# Nel ASA

Q3 2019 interim report

# Highlights of the quarter

- Nel ASA (Nel) reports revenues in the third quarter 2019 of NOK 148.9 million, up from NOK 116.0 million in the third quarter 2018, in line with company outlook
- All-time high order backlog of NOK 575 million at the end of the quarter. The backlog does not include any orders under the Nikola supply contract
- Cash balance of NOK 651.0 million (Q3 2018: 434.1)
- Launched new product, the A1000 alkaline electrolyser
- Nel proposed for USD 2 million Department of Energy (DOE) funding together with Nikola
- Closed agreements with Everfuel and signed an exclusive equipment sales and service agreement
- Signed collaboration agreement with Yara to develop a green and efficient ammonia and fertilizer production based on a next generation pressurized alkaline electrolyser
- Invests EUR 0.8 million in HyNet and receives purchase order for two additional hydrogen fueling stations in Korea, with a value of EUR 2.7 million
- Entered into a USD 4.0 million contract to deliver a 3.5 MW alkaline electrolyser and related equipment to a large, international energy company
- Secure location for low-cost electrolyser manufacturing with infrastructure allowing for more than 1 GW/year capacity at Herøya, Norway
- Awarded a grant of NOK 9.25 million in connection to the establishment of the world's largest, automated alkaline electrolyser production line at Herøya, Norway

## Key figures

| *(unaudited amounts in NOK million)* | Q3 2019* | Q3 2018 | Q1-Q3 2019* | Q1-Q3 2018 | Full year 2018 |
|---|---|---|---|---|---|
| Operating revenue | 148.9 | 116.0 | 393.9 | 364.2 | 489.0 |
| Operating expenses | 197.3 | 182.2 | 585.0 | 499.5 | 685.1 |
| EBITDA excl. Kjørbo provision** | -28.9 | -53.3 | -101.3 | -89.7 | -131.6 |
| EBITDA | -28.9 | -53.3 | -136.3 | -89.7 | -131.6 |
| Operating loss | -48.4 | -66.3 | -191.2 | -135.4 | -196.1 |
| Pre-tax loss | -34.3 | -67.4 | -182.1 | -141.8 | -197.5 |
| Net loss | -32.4 | -65.5 | -176.5 | -134.4 | -188.9 |
| Net cash flow from operating activities | -31.0 | -37.4 | -143.9 | -97.9 | -142.6 |
| Cash balance end of period | 651.0 | 434.1 | 651.0 | 434.1 | 349.7 |

** The numbers for 2019 include effects of IFRS 16 and comparative figures have not been re-stated*
***Nel booked a provision of NOK 35 million in Q2 2019 related to the Kjørbo incident*

# Financial development

Nel reports revenues in the third quarter 2019 of NOK 148.9 million (Q3 2018: NOK 116.0 million), following growth in the Fueling segment of 20%, and growth in the Electrolyser segment of 35% compared to the same quarter last year.

At the end of the third quarter 2019, Nel had an all-time high order backlog of NOK 575 million. The order backlog does not at this stage include electrolysers and associated fueling equipment for Nikola as part of its development of a commercial hydrogen station infrastructure in the US for truck and passenger vehicles.

EBITDA ended at NOK -28.9 million (-53.3), while the EBITDA margin was -19.4% (-45.9%).

Wages and social costs increased by 46% in the third quarter from the same period last year, which is explained by a higher number of employees, up from 229 employees end of the third quarter last year to 297 this year. Other operating expenses decreased by 37%, which is mainly due to costs of settling a legal dispute in Q3 2018. Generally, still a high level of cost from ramp-up activities to prepare Nel for a higher revenue level.

The non-cash costs for the stock option- and share incentive program, which are included in wages and social costs, were NOK 2.8 million in the quarter.

Depreciation was NOK 19.5 million (13.0) in the quarter. IFRS 16 was implemented 1 of January 2019, and increased depreciation by NOK 2.4 million in the quarter. The remaining increase is due to higher levels of intangible and tangible assets.

Operating loss amounted to NOK -48.4 million (-66.3) in the period.

Net financial items amounted to an income of NOK 14.1 million, mainly due to currency gain from translating internal loans to NOK and interest income in the parent company. Share of loss from joint ventures and associates comprises of loss from Uno-X Hydrogen AS and Hyon AS.

Pre-tax loss was NOK -34.2 million (-67.4) in the quarter and the net loss was NOK -32.4 million, compared to a loss of NOK -65.5 million in the same quarter 2018.

Comprehensive income is positive with NOK 7.2 million (-66.4) mainly due to positive currency translation differences, net of tax, of NOK 39.6 million in the quarter (-0.9) related to translating excess values in USD and DKK into NOK using a higher currency rate than in the previous quarter.

