eSmart Systems

Annual Report 2018

CEO COMMENTS

As the surrounding world changes and our markets and technology evolve, we must rapidly respond in kind to carve out and to keep a leading position. This is why eSmart made broad changes in 2018 across our products, projects, partners and strategy.

With products not market-ready, markets maturing and an organization developing, sales were not as strong in 2018 as anticipated. But 2018 was a foundational year of great preparation for eSmart Systems' successful scale-up and pending take-off.

In 2018, we streamlined, tuned and focused our products, our target markets, our strategy and organization as well as our Azure-based cost performance.

For first time last year, we witnessed a very significant and clear change in the diffusion of innovations from innovators to early adaptors. RFPs from US energy companies, for example, are beginning to materialize indicating that demand from customers is now coming online.

eSmart Systems has proven that we are solidly ahead in the development of analytics for power grid and was first into the market with power grid inspection analytics. We experience little competition for these solutions and the actors we meet solve the problems in other ways, manually and with established and traditional methods.

We have solutions in the market with full application capabilities. We have great energy partners who are keen to deploy our solutions such as Connected Drone, and entering into SaaS agreements to run the service in full operation.

Once again, I am deeply proud of our resourceful, resolute and award-winning organization that consistently rises to the unrelenting challenges of a mature industry undergoing a revolutionary rebirth.

As a result, we are ready and eager to seize the opportunities, which I expect will be many, that will make 2019 eSmart's best year by far.

Halden, April 2019
Knut Johansen, CEO

INDEX

2018 HIGHLIGHTS

NEW INVESTMENT PARTNERS

eSmart welcomed two new growth partners in 2018, Equinor and Nysnø Climate Investments (Norwegian sovereign wealth fund). Combined with existing eSmart shareholders, including Kongsberg Digital, 18 MUSD in new capital was raised, substantially strengthening and accelerating the development of eSmart's AI-technologies, their application to the energy industry and propelling eSmart into its next expansion stage.

In addition to equity, Equinor will contribute as an industrial partner aiding eSmart in the development of AI for wind and solar power. Cooperation began quickly in 2018 with focus on eSmart Systems' AI skills together with Equinor's domain experts.

The Norwegian sovereign wealth fund, Nysnø Klimainvesteringer, is very focused on sustainable technologies and technologies that directly contribute to the UN's sustainable development goals. Nysnø is influencing eSmart Systems in this direction as eSmart links its activities to specific UN goals. As an example, we help utilities uncover defects and problems in their power grid at an early stage, and can suggest other solutions than new investments, using technology and AI. eSmart's state-of-the-art Connected Drone solution is faster, cheaper, greener and more scalable than traditional manual helicopter inspections, and the use of drones above helicopters contribute to less pollution due to high fuel consumption, but also noise disturbances of nature and wildlife.

NEW PROJECTS, PARTNERS AND AGREEMENTS

As eSmart's Connected Drone 1 project successfully completed in 2018, Connected Drone 2 (CD2) was successfully launched. CD2 – the next step in customer-driven drone development, launched with 20 utility partners, all of which signed SaaS agreements with eSmart, received their first project delivery and deployed Connected Drone 2.0 in 2018.

In June of last year, eSmart Systems entered into partnership with Juniper Unmanned, Inc., a leading, Colorado-based, remote sensing and analytics integrator for unmanned aircraft systems (UAS). The partnership aims to capitalize on the combination of Juniper Unmanned's expertise for producing high-quality data combined with eSmart Systems' AI platform Connected Drone, powered by Microsoft Azure, to improve utility companies' detailed inspections by providing actionable intelligence downstream.

Statnett, a primary driving force for the deployment of AI in grid inspections, began an exciting cooperation with eSmart Systems in late 2018. In search of a safer and more cost-effective substation, distribution and transmission line inspection, Statnett partnered with eSmart to develop artificial Intelligence for unmanned aerial systems.

2018 began with the signing of an agreement between Sogn and Fjordane Energi Nett (SFE) and eSmart Systems for the delivery of Connected Grid. eSmart also joined forces with digital chart experts Electronic Chart Centre (ECC), a state-owned company with niche expertise in the collection, quality management and distribution of Electronic Navigational Charts (ENCs) globally, to develop a flexible and adaptable, world-class map solution for eSmart's Connected Drone.

Kragerø Energi became the sixth company to sign with eSmart to utilize and operate Connected Drone Image Analysis, an intelligent assistant based on eSmart Systems' Connected Platform. Kragerø Energi AS was one of eSmart Systems' first collaboration partners in the revolutionary Connected Drone project.

In 2018, eSmart signed an agreement to deliver a pre-study to Skagerrak Energi. The project focused on using short horizon energy markets more efficiently to improve trading.

eSmart also completed the development of a large, critical and connected financial trading system for EDF. The system, which will be taken into operation in 2019, further develops eSmart's Prosumer product repertoire.

NEW AWARDS AND ACCOMPLISHMENTS

eSmart was elated to outcompete several major US tech giants in the area of data analysis for an energy research institute. The details of the competition, its competitors and the client must, however, remain confidential.

In another competition, this one organized by Undervisningsbygg, eSmart competed against ten participants on the best solution for the seasonal and short interval storage of solar power produced on buildings. eSmart Systems' solution was awarded 3rd place and received a prize of 50 000 NOK.

eSmart Systems was one of eight Norwegian artificial intelligence IoT scaleups admitted to the Tech city Executive Accelerator (TEA) program in London. The 2018 program focused on digital intelligence and its transformational impact on Norwegian businesses innovation capabilities and continuous growth. Industry giants such as Telenor, Equinor and DNB were also among participating companies.

In mid-2018, eSmart Systems was recognized as a top 4 global Microsoft AI partner. The Artificial Intelligence Partner of the Year Award recognizes a partner that has designed, developed, and deployed Azure-based Artificial Intelligence (AI) solutions with customers. The annual awards recognize top Microsoft partners demonstrating excellence in innovation and implementation of customer solutions based on Microsoft technology. eSmart has a long-standing partnership with Microsoft and their specific commitment to cloud AI has aided eSmart immensely in delivering our AI solutions to scale.

Earlier in 2018, the Norwegian tech networks ODA and Abelia announced Norway's top 50 women across the entire IT industry. eSmart was extremely pleased and proud to have one of our own among them, Tina Marie Skagen, Director of Business Development and Business Area Manager of Energy Markets & City at eSmart. In 2017, Elisabeth Brevik Karlsen from eSmart also ranked among the top 50.

PROJECT PROGRESS AND COMPLETION

EMPOWER, the EU's Horizon 2020 Research and Innovation program, which ran from 2015-2017 completed successfully. The purpose of the project was to develop an entirely new energy market in Europe where consumers can buy and sell locally produced energy from solar panels, micro wind turbines and other decentralized energy production, as well as offering flexible load to relieve central and regional infrastructure. The project was delivered as expected. A post-project EU audit awarded eSmart Systems and the project consortium a top score. As a result of the project's successful completion, eSmart developed Connected Prosumer (CP), a holistic asset optimization tool for local markets. Connected Prosumer version 1.0 was released to the market, sold and first installed by REMA logistics center in Stavanger, to optimize their local energy production and flexible loads across the facility.

INVADE, another Horizon 2020 program project to create effective, efficient power storage solutions, is still underway and continued to make good progress in 2018.

NEW STRATEGY, TEAM AND FOCUS

eSmart committed to a large strategic shift last year as we decided to focus our resources on and dominate a small market from which we can enter and dominate the rest. This beachhead strategy focuses eSmart's advantages, energies, resources and talent on two streamlined product portfolios: power line inspection and Connected Drone first and Connected Prosumer second. The demand for Connected Drone is more mature, and the product is easy to test and take into operation as it does not require integrations with existing line of business systems for a utility to start reaping the benefits of the solution. A part of the beachhead strategy is to merge Connected Grid and Connected Drone into one product down the road. Together the two approaches represent intelligent asset management.

Connected Prosumer has a large potential, and as a part of the strategic shift the focus of the product is undergoing a tuning to find the right initial offering and customer segment. In addition to two product areas, we committed in 2018 to focusing on two main sales markets, the EU and US. Given the size of the US market and its accelerating maturity, eSmart increased its strategic focus on the US market last year. We expanded our US-based team, opened an office in Seattle, strengthened our cooperation with Microsoft, and pursued joint marketing and promotion activities with Microsoft in 2018.

