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# Annual report 2016

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# Annual report 2016

# Letter from the CEO

2016 was a transitional year for Nel, in which we positioned the company to take a front seat in the hydrogen industry as we entered 2017. Our team travelled the world, met with current and potential partners, armed with the Nel story, our technology and our solutions.

During the course of the year we released our new H2Station®, a hydrogen fueling station that triples fueling capacity, while reducing footprint to one third of the previous generation. We also launched two new containerised, turn-key electrolysers that have received a lot of attention. At the same time, the Nel team also went back to basic and announced a new vision for the company: Empowering generations with clean energy forever, whereby our technology allows people and businesses to make everyday use of hydrogen, the most abundant element in the universe.

This inspiring ambition also show the versatility of hydrogen as a clean energy carrier, deployable globally on multiple platforms and applications. Our broad technology platform also enables us to be invited to some of the most interesting hydrogen projects around the world.

At the time of writing, some of the initiatives have come to their conclusion. More will follow. It was with great pride that we announced the partnership agreement with Shell and Toyota to roll out their Californian hydrogen fueling station network. Through this potential NOK 140 million project – our largest single fueling station order ever – we will support the target of having 100 hydrogen fueling stations in California by 2020. We also entered into an agreement with SunPower in California to build and operate the first solar-driven hydrogen production plant in the U.S. We aim to develop the project during 2017 and start marketing renewable hydrogen at a very competitive price in 2018. Both the technical solution Nel is developing together with SunPower, as well as the partnership itself, will have great potential going forward.

Additionally, we announced the intention to acquire Proton OnSite, creating the world's largest electrolyser company with a global footprint. Proton OnSite is recognised as the number one provider of PEM electrolysers and fully complements Nel, both in terms of technology and in market outreach. The combined entity will be able to offer the full spectre of electrolysers in terms of both capacity and technology. The acquisition will also give Nel a strong foothold in the U.S. and other markets, beyond our current position. Proton OnSite also has a very motivated and talented organisation, and a solid backlog going into 2017.

We expect this transaction to be concluded in the second quarter of 2017, but have already strengthened our financial flexibility through the NOK 177 million equity offering in February, adding to the NOK 225 million in cash at the end of 2016. This shows the continued strong support that Nel receives from the investor community.

Overall, Nel is well-positioned to take part in the exciting times ahead within hydrogen.

Incorporated in 1927, Nel will this year celebrate our ninetieth year in operation within the hydrogen industry. The recent developments provide the perfect backdrop for a worthy celebration of a 90-year young company with its best years ahead.

We thank all our stakeholders for their efforts and dedication during an eventful 2016.

Best regards,

Jon André Løkke
CEO

# Report from the Board of Directors

# Highlights 2016

- Nel ASA (Nel) reported full-year 2016 revenues of NOK 114.5 million, up from NOK 99.9 million in 2015, and a negative EBITDA* of NOK 44.9 (-2.7), reflecting a planned high activity level within business development in new markets as California, investments, and preparation for production ramp-up, and the non-cash costs related to the company's stock option and share incentive program of NOK 10.2 million.

- Order intake of approximately NOK 160 million during 2016 and a cash balance of NOK 225.5 million at the end of 2016.

- Initiation of a NOK 85 million facility for hydrogen fueling station production in Herning, Denmark, with an annual capacity to manufacture up to 300 fueling stations per year when fully up and running.

- Launched H2Station®, a hydrogen fueling station that triples the fueling capacity, while reducing the footprint to one third of the previous generation.

- Launched two new containerized, turn-key electrolysers.

- Uno-X Hydrogen AS, a Nel joint venture, announced the initiation of the Norwegian hydrogen fueling station network with the opening of the first of the 20 stations planned before 2020.

## SUBSEQUENT EVENTS

- Entered into an agreement with SunPower to build and operate the first solar-driven hydrogen production plant in the U.S.

- Entered into a Letter of Intent (LoI) with Hexagon Composites ASA and PowerCell Sweden AB to establish a joint venture (JV) for the development of integrated hydrogen projects.

- Awarded frame contract for multiple hydrogen fueling stations in California by Royal Dutch Shell Plc with a potential value in excess of NOK 140 million depending of number of H2Stations and scope of equipment and services.

