 40 %. 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 31.12.2014 the value in use of capitalized development cost amounted to MNOK 18,7, compared to a total booked value of MNOK 13,5.

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

Reduced revenue	Increased op. exp.	Value in use	Write off
5%	0%	12,5	1,0
5%	5%	7,2	6,3
10%	0%	6,2	7,3
10%	5%	0,9	12,6
15%	0%	0,0	13,5
15%	5%	0,0	13,5

Note 13 - Trade receivables and other short term receivables

Trade receivables

There are none provisions for bad debt for the Company as of 31.12.2014 or 31.12.2013.
Trade receivables as of 31.12.2014 and 31.12.2013 are booked at fair value, less provisions for bad debt, with NOK 2.791.765 and NOK 618.181.
Booked losses on trade receivables was NOK 0 in 2014 and NOK 0 in 2013.

Other short term receivables	2014	2013
Skattefunn*	1 923 010	1 100 000
Innovasjon Norge	700 000	470 000
Accrued income	949 000	554 000
Pre paid costs	363 381	56 477
VAT	391 325	21 257
Total	4 326 716	2 201 734

* Tax reduction related to enterprises engaged in research and development.

Note 14 - Cash and cash equivalents

As of 31.12.2014 NOK 484,547 of the total cash and cash equivalents is tied up as withheld tax (NOK 439.472 in 2013).
Withhold tax liabilities as of 31.12.2014 was NOK 480.611 (NOK 438.027 in 2013).

Note 15 - Share capital and Shareholders

Total share capital in the Company as of 31.12.14 was NOK 510.138 divided on 510.138 shares with a nominal value of NOK 1,00.

Changes in share capital and share premium fund	Numbers of shares	Share capital	Share premium fund
Issued shares as of 31.12.2013	333 333	333 333	7 666 667
Rise of capital	59 154	59 154	1 940 845
Rise of capital	117 648	117 648	9 882 432
Issued shares as of 31.12.2014	510 135	510 135	19 489 944

Figures for result per share and fully diluted result per share can be found in note 23.

Shareholders as of 31.12.2014

	Numbers of shares	ownership interest
eCapital AS*	172 956	34,65%
Fredrikstad Energi	81 834	16,39%
Sogn og Fjordane Energi	76 728	15,37%
Energi og IKT Invest AS*	22 692	4,55%
Fryden Consulting AS	18 155	3,64%
Rostskydd AS**	15 039	3,01%
Knut Erik Gustavsen	14 474	2,90%
t-hox AS	14 053	2,82%
Forksound AS	14 039	2,81%
Yngvar Seteklev	13 013	2,61%
Jo Morten Sletner	12 422	2,49%
Frode Teigen	9 000	1,80%
DataSET AS	7 419	1,49%
Roy Einar Angell	5 480	1,10%
Henrik Erichsen	5 141	1,03%
Thomas Norrsèn	4 852	0,97%
Sven Erik Tønnesen	3 509	0,70%
Stig Ottesen	3 075	0,62%
Gustavsen Invest AS	2 702	0,54%
Bjarne T. Haugen	2 586	0,52%
Total 20 largest shareholders	499 169	100,00%
Other shareholders	10 966	2,20%
Total number of shares	510 135	102,20%

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

** Rostskydd AS is owned by member of the board Erik Åsberg.

Note 16 - Other current liabilities

Other current liabilities	2014	2013
Advances from costumers	1 252 192	0
Accrued vacation salary	1 109 514	701 242
Debt to eCapital AS	176 002	176 002
Accrued salary	30 863	101 973
Accrued expenses	344 247	364 779
Total	2 912 818	1 343 996

Note 17 - Taxes

Income taxes	2014	2013
Tax payable	95 555	0
Changes in deferred tax	181 827	-88 971
Total income taxes	277 382	-88 971

The Company receives Skattefunn, a tax reduction, related to enterprises engaged in research and development. The Company will not therefore pay tax for 2014, but will receive NOK 1.923.010 (NOK 1.100.000 i 2014) through the Skattefunn program.