In 2018, eSmart tuned its organization in favor of a product orientation. We established product teams, consisting of team leads, developers and other capabilities needed for each team to have autonomy in terms of prioritizing, developing and delivering functionality into the product. Doing so emphasized how truly agile eSmart is as we can develop functionality very fast and seamlessly update and upgrade our product offerings. During the year, eSmart added several highly skilled analysts to its team. As of the end of 2018, 12 nationalities were represented across our team.

Additionally, eSmart spent resources in 2018 to tune and optimize development of Azure, our cloud computing platform. During the year, we optimized everything from speed to response and use of market services, streamlining the cost of Azure services and improving eSmart's cost performance by a factor of 10.

As a result of these changes, in 2018 eSmart succeeded in building up a very solid, agile and efficient product organization, which we'll benefit greatly from in 2019. eSmart is now on target with its strategic focus and is moving at full speed towards scale-up.

MARKET OUTLOOK AND OPPORTUNITIES

STREAMLINED MARKET AND PRODUCT FOCUS

From 2019, eSmart will concentrate its strategic focus around the two products and two markets where eSmart has gained the most traction to date: Connected Drone and Connected Prosumer in Europe and North America. eSmart's successful capital raise at the end of 2018 will be deployed to scale in these markets and capture key customers. Because eSmart has proven itself a world leader in AI-driven asset management, because eSmart has partnered with world-leading technology and utility companies, and because large utilities are the most mature, eSmart will shift targeting from small and mid-sized utilities to the largest in the European and US markets. The contract values are potentially much higher but require a corresponding degree of hands-on work to win. With the addition of Equinor as an investor and partner, eSmart will also begin exploring new product markets in the oil and gas and renewables segments.

MATURING MARKETS

The US market is generally more mature than Europe. It has more processes in place to collect data and continues to move faster, especially in drone solutions. The European market is also maturing rapidly but at a slightly slower pace. Tellingly, Europe is more complicated due to cultural, language and regulatory diversities. eSmart's approach will concentrate on the most mature customers in the larger, select markets including Germany, France, the UK, Spain and Italy.

It's exciting and inspiring to witness the market's gradual but accelerating maturity, particularly in customer digitalization. Artificial intelligence was perceived as science fiction just a few years ago. Today, most customers have some experience using AI and many have digital transformation and technology departments. The drone inspection space is beginning to and will witness a more competitive landscape in which eSmart holds and confidently expects to maintain its pole position. Increased competition greatly facilitates market maturity, which is highly positive for eSmart.

Connected Drone was developed in Norway along with 22 Norwegian utility partners, which naturally makes our home market important. Phase II of Connected Drone R&D will commence at the start of 2019, which will not only accelerate product development but also the implementation of Connected Drone across the Norwegian utilities.

MARKET REGULATIONS

Drone regulations, a major driver for Connected Drone, affect how quickly the market can adopt our solutions. Key regulations, such as beyond visual line of sight (BVOS), are quickly coming into play. In the US, ten BVOS test sites are currently ongoing. Regulations are expected to be in place within the next few years. The market's first movers are participating at the test sites with the FAA. eSmart is targeting these prospects.

In Europe, Norway is ahead on the drone regulations curve. The EU is working on BVOS regulations similar to the US, which are also expected to be ready in next few years. Utilities and industry are already preparing for the pending regulations. As an intermediate step, they are beginning to invest and to gather data by helicopter and camera in order to gain data-collecting experience. The market knows that data will be extremely valuable in future. The rate at which data will be made available in and from 2019 will increase dramatically. These factors render eSmart's market presence today extremely valuable.

CUSTOMER ENGAGEMENT JOURNEY

Connected Drone is an incredible achievement with exciting possibilities that consistently wows the market. Customers and prospects clearly recognize its future. As a radically new solution, Connected Drone has the potential not only to transform powerline inspections, and thereby reduce operational and capital expenditures as well as power outages, but to change how utilities how run their business. A consequence and challenge that follows, however, is that utilities need to adjust their business to realize value from Connected Drone. This impacts sales lead time.

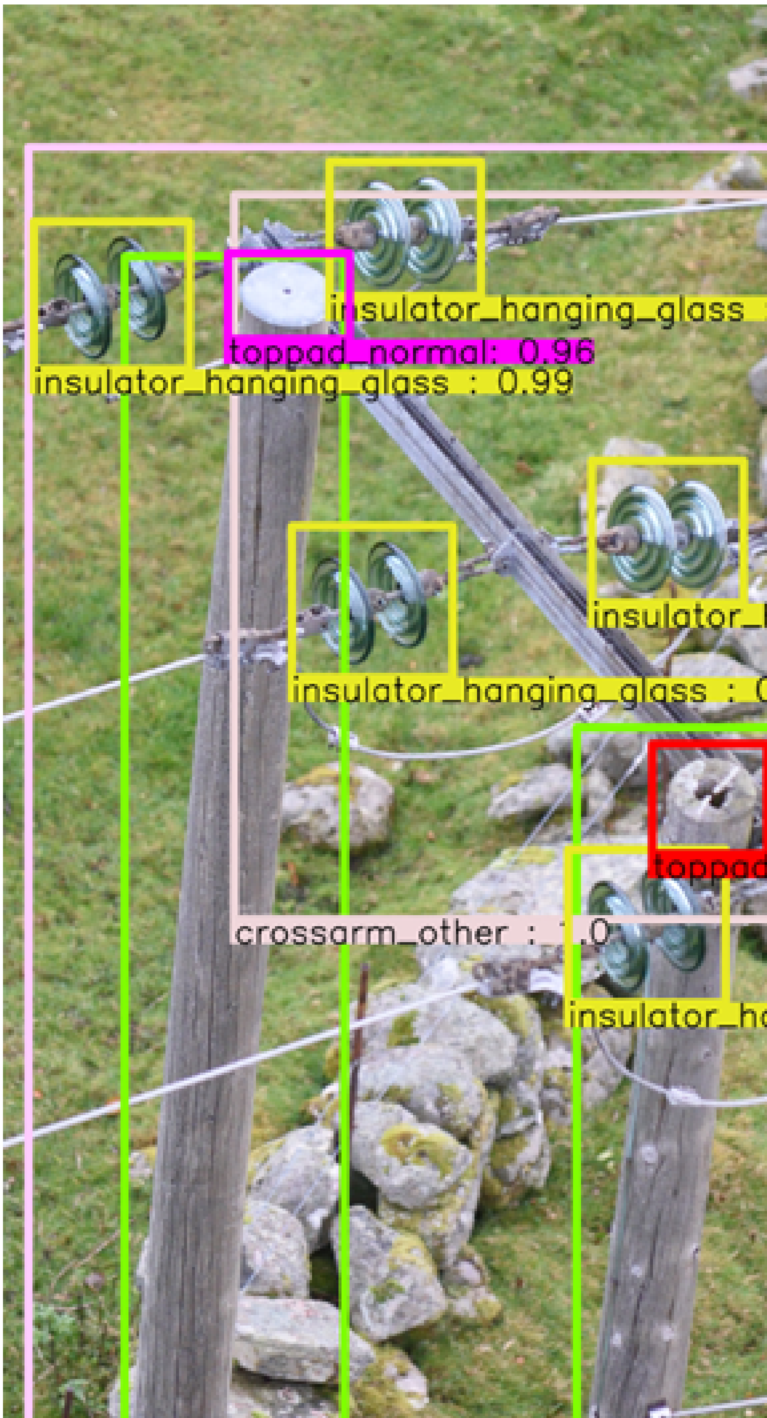
From the beginning of 2019, eSmart will launch a new sales approach: eSmart customer engagement journey. In this refined approach, eSmart will closely engage with customers in a three-step process to quantify and visualize customer return on investment, pilot Connected Drone to verify ROI and then convert pilots into long-term SaaS partnerships.

PARTNERS

In 2019, eSmart will continue to leverage its existing partner landscape, especially with Microsoft, and strengthen it. Microsoft has a dedicated industry team focused on utilities and the energy space, providing eSmart with a much stronger presence.

For many customers, delivering turnkey solutions are important. Although Connected Drone is no longer focused on drones or data capture, eSmart will continue to expand its partner base both on the operations and domain sides to provide turnkey solutions.

With leading partners, a leading solution and a leading market position, eSmart is well positioned to capitalize on key customers in its maturing markets.