- Entered into a non-binding term sheet to acquire Proton Energy Systems Inc. ("Proton OnSite"), creating the world's largest hydrogen electrolyser company with a global footprint.

- Completed successful private placement of NOK 176.7 million in gross proceeds at a price per share of NOK 2.72.

- Awarded contract by H2 Frontier Inc. for a H2Station® hydrogen fueling station to be installed in Los Angeles, California.

- Received the first purchase orders on H2Station® equipment and services from Equilon Enterprises LLC (Royal Dutch Shell Plc) under the earlier announced California framework contract.

## KEY FIGURES

(FIGURES IN NOK MILLION)

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Operating revenue | 114.5 | 99.9 | 12.1 |
| Total operating costs | 169.8 | 118.2 | 25.2 |
| EBITDA | -44.9 | -0.6 | -9.5 |
| EBIT | -55.3 | -18.3 | -13.2 |
| Pre-tax profit | -62.6 | -27.8 | -11.6 |
| Net profit | -55.8 | -21.7 | -6.5 |
| Net cash flow from operating activities | -34.2 | -37.8 | 3.3 |
| Cash balance end of period | 225.5 | 313.0 | 98.5 |

*EBITDA is in the table and in the report defined as earnings (or net profit/loss) before interest (and other net financial items), taxation, depreciation and amortization.

## Financial development

Nel reported revenues in 2016 of NOK 114.5 million, up from NOK 99.9 million in 2015, following an increased interest in hydrogen solutions as fueling stations, electrolysers and integrated systems.

The underlying project-development pipeline is strong, and the company continues to experience a high activity level for its prospects and ongoing tender processes. The planned high activity level within business development in new markets like California, investments, and preparation for production ramp-up developed as expected.

Costs of goods sold increased to NOK 60.8 million (42.1), while operating costs totalled NOK 108.9 million (76.1). Salaries and social costs expenses amounted to NOK 60.3 million (29.9) and other operating expenses increased to NOK 38.3 million (30.6). Operating profit ended at NOK -55.3 million (-18.3).

The financial results were impacted by non-cash costs related to the company's stock option- and share incentive program of NOK 10.2 million. The 2017 costs for the current stock option- and share incentive programs are expected at an average of approximately NOK 3.0 million per quarter.

Net financial income amounted to NOK -7.3 million (-9.5), while pre-tax income totalled NOK -62.6 million (-27.8). Comprehensive income equalled NOK -75.5 million (-1.5).

The Board of Directors proposes that the loss for 2016, which totals NOK 75.5 million, to be covered by transfers from the share premium account, or other reserves.

### FINANCIAL POSITION

Total assets were NOK 762.9 million (815.6), including intangible assets of NOK 403.3 million (411.2). Goodwill totalled NOK 317.4 million (333.0), as of 31 December 2016. The identified intangible assets include related customer relationships of NOK 27.9 million and technology of NOK 57.9 million.
As of 31 December 2016, investments in land, buildings and other property amounted to NOK 44.8 million (15.8), and financial fixed assets of NOK 13.7 million (7.3), bringing total fixed assets to NOK 462.9 million (435.0). The company had cash and cash equivalents of NOK 225.5 million (313.0), in addition to inventories and trade receivable of NOK 36.3 million (15.0) and 35.0 million (40.4) respectively.

Based on the strategy and ramp-up plan for the company, the board has proposed to not dividend pay for 2016.

### CASH FLOW

Net cash flow from operating activities was NOK -34.2 million (-37.8), while net cash flow from investments activities totalled NOK -60.2 (-83.8). Net cash flow from financing activities ended at NOK 6.8 million (336.1), bringing the cash balance on 31 December 2016 to NOK 225.5 million (313.0).

## Strategy

Nel is a global, dedicated hydrogen company, delivering optimal solutions to produce, store and distribute hydrogen from renewable energy. The company serves various industries and energy with leading hydrogen technology. Since its foundation in 1927, Nel has a proud history of development and continual improvement of hydrogen plants. Our hydrogen solutions cover the entire 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 entire hydrogen value chain: Nel Hydrogen Electrolyser, Nel Hydrogen Fueling, and Nel Hydrogen Solutions.