Reconciliation from nominal to actual tax rate	2014	2012
Profit before taxes	3 040 066	897 947
Estimated income tax at nominal tax rate (27%)	820 818	251 425

Tax effect on following items:

Changes in non-capitalized deferred tax assets	0	-54 739
Skattefunn	-545 013	-308 000
Changed tax rate	0	3 325
Non taxable income	-1 881	0
Non-deductible costs	3 457	19 017
Total income taxes	277 382	-88 971
Effective tax rate	9,1 %	-9,9 %

Specification of tax effect of temporary differences and loss to be carry forward:

	2013		2012	
	Asset	Liability	Asset	Liability
Operating equipment	0	317 113	0	302 610
Loss to be carried forward	0	0	167 324	0
Total	0	317 113	167 324	302 610
Non-capitalized deferred tax assets	0		0	
Net deferred income tax assets/liability	0	317 113	0	135 286

Note 18 - Pension obligations

The employees in the company have a defined contribution plan. As of 31.12.2014 there were 19 employees included in the pension plan (15 in 2013). The pension plan is administrated by an insurance company. Total payments regarding this scheme in 2014 amounted to NOK 335.205 (NOK 194.007 in 2013).

Note 19 - Payroll expenses

	2014	2013
Salaries*	661 578	1 558 084
Employers' contribution	1 524 964	947 741
Pension cost, see note 18	335 205	194 007
Other payroll cost	633 707	153 001
Total	3 155 454	2 852 833

Average number of man-year	18	9
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* NOK 9.608.980 of salaries has been capitalized as research and development costs in 2014 (NOK 5.114.418 in 2013).

Note 20 - Other operating expenses

	2014	2013
Premises	901 293	330 347
Office costs	562 966	219 630
IT services	407 908	331 480
Meetings, training	373 044	193 212
Accounting, audit, lawyers	582 242	314 014
Consultants	86 923	510 257
Travel	474 988	700 289
Sales and marketing	1 235 869	193 374
Other costs	126 661	91 332
Total	4 751 894	2 883 935

Note 21 - Future lease obligations

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

Annual rental costs in 2014 amounted to NOK 917.083 (NOK 330.347 in 2013).

Future accumulated minimum payments regarding the lease obligations:

	2014	2013
Mature within one year	849 375	741 788
Mature between one and five years	2 441 953	3 142 687
Mature later than 5 years	0	0

Note 22 - Fees and remuneration

Salaries and other fees to:	Managing director	Chairman of the board	Board
Salary	1 424 409	0	0
Other benefits	4 825	0	0
Pension cost	39 984	0	0

The managing director has an agreement to receive at least one year’s salary and other benefits upon 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 31.12.2014.

Auditor

Expensed auditing fee in 2014 amounts to the following, exclusive value-added tax:

Mandatory audits	103 500
Tax consulting	6 000
Other services	110 000
Total fees	219 500

Note 23 - Net profit per share

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

	2014	2013
Net profit	2 762 684	986 918
Average number of issued shares	431 648	153 074
Net profit per share	6,40	6,45
Net comprehensive income	2 762 684	986 918
Average number of issued shares	431 648	153 074
Net comprehensive income per share	6,40	6,45

Fully diluted net profit per share is equal to net profit per share since the Company not has issued options.

Note 24 - Related-party transactions

All related-party transactions are based on normal market conditions.

The Company rents offices from a company where the managing director and member of the board have ownership interests. Paid rent in 2014 amounted to NOK 968.239 (NOK 192.672 i 2013).

The company has a short term debt to a company related to the managing director and member of the board for NOK 176.002 as of 31.12.2014 (NOK 176.002 i 2013). No interest has been calculated on the debt in 2014 or 2013.

In 2014 the Company had income from consultancy services for NOK 1.920.066 from a company where the managing director and member of the board have ownership interests (NOK 1.103.217 in 2013). eSmart Systems AS has also bought services from this company for NOK 222.186 in 2014 (NOK 0 in 2013).

Note 25 - Borrowings / pledged assets

The Company has a mortgage loan of NOK 485.511 as of 31.12.2014 (kr 528.239 i 2013). The loan will be repaid in 8 years, and will be fully repaid in 2020. As of 31.12.2014 operating equipment with a book value of NOK 646.200 have been pledged as security for the loan (NOK 740.700 in 2013).

Note 26 - Borrowing facilities / convertible loan

The Company has borrowing facilities from two shareholder. The total facility amounts to NOK 4.000.000. As of 31.12.2014 none of the facilities have been used. The borrowing facilities last until 30.06.2016. If the facilities are used, the Company is obligated to 8 % interest on borrowings. The lenders have the right to convert the borrowings into shares at the end of the period if the Company does is unable to repay the amount borrowed.