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

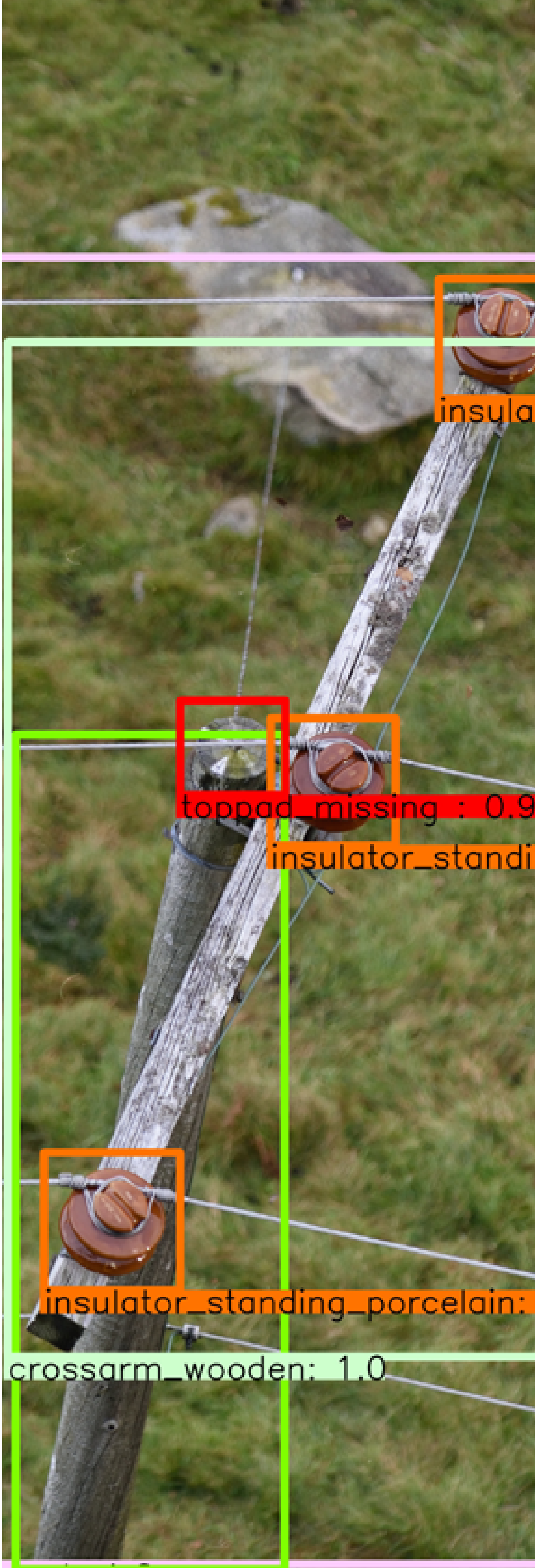
Throughout the year, there was a lot of activity related to our intelligent drone inspection offerings. We launched Thundercloud in June - an end-to-end solution for infrastructure inspections. Thundercloud is a fully equipped, mobile operations center that supports planning and execution of drone-assisted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

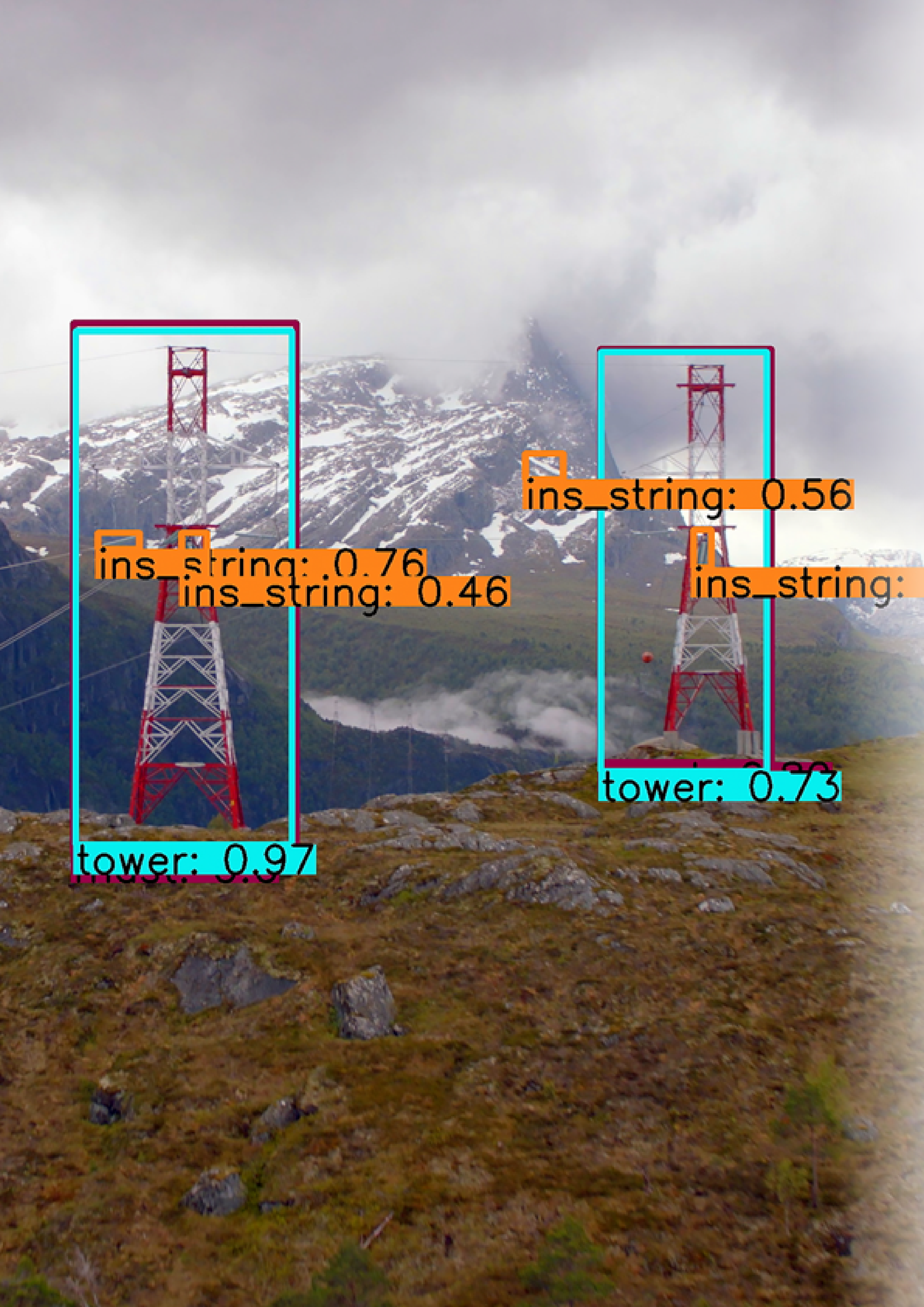
The Connected Drone concept went from R&D to production to market launch in 2017 as it was rapidly deployed following Hurricane Irma to aid JEA in its post-storm recovery.

“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.

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tower: 0.73

RESEARCH AND DEVELOPMENT

For eSmart Systems it is important to be in the forefront of the digital transformation. One way to achieve this is to actively participate in national and international research and development projects. Research and development projects have several benefits: development of new competence and methods that will be used in our products, piloting and demonstration of our solutions, access to experts and knowledge and opening new markets. Furthermore, the projects contribute to funding product development.

In 2018 the EU H2020 project EMPOWER (local Electricity retail Markets for Prosumer smart grid pOWER services) was successfully concluded. This was the first EU project run by eSmart and gave us a lot of valuable knowledge and experience. In the project assessment report the EU Project Officer wrote "The project has delivered very good results with significant immediate and potential impact".

The experiences from EMPOWER were used in the follow up project INVADE (Smart system of renewable energy storage based on Integrated EVs and batteries to empower mobile, Distributed and centralized Energy storage in the distribution grid). Through the INVADE project, which started in 2017, eSmart has been developing the Integrated INVADE Platform, which is a cloud-based flexibility platform. Deployment to pilots in 5 different countries has been started. In the market this platform is branded as Connected Prosumer, which is the cornerstone of the Energy Markets activities.

Other projects based on Connected Prosumer were started up during 2018, the most important ones EU H2020 GreenCharge and EnergiX (Research Council of Norway) Smart NærStrøm. In addition, a new pilot project was initiated with the Norwegian DSO Ringerikskraft to demonstrate use of DERs to handle voltage problems in the distribution grid.

