

nel•

Nel ASA

Q2 2018 interim report

Highlights of the quarter

- Nel ASA (Nel) reported revenues in the second quarter 2018 of NOK 135.8 million, up from NOK 39.1 million in Q2 2017, also contributed by the acquisition of Proton Energy Systems Inc. (Proton OnSite) as per 30 June 2017.
 - Growth in Q2 2018 of 52% on a like-for-like proforma basis, including Proton Onsite
 - Underlying organic growth in Q2 2018 of 61% excluding Proton OnSite
- Order backlog ended at approximately NOK 388 million
- Successfully completed a private placement and secondary sale, raising approximately NOK 281 million in gross proceeds
- Cash balance of NOK 478.7 million (Q2 2017: 201.2)
- Received a USD 5.5 million additional purchase order from Nikola Motor Company (Nikola) followed by a multi-billion NOK contract for delivery of 448 electrolyzers and associated fueling equipment
- Nel's H2Station® achieved the world's first UL certification of a hydrogen fuel dispensing system station
- Received EUR 2 million purchase order for H2Station® solution in South Korea and announced that Nel will take full ownership of joint venture Nel-Deogyang Co. Ltd, renaming it Nel Korea Co. Ltd.
- Halted further work on agreement with H2V PRODUCT after H2V made limited progress and was unable to secure project financing

Subsequent events

- Received a EUR 2 million contract by Uno-X Hydrogen AS to build next two H2Station® hydrogen fueling stations in Norway
- Received a EUR 2 million contract by H2 Mobility to build two H2Station® hydrogen fueling stations in Germany

Key figures

KEY FIGURES	2018	2017	2018	2017	2017*
(Unaudited amounts in NOK million)	Q2	Q2	YTD	YTD	Full year
Operating revenue	135.8	39.1	248.2	74.9	298.4
Total operating expenses	173.0	63.9	317.3	115.2	415.6
EBITDA	-20.6	-22.0	-36.4	-35.0	-81.2
Operating loss	-37.2	-24.7	-69.1	-40.3	-117.2
Pre-tax loss	-41.5	-27.3	-74.4	-43.4	-124.4
Net loss	-38.8	-27.0	-69.0	-42.6	-52.4
Net cash flow from operating activities	-22.6	37.3	-61.3	23.2	-113.0
Cash balance end of period	478.7	201.2	478.7	201.2	295.0

* The figures include Proton OnSite from the acquisition date, 30 June 2017

Financial development

Nel reported revenues in the second quarter 2018 of NOK 135.8 million (Q2 2017: 39.1 million), following the integration of Proton Onsite as of 30 June 2017, and an increased interest in hydrogen solutions like fueling stations, electrolyzers as well as integrated systems. The underlying organic revenue growth in the quarter was 61%, excluding Proton OnSite.

At the end of the second quarter 2018, Nel had an order book of approximately NOK 388 million. The order book does not at this stage include electrolyzers and associated fueling equipment to Nikola as part of its development of a commercial hydrogen station infrastructure in the US for truck and passenger vehicles.

Costs of goods sold increased to NOK 82.7 million (23.4). Wage- and social cost expenses amounted to NOK 43.1 million (20.6) and other operating costs increased to NOK 30.5 million (17.2). The increased cost level follows the integration of Proton Onsite, underlying organic growth, increased business development activities and considerable growth initiatives.

Depreciation increased to NOK 16.7 million (2.7). The increase is mainly a result of the depreciation of intangible assets related to technology, customer contracts and -relationships arising from the purchase price allocation (PPA) related to the acquisition of Proton Onsite.

Operating loss amounts to NOK -37.2 million (-24.7), while the EBITDA amounts to NOK -20.6 million (-22.0).

The non-cash costs for the stock option- and share incentive program, which are included in wages and social costs, were NOK 3.2 million in the quarter and are currently expected at an average of approximately NOK 2-3 million per quarter going forward. The stock option program is a general program comprising all employees in the Nel group, and this will replace the previous matching share program.