AUDITORS REPORT

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STATSAUTORISERTE REVISORER

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LISBETH SØRENSEN

I kontorfellesskap
med registrert revisor:
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To the Annual Shareholders' Meeting of eSmart Systems AS

Independent auditor's report 2014

Report on the Financial Statements

We have audited the accompanying financial statements of eSmart Systems AS showing a profit of NOK 2 762 684. The financial statements comprise the balance sheet as at 31 December 2014, income statement, changes in equity and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Board of Directors and the Managing Director's Responsibility for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by EU, and for such internal control as The Board of Directors and the Managing Director determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements are prepared in accordance with the law and regulations and present fairly, in all material respects, the financial position of eSmart Systems AS as at 31 December 2014, its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



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Medlem av Den norske Revisorforeningen

MYRDAHL OG SVEEN
STATSAUTORISERTE REVISORER

Auditor's report
eSmart Systems AS

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Strømmen, 30 April 2014
Myrdahl og Sveen AS

Morten Rugtvedt
State Authorised Public Accountant (Norway)

BOARD OF DIRECTOR'S REPORT 2014

OPERATIONS AND LOCATIONS

eSmart Systems AS is based on more than two decades of successful and extensive international experience at establishing, growing and operating knowledge-based and world-leading companies targeting global markets.

eSmart Systems AS is developing next generation software systems for grid companies, large energy consumers, prosumers and retailers. Its solutions focus on helping customers benefit from energy market price fluctuations to reduce energy consumption and greenhouse gas emissions.

The Company's systems and solutions will also have applications in broader perspectives in rapidly growing areas such as smart buildings and smart cities.

eSmart Systems AS' focus on integrity and teamwork coupled with ambitions of excellence and innovation form its values foundation. Values-driven processes put our customers at the center of all we do and contribute to our competitive advantage in the global marketplace.

The Company's headquarters are in Halden, Norway. Over the last two decades, Halden has developed into one of the most competent energy IT environments in Norway.

STRONG GROWTH IN 2014

Already in early 2014, the Company noted a growing interest in the market for its solutions. Marketing of the first product in its portfolio, Connected Grid, resulted in the first pure commercial contracts in the second half of the year. Further development of a strong partnership with Microsoft and continued significant focus on cluster collaboration in and around IT environments in Halden, also led to a new contract, Empower, part of the EU's Horizon 2020 program. This contract was won at the end of the year and in collaboration with NCE. The Company won an award from the Research Council program for its pioneering research, Chargeflex. Towards year's end, the Company commenced collaboration with EDF Trading in London related to support of EDF's trading solution.

The Company's primary focus in 2014 was to continue product development according to the three-year R&D contract established in 2013 in collaboration with demanding customers and Innovation Norway. As a result, by the end of 2014, the Company had several products in its portfolio ready for commercial sales. Market interest grew faster than expected. To strengthen focus on product development and market activities, the Company floated new shares in the 2nd half 2014.

The Company's sales growth and financial results were better than expected in 2014.



COMMENTS RELATED TO THE FINANCIAL STATEMENTS

Turnover for eSmart Systems AS increased from 7.5 MNOK in 2013 to 13.4 MNOK in 2014. Net income in 2014 was 2.8 MNOK compared to a profit of 1.0 MNOK in 2013. The Company delivered revenue growth and earnings in excess of its business plan. The financial result for 2014 was good.

During 2014, research and development costs amounted to 12.4 MNOK. Of total R&D costs, product development amounted to 8.3 MNOK, which was activated and balance sheet disclosure requirements are considered to be met.

Total cash flow from operations was 3.2 MNOK in 2014, and operating profit before tax for the Company amounted to NOK 3.0 MNOK. The difference is mainly due to changes in other accruals (-0.5 MNOK), receivables (- 2.2 MNOK), changes in trade payables (2.4 MNOK) and depreciation (0.4 MNOK).

The Company's liquid reserves amounted to 8.5 MNOK as at 31.12.2014. The Company's ability to finance its investments is good.