Total assets were NOK 2 493.9 million at the end of the quarter, compared to NOK 1 944.4 million at the end of 2018, mainly due to an increase of cash and increase of non-current assets. Total equity was NOK 1 951.3 million, thus, the equity ratio was 78 percent.

Net cash flow from operating activities in the quarter was NOK -31.0 million, compared to NOK -37.4 million in the third quarter in 2018. The positive development is mainly due to the improved EBITDA of NOK -28.9 million. This is partly offset from an increase in net working capital that is due to an increase in inventory and trade receivables. Net cash flow from investing activities was NOK -26.4 million (-48.9).

Nel's cash balance at the end of the third quarter was NOK 651.0 million. The increase from the cash balance at year end 2018 is mainly due to net proceeds of NOK 524.6 million from the capital increase in February and the subsequent offering in April. In September there was a capital increase from employees exercising options under Nel's share option program.

# Nel in brief

Nel is a global, dedicated hydrogen company, delivering optimal solutions to produce, store and distribute hydrogen from renewable energy. The company serves industries, energy and gas companies with leading hydrogen technology.

Since our origins in 1927 as part of Norsk Hydro, we have a proud history of development and continuous improvement of hydrogen plants.

Our hydrogen solutions cover the value chain from hydrogen production technologies to manufacturing of hydrogen fueling stations, providing all fuel cell electric vehicles with the same fast fueling and long range as conventional vehicles.

Nel has reorganized from three to two business segments and will report the former business segment Nel Hydrogen Solutions as an integrated part of Nel Hydrogen Fueling.

## *Nel Hydrogen Electrolyser*

*Production and installation of electrolysers for hydrogen production.*

Nel Hydrogen Electrolyser is the world's largest electrolyser manufacturer, covering both alkaline and PEM (proton exchange membrane) technology globally. The company has its roots back to 1927, when Norsk Hydro developed large-scale electrolyser plants, providing renewable hydrogen for use in ammonia production with fertilizer as the end-product. Since then, the electrolyser technology has been improved continuously, delivered across the world, and has set the industry standard.

Historically, hydrogen has primarily been used as an input factor for a broad spectrum of industrial applications and products, such as ammonia, refineries, methanol, edible oil, chemicals, metallurgy, glass, electronics, generator cooling, polysilicon used in PV solar panels, and other industrial applications.

Of the total global hydrogen market, only 1% of the hydrogen is generated via water electrolysis. However, electrolysis is expected to grow in market share, mainly driven by the decreasing cost of renewable energy, increased share of intermittent (wind and solar) energy, decreasing cost of electrolysers, and an increasing focus on climate and air quality.

The overall hydrogen market is also expected to grow significantly in the coming years, with hydrogen being used as a zero-emission fuel for the transport sector and as a way of decarbonizing various industrial sectors like the replacement of coal in the metal industry. The process of converting renewable electricity to hydrogen and utilizing hydrogen both in existing and new markets, is referred to as "power-to-X", were X refers to the various applications for hydrogen.

A step-change in the size of power-to-X projects is beginning worldwide, as projects are moving to megawatt-scale. This trend is welcomed by Nel Hydrogen Electrolyser, as it makes Nel's portfolio of large-scale electrolyser products increasingly relevant.

Nel Hydrogen Electrolyser began commercial sales of electrolysers in the 1970s and has since delivered over 3 500 electrolyser units in more than 80 countries across the globe. The business area has manufacturing facilities in Notodden, Norway, and in Wallingford, Connecticut, USA. The company has a global reach through its in-house sales operation and network of agents across the globe.

Today, Nel has the world's largest product portfolio of alkaline and PEM electrolysers and is continuously developing and improving both technologies. Initiatives include a next generation large scale, pressurized alkaline electrolyser as well as larger PEM stacks, and large-scale solutions which allow for significant cost reductions on a system level.

With increasing demand for large scale electrolysers, Nel has also decided to significantly increase its manufacturing capacity. As a result, cost reductions will be achieved that are important in making renewable hydrogen cost competitive with fossil hydrogen and fossil fuels.

Reduced cost and new electrolyser technology offerings should enable Nel to penetrate new markets, as well as increase its competitiveness in existing ones, and gradually replace various fossil solutions for hydrogen production that the world is currently relying on.

### *Nel Hydrogen Fueling*

*Production of hydrogen fueling stations for cars, buses, trucks, forklifts and other applications.*

Nel Hydrogen Fueling is a leading manufacturer of hydrogen fueling stations that provide FCEVs (Fuel Cell Electric Vehicles) with the same fast fueling and long range as conventional fossil fuel vehicles. Since Nel began manufacturing hydrogen fueling stations in 2003, we have invested significantly in R&D. Today, Nel is one of few global leaders on hydrogen fueling stations for mobility applications. The H2Station® technology is now being installed in several European countries as well as in South-Korea and California, U.S., providing hydrogen fueling for FCEVs from major car manufacturers, as well as forklifts, buses and trucks.