Net of financial income and expenses amounts to an expense of NOK 2.7 million, whereof NOK 2.6 million related to unrealized loss from currency forward contracts.

Share of loss from associates and joint ventures of NOK -1.6 million is mainly related to Nel's ownership in Uno-X Hydrogen AS, Hyon AS and Nel-Deokyang Co. Ltd.

Pre-tax loss was NOK -41.5 million (-27.3) and the net loss for the quarter was NOK -38.8 million, compared to a loss of NOK -27.0 million in the same quarter last year. Total assets were NOK 1 920.6 million at the end of the quarter, compared to NOK 1 725.7 million at the end of 2017. Total equity was NOK 1 600.4 million. Thus, the equity ratio was 83 percent.

Net cash flow from operating activities in the second quarter 2018 was NOK -23.3 million, compared to NOK 37.3 million in the same quarter last year. Net cash flow from investing activities was NOK -20.7 million (-198.5), mainly related to development costs throughout the divisions as well as financing provided to Nel's joint ventures. Nel's cash balance at the end of the second quarter was NOK 478.7 million, including gross proceeds of NOK 281 million from the private placement at the end of the quarter.

First half of 2018

Nel reported revenues in the first half of 2018 of NOK 248.2 million (1H 2017: 74.9 million). Operating cost increased to NOK 317.3 million (115.2), resulting in an EBIT of NOK -69.1 million (-40.3) and a net loss of NOK -69.0 (-42.6).

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 industrial energy and gas companies with leading hydrogen technology.

Since its origins in 1927 as part of Norsk Hydro, Nel has 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 today. The company has three divisions, covering the hydrogen value chain: Nel Hydrogen Electrolyser, Nel Hydrogen Fueling, and Nel Hydrogen Solutions.

Developments

Nel Hydrogen Electrolyser

Production and installation of electrolyzers for hydrogen production.

Nel Hydrogen Electrolyser recorded revenues of NOK 87.1 million, up from NOK 18.5 million in the second quarter 2017, mainly following the acquisition of Proton OnSite. The revenue growth was 26% on a like-for-like proforma basis, and the underlying organic growth was -26%, excluding Proton Onsite.

Proton OnSite

The integration between the two teams was nearly completed during the second quarter, but Nel see further potential within the area of common synergies.

On the commercial side, the combined sales team covers all relevant regions, and Nel has updated all marketing materials to showcase the complete product offering.

The network of agents and distributors is being merged with the best from both sides, and Nel has also merged the teams working on technology development, having identified several areas that can benefit from sharing competence and technologies across the organizations. On supply chain and sourcing, Nel expects to capture

efficiency benefits and cost reductions as the work continues.

Notodden

Nel has decided to construct one of the world's largest electrolyzer plant, fully automated and able to deliver the most efficient electrolyzers at a competitive cost level. The total development will have a name plate capacity of 360 MW/year, approximately ten times the current annual production capacity, and the new facility will accommodate the multi-billion NOK order from Nikola. The manufacturing plant will be constructed as an extension of the current facility at Notodden, Norway, with total planned investments of around NOK 150 million.

H2V

In 2017, Nel entered into an agreement with H2V PRODUCT (H2V), a subsidiary of Alain Samson owned SAMFI-INVEST Group, for a power-to-gas project in France in 2017. Due to limited progress from H2V, in addition to their inability to secure project financing, Nel decided in the second quarter 2018 to halt further work under the agreement.

Electrolyser developments

Good progress is being made on R&D on both PEM and alkaline electrolyzers. Successful testing was completed related to our new pressurized alkaline electrolyzer and a cost reduction program specifically targeted for the PEM electrolyzers is expected to have effect towards the end of 2018 and beginning of 2019.

Nel Hydrogen Fueling

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

Nel Hydrogen Fueling reports financial figures together with Nel Hydrogen Solutions, found in the next section.