### NEL HYDROGEN ELECTROLYSER

**Production and installation of water electrolysers for hydrogen production**

Nel Hydrogen Electrolyser is a world-leading supplier of hydrogen production equipment based on alkaline water electrolyser technology. The company dates back to 1927, when Norsk Hydro developed large-scale electrolyser plants, providing hydrogen for use in ammonia production with fertiliser as the end-product. Since then, the electrolyser technology has been improved continuously, and Nel Hydrogen Electrolyser has accumulated unique experience and knowledge about hydrogen production technologies as well as power-to-gas systems.

Traditionally, hydrogen is used as an input to a number of industrial applications, including as industrial feedstock, to provide a protective atmosphere, and for other purposes. Relevant sectors include food production, chemicals/refining, metallurgy, glass production, electronics, generator cooling, and the production of polysilicon for use in PV solar panels.

Looking ahead, hydrogen will increasingly be utilised as an energy carrier, both to maximise the utilisation of renewable energy and, subsequently, as a sustainable fuel for zero-emission FCEVs. With the commercial introduction of FCEVs already taking place, Nel Hydrogen Electrolyser also intends to support the hydrogen fueling, energy storage and power-to-gas markets.

The water electrolyser market currently accounts for only a small fraction of the total hydrogen market, but is expected to grow significantly in the coming years, primarily driven by increased fueling and energy storage demand. By 2020, 40 percent of renewable electricity is expected to take the form of wind and solar power (Source: IEA).

A number of energy storage projects have been initiated worldwide, and Nel Hydrogen Electrolyser expects this development to be a main driver of demand for hydrogen energy storage in the medium term. The sector has specific interest in Nel Hydrogen Electrolyser, because the market growth is making Nel Hydrogen Electrolyser's portfolio of large-scale products increasingly relevant.

Nel Hydrogen Electrolyser started commercial sales of electrolysers in the 1970s, and has sold more than 850 electrolyser units in 60 countries across Europe, South America, Africa and Asia. The company has production facilities in Notodden, Norway, and has a global reach through its in-house sales apparatus and extensive network of agents.

Nel Hydrogen Electrolyser's water electrolysers are considered world-class. The company's long experience in the electrolysis field and sustained research and development efforts over the past 90 years give it a unique technological platform.

The company's Nel A electrolysers are widely respected for their robustness, reliability and energy efficiency. The products set a benchmark for competitors. When the products' flexibility, ease-of-use, high capacity and safety record are added to the list, the solutions are simply unmatched.

Nel has also launched the new containerised Nel C-range electrolysers, thereby offering a low-cost, turn-key solution, representing the world's smallest footprint for containerised, high capacity electrolysers.

The new configurations – Nel C-150 and Nel C-300 – are containerised and are offered in addition to the existing industrial Nel A-range of electrolysers. The new products will have an output capacity of either 150 and 300 Nm3/hr respectively, which is equivalent to about 330 or 660 kg of hydrogen per day. The standard gas output pressure of the units are either 30 or 200 bar, which makes these products ideal both for industrial purposes, and for producing renewable hydrogen integrated with hydrogen fueling stations for cars, buses or other utility vehicles.

In addition, the company is developing the RotoLyzer®, a pressurised, compact electrolyser, which utilises a vertical, rotating cell pack, providing full operational flexibility, while allowing for low production costs. This opens up new market segments for Nel Hydrogen Electrolyser, and provides an ideal solution for hydrogen fueling stations where space is limited, or integration with renewable energy sources. The technology is patented and has been verified through extensive testing and prototyping. The company is currently constructing a full scale commercial prototype that will undergo extensive long-term testing before being offered to the market.

## NEL HYDROGEN FUELING

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

Nel Hydrogen Fueling (former H2 Logic) is a leading manufacturer of H2Station® hydrogen fueling stations that provides FCEVs with the same fast fueling and long range as conventional vehicles today. Since incorporation in 2003, Nel Hydrogen Fueling has invested significantly in R&D, bringing H2Station® to a level where products are offered to the early market for roll-out of larger networks of hydrogen fueling stations.

Today, Nel Hydrogen Fueling is one of few global leaders on fast fueling for FCEVs. H2Station® technology is in operation in several European countries, providing hydrogen fueling for fuel cell electric vehicles from major car manufacturers.