At the end of the year, Dang Ha The Hien successfully defended his PhD Thesis "Big Data Analytics for the Future Energy System" at the University of Oslo. Dang's PhD project was funded through the Industrial PhD program, established to motivate to more research in the industry.

ANALYTICS: TOWARDS INDUSTRIAL-GRADE MACHINE LEARNING

Artificial Intelligence and Machine Learning continued to gain attention and momentum in 2018, confirming a trend that has characterized these last five to six years. Practically all measurable indicators, from volume of academic publications to VC investments and from technical performance indicators to earnings calls and government mentions, show tremendous growth in the field. Here are a few significant examples extracted from the AI Index 2018 Annual Report :

• The number of published scientific papers on Neural Networks, which is the undisputed leading technology in AI these days, has had a CAGR of 37% since 2014

• Enrollment to university courses on Machine Learning in the U.S. has increased 5x since 2012

• Attendance to the main AI conferences has increased between 4.8x and 6.8x since 2012

• The number of AI start-ups has increased 113% since 2015 (compared to 28% for all start-ups in the same period)

• VC funding for AI start-ups increased 350% since 2013 (compared to 100% for all start-ups)

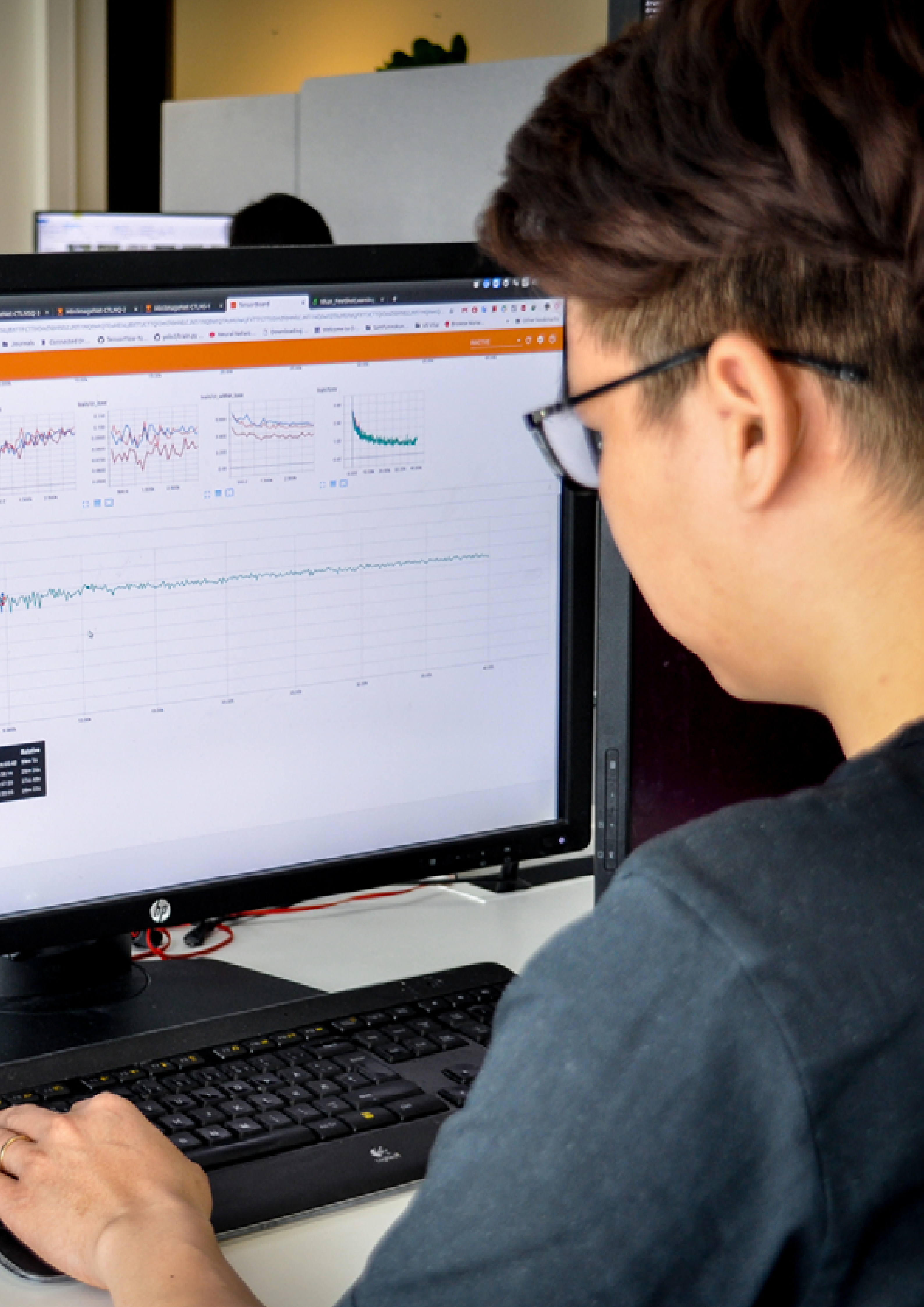
• The number of job openings requiring Deep Learning skills (which is the subcategory of Machine Learning that has had most recent success in practical applications) increased 34x since 2015!

• AI and Machine Learning mentions in earnings calls of NYSE listed companies increased 10x since 2015

Within this landscape eSmart Systems has consolidated its position as a leading provider of AI and ML solutions to the power and utilities sector. This was also demonstrated in mid-2018 when eSmart outcompeted both established incumbents and other start- and scale-ups in benchmark tests in the area of automatic defect detection from aerial imagery.

Examples of new developments of analytics capability in 2018 include the introduction of corrosion and rust detection from aerial imagery, and automated LiDAR point cloud classification for vegetation management. Both solutions have large commercial potential and will be further developed in synergy with a growing number of key customers.

The outlook for 2019 is characterized by consolidation and quality improvements of existing analytics solutions based on the constantly increasing availability of data from our customers, and at the same time on the development and experimentation of new approaches to defect detection, risk assessment and monitoring, and intelligent



FINANCIAL STATEMENT 2018

INCOME STATEMENT

Parent company 2017	Parent company 2018		Notes	Group 2018	Group 2017
		OPERATING REVENUE			
40 912 107	71 061 681	Sales	24	58 279 629	48 136 235
9 081 129	9 072 590	Other operating income	8	9 072 590	9 128 371
49 993 236	**80 134 271**	**TOTAL OPERATING REVENUE**	**7**	**67 352 219**	**57 264 606**
		OPERATING EXPENSES			
9 286 004	17 446 068	Cost of sales	24	16 436 164	16 906 774
23 627 617	35 227 636	Personnel expenses	18,19,22	42 355 498	30 406 772
32 275 853	19 923 904	Other operating expenses	20,21,22,24	26 176 171	34 702 303
65 189 474	**72 597 608**	**TOTAL OPERATING EXPENSES**		**84 967 833**	**82 015 849**
-15 196 238	**7 536 663**	**EBITDA**		**-17 615 614**	**-24 751 243**
6 955 165	9 550 067	Depreciation	9,10,11	9 651 666	7 013 430
-22 151 403	**-2 013 404**	**EBIT**		**-27 267 280**	**-31 764 673**
		FINANCIAL INCOME AND COST			
195 594	707 302	Interest income	24	131 136	83 076
536 007	1 846 515	Other financial income		1 902 946	536 007
0	0	Share of results of associated companies	5	-1 016 888	-491 929
56 902	1 355 464	Interest expenses		1 313 063	66 718
487 486	1 500 523	Other financial expenses		1 176 149	271 051
187 213	**-302 170**	**NET FINANCIAL PROFIT**		**-1 472 018**	**-210 615**
-21 964 190	**-2 315 574**	**PROFIT BEFORE TAXES**		**-28 739 298**	**-31 975 288**
-5 387 793	582 224	Income tax expense	17	582 224	-5 356 939
-16 576 397	**-2 897 798**	**NET PROFIT**		**-29 321 522**	**-26 618 349**
		OTHER COMPREHENSIVE INCOME			
0	0	Other comprehensive income		-2 100 477	-273 128
0	**0**	**NET OTHER COMPREHENSIVE INCOME**		**-2 100 477**	**-273 128**
144 814	**-16 576 397**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**-31 421 999**	**-26 891 477**
		TRANSFERS			
144 814	-2 897 798	Allocated to retained earnings			
144 814	**-2 897 798**	**TOTAL TRANSFERS**			