Nel Hydrogen Fueling was among the first to achieve compliance with the international hydrogen fueling standard (SAE J2601) required by major car manufacturers. With the H2Station® technology, the ambition is to maintain the position as a preferred supplier for international hydrogen fueling infrastructure operators.

In 2018, Nel opened the new H2Station® manufacturing plant in Herning, Denmark. It has an annual production capacity of 300 hydrogen stations per year. Combining technology innovations with increased manufacturing capacity should enable Nel to further reduce the cost of hydrogen fueling station equipment.

Our target is to deliver fueling solutions that will enable hydrogen to outcompete fossil fuels for an increasing number of applications, and to become a preferred fuel alternative. Seeing increased activities in the heavy-duty segment has encouraged Nel to step up technology developments, and to launch new products, better suited for heavy-duty applications. Significant technology developments will continue going forward to support these new applications.

All in all, these activities will support the overall vision of Nel: *"empowering generations with clean energy forever"*.

# Developments

### *Nel Hydrogen Electrolyser*

Nel Hydrogen Electrolyser recorded revenues of NOK 86.6 million in the third quarter 2019, up 35% from NOK 64.2 million in the third quarter of 2018. The growth is a result of higher level of revenues from PEM electrolysers in the third quarter compared to the same period last year.

**Launched the A1000 electrolyser**

Nel launched the A1000 alkaline electrolyser. The A1000 builds on the industry leading A-Range atmospheric alkaline platform and comes in the size range of 600 to 970 Nm$^3$/h, allowing for flexible scale-up according to customer demand. The new A1000 alkaline electrolyser unit will also represent a standard building block when designing larger facilities electrolyser facilities.

**Collaboration agreement with Yara related to green fertilizer project**

Nel signed a collaboration agreement with Yara International, related to the previously announced PILOT-E funded green fertilizer project. The ambition of the project is to achieve zero-emission fertilizer production using innovative solutions and cost-efficient hydrogen production from electrolysis based on renewable energy. The next-generation, pressurized alkaline electrolyser developed by Nel will be installed at the Yara facilities in Porsgrunn for piloting in an industrial environment and will have a capacity of approximately 5 MW. After the project, subject to certain criteria, ownership of the electrolyser will be transferred to Yara for continued operation in the pilot plant.

**Secures location for low-cost electrolyser manufacturing**

Nel secured a new location at Herøya Industrial Park (Herøya, Norway) for the planned expansion of manufacturing capacity of alkaline electrolysers, while engineering and R&D will continue at Notodden.

The initial target capacity is 360 MW/year, and ramp-up of production will be in line with customer requirements. With the planned setup, the new premises at Herøya allow for an estimated production capacity of more than 1 GW/year.

Nel is also examining opportunities to make an even more advanced production line and manufacturing process, which will have the potential to increase capacity significantly beyond 1 GW/year.

**Awarded grant for development of an advanced pilot production line for electrolysers**

Nel was awarded a grant of NOK 9.25 million from Enova for engineering and design improvements in connection to the establishment of the world's largest, automated alkaline electrolyser production line at Herøya, Norway.

Nel has been working with Enova to optimize the development of the manufacturing plant at Herøya. Enova is a Norwegian public enterprise responsible for the promotion of environmentally friendly production and consumption of energy. Nel was awarded a grant for the first phase in the process of establishing a full-scale pilot production line.

The engineering phase for the advanced pilot production line will continue until the end of 2019. If successful, Nel will then proceed into an execution phase, involving construction and operation of the production line from 2020 onwards.

**Enters into contract to deliver a 3.5 MW alkaline electrolyser**

Nel entered into a contract to deliver a 3.5 MW alkaline electrolyser and related equipment to a large, international energy company.

The value of the contract is approximately USD 4 million, and the electrolyser is scheduled to be installed during 2020.

## *Nel Hydrogen Fueling*

Nel Hydrogen Fueling recorded revenues of NOK 62.3 million in the third quarter of 2019, up by 20% from NOK 51.9 million in the third quarter of 2018, mainly due to higher production output from the factory at Herning resulting from increased order intake.

**Proposed for an award on project regarding fueling of heavy-duty hydrogen vehicles**

Nel was selected by the Department of Energy in the U.S. (DOE) for negotiations on USD 2 million funding for the development of hydrogen compression technology for the fueling of heavy-duty vehicles. The proposed funding will be shared between Nel and US based hydrogen truck manufacturer Nikola.

The purpose of the proposed project is to further develop hydrogen compression technology to better cater for heavy duty vehicles through greater capacity and cost reductions. Nel will collaborate with Nikola on the project, targeting the market deployment of hydrogen fueled zero emission heavy duty trucks currently being pursued by both companies.