The development of the new Herning facility was completed during the second quarter with total investments within the original budget.

With a full ramp-up and plant optimization, the facility will have a manufacturing capacity of up to 300 fueling stations per year, equivalent to support an annual introduction of 200 000 Fuel Cell Electric Vehicles. Establishing serial production according to LEAN-principles enables further product improvements over time, as well as other scale benefits.

A supplier of compressors to Nel has initiated legal action in the United States, claiming that the Company's own compressor technology infringes the supplier's intellectual property rights. Nel's view is that the case is without merit. However, any litigation contains an element of risk for an adverse verdict. Nel's defense against the allegations will, regardless of the outcome, incur legal costs.

UL^{*)} certification

The H2Station[®] successfully achieved the world's first UL system certification of a hydrogen fueling system station in the second quarter (^{*)} *UL, or Underwriters Laboratories, is a global safety consulting and certification company approved to perform safety testing by the U.S. federal agency Occupational Safety and Health Administration*). The certification sets the new industrial norm and benchmark for safety level and legal compliance for hydrogen fueling stations and enables a faster and more streamlined installation and permitting process in the United States.

Historically, hydrogen stations in the U.S. have featured customized designs with a limited field evaluation certification, completed at each site after installation. The H2Station[®] stands out as a

fully standardized hydrogen fueling product, where the UL hydrogen fuel dispensing system certification is achieved for the product design as part of the manufacturing process, greatly reducing the time and cost needed for extensive technical assessments and tests at site during installation.

Nel Hydrogen Solutions

Established to leverage market opportunities across the Nel group and offers complete solutions to customers.

Nel Hydrogen Fueling and Solutions recorded revenues of NOK 48.8 million, up from NOK 20.5 million in the same quarter in 2017, representing a growth of 138%.

Nel Hydrogen Solutions offers efficient system integration, project development and sales across segments, and is a provider of integrated solutions along the value chain: Nel has the technology and experience to efficiently build entire renewable hydrogen fueling networks and offer complete turnkey solutions that meet the growing demand for hydrogen fueling networks.

Utilizing the flexible and modular H2Station[®] concept enables return on investments for station owners offering fueling for cars, buses, forklifts and/or trucks. In addition to providing turnkey installations, Nel also offers operational and maintenance services for customers.

Nikola

Nikola and Nel announced late 2017 an exclusive partnership aimed at developing low-cost, renewable hydrogen production and fueling sites as part of a nationwide network of hydrogen stations, supporting Nikola's vision of replacing the current fleet of diesel trucks in America with zero-emission hydrogen trucks.

In April 2018, Nel received a USD 5.5 million purchase order from Nikola Motor Company (Nikola), as part of the previously announced hydrogen station partnership.

The additional purchase order will bring the total value for the demo stations to more than USD 9 million, with delivery in the second half of 2018 and into 2019.

At the end of the quarter Nel was awarded a contract for delivery of 448 electrolyzers and associated fueling equipment to Nikola. Under the multi-billion NOK contract, to be deployed from 2020 through 2025, Nel will deliver up to 1 GW of electrolysis plus fueling equipment.

The contract includes an initial order for a pre-engineering package of around USD 1.5 million, where Nel will develop a station design, including electrolyzers, specifically made for fast fueling of Nikola trucks. The exact timing of deliveries and volume ramp-up of electrolyzers and associated fueling equipment will be agreed after the pre-engineering project is complete.

The electrolyzer stacks will be manufactured in Norway and the fueling equipment will be manufactured in Denmark. However, other supporting components and sub-systems will be sourced locally in the US to reduce costs and minimize transportation needs.

South Korea

Nel Deokyang Co Ltd. (Nel-Deokyang) received a purchase order for a H2Station® hydrogen fueling solution from Joong Do Gas, a retail company involved in sales of LPG fuel in South Korea. The EUR 2 million order marks the first installation in Korea, and the first compact fueling station solution to follow a new gas law and local standards. The station is supported by the Korean Automotive Environment Association, and installation is expected to commence in the second half of 2019.