BALANCE SHEET

Parent company				Group	
2017	**2018**	**ASSETS**	**Notes**	**2018**	**2017**
		FIXED ASSETS			
7 486 418	8 758 582	Deferred tax assets	17	8 758 582	7 486 418
71 676 009	94 897 102	Capitalized development cost	10,12	94 897 102	71 676 009
1 036 800	610 400	Licences and other intangible assets	9	610 400	1 036 800
3 632 500	2 521 000	Operating equipment	9,25	2 913 242	4 068 153
120 229	71 474	Shares in subsidiaries	5	0	0
19 244 500	19 216 960	Investments in asociated companies	5	15 927 364	16 067 591
830 000	0	Other shares	5	0	830 000
13 842 202	42 288 111	Loan to Group company	24	0	0
159 300	496 550	Other long term assets		496 550	159 300
118 027 958	**168 860 179**	**TOTAL FIXED ASSETS**		**123 603 240**	**101 324 271**
		CURRENT ASSETS			
0	100 000	Inventories	25	100 000	0
8 619 003	4 897 138	Trade receivables	13,25	7 117 156	9 771 238
4 868 270	3 431 116	Other short term receivables	13	4 133 708	6 428 724
14 862 003	78 761 661	Cash and cash equivalents	14	81 068 415	16 386 373
28 349 276	**87 189 915**	**TOTAL CURRENT ASSETS**		**92 419 279**	**32 586 335**
146 377 234	**256 050 094**	**TOTAL ASSETS**		**216 022 519**	**133 910 606**

Parent company				Group	
2017	**2018**	**EQUITY AND LIABILITIES**	**Notes**	**2018**	**2017**
		EQUITY			
		Subscribed equity			
842 894	842 894	Share capital	15,23	842 894	842 894
0	90 036 334	Non registered capital	15	90 036 334	0
119 100 018	119 100 018	Share premium fund	15	119 100 018	119 100 018
0	0	Translation differences		-2 299 581	-199 104
119 942 912	**209 979 246**	**Total subscribed equity**		**207 679 665**	**119 743 808**
		Retained equity			
-5 596 880	-8 494 678	Retained earnings		-47 791 514	-19 374 192
-5 596 880	**-8 494 678**	**Total retained equity**		**-47 791 514**	**-19 374 192**
114 346 032	**201 484 568**	**TOTAL EQUITY**		**159 888 151**	**100 369 616**
		NON CURRENT LIABILITIES			
0	0	Deferred income tax liability	17	0	0
734 673	16 584 494	Borrowings	25	16 847 460	1 116 960
734 673	**16 584 494**	**TOTAL NON CURRENT LIABILITIES**		**16 847 460**	**1 116 960**
		CURRENT LIABILITIES			
0	0	Liabilities to financial institutions		10 599	0
5 168 934	11 868 540	Trade payables	24	12 295 227	5 414 448
0	0	Payable tax	17	0	0
4 175 456	4 058 515	Public duties payable	14	4 385 013	4 378 061
21 952 139	22 053 977	Other current liabilities	16,24	22 596 069	22 631 521
31 296 529	**37 981 032**	**TOTAL CURRENT LIABILITIES**		**39 286 908**	**32 424 030**
146 377 234	**256 050 094**	**TOTAL EQUITY AND LIABILITIES**		**216 022 519**	**133 910 606**

Halden, April 3rd 2019

Jørgen Kildahl
Chairman of the Board

Eivind Egeland Olsen
Member of the Board

Fredrik Dokk Nygaard
Member of the Board

Joseph Sirosh
Member of the Board

Bastian Pierre Jean Gambini
Member of the Board

Knut Johansen
CEO

Erik Asbjørn Nordby Åsberg
Member of the Board

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	
2017	2018		2018	2017
		Cash flow from operational activities		
-21 964 190	-2 315 574	Operating result before tax	-28 739 298	-31 975 288
0	0	Paid taxes	0	-30 854
6 955 165	9 550 067	Depreciation and write-offs	9 651 666	7 013 430
0	1 048 355	Write down shares	0	0
0	0	Result of associated companies	1 016 888	491 929
0	0	Loss from disposal of operating equipment	0	39 440
0	857 540	Loss from sales of shares	857 540	0
0	-100 000	Changes in inventories	-100 000	0
4 664 539	3 721 865	Changes in receivables	2 654 082	3 026 339
-2 300 014	6 699 606	Changes in trade payables	6 880 779	-1 575 737
3 385 027	1 422 050	Changes in other current assets/debt items	132 881	2 409 862
-9 259 473	**20 883 909**	**Net cash flow from operating activities**	**-7 645 462**	**-20 600 879**
		Cash flow from investment activities		
-1 079 891	-999 600	Purchase of shares	0	-969 500
-12 767 844	-28 445 909	Loan to Group company	0	0
0	-337 250	Loan to asociated companies	-337 250	0
0	0	Sales of operating equipment	0	86 682
-3 716 097	-382 919	Purchase of operating equipment	-422 364	-4 257 257
-37 603 636	-30 850 340	Capitalized development costs	-30 850 340	-37 603 636
-55 167 468	**-61 016 018**	**Net cash flow from investment activities**	**-31 609 954**	**-42 743 711**
		Cash flow from financial activities		
0	16 000 000	Proceeds from other borrowings	16 000 000	382 287
-110 168	-150 179	Payment of long term debt	-269 500	-110 168
0	88 181 946	Issue of shares	88 181 946	0
-110 168	**104 031 767**	**Net cash flow from financial activities**	**103 912 446**	**272 119**
73 827 392	63 899 658	Net changes in cash and cash equivalents	64 657 030	-63 072 471
0	0	Effect of currency changes	25 012	-22 813
5 571 720	14 862 003	Cash and cash equivalents 01.01	16 386 373	79 481 657
79 399 112	**78 761 661**	**Cash and cash equivalents 31.12**	**81 068 415**	**16 386 373**
14 862 003	78 761 661		81 068 415	16 386 373
0	0		0	0

STATEMENT OF CHANGES IN EQUITY

Parent company	Share Capital	Non Registred Capital	Share Premium	Translation Differences	Other Equity	Total
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**
Equity 01.01.2018	842 894	**0**	119 100 018	0	-5 596 880	114 346 032
Capital increase 21.12.2018	0	96 244 502	0	0	0	96 244 502
Cost of capital	0	-6 208 168	0	0	0	-6 208 168
Net profit	0	0	0	0	-2 897 798	-2 897 798
Equity 31.12.2018	**842 894**	**90 036 334**	**119 100 018**	**0**	**-8 494 678**	**201 484 568**

Group	Share Capital	Non Registred Capital	Share Premium	Translation Differences	Other Equity	Total
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
Equity 01.01.2018	842 894	0	119 100 018	-199 104	-19 374 192	100 369 616
Capital increase 21.12.2018	0	96 244 502	0	0	0	96 244 502
Cost of capital	0	-6 208 168	0	0	0	-6 208 168
Capital increase in asocia-ted company	0	0	0	0	904 200	904 200
Net profit	0	0	0	0	-29 321 522	-29 321 522
Translation differences	0	0	0	-2 100 477	0	-2 100 477
Equity 31.12.2018	**842 894**	**90 036 334**	**119 100 018**	**-2 299 581**	**-47 791 514**	**159 888 151**

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL INFORMATION

eSmart Systems AS develops and delivers software products based on cloudservices and artificial intelligence to the energy industry. The solutions lead to more efficient operation and maintenance of power infrastructure, and better utilization of energy resources.

Central to the company's product portfolio is the use of artificial intelligence on an industrial scale. The company's image recognition technology for fault detection in power grids is the world's foremost. Predictions on energy consumption and production are the basis for aggregation of energy flexibility for use for network or process optimization. eSmart Systems' solutions utilize data from advanced measurement and control systems (AMS), from power grid inspections and from other sensors in the grid and in buildings.

eSmart Systems is "intelligence first", and uses artificial intelligence and machine learning for prediction and functionality in all its solutions.

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

eSmart Systems AS is a Norwegian company, headquartered in Halden. The Company has subsidiaries in the USA, England, Sweden and Denmark. See note 5.

The financial statements were approved by the Board on April 3, 2019.

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

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

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

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

Liquidity risk
The Company is in a development phase, and it is expected to take some time before the Company shows positive cash flow. The Board monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs and planned investments.