The Company's short-term debt as of 31.12.2014 amounted to 89.4% of total debt, compared with 79.7% at 31.12.2013. This increase is due to the repayment of long-term Company debt, an increase in deferred tax and an increase in current liabilities. The Company's financial position is good and is adequate to settle short-term debt as of 31.12.2014 with the Company's most liquid assets.

Total assets at the end of the year amounted to 31.1 MNOK compared to 7.1 MNOK last year. The equity ratio was 75.7% as of 31.12.2014 compared to 76.4% the previous year.

FINANCIAL RISK

OVERALL VIEW ON OBJECTIVES AND STRATEGY

The Company currently has limited exposure to financial risks in most areas. The Company's current strategy does not include the use of financial instruments although the use of such is subject to ongoing evaluation by the Board of Directors.

MARKET RISK

The Company is currently not exposed to currency exchange rate risk as the majority of the Company's revenues are in local currency (NOK). The Company has not entered into derivatives or other agreements to reduce exchange rate risk or market risk.

The Company is not currently exposed to changes in interest rates.

CREDIT RISK

The risk for losses on receivables is considered low. The Company has not yet experienced any losses on receivables, and is not anticipating any changes in this trend in the near future. Gross credit risk exposure as of 31.12.2013 was 7.1 MNOK for the Company. This is an increase from 2013 when the Company's exposure was 2.8 MNOK.

The Company has not made any offset or other derivative agreements to reduce eSmart Systems AS' credit risk.

LIQUIDITY RISK

The Company's liquidity is good. The Company has secured additional liquidity in the form of a convertible loan facility from two of the Company's shareholders. This loan facility had not been activated as of 31.12.2014.

On average, credit terms from suppliers are 20 days. There are currently no plans to renegotiate terms with any specific suppliers.

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 2015 profit forecasts and the Company's long-term strategic forecasts. The Company's financial position is sound.

WORKING ENVIRONMENT AND EMPLOYEES

Leave of absence due to illness totalled 221 hours in 2014 (76 hours in 2013), which equals approximately 0.7 % (0.4 % in 2012) of the total working hours in the Company. The Company considers this figure to be low and is satisfied. The Company has, from its very beginning, focused on a good physical and social working environment, and has established a training offer for all employees.

No incidents or reporting of work-related accidents resulting in significant material damage or personal injury occurred during the year.

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

EQUAL OPPORTUNITIES

The Company aims to be a workplace where there is full equality between women and men. The Company has incorporated into its policy provisions the aim to ensure that there is no gender discrimination in matters such as salary, promotion and recruiting. The Company has traditionally recruited from environments where men are over represented.

The Company has 19 employees, of which 1 is a woman. The chair of the Board is male, and there are no women in leader positions. Female employees are therefore not well represented in the Company.

The Company conducts a working environment survey annually. Important objectives are to detect gender discrimination concerning salaries, promotion and participation in internal offers of in-service training.

Working time arrangements are determined by the various positions and do not depend on gender.

The Company is planning to implement measures to attract more female employees in the future.



DISCRIMINATION

The Discrimination Act's objective is to promote gender equality, ensure equal opportunities and rights, and to prevent discrimination based on ethnicity, national origin, descent, skin color, language, religion or faith. The Company actively works purposefully and systematically to promote the Act's purpose within our business. Included in its activities are recruiting, salary and working conditions, promotion, development opportunities and protection against harassment.

ENVIRONMENTAL REPORT

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

FUTURE PROSPECTS

The Board of Directors emphasizes that there is normally significant uncertainty associated with assessing future prospects in the phase eSmart Systems AS is in. In accordance with its business plan, eSmart delivered the first major release of its new systems in the first half of 2014. The release was operational on customer sites in the second half of 2014 and commercial sales are underway. The Company is on schedule according to established plans.

The many changes now taking place in energy markets fits well with the Company's expectations and the Company's systems and marketing strategy. Order intake is satisfactory.

On this basis, the Board of Directors is positive that the Company will develop according to its offensive business plan.

ALLOCATION OF NET INCOME

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

Other equity	NOK 2 762 684
Total allocated	NOK 2 762 684

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

Halden, April 30th 2015

Bjarne Tarjei Haugen
Chairman of the Board

Erling Sande
Member of the Board

Bjørn Svendsen
Member of the Board

Erik Åsberg
Member of the Board

Knut Johansen
Member of the Board / CEO



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