After the end of the second quarter Nel has increased its ownership of Nel-Deokyang Co. Ltd to 100 percent, making it a fully-owned subsidiary of Nel, and renaming it Nel Korea Co., Ltd. By gaining full control over the company, Nel expects to be able to extend and accelerate activities and sales in the region.

Corporate

On 28 June 2018 Nel raised approximately NOK 281 million in gross proceeds through a private placement of 90,000,000 new shares at a price per share of NOK 3.12.

The proceeds will be used to accommodate the Nikola order and to fund the expansion of the production facility at Notodden. In addition, the Company has been invited to invest up to USD 5 million in Nikola, and will consider using parts of the proceeds from the share issue for such an investment. The proceeds will also fund additional working capital in response to increased order volumes and improved positioning to benefit from markets with high activity and growth momentum, as well as general corporate purposes.

Risks and uncertainty factors

Nel is exposed to risk and uncertainty factors, which may affect some or all of the company's activities. Nel has financial risk, market risk as well as operational risk and risk related to the current and future products. There are no significant changes in the risks and uncertainty factors compared to the descriptions in the Annual Report for 2017.

Responsibility statement

We confirm to the best of our belief that the financial statements for the first half of 2018, which have been prepared in accordance with IAS 34 – Interim Reporting, give a true and fair view of the company’s assets, liabilities, financial position and results of operation.

Other

Hyon AS, a Nel JV, which has been established to provide integrated hydrogen solutions to the maritime sector, received on 18 June the world’s first approval-in-principle from DNV GL of module-based fuel cell solutions for use in maritime environment.

Outlook

Nel has a strong position within the hydrogen industry as a pure play company positioned to play an important role in a fast-growing market. Nel offers the complete range of electrolyzers, as well as state-of-the-art fueling stations for all types of fuel cell electric vehicles, and targets to maintain this unique position within the industry. Further, Nel intends on positioning the company to address the expected growth in our markets.

Nel aims to capitalize on the emerging opportunities within power-to-X and hydrogen fueling, targeting continued technology leadership, global presence, cost leadership, and preferred-partner status for industry participants.

Key developments in the second half of 2018 include:

- Following the July private placement, the company is well funded to support the current business plan and ongoing expansion activities
- Initiate factory expansion at Notodden to support deliveries to Nikola and other customers
 - Ongoing growth initiatives and US legal costs will have a negative impact on the company’s ability to deliver a positive EBITDA in the short-term
- Continued activities to build up Nel in South Korea in response to positive market developments. Working to establish new office in Gangnam, Seoul
- In addition to agent agreement in China, Nel has newly established a sales-office in Shanghai. Additionally, Nel continues to explore further market penetration strategies in China
- Post completion of new Herning facility earlier in 2018, the official opening is now scheduled for 21 September

Oslo, 22 August 2018
The Board of Directors

Ole Enger
Board member
(Sign)

Hanne Skaarberg Holen
Chair
(Sign)

Beatriz Malo de Molina
Board member
(Sign)

Mogens Filtenborg
Board member
(Sign)

Finn Jebsen
Board member
(Sign)

Jon André Løkke
CEO
(Sign)

Condensed interim financial statements

Statement of comprehensive income (unaudited)