**Invests in HyNet and receives purchase order for two hydrogen fueling stations in Korea**

Nel Korea made an investment in Hydrogen Energy Network Co., Ltd. (HyNet), and simultaneously received a purchase order for two H2Station® hydrogen fueling stations in Korea.

The investment in HyNet is approximately EUR 0.8 million and the value of the purchase order is around EUR 2.7 million. HyNet is a special purpose company established by a consortium including some large Korean corporations to roll out 100 hydrogen fueling stations in Korea by 2022. This is part of the national ambition in Korea to have more than 300 stations operational by the same year.

**Update on joint venture Uno-X Hydrogen AS**

Uno-X Hydrogen AS is a JV owned 39% by Nel, which owns and operates hydrogen infrastructure in Norway. Since the incident at one of its stations in June, the remaining two JV-stations have been out of operation, awaiting the final conclusions from investigations undertaken by the authorities. After the investigations are completed, the JV partners will conclude the way forward for the JV.

### *Corporate developments*

**Finalized agreements related to Everfuel and signed sales and service agreement**

Nel finalized agreements related to the ownership structure in Everfuel, including the signing of an exclusive equipment sales and service agreement.

As a part of the agreement, Everfuel signed a long-term exclusive contract with Nel for delivery of electrolysers and fueling stations with a potential value up to EUR 100 million. Nel retained 19.9% ownership in Everfuel, while E.F. Holding, controlled by Jacob Krogsgaard former SVP of Nel Hydrogen Solutions, acquired 80.1% of the company.

# Risks and uncertainty factors

Nel is exposed to risk and uncertainty factors, which may affect some or all of the group's activities. Nel is exposed to financial, market and operational risk. In addition, there is risk related technology, implementation and execution of current and future products. There are no significant changes in the risks and uncertainty factors described in our Annual Report for 2018.

# Outlook

As one of the leading players in the hydrogen industry, Nel is positioned to play an important role in the fast-growing hydrogen market. Nel offers the complete range of electrolysers, as well as state-of-the-art fueling stations for all types of fuel cell electric vehicles, and targets to maintain this unique position.

Nel aims to capitalize on the emerging opportunities within power-to-X and hydrogen fueling, leveraging on the position as a technology front-runner, continued high focus on safety, global presence, cost leadership, strong financing and preferred-partner status for industry participants.

Nel will continue to pursue growth initiatives and focus on long term high value orders – which in the short term will have a negative impact on Nel's ability to deliver positive EBITDA.

**Key areas of focus include:**

- Continued development of state-of-the art safety solutions and processes
- Development of x10 electrolyser factory expansion to support deliveries to Nikola and other customers
- Leveraging the fast-growing Heavy Duty Vehicle opportunities
- Developing next generation electrolyser technology for industrial applications, such as fossil free ammonia and steel production
- Pursue significant tender activities for larger projects for electrolysers and H2Stations
- Continue to develop the Nel organization

Oslo, 7 November 2019

The Board of Directors

| | | |
|---|---|---|
| Ole Enger | Hanne Skaarberg Holen | Beatriz Malo de Molina |
| Chair | Board member | Board member |
| (Sign) | (Sign) | (Sign) |
| Mogens Filtenborg | Finn Jebsen | Hanne Blume |
| Board member | Board member | Board member |
| (Sign) | (Sign) | (Sign) |
| Jon André Løkke | | |
| CEO | | |
| (Sign) | | |