NOTE 4 - CHANGES IN COMPANY STRUCTURE

2018
The subsiduary in Germany has been liquidated in 2018.
Ownership in Smartliv AS has been reduced from 50 % to 35 % in 2018. Ownership in Rave AS has been reduced from 27 % to 22 % in 2018

2017
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.

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 Systems US Inc	USA	Product sales / supplies	8 777	100%	100%
eSmart Systems UK Ltd	England	Product sales / supplies	1 061	100%	100%
eSmart Systems Danmark Aps	Denmark	Product sales / supplies	61 635	100%	100%
eSmart Systems Sverige AB	Sweden	Product sales / supplies	1	100%	100%
		Total	**71 474**		

The Parent company owns shares in the following associated companies pr 31.12.2018:

Company	Office	Share	Cost price	Result 2018	EQ 31.12.18
Smartliv AS	Hønefoss	35 %	19 015 000	-2 717 000	45 485 000
Smart Simulation AS	Halden	20 %	60 000	-710 711	-2 176 624
Smart Cognition AS	Halden	25 %	7 500	454	30 454
Raven AS	Tromsø	22 %	134 460	-1 117 975	-775 132
			19 216 960		

Overview of investments in associated companies in Group accounts:

Company	31.12.2017	Additions/ Disposals	Recognized Results	Other Changes	31.12.2018
Smartliv AS	15 966 500	0	-950 950	904 200	15 919 750
Smart Simulation AS	0	0	0	0	0
Smart Cognition AS	7 500	0	114	0	7 614
Raven AS	93 591	-27 540	-66 051	0	0
Total	**16 067 591**	**-27 540**	**-1 016 888**	**904 200**	**15 927 363**

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**	
	2018	**2017**	**2018**	**2017**
BA Utility	51 639 618	31 124 717	31 499 307	38 396 087
BA Energy Markets and City	28 494 653	18 868 519	35 852 912	18 868 519
Total operating revenue	**80 134 271**	**49 993 236**	**67 352 219**	**57 264 606**

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 1.1.2018	1 408 680	6 878 142
Additions	0	382 919
Disposals	0	0
Acquisition cost 31.12.2018	**1 408 680**	**7 261 061**
Accumulated depreciation 1.1.2018	371 880	3 245 642
Depreciation charge	426 400	1 494 419
Accumulated depreciation 31.12.2018	**798 280**	**4 740 061**
Net book value 31.12.2018	**610 400**	**2 521 000**
Economic lifetime	5 years	3-5 years

Group	**Licenses**	**Operating equipment**
Acquisition cost 1.1.2018	1 408 680	7 358 176
Currency adjustment	0	28 287
Additions	0	422 364
Disposals	0	0
Acquisition cost 31.12.2018	**1 408 680**	**7 808 827**
Accumulated depreciation 1.1.2018	371 880	3 290 023
Currency adjustment	0	9 544
Depreciation charge	426 400	1 596 018
Accumulated deprecation disposals	0	0
Accumulated depreciation 31.12.2018	**798 280**	**4 895 585**
Net book value 31.12.2018	**610 400**	**2 913 242**
Economic lifetime	5 years	3-5 years

NOTE 10 - CAPITALIZED DEVELOPMENT COSTS

Parent Company and Group	**Research & Development**
Acquisition cost 1.1.2018	80 079 464
Additions	30 850 341
Disposals	0
Acquisition cost 31.12.2018	**110 929 805**
Accumulated depreciation 1.1.2018	8 403 455
Depreciation charge	7 629 248
Accumulated depreciation 31.12.2018	**16 032 703**
Net book value 31.12.2018	**94 897 102**
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.

Kr 49 895 814 of the total capitalized development costs as of 31.12.2018 of 94 897 102 regard products that were not commercialized or available in the market (kr 16 718 148 of kr 71 676 009 in 2017).

NOTE 11 - DEPRECIATION

Parent Company	**2018**	**2017**
Operating equipment (see note 9)	1 920 819	1 527 298
Capitalized development costs (see note 10)	7 629 248	5 427 867
Total	**9 550 067**	**6 955 165**

Group	**2018**	**2017**
Operating equipment (see note 9)	2 022 418	1 585 563
Capitalized development costs (see note 10)	7 629 248	5 427 867
Total	**9 651 666**	**7 013 430**

NOTE 12 - IMPAIRMENT TEST OF GOODWILL AND INTANGIBLE ASSETS

Recognized capitalized development costs in the Company as of 31.12.2018 amounted to 94,9 MNOK (71,7 MNOK i 2017). 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 2019 and forecasts for the period 2020 - 2022.

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 31.12.2018 the value in use of capitalized development cost amounted to 273,3 MNOK, compared to a total booked value of 94,9 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 %	220,3	0,0
5 %	10 %	200,7	0,0
10 %	5 %	187,0	0,0
10 %	10 %	167,4	0,0
15 %	5 %	153,7	0,0
15 %	10 %	134,1	0,0

NOTE 13 - TRADE AND OTHER RECEIVABLES

Trade receivables
Trade receivables as 31.12.2018 and 31.12.2017 are valued at nominal value less impairment losses, and were kr 4 897 138 and kr 8 619 003 for the Parent company. For the Group, trade receivables as of 31.12.2018 and 31.12.2017 were kr 7 117 159 and kr 9 771 238 after impairment deductions.

Recognized losses on receivables for both the Parent company and the Group totaled kr 250 000 in 2018 and kr 0 in 2017.

	Parent company		**Group**	
Other receivables	**2018**	**2017**	**2018**	**2017**
Skattefunn	1 173 985	2 505 877	1 173 985	2 505 877
Accrued revenue and funding	504 258	1 722 444	504 258	2 341 306
Pre-paid costs	626 011	607 940	795 309	1 409 675
VAT	619 351	0	1 088 883	0
Other	507 511	32 009	571 272	171 866
Total	**3 431 116**	**4 868 270**	**6 428 724**	**6 428 724**

NOTE 14 - BANK DEPOSITS AND CASH

Parent company and Group
As of 31.12.2018, kr 2 161 723 total cash and cash equivalents was withheld tax (kr 2 137 937 in 2017). Liabilities associated with withheld tax as of 31.12.2018 was kr 2 153 906 (kr 2 131 352 in 2017).

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 31.12.2016	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**
Issued shares as of 31.12.2017	842 894	842 894	123 557 805
Changes in 2018	0	0	0
Issued shares as of 31.12.2018	**842 894**	**842 894**	**123 557 805**

A capital increase was carried out on December 18, 2018, but this has not registred in Brønnøysund until January 2019. The capital increase resulted in an increase in the share capital by 277 347 Preference A-shares. Total paid in connection with the capital increase was kr 277 347 in share capital and kr 95 967 255 in share premium.

The preference A shares have the right to pay remuneration in connection with the liquidation, dissolution or liquidation of the company.

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

Shareholders as of 31.12.2018 after capital increase		Preferance A-shares	Ordinary shares	Total shares	Total ownership
Kongsberg Digital AS		24 014	288 169	312 183	27,87%
eCapital AS1		874	172 956	173 830	15,52%
Equinor Energy Venture Fund B.V		115 268	0	115 268	10,29%
Nysnø Klimainvesteringer AS		115 268	0	115 268	10,29%
Fredrikstad Energi		4 886	81 834	86 720	7,74%
Sogn og Fjordane Energi		4 446	76 728	81 174	7,25%
Energi og IKT Invest AS1		11 080	22 692	33 772	3,01%
Fryden Consulting AS		0	18 155	18 155	1,62%
Joseph Sirosh	Member of the Board	0	15 141	15 141	1,35%
Rostskydd AS2		0	15 039	15 039	1,34%
Jørgen Kildahl	Chairman of the Board	0	14 590	14 590	1,30%
Knut Eirik Gustavsen		19	14 474	14 493	1,29%
t-hox AS		0	14 053	14 053	1,25%
Forksound AS		0	14 039	14 039	1,25%
Yngvar Seteklev		0	13 013	13 013	1,16%
Jo Morten Sletner		0	12 422	12 422	1,11%
Frode Teigen		644	9 000	9 644	0,86%
DataSET		0	7 419	7 419	0,66%
Roy Einar Angell		19	5 480	5 499	0,49%
Thomas Norrsèn		0	4 852	4 852	0,43%
Total 20 largest shareholders		**276 518**	**800 056**	**1 076 574**	**96,10%**
Other shareholders		829	42 838	43 667	3,90%
Total numer of shares		**277 347**	**842 894**	**1 120 241**	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

	Parent company		Group	
Other current liabilities	**2018**	**2017**	**2018**	**2017**
Advances from customers	6 314 132	7 930 113	6 314 132	7 930 113
Unearned revenue	6 062 461	6 497 528	6 062 461	6 497 528
Accrued vacation pay	4 943 116	4 636 212	5 026 969	4 636 212
Debt to eCapital AS	0	172 649	0	172 649
Accrued salary	2 042 492	276 143	2 251 110	303 786
Accrued expenses	2 691 776	2 439 494	2 941 397	3 091 233
Total	**22 053 977**	**21 952 139**	**22 596 069**	**22 631 521**

NOTE 17 - TAXES

Parent company

Income taxes	**2018**	**2017**
Tax payable	0	0
Changes in deferred tax	582 224	-5 387 793
Total income taxes	582 224	-5 387 793

Tax effect of share issue costs in 2018 of kr 1 854 388 is recorded directly against share premium.