PROFIT & LOSS	Note	2018	2017	2018	2017	2017
<i>(amounts in NOK thousands)</i>		Q2	Q2	Q1-Q2	Q1-Q2	Full year
Operating Income						
Sales income		128 487	37 975	238 035	70 625	286 365
Other operating income		7 283	1 174	10 189	4 226	12 061
Total operating income	4,6	135 770	39 149	248 224	74 851	298 426
Operating expenses						
Cost of goods sold		82 729	23 354	141 229	42 627	163 638
Wages and social costs		43 136	20 638	85 642	38 839	130 021
Depreciation		16 653	2 717	32 730	5 308	35 968
Other operating costs		30 480	17 176	57 709	28 404	85 961
Total operating expenses		172 997	63 885	317 310	115 178	415 588
Operating loss		-37 227	-24 736	-69 086	-40 327	-117 162
Financial income		732	1 228	1 835	2 437	6 973
Financial expenses		3 460	3 136	4 333	3 975	7 183
Share of loss from associates and joint ventures		1 593	641	2 820	1 579	7 074
Net financial items		-4 321	-2 549	-5 318	-3 117	-7 284
Pre-tax loss		-41 548	-27 285	-74 404	-43 444	-124 447
Tax expense (income)		-2 737	-332	-5 453	-848	-72 000
NET LOSS		-38 811	-26 953	-68 950	-42 596	-52 447
<i>Items that may subsequently be reclassified to profit or loss</i>						
Currency translation differences		19 497	677	-16 711	677	18 237
TOTAL COMPREHENSIVE INCOME		-19 314	-26 276	-85 662	-41 919	-34 210
Basic EPS (figures in NOK)		-0.039	-0.037	-0.069	-0.062	-0.063
Diluted EPS (figures in NOK)		-0.038	-0.037	-0.068	-0.062	-0.061

Statement of financial position (unaudited)

BALANCE SHEET <i>(amounts in NOK thousands)</i>	Note	2018 Q2	2017 Year end
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Technology		345 283	338 510
Customer relationship		72 040	78 329
Customer contracts		0	9 575
Goodwill	5	580 732	591 735
Total intangible assets		998 055	1 018 150
Tangible fixed assets			
Land, buildings and real estate		83 899	79 654
Fixtures and fittings, tools, etc.		25 185	16 544
Total tangible fixed assets		109 083	96 198
Financial fixed assets			
Investments in associates and joint ventures		25 619	16 865
Other financial fixed assets		10 747	10 161
Total financial fixed assets		36 366	27 026
Total non-current assets		1 143 504	1 141 374
CURRENT ASSETS			
Inventories		134 681	138 723
Trade receivables		122 291	96 791
Other receivables		41 450	53 768
Cash and cash equivalents		478 723	295 000
Total current assets		777 144	584 282
TOTAL ASSETS		1 920 648	1 725 656
EQUITY AND LIABILITIES			
Equity			
Share Capital		200 683	199 743
Share premium reserve		1 289 233	1 289 233
Other paid-in capital		297 652	19 188
Treasury shares		-281	-4 405
Retained earnings		-186 922	-94 373
Total equity		1 600 365	1 409 387
NON-CURRENT LIABILITIES			
Deferred tax liability		62 122	68 273
Other long term liabilities		60 748	34 123
Total other long term liabilities		122 870	102 395
CURRENT LIABILITIES			
Accounts payable		68 015	64 857
Tax payable		0	0
Social security, VAT etc. payable		3 010	3 060
Other current liabilities		126 388	145 957
Total current liabilities		197 413	213 874
Total liabilities		320 283	316 269
TOTAL EQUITY AND LIABILITIES		1 920 648	1 725 656

Statement of changes in equity (unaudited)