# Condensed interim financial statements

## Consolidated statement of comprehensive income (unaudited)

| *(amounts in NOK thousands)* | Note | Q3 2019 | Q3 2018 | Q1-Q3 2019 | Q1-Q3 2018 | Full year 2018 |
|---|---|---|---|---|---|---|
| **Operating Income** | | | | | | |
| Sales income | | 145 549 | 113 662 | 375 595 | 351 697 | 453 187 |
| Other operating income | | 3 359 | 2 288 | 18 261 | 12 477 | 35 861 |
| Total operating income | 4 | 148 908 | 115 951 | 393 855 | 364 174 | 489 049 |
| **Operating expenses** | | | | | | |
| Cost of goods sold | | 84 931 | 78 148 | 229 463 | 219 377 | 298 545 |
| Wages and social costs | | 62 340 | 42 668 | 174 212 | 128 310 | 182 726 |
| Depreciation | 5, 6 | 19 523 | 12 959 | 54 812 | 45 689 | 64 470 |
| Other operating costs | 7 | 30 523 | 48 460 | 126 530 | 106 168 | 139 369 |
| Total operating expenses | | 197 317 | 182 235 | 585 017 | 499 545 | 685 110 |
| Operating loss | | -48 409 | -66 284 | (191 161) | -135 370 | -196 061 |
| Financial income | | 16 600 | 1 038 | 20 194 | 2 874 | 4 818 |
| Financial expenses | | 1 586 | 1 030 | 7 855 | 5 363 | 1 529 |
| Share of loss from associates and joint ventures | | 866 | 1 074 | 3 307 | 3 894 | 4 731 |
| Net financial items | | 14 148 | -1 066 | 9 032 | -6 384 | -1 442 |
| Pre-tax loss | | -34 261 | -67 350 | -182 129 | -141 754 | -197 503 |
| Tax expense (income) | | -1 893 | -1 855 | -5 589 | -7 308 | -8 676 |
| Net loss | | -32 368 | -65 496 | -176 540 | -134 446 | -188 827 |
| *Items that may subsequently be reclassified to income statement:* | | | | | | |
| Currency translation differences, net of tax | | 39 589 | -946 | 19 372 | -17 658 | 31 356 |
| Total comprehensive income | | 7 221 | -66 442 | (157 168) | -152 104 | -157 471 |
| Basic EPS *(figures in NOK)* 1) | | -0.03 | -0.06 | -0.15 | -0.13 | -0.18 |
| Diluted EPS *(figures in NOK)* 1) | | -0.03 | -0.06 | -0.14 | -0.13 | -0.18 |
| Weighted average number of outstanding shares (million) | | 1 218 | 1 069 | 1 198 | 1 032 | 1 052 |

1) Basic and diluted earnings per share are computed using the weighted average number of ordinary shares outstanding.

*The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).*

## Consolidated statement of financial position (unaudited)

| *(amounts in NOK thousands)* | Note | Q3 2019 | 2018 |
|---|---|---|---|
| ASSETS | | | |
| Intangible assets | 5 | 1 120 617 | 1 100 029 |
| Property, plant and equipment | 6 | 189 430 | 135 383 |
| Other non-current assets | | 87 511 | 72 333 |
| Total non-current assets | | 1 397 558 | 1 307 746 |
| | | | |
| Inventories | | 216 550 | 134 804 |
| Trade receivables | | 188 444 | 108 659 |
| Other receivables | | 40 383 | 43 445 |
| Cash and cash equivalents | | 650 960 | 349 747 |
| Total current assets | | 1 096 338 | 636 655 |
| | | | |
| TOTAL ASSETS | | 2 493 895 | 1 944 401 |
| | | | |
| EQUITY AND LIABILITIES | | | |
| Shareholders' equity | | 1 951 273 | 1 578 978 |
| Total equity | | 1 951 273 | 1 578 978 |
| | | | |
| Deferred tax liability | | 67 297 | 69 481 |
| Non-current interest bearing debt | | 30 544 | 32 026 |
| Other non-current liabilities | | 105 666 | 74 434 |
| Total non-current liabilities | | 203 507 | 175 942 |
| | | | |
| Accounts payable | | 88 432 | 69 473 |
| Other current liabilities | | 250 684 | 120 008 |
| Total current liabilities | | 339 115 | 189 481 |
| | | | |
| Total liabilities | | 542 622 | 365 423 |
| | | | |
| TOTAL EQUITY AND LIABILITIES | | 2 493 895 | 1 944 401 |

*The accompanying notes are an integral part of the condensed consolidated financial statements (unaudited).*

## *Consolidated statement of cash flows (unaudited)*

| *(amounts in NOK thousands)* | Q3 2019 | Q3 2018 | Q1-Q3 2019 | Q1-Q3 2018 | Full year 2018 |
|---|---|---|---|---|---|
| **Cash flow from operating activities** | | | | | |
| Pre-tax loss | -34 261 | -67 350 | -182 129 | -141 754 | -197 503 |
| Depreciation | 19 523 | 12 959 | 54 812 | 45 689 | 64 470 |
| Change in net working capital | -15 719 | 16 598 | -50 638 | -9 002 | -19 450 |
| Other adjustments | -549 | 385 | 34 101 | 7 125 | 9 914 |
| Net cash flow from operating activities | -31 006 | -37 408 | -143 853 | -97 942 | -142 568 |
| **Cash flow from investment activities** | | | | | |
| Acquisitions of tangible and intangible assets | -18 533 | -13 219 | -62 101 | -56 530 | -94 513 |
| Cash outflow investments in other financial assets | -7 849 | -42 131 | -7 849 | -42 131 | -42 131 |
| Cash outflow loan given to associated companies/ joint ventures | 0 | -160 | -5 000 | -9 796 | -9 796 |
| Acquisitions of associated companies/ joint ventures | 0 | 0 | 0 | -1 938 | -3 478 |
| Acquisitions of subsidiaries | 0 | -6 722 | 0 | -6 722 | -6 883 |
| Acquistion of subsidiaries cash balance | 0 | 13 342 | 0 | 13 342 | 13 342 |
| Net cash flow from investing activities | -26 382 | -48 890 | -74 950 | -103 776 | -143 458 |
| **Cash flow from financing activities** | | | | | |
| Interest paid | -1 257 | -175 | -3 513 | -406 | -704 |
| Interest received | 2 806 | 1 085 | 6 249 | 2 317 | 3 271 |
| Gross cash flow from share issues | 12 387 | 60 669 | 544 942 | 332 259 | 332 259 |
| Transaction costs connected to share issues | -818 | -12 661 | -20 324 | -12 661 | -12 954 |
| Proceeds from new loan | 0 | 0 | 0 | 27 280 | 27 280 |
| Payments of lease liabilities | -2 165 | 0 | -5 724 | 0 | 0 |
| Payment of long term liabilities | -256 | -7 221 | -1 612 | -7 951 | -8 378 |
| Net cash flow from financing activities | 10 696 | 41 698 | 520 017 | 340 838 | 340 773 |
| Net change in cash and cash equivalents | -46 691 | -44 600 | 301 213 | 139 121 | 54 747 |
| Cash and cash equivalents beginning of period | 697 651 | 478 723 | 349 747 | 295 000 | 295 000 |
| Cash and cash equivalents | 650 960 | 434 124 | 650 960 | 434 123 | 349 747 |