Nel Hydrogen Fueling was among the first to achieve fast fueling of hydrogen in compliance with the SAE J2601 standard required by the major car manufacturers. In Denmark, Nel Hydrogen Fueling has delivered H2Station® technology for the entire Danish network of hydrogen fueling stations, operated in collaboration with leading oil, energy and gas companies.

Aside from providing fast fueling, the H2Station® technology has a long proven track-record of reliable operation with more than 99 percent availability – one among the highest recorded in the world for a scattered network of 24-hour public available hydrogen fueling stations. The ambition is to keep this position and act as a preferred supplier of H2Station® for international infrastructure operators such as oil, energy and gas companies.

## NEL HYDROGEN SOLUTIONS

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

Nel Hydrogen Solutions offers efficient system integration, project development and sales across segments and is the only provider of integrated solutions along the entire value chain:

- Hydrogen fueling networks. There is a growing demand for hydrogen fueling networks, following the introduction of commercial FCEVs from leading car manufacturers, as well as for busses, trucks, forklifts and other applications. Nel has the technology and experience to efficiently build entire renewable hydrogen fueling networks.

- Renewable hydrogen. Nel offers a complete turnkey hydrogen production and fueling solution. Starting from 100kg/day, Nel provides the solution that suits the customers. H2Station® combines fueling of cars, busses and trucks and will grant fast return on investment for the station owner. Nel provides turn-key installation, offering multiple operation and maintenance services for the customers.
- Storage solutions. Hydrogen will play a major part in the future energy society, as intermediate energy storage in renewable energy systems. Nel's high performance, scalable electrolyser technology stores surplus energy from solar and wind power, allowing energy suppliers stable and flexible delivery of electricity. When required, Nel also integrate equipment components from other leading global suppliers, into the customised Nel solution.

Nel Hydrogen Solutions aims to be the preferred business partner for the hydrogen industry in California, Scandinavia, Japan, South-Korea and Germany for the development of hydrogen solutions across the value chain, from hydrogen fueling stations networks to large-scale renewable hydrogen production plants. Nel Hydrogen Solutions leverages on the experience from delivering and operating the entire Danish hydrogen network, in collaboration with leading oil-, energy- and gas companies.

Nel Hydrogen Solutions will also be responsible for the deployment of equipment to Uno-X Hydrogen and the building of a network of hydrogen fueling stations that will enable FCEVs to operate between all the major cities in Norway within 2020.

## Developments

### NEL HYDROGEN ELECTROLYSER

Nel Hydrogen Electrolyser experienced a decrease in sales during first half of 2016 compared to 2015, but had a strong closing of the year, and ended with revenues of NOK 43.4 million (58.9), following a year with focus on R&D and business development.

During 2016, Nel Hydrogen Electrolyser launched the new containerised Nel C-range electrolysers, thereby offering a low-cost, turn-key solution, representing the world's smallest footprint for containerised, high capacity electrolysers.

Among the most important orders in 2016, is the agreement the division entered into with the research institute, Instituto Mexicano del Petróleo (IMP), for the delivery of a Nel A-150 electrolyser plant. With this agreement, Nel Hydrogen Electrolyser celebrates delivery to as many as 60 different countries world-wide. But more importantly, it also represents a new exciting end-use of the electrolyser technology, which can potentially have a large impact on future business of Nel.

The Nel A-150 will play an important role in IMP's research project for Mexico's national oil company, Pemex. The facility will be used to explore how hydrogen can increase the efficiency of oil extraction. Including add-on services, the total project value for Nel Hydrogen Electrolyser has a total value exceeding EUR 1 million. The electrolyser plant will be delivered in the second half of 2017.

The company was also awarded a contract by Marsa, a world-leading producer of margarine and liquid oils, for the delivery of a hydrogen electrolyser plant with supplementary equipment. The agreement has a total value of around EUR 1 million.

Nel also entered into a LoI with Meløy Energi AS and Meløy Næringsutvikling AS to establish Glomfjord Hydrogen AS, for the potential development of a large-scale, low-cost hydrogen production facility in Glomfjord Industrial Park in Meløy, Norway.

Glomfjord Hydrogen will be marketed as a hydrogen fuel provider for industrial applications, as well as personal- and public transportation, particularly focusing on supplying low-cost hydrogen to fossil fuel-converted ferries.