Statement of changes in Equity <i>(amounts/numbers in NOK thousands/thousands)</i>	Number of shares	Share capital	Share premium	Other reserves	Treasury shares	Curr. conv. effects	Other equity	Total equity
As of 31.12.2015	680 601	136 120	601 710	1 200	0	20 220	-28 242	731 008
Net loss 2016							-55 829	-55 829
Currency translation differences						-19 617		-19 617
Capital increases 2016	3 077	616	6 503					7 119
Options and share program				9 916				9 916
Treasury shares					-1 377			-1 377
As of 31.12.2016	683 678	136 736	608 213	11 116	-1 377	603	-84 071	671 219
Net loss 2017							-52 447	-52 447
Currency translation differences						18 237		18 237
Capital increases 2017	315 037	63 007	681 020					744 027
Acquisition Proton OnSite							17 049	17 049
Options and share program				8 072			9 213	17 285
Treasury shares					-3 028			-3 028
Other changes							-2 957	-2 957
As of 31.12.2017	998 715	199 743	1 289 233	19 188	-4 405	18 840	-113 213	1 409 387
Opening balance adjustment – IFRS 15 adoption							-3 037	-3 037
Net loss as of 30.06.2018							-68 950	-68 950
Capital increases 2018	4 698	940						940
Capital increase not registered 30.06.2018				271 590				271 590
Currency translation differences						-16 711		-16 711
Options and share program				6 874	4 124		-4 124	6 874
Other changes							274	274
As of 30.06.2018	1 003 413	200 683	1 289 233	297 652	-281	2 129	-189 051	1 600 365

Statement of cash flow (unaudited)

CASH FLOW STATEMENT <i>(amounts in NOK thousands)</i>	Note	2018 Q2	2017 Q2	2018 Q1-Q2	2017 Q1-Q2	2017 Full year
Cash flow from operating activities						
Pre-tax loss		-41 548	-27 285	-74 404	-43 444	-124 447
Interest costs, reversed		203	87	231	178	311
Interests income, reversed		-607	-858	-1 232	-1 705	-2 442
Depreciation		16 653	2 717	32 730	5 308	35 968
Change in provisions		8 654	316 824	7 741	317 346	44 002
Change in inventories		-5 839	-81 112	4 042	-87 311	-102 457
Change in trade receivables		-15 360	-36 703	-25 500	-40 385	-61 817
Change in trade payables		4 827	-28 791	3 157	-25 945	48 067
Change in other short term receivables and liabilities		10 406	-107 622	-7 300	-100 809	49 798
<i>Net cash flow from operating activities</i>		<i>-22 611</i>	<i>37 257</i>	<i>-60 534</i>	<i>23 233</i>	<i>-113 018</i>
Cash flow from investment activities						
Acquisitions of fixed assets		-13 914	-29 324	-43 311	-32 149	-71 898
Cash outflow loan given to associates/ joint ventures		-5 736	0	-9 636	-8 582	-198
Acquisitions of associates/ joint ventures		-1 036	0	-1 938	0	-8 624
Acquisitions of subsidiaries		0	-169 220	0	-169 220	-169 220
Acquisition of subsidiaries cash balance		0	0	0	0	30 669
<i>Net cash flow from investing activities</i>		<i>-20 685</i>	<i>-198 544</i>	<i>-54 885</i>	<i>-209 951</i>	<i>-219 272</i>
Cash flow from financing activities						
Interest paid		-203	-87	-231	-178	-311
Interest received		607	858	1 232	1 705	2 442
Gross cash flow from share issues		0	1 986	0	178 733	428 033
Net cash flow from share issues - not registered		271 590	0	271 590	0	0
Other financial fixed assets		0	0	0	0	-23 623
Transaction costs connected to share issues		0	-8 140	0	-13 782	0
Proceeds from new loan		0	0	27 280	0	0
Payment of long term liabilities		-730	-502	-730	-4 050	-4 719
<i>Net cash flow from financing activities</i>		<i>271 264</i>	<i>-5 885</i>	<i>299 141</i>	<i>162 428</i>	<i>401 823</i>
<i>Net change in cash and cash equivalents</i>		<i>227 968</i>	<i>-167 172</i>	<i>183 722</i>	<i>-24 290</i>	<i>69 533</i>
Cash and cash equivalents beginning of period		250 755	368 349	295 000	225 467	225 467
Cash and cash equivalents end of period		478 723	201 177	478 723	201 177	295 000

Notes to the interim financial statements

Note 1 Organization and basis for preparation

Corporate information

Nel ASA (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 its origins in 1927, Nel has a proud history of development and continual 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 three divisions: Nel Hydrogen Electrolyser, Nel Hydrogen Fueling and Nel Hydrogen Solutions.