## Consolidated statement of changes in equity (unaudited)

| *(amounts in NOK thousands)* | Share capital | Share premium | Treasury shares | Other components of equity | Retained earnings | Total equity |
|---|---|---|---|---|---|---|
| Equity as of 01.01.2018 | 199 743 | 1 289 233 | -4 405 | 18 840 | -94 025 | 1 409 386 |
| IFRS 15 adoption | | | | | -3 037 | -3 037 |
| Net loss | | | | | -188 827 | -188 827 |
| Currency translation differences | | | | 31 356 | | 31 356 |
| Capital increase | 22 967 | 296 337 | | | | 319 305 |
| Options and share program | | | 4 124 | | 6 622 | 10 746 |
| Other changes | | | 268 | | -220 | 49 |
| Equity as of 31.12.2018 | 222 710 | 1 585 570 | -12 | 50 196 | -279 486 | 1 578 978 |
| Net loss | | | | | -176 540 | -176 540 |
| Currency translation differences | | | | 19 372 | | 19 372 |
| Capital increase | 21 644 | 502 974 | | | | 524 618 |
| Options and share program | | | | | 4 845 | 4 845 |
| Equity as of 30.09.2019 | 244 354 | 2 088 544 | -12 | 69 567 | -451 180 | 1 951 273 |

# Notes to the interim financial statements

## Note 1 Organization and basis for preparation

**Corporate information**

Nel is a global, dedicated hydrogen company, delivering optimal solutions to produce, store and distribute hydrogen from renewable energy. The group serves industry, energy and gas companies with leading hydrogen technology. Since our origins in 1927 as part of Norsk Hydro, we have a proud history of development and continuous improvement of hydrogen plants. Our hydrogen solutions cover the value chain from hydrogen production technologies to manufacturing of hydrogen fueling stations, providing all fuel cell electric vehicles (FCEVs) with the same fast fueling and long range as conventional vehicles today. The group has two divisions, Nel Hydrogen Electrolyser and Nel Hydrogen Fueling.

Nel (org. no 979 938 799) was formed in 1998 and is a Norwegian public limited company listed on the Oslo Stock Exchange. The group's head office is in Karenslyst allé 20, N-0278 Oslo, Norway. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on 7 November 2019.

**Basis for preparation**

The financial information is prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (IAS 34). This financial information should be read together with the annual report for the year ended 31 December 2018 prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those used in the preparation of the group's annual consolidated financial statements for the year ended 31 December 2018, except for *IFRS 16 Leases* that has been adopted from 1 January 2019 as further described below.

**Implementation of new accounting standards**

The group has implemented IFRS 16 in 2019 with the modified retrospective approach. Hence, the comparative figures for 2018 have not been adjusted. With the transition to IFRS 16 the group has recognized right-of-use assets of NOK 37.4 million, and lease liabilities of NOK 37.4 million as of 1 January 2019. A further description of the impact of the initial application is disclosed in the tables below.

IFRS 16 requires a lessee to account for lease contracts by recognizing a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees are required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

The implementation of IFRS 16 has mainly affected the accounting for office leases and to a smaller extent leases for service cars in the group.