Reconciliation from nominal to actual tax rate	**2018**	**2017**
Profit before taxes	-2 315 574	-21 964 191
Estimated income tax at nominal tax rate (23 % / 24 %)	-532 582	-5 271 406
Tax effect on following items:		
Skattefunn	-270 017	-601 410
Changed tax rate	398 117	325 496
Non taxable income	-1 373	-1 536
Non-deductible costs	988 079	161 063
Total income taxes	582 224	-5 387 793
Effective tax rate	-25,1 %	24,5 %

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

	2018		2017	
	Asset	**Liability**	**Asset**	**Liability**
Operating assets	0	121 847	0	248 578
Receivables	44 980	0	737 852	0
Provisions	0	0	59 886	0
Losses carried forward	8 835 449	0	6 937 258	0
Total	8 880 428	121 847	7 734 996	248 578
Non-capitalized deferred tax assets	0		0	
Net deferred income tax assets/liability	**8 758 582**	**0**	**7 486 418**	**0**

As of 31.12.2018, the Parent company had a tax loss to be carried forward of kr 40 161 130 (kr 30 161 993 in 2017). Deferred tax assets are recognized on the basis of expected future earnings.

Group

Income taxes	**2018**	**2018**
Tax payable	0	0
Changes in deferred tax	582 224	582 224
Total income taxes	582 224	582 224

Tax effect of share issue costs in 2018 of kr 1 854 388 is recorded directly against share premium.

Reconciliation from nominal to actual tax rate	**2018**	**2017**
Profit before taxes	-28 404 823	-31 975 287
Estimated income tax at nominal tax rate (23 % / 24 %)	-6 533 109	-7 674 069
Tax effect on following items:		
Change in unrecognized deferred tax assets	5 450 993	1 705 159
Skattefunn	-270 017	-601 410
Other tax rates in subsidiaries	395 430	696 179
Changed tax rate	398 117	293 416
Share of results of associated companies	233 884	118 063
Non taxable income	-1 373	-1 536
Non-deductible costs	908 300	107 259
Total income taxes	582 225	-5 356 939
Effective tax rate	-2,0 %	16,8 %

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

	2018		2017	
	Asset	**Liability**	**Asset**	**Liability**
Operating assets	0	121 847	0	248 578
Receivables	0	0	0	0
Provisions	0	0	59 886	0
Losses carried forward	16 574 504	0	9 708 366	0
Total	16 574 504	121 847	9 768 252	248 578
Non-capitalized deferred tax assets	7 694 076		2 033 256	
Net deferred income tax assets/liability	**8 758 582**	**0**	**7 486 418**	**0**

As of 31.12.2018, the Group had a tax loss to be carried forward of kr 77 020 673 (kr 44 017 531 in 2017). 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 31.12.2018, the plan covered 71 employees in the Parent company and 71 employees in the Group (65 and 66 in 2017).

Total payments associated with the pension plan in 2018 amounted to kr 1 440 675 for the Parent company (kr 1 513 921 in 2017) and kr 1 522 371 for the Group (kr 1 720 335 in 2017).

NOTE 19 - PAYROLL EXPENSES

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Salaries*	23 595 249	13 359 830	29 759 223	19 260 962
Employers' contribution	7 123 080	6 557 417	7 474 581	7 114 427
Pension costs, see note 18	1 440 675	1 513 921	1 522 371	1 720 580
Other payroll costs	3 068 632	2 196 449	3 599 323	2 310 803
Total	**35 227 636**	**23 627 617**	**42 355 498**	**30 406 772**
Average number of FTEs	72	65	76	66

* Kr 24 895 149 of salaries were capitalized as research and development costs in 2018 (kr 29 534 488 in 2017).

NOTE 20 - OTHER OPERATING EXPENSES

	Parent company		Group	
	2018	**2017**	**2018**	**2017**
Premises	4 242 642	2 922 502	4 812 276	3 497 189
Office cost	2 176 935	1 949 318	2 310 437	2 008 305
IT services	1 889 754	2 936 455	2 422 510	3 108 966
Meetings, training	1 124 470	1 597 009	1 126 144	1 597 009
Accounting, audit, lawyers	2 354 658	2 307 789	2 986 116	3 446 652
Consultants	2 177 910	10 740 462	4 047 109	9 188 211
Travel	3 497 464	3 151 560	4 467 082	4 296 700
Sales and marketing	1 682 507	3 139 918	3 034 181	3 629 993
Losses on receivables	250 000	3 038 051	250 000	3 038 051
Other costs	527 564	492 789	720 316	891 226
Total	**19 923 904**	**32 275 853**	**26 176 171**	**34 702 303**

NOTE 21 - FUTURE LEASE OBLIGATIONS

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

Annual rental costs in 2018 amounted to kr 4 326 989 for the parent company and kr 4 896 623 for the Group (kr 4 255 195 and kr 4 483 731 in 2017).

Future accumulated minimum payments related to lease obligations:

	2018	**2017**
Mature within one year	4 113 295	4 302 764
Mature between one and five years	13 661 591	13 704 460
Mature later than 5 years	13 078 960	13 013 891

NOTE 22 - FEES AND REMUNERATION

Remuneration and other fees to:	**Managing director**	**Chairman of the board**	**Board**
Remuneration	2 101 237	0	0
Other benefits	7 243	0	0
Pension costs	83 152	0	0

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 31.12.2018 or 31.12.2017.

Auditor

Expensed auditing fees in 2018

Mandatory audits	185 000
Tax consulting	8 635
Other services	46 000
Total fees	**239 635**

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.

	2018	2017
Net profit	-29 321 522	-26 618 349
Average number of issued shares	852 772	842 894
Net profit per share	**-34,38**	**-31,29**
Net comprehensive income	-31 421 999	-26 891 477
Average number of issued shares	852 772	842 894
Net comprehensive income per share	**-36,85**	**-31,90**

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 Parent Company rents offices from a company where the managing director has ownership interests. Paid rent in 2018 amounted to kr 3 490 834 (kr 4 264 467 in 2017).

The Parent company has a short term debt to a company related to the managing director of kr 172 649 as of 31.12.2017. The debt has been settled in 2018. No interest was calculated on the debt in 2018 or 2017.

In 2018, the Parent company had income from consulting services equal to kr 753 279 from companies where the managing director has ownership interests (kr 686 329 in 2017). eSmart Systems AS also bought services totaling kr 2 940 306 in 2017 (kr 3 787 659 in 2017) from companies where the managing director has ownership interests.

In 2018, eSmart Systems AS sold consulting services and products to the associated company Smartliv AS for kr 2 980 635 (kr 2 167 774 in 2017). The Parent company has bought services from Smartliv AS in 2018 totaling kr 125 000 (kr 12 000 in 2017).

The Parent company bought services from the subsidiaries in 2018 for a total of kr 1 965 323 (kr 666 591 in 2017). The Parent company sold services to its subsidiaries in 2018 for a total of kr 19 339 124 (kr 4 375 678 in 2017).

As at 31.12.2018, the Parent company had loans to subsidiaries for kr 42 288 111 (kr 13 842 202 in 2017). Interest on the loans amounted to kr 639 097 in 2017 (kr 112 518 in 2017).