Nel ASA (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 22 August 2018.

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 2017 prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU.

The accounting policies used and the presentation of the interim financial statements are consistent with those used in the latest annual report, except for revenue recognition. IFRS 15, "Revenue from contracts with customer" is adopted from 1 January 2018. The effect of the implementation and a description of the accounting policy is described in detail in note 6.

Except for IFRS 15, no new significant accounting policies have been adopted in the period.

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 2017 for more details related to key judgements, estimates and assumptions.

Note 4 Segments

Nel operates within three business segments, Nel Hydrogen Fueling, Nel Hydrogen Solutions and Nel Hydrogen Electrolyser. Currently the financial figures from the two divisions, Nel Hydrogen Fueling and -Solutions, are reported together as one. Through the subsidiary Nel Hydrogen A/S based in Herning, Denmark, the group offers H2Stations® for fast fueling of fuel cell electric vehicles as well as services in relation to the supply of these stations. Through its subsidiary Nel Hydrogen Electrolyser AS, based in Notodden, Norway, the group offers hydrogen plants based on water electrolysis alkaline technology for use in various industries. Through its subsidiary Proton Energy Systems Inc, USA, that was acquired in 2017, the group offers hydrogen plants based on water electrolysis PEM technology for use in various industries. The identification of segments in the group is made based on the different products the division offers as well as geographical areas the divisions operate in.

The executive management group is the chief operating decision maker (CODM) 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.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

	Nel Hydrogen Fueling and -Solutions			Nel Hydrogen Electrolyser			Other/ elimination*			Total		
	2018 Q2	2017 Q2	2017 Full year	2018 Q2	2017 Q2	2017 Full year	2018 Q2	2017 Q2	2017 Full year	2018 Q2	2017 Q2	2017 Full year
<i>(amounts in NOK million)</i>												
Operating revenue	48.8	20.5	101.3	87.1	18.5	196.8	-0.1	0.1	0.3	135.8	39.1	298.4
Operating cost	61.6	29.2	144.9	92.2	18.0	203.9	19.2	16.7	66.7	173.0	63.9	415.6
Operating profit (loss)	-12.8	-8.7	-43.6	-5.0	0.5	-7.2	-19.4	-16.5	-66.4	-37.2	-24.7	-117.2
Net financial items	-0.5	-2.1	-6.4	-0.7	-0.3	0.4	-1.2	-0.1	-1.3	-4.3	-2.5	-7.3
Pre-tax profit (loss)	-13.3	-10.8	-50.0	-5.8	0.2	-6.7	-20.5	-16.7	-67.7	-41.5	-27.3	-124.4
Total Assets	271.8	167.6	232.2	331.7	85.2	310.2	1317.1	1321.3	1183.3	1920.6	1574.1	1725.7
Total Liabilities	208.4	86.9	142.8	254.4	58.9	226.5	-142.5	96.8	-53.0	320.3	242.6	316.3

* Other and eliminations comprises excess values on intangible assets and related depreciation and tax expense (income) derived from the consolidation of the financial statements not allocated to the business segments. In addition, it comprises elimination of intercompany transactions and balances.

Note 5 Goodwill

The table below shows the movements in goodwill during 2017 and through the second quarter of 2018.

	2018 Q2	2017 Full year
<i>(amounts in NOK million)</i>		
Goodwill as of 01.01	591.7	317.6
Acquisition of Proton Onsite in 2017	-	257.7
Currency translation differences	(11.0)	16.4
Goodwill as of 30.06.2018/31.12.2017	580.7	591.7

Note 6 Adoption of IFRS 15 “Revenue from contracts with customers”

IFRS 15 Revenue from contracts with customers, is effective from January 1, 2018. Revenue recognition is determined on a contract to contract basis by determining the terms and performance obligations given in a specific contract. Based on the specific contract and its obligations, revenue under IFRS 15 is either recognized on a point in time measurement basis or on a progress based measurement basis. In addition, the group recognizes revenue from public grants. Refer to the annual report of 2017 for details regarding grants and revenue recognition.