## Reconciliation of lease commitments to lease liabilities

| *(unaudited amounts in NOK thousands)* | |
|---|---|
| Operating lease commitments at 31 December 2018 as disclosed in the group's consolidated financial statements | 51 357 |
| Short term and low value exemption | -1 187 |
| Gross liabilities at 1 January 2019 | 50 170 |
| Effect of discounting | -12 758 |
| Lease liabilities recognized at initial application | 37 412 |
| | |
| Weighted average incremental borrowing rate applied | 9.6% |
| | |
| Right to use assets recognized at initial application | 37 412 |

Under the accounting standards effective prior to the adoption of IFRS 16, lease expenses would be higher, included in operating expenses. Under IFRS 16, lease expenses within the scope of IFRS 16 are removed and replaced by depreciation of right-of-use assets and interest expense. IFRS 16 has a net positive effect on EBIT and a net negative effect on pre-tax loss in Q3 of 2019 due to higher interest expense being recognized early in the lease term and lower interest expenses to be recognized later in the lease term. The net negative effect on pre-tax loss was NOK 297 thousand in Q3.

## IFRS 16 effects on statement of comprehensive income

| *(unaudited amounts in NOK thousands)* | Excl IFRS 16 effects Q3 2019 | IFRS 16 effects | Q3 2019 |
|---|---|---|---|
| Total operating income | 148 908 | 0 | 148 908 |
| Total operating expenses excl depr. | 180 889 | -3 096 | 177 794 |
| Depreciation | 17 104 | 2 419 | 19 523 |
| Operating loss | -49 085 | 676 | -48 409 |
| | | | |
| Net financial items | 15 121 | -974 | 14 148 |
| Pre-tax loss | -33 964 | -297 | -34 261 |

## Note 2 Going concern

The financial statement is presented on the going concern assumption under International Financial Reporting Standards as adopted by the EU.

As per the date of this report the group has sufficient working capital for its planned business activities over the next twelve-month period.

## Note 3 Significant estimates, judgements and assumptions

The preparation of the interim financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the interim financial statements. If in the future such estimates and assumptions, which are based on management's best judgment at the date of the interim financial statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

In the process of applying the group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the condensed interim financial statements:

- Impairment of goodwill
- Share based payments
- Development expenses

The estimates and underlying assumptions are reviewed on an ongoing basis, considering the current and expected future market conditions. Changes in accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Refer to the annual report of 2018 for more details related to key judgements, estimates and assumptions.

## Note 4 Segments

Nel identifies its reportable segments and discloses segment information under IFRS 8 Operating Segments. This standard requires Nel to identify its segments according to the organization and reporting structure used by management. See Nel's Annual Report 2018 note 3 Business segments information for a description of Nel's management model and segments, including a description of Nel's segment measures and accounting principles used for segment reporting.

The executive management group is the chief operating decision maker and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements. Nel operates within two business segments, Hydrogen Fueling and Hydrogen Electrolyser.

### Nel Hydrogen Fueling

The Fueling segment offers H2Stations for fast fueling of fuel cell electric vehicles as well as services in relation to the supply of these stations. The objective to the segment is to deliver world class fueling stations offering a complete solution from production of hydrogen to fueling of vehicles.

### Nel Hydrogen Electrolyser

The Electrolyser segment offers the production and installation of electrolysers for hydrogen production and the technologies cover atmospheric alkaline and PEM electrolysers.
Prices between operating segments are on an arm’s length basis.

The following table includes information about Nel's operating segments.

| *(amounts in NOK million)* | Q3 2019 | Q3 2018 | Change | Q1-Q3*** 2019 | Q1-Q3 2018 | Change |
|---|---|---|---|---|---|---|
| Operating revenue | | | | | | |
| Nel Hydrogen Fueling | 62.3 | 51.9 | 20% | 174.9 | 139.7 | 25% |
| Nel Hydrogen Electrolyser | 86.6 | 64.2 | 35% | 219.0 | 224.5 | -2% |
| Total | 148.9 | 116.0 | 28% | 393.9 | 364.2 | 8% |
| EBITDA*** | | | | | | |
| Nel Hydrogen Fueling | -11.6 | -36.1 | | -72.8 | -50.2 | |
| Nel Hydrogen Electrolyser | -5.1 | -6.4 | | -26.9 | -7.2 | |
| Other and eliminations* | -12.2 | -10.8 | | -36.6 | -32.3 | |
| Total | -28.9 | -53.3 | | -136.3 | -89.7 | |
| Total assets** | | | | | | |
| Nel Hydrogen Fueling | 751.4 | 581.8 | 29% | 751.4 | 581.8 | 29% |
| Nel Hydrogen Electrolyser | 1 079.3 | 855.9 | 26% | 1 079.3 | 855.9 | 26% |
| Other and eliminations* | 663.2 | 471.2 | 41% | 663.2 | 471.2 | 41% |
| Total | 2 493.9 | 1 908.9 | 31% | 2 493.9 | 1 908.9 | 31% |