NOTE 25 - BORROWINGS / PLEDGED ASSETS

The parent company and the Group has the following secured loans:	2018	2017
Loan DNB	584 495	734 673
Loan Innovation Norway	16 000 000	0
Total	16 584 495	734 673

Par value of pledge		
Cars	1 090 218	1 090 218
Operating equipment	30 000 000	10 000 000
Inventory	20 000 000	0
Receivables	30 000 000	10 000 000
Total	**81 090 218**	**21 090 218**

Booked value of pledged assets		
Cars	681 600	860 300
Operating equipment	1 839 400	2 772 200
Inventory	100 000	0
Receivables	4 897 138	8 619 003
Total	**7 518 138**	**12 251 503**

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

The loan from Innovation Norway is a serial loan with 8 years maturity. Kr 5 714 286 of the loan matures later than five years after the end of the financial year.

AUDITORS REPORT

MYRDAHL OG SVEEN
STATSAUTORISERTE REVISORER

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TOM-MORTEN MYRDAHL
INGE SVEEN
MORTEN RUGTVEDT
Registrert revisor:
LISBETH SØRENSEN

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

To the Shareholders' Meeting of eSmart 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 eSmart Systems AS (the Company), in our opinion:

- The financial statements are prepared in accordance with the law and regulations
- The accompanying financial statements, showing a loss of NOK 2 897 798, give a true and fair view of the financial position of the parent company as at December 31, 2018, 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 accompanying financial statements, showing a loss if NOK 31 421 999, give a true and fair view of the financial position of the group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The financial statements comprise

- The financial statements of the parent company, which comprise the balance sheet at 31 December 2018 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 at 31 December 2018, 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 (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

MYRDAHL OG SVEEN
STATSAUTORISERTE REVISORER

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 in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

Report on Other Legal and Regulatory Requirements

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

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

Strømmen, April 3rd 2019
Myrdahl og Sveen AS

Morten Rugtvedt

Morten Rugtvedt
State Authorized Public Accountant (Norway)

BOARD OF DIRECTORS´ REPORT 2018

The world is facing serious global climate changes. The political arena around climate changes have so far in 2019 been dominated by children and youth engagement, inspired and motivated by the young Swedish climate activist Greta Thunberg and her #shcoolstrike4climate and #fridaysforfuture. The message is that changes must take place on political level to establish actions that has impact fast enough.

In the period from 1990 to 2014 the global greenhouse gas emissions increased with more than 60%. Fossil fuel still accounts for 80% of the worlds' energy supply, and forecasts suggest that it is as high as high as 75% in 2035. Despite high attention, the development is moving in the wrong direction. CO2 emission in 2018 are the highest ever measured and rose 1,7%. This is connected to a raise in energy consumption of 2,3%.

The EU has set ambitious targets for the energy transition. By 2030 there is a binding renewable energy target of at least 32%, with a possible upward revision in 2023. Together with a set of other targets, these policies are anticipated to lead to emission reductions of 45% by 2030 compared to the level in 1990.

Technology and digitalization play a crucial role in enabling the transition to a carbon-neutral energy system. Roll out of smart meters is ongoing all over Europe, creating a goldmine of data that, when used in the right way, can give insight and decision support for grid companies to reduce investment needs, increase utilization of the infrastructure already in place. It will also be possible to identify, and even more importantly, utilize decentralized small-scale energy resources. Flexibilization of grid and consumption are prerequisites for handling large volumes of renewable energy. The power industry is still dominated by old incentives fit for a different era. The electricity markets need a modern design, adapted to the new realities of the market. More flexible, more market-oriented and better placed to integrate a greater share of renewables, and business models that encourage a new generation of solutions. These adaptations will have to facilitate for technology that can give capability to carry out the drastic measures required.

eSmart Systems' software solutions for utilities already provide valuable insight and decision-support on information from these vast amounts of data. Artificial intelligence applied on huge volumes of sensor data from smart meters, power line inspections, weather data and other sources prolongs lifetime on components, reduces operational cost and reduces capital expenditure in form of reduced and more precise investments.

In 2018 eSmart Systems got, through a competition held by an independent international research institute, confirmation on being world leading on image recognition. The Company came out on top in the competition, accelerating our already strong belief in the unique opportunity ahead of us in positioning Connected Drone as our spearhead product internationally.

In 2018 eSmart Systems delivered an updated platform for flexibility management to the EU Horizon 2020 project INVADE. INVADE is one of the largest H2020 projects within energy and flexibility and contains five pilot sites across five countries in Europe. The services developed in the INVADE platform is the core of our Connected Prosumer product, where predictions, aggregation and optimization are central functions, and the purpose is to make aggregated flexibility available, for example for an aggregator or an energy company to solve capacity bottlenecks.

eSmart Systems has strong ambitions and the Company has late 2018 carried out an equity raise for further growth. The Company highly value the competence and experience the two new owners, Equinor and Nysnø, bring to the Company.

NOTES TO THE FINANCIAL STATEMENTS

eSmart Systems AS turnover of 80,1(49,9) MNOK in 2018, an increase of 61% compared to 2017. The Group had a turnover of 67,4 (57,3) MNOK in 2018, an increase of 18% compared to 2017. The Parent company's net income for the year was- 2,9 MNOK compared to -16,6 MNOK in 2017. On Group level the net result was -29,4 MNOK compared to - 26,6 MNOK in 2017. In 2018 there has been a strong focus on investing in both products and market presence.

In 2018, research and development (R&D) costs amounted to 43,3 MNOK (41 MNOK in 2017). Of total R&D costs, product development amounted to 30,9 MNOK (37,6 MNOK in 2017), 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 20,9 MNOK in 2018 (-9,3 MNOK in 2017), and operating profit before tax for the Parent company amounted to -2,3 MNOK (-21,9 MNOK in profits in 2017). The difference is mainly due to changes in profit before tax (19,3 MNOK), other accruals (-2 MNOK), receivables (-0,9 MNOK), changes in trade payables 9 MNOK) and depreciation (2,6 MNOK). The Group had a cash flow from operating activities in 2018 of -7,6 MNOK (-20,6 in 2017), and profit before tax in 2017 was-28,7 MNOK (-31,9 MNOK in 2017). The difference is mainly due to changes in profit before tax (3,2 MNOK), other accruals (-2,3 MNOK), receivables (- 0,3 MNOK), changes in trade payables (8,5 MNOK), depreciation (2,6 MNOK) and profit share in affiliate company (0,5 MNOK).

The Parent company's liquidity reserves 31.12.2018 was 78,8 MNOK while the Group's liquidity reserves were 81,1MNOK. This forms a good basis for funding eSmart's and its subsidiaries' investments.

The Parent company's short-term debt as of 31.12.2018 amounted to 69,5% of total debt, compared to 97.7% on 31.12.2017. This increase is mainly due to establishment of long-term debt. The Group's short-term debt as of 31.12.2017 was 39,3 MNOK, 70,1% of total debt.

Total assets at the end of the year for the Parent company was 256 MNOK compared to 146,6 MNOK in 2017. The increase is due to a capital rise not registered in 2018. For the Group, total equity 31.12.2018 amounted to 216 MNOK (134 MNOK in 2017). The equity ratio for the Parent company was 78,6% compared to 77,7% the year before. The Group had an equity ratio of 74,0% as of 31.12.2018, compared to 75,0% as of 31.12.2017.

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 very small losses on receivables and is not anticipating that this will change. Gross credit risk exposure as of 31.12.2018 was 8,3 MNOK for the Parent company. This is a reduction from 2017 when the exposure was 13,5 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 Baard of Directors confirms that the Company has basis for continued operations. This assumption is based on satisfactory liquidity per 31.12.18, and the Group's long-term, strategic forecasts and funding plans.

WORKING ENVIRONMENT AND EMPLOYEES

Absence due to illness was a total of 3074 hours for the Group in 2018 (3971hours in 2017), which corresponds to approximately 2,37% (2,95% in 2017) 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 76 employees, of which 16 are women. The Board consists of 6 men. 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. 10 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 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 organization with unique skills. Entering 2019, 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, Equinor, Microsoft as well as with strategic customer 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 organizing

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Being mindful of the long lead times related to sales, the company still expect a substantial growth in 2019.

ALLOCATION OF NET INCOME

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

Other equity NOK - 2,897,798
Total allocated NOK - 2,897,798

Halden, April 3rd 2019

Jørgen Kildahl
Chairman of the Board

Eivind Egeland Olsen
Member of the Board

Fredrik Dokk Nygaard
Member of the Board

Joseph Sirosh
Member of the Board

Bastian Pierre Jean Gambini
Member of the Board

Knut Johansen
CEO

Erik Asbjørn Nordby Åsberg
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