Revenue recognized on a point in time measurement basis:

The group recognizes revenue at the point in time at which it satisfies a performance obligation by transferring the control of a good or service to the customer. The customer has control of a good or service when it has the ability to direct the use of and obtain substantially all of the remaining benefits from the good or service. The point in time measurement basis is the main method of recognizing revenue in Electrolyser US division and aftermarket segment in the Electrolyser Norway division.

Revenue recognized on a progress based measurement basis:

In determining whether revenue from a specific contract can be recognized using a progress based measurement several criteria have to be evaluated. The first criterion is related to alternate use. For example, building a specialized asset that only the customer can use or building an asset to customer order. If it would require significant cost to change/modify the asset to be able to transfer it to another customer, then the contract would likely meet the criteria of alternate use.

Another criterion that is important to evaluate is if there is an enforceable right to payment existing in the contract between the group and the customer. Right to payment entails that the group has a right to receive payment from the customer if the contract would be cancelled. At termination at a certain time the groups should be able to recover costs incurred and also a reasonable margin. Other factors to evaluate in the contract would be payment terms, payment schedules, contractual terms and legislation or legal precedence.

If the appropriate criteria are fulfilled and contract revenues will be recognized using a progress based measurement. The group uses the percentage of completion method to recognize revenue and costs. Completion is measured by physical measurement of progress, or if more appropriate, accrued costs. Revenue is recognized according to degree of completion.

In the period when it is identified that a project will give a negative result, the estimated loss on the contract will be recognized in its entirety.

As of balance sheet date the cumulative costs incurred plus recognized profit (less recognized loss) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognized profits (less recognized losses) exceed progress billings, the balance is presented as due from customers on construction contracts within "trade and other receivables". Where progress billings exceed the cumulative costs incurred plus recognized profits (less recognized losses), the balance is presented as due to customers on construction contracts within "trade and other payables". Progress billings not yet paid by customers and retentions by customers are included within "trade and other receivables". Advances received are included within "trade and other payables".

The progress based measurement of revenue is the main method of recognizing revenue from newbuild projects in the group.

Specification of revenues in 2018:

	2018	2018	2018
<i>(amounts in NOK million)</i>	Q1	Q2	YTD
Revenue from construction contracts (progress based)	42.4	37.4	79.8
Revenue recognized at point in time	68.5	80.9	149.4
Public grants	1.6	17.6	19.2
Total	112.5	135.8	248.4

Implementation effect of IFRS 15:

There is an opening balance adjustment to equity from reversal of previously recognized revenue due to the adoption of IFRS 15. The effect to the opening equity balance is NOK 3.0 million. The adjustment is related to the Norwegian part of Nel Hydrogen Electrolyser division and in specific the service/aftermarket projects. Revenue from this division was in 2017 and previous periods recognized on a progress based measurement, but has now changed to a point in time measurement basis.

During the second quarter in 2018 NOK 0.5 million was recognized as revenue due to the IFRS adoption. For 2018 year to date 2.6 million of the restatement of NOK 3.0 million has been recognized. The related aftermarket projects have been deemed to be delivered to the customer since the control of the products is transferred from the company to the customer during the first and second quarter of 2018.

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) adjusted for depreciation and impairments.

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

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: is defined as internally generated growth from increased output/revenues in the group where growth during the relevant periods resulting from takeovers, acquisitions or mergers is not taken into account.

Order backlog: is defined as firm contracts/ purchase orders received from customers where revenue is yet to be recognized.

Title:
Nel ASA

Published date:
23.08.2018

info@nelhydrogen.com
+47 23 24 89 50

Karenslyst allé 20, PB 199 Skøyen,
0212 Oslo, Norway

The publication can be downloaded on
nelhydrogen.com