** Other and eliminations comprises of parent company and elimination of intercompany transactions.*
*** Total assets per segment includes excess values on intangible assets derived from the consolidation of the financial statements.*
**** Provision of NOK 35.0 million allocated 2.0 million to parent and 33.0 million to Nel Hydrogen Fueling*

| *Property, Plant and Equipment by geographical area (amounts in NOK million)* | Q3 2019 | Q3 2018 | Full year 2018 |
|---|---|---|---|
| Norway | 49.8 | 12.5 | 28.5 |
| Denmark | 89.3 | 84.2 | 91.2 |
| USA | 48.1 | 13.8 | 15.6 |
| South Korea | 2.3 | 0.1 | 0.1 |
| Total | 189.4 | 110.7 | 135.4 |

## Note 5 Intangible assets

| *(amounts in NOK million)* | Goodwill | Technology | Customer relationship | Total |
|---|---|---|---|---|
| Carrying amount of 01.01.2019 | 608.8 | 422.0 | 69.2 | 1 100.0 |
| Additions | 0 | 36.8 | 0 | 36.8 |
| Depreciations | 0 | -28.6 | -9.3 | -37.9 |
| Currency translation differences | 10.5 | 9.2 | 1.9 | 21.7 |
| Carrying amount as of 30.09.2019 | 619.3 | 439.5 | 61.8 | 1 120.6 |

Intangible assets are reviewed each quarter for impairment indicators, including market changes, technological development, order backlog and other changes that might potentially reduce the value of the assets. For goodwill, impairment tests are performed annually at year end, and if impairment indicators are identified. The goodwill is tested using the value-in-use approach determined by discounting expected future cashflows. If the impairment test reveals that an asset's carrying amount is higher than the value-in-use, an impairment loss will be recognized.

The impairment test is performed on three Cash Generating Units (CGUs). Goodwill and intangible assets are related to CGU Electrolyser Norway, CGU Electrolyser US and CGU Fueling.

## Note 6 Property, Plant and Equipment

| *(amounts in NOK million)* | Land, buildings and real estate | Fixtures and fittings, tools, etc. | Total |
|---|---|---|---|
| Carrying amount as of 31.12.2018 | 110.7 | 24.7 | 135.4 |
| Effect of IFRS 16 leases implementation | 36.0 | 1.4 | 37.4 |
| Carrying amount as of 01.01.2019 | 146.7 | 26.1 | 172.8 |
| Additions | 21.8 | 7.3 | 29.1 |
| Depreciations | -14.4 | -2.6 | -16.9 |
| Currency translation differences | 3.6 | 0.9 | 4.5 |
| Carrying amount as of 30.09.2019 | 157.6 | 31.8 | 189.4 |

# Alternative Performance Measures

Nel discloses alternative performance measures (APMs) in addition to those normally required by IFRS. This is based on the group's experience that APMs are frequently used by analysts, investors and other parties for supplemental information.

The purpose of APMs is to provide an enhanced insight into the operations, financing and future prospect of the group. Management also uses these measures internally to drive performance in terms of long-term target setting. APMs are adjusted IFRS measures that are defined, calculated and used in a consistent and transparent manner over the years and across the group where relevant.

Financial APMs should not be considered as a substitute for measures of performance in accordance with the IFRS.

## Definition of alternative performance measures used by the group for enhanced financial information

***EBITDA:*** is defined as earnings before interest, tax and depreciation and corresponds to operating profit/(loss) excluding depreciation and impairments.

EBITDA is included as a supplemental disclosure and a key financial figure because management believes the measure provides useful information to identify and analyze the group's operational performance, ability to fund capital and provides a helpful measure for comparing its operational performance with other companies.

EBITDA is presented and reconciled to pre-tax profit (loss) on a separate line in note 4 segments.

***EBITDA margin:*** is defined as EBITDA divided by total operating income.

***EBITDA excluding Kjørbo provision***: is defined as EBITDA adjusted for non-recurring costs related to the incident at Kjørbo. The APM is included to provide an EBITDA figure that is comparable to the operational performance of previous and future quarters.

***EBIT:*** is defined as earnings before interest and tax and corresponds to operating profit/(loss).

***EBIT margin:*** is defined as EBIT divided by total operating income.

***Equity ratio:*** is defined as total equity divided by total assets.

***Organic growth***: shows like-for-like revenue growth for the group and is defined as the group's reported change in operating revenues adjusted for effects of acquisitions of companies and mergers. In the calculation of organic growth, acquired companies and effect from mergers is excluded 12 months after the transaction date.

Organic growth illustrates the group's ability to capitalize on the emerging green hydrogen market as well as being innovative in developing new and improved products from its existing business.

***Order backlog:*** is defined as firm purchase orders with agreed price, volume, timing, terms and conditions and where revenue is yet to be recognized.

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Published date:
7 November 2019

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