The available buildings and infrastructure at the industrial park provides flexibility and a scalable production model for Glomfjord Hydrogen. The facility will be developed in parallel with the increased demand, and is expected to have a production potential of up to 6,000 kilograms of low-cost hydrogen per day.

In April 2016, Nel together with SINTEF, Statoil, Shell, Linde Kryotechnik, Mitsubishi Corporation, Kawasaki Heavy Industries, NTNU, and The Institute of Applied Energy, among others, initiated the project "Hyper", a feasibility study of the potential for large scale hydrogen production in Norway for export to the European and Japanese markets.

Project Hyper is planned and financed throughout 2019. The total project cost is estimated at NOK 20 million. It is funded by a NOK 14 million grant from the Research Council of Norway (ENERGIX), in addition to the contributions from the project partners.

Nel Hydrogen Electrolyser is progressing with the commercialisation of the RotoLyzer® electrolyser, targeting a commercial unit of 10 Nm3/h by 2018, and a commercial scale prototype operational in 2017.

After the closing of 2016, Nel announced a non-binding term sheet to acquire the Connecticut U.S. based hydrogen technology company Proton Energy Systems Inc. ("Proton OnSite"). This will create the world's largest hydrogen electrolyser company with a global footprint.

The purchase price corresponds to an enterprise value of USD 70 million. The contemplated acquisition will be settled by USD 20 million in cash, and new shares of Nel released in equal instalments after 12 months and 24 months at an agreed share price of NOK 2.72.

Incorporated in 1996, Proton OnSite has been developed into the largest manufacturer of on-site hydrogen generators with over 2,600 units installed worldwide in more than 75 countries. The company offers advanced Proton Exchange Membrane ("PEM") electrolysis systems to various markets, focusing on small to medium sized plants. Proton OnSite's recently developed Megawatt product line is viewed as a significant area of focus and deemed to be a key success criteria going forward. The company had revenues of USD 27 million in 2016 and is headquartered in Wallingford, Connecticut, with approximately 90 employees.

The term sheet between Nel and Proton OnSite's shareholders is non-binding, and the contemplated acquisition will be subject to the successful negotiation of a mutually agreed share purchase agreement. The transaction is expected to be concluded in the second quarter of 2017 and will be subject to ordinary closing conditions to be agreed, including the receipt of any public approvals required.

## NEL HYDROGEN FUELING

During 2016, Nel Hydrogen Fueling continued the production ramp-up of the H2Station®, a hydrogen fueling station that triples the fueling capacity, while reducing the footprint to one third of the previous generation.

The H2Station® builds on the operational legacy of the former CAR-100, which is currently used in multiple countries across Europe and has a documented high performance with better than 99 percent availability.

In addition, the division continued the preparations for the January 2017 launch of a multipurpose hydrogen fueling station, which includes up to three separate dispensers connected to one fueling module.

The new H2Station® offers customers a modular, flexible and scalable fueling solution. The station can operate up to three hydrogen dispensers and can fuel hydrogen cars, buses, trucks, forklifts, and even trains. It also has the world's most compact footprint and is based on years of R&D and operational experience in the field, where it is renowned for providing high fueling reliability for customers.

The new multipurpose H2Station® offers fast fueling with long range, according to international standards. It can also be expanded based on customers' need for hydrogen, and is prepared for increase of hydrogen storages and the addition of dispensers when utilization increases.

The new Herning facility continued to be on track during 2016, with total investments of NOK 85 million. The factory will have an annual capacity to manufacture hydrogen fueling stations sufficient to support 200 000 FCEV annually. When ramp-up and plant optimisation is complete, the facility will have a name-plate production capacity of up to 300 fueling stations per year. This will ensure further product improvements over time as well as other scale benefits.

In October, Nel Hydrogen Fueling was awarded two R&D grants totalling EUR 1.1 million from the Danish EUDP program for continued development of the H2Station® hydrogen technology.

## NEL HYDROGEN SOLUTIONS

2016 was characterised by preparations for the first quarter 2017 announcements of the Grant Funding Opportunity (GFO) by the Energy Commission in California. The target is to reach 100 hydrogen fueling stations by 2020, of which half have already received funding. The current GFO award will cover 16 new locations to be developed primarily in 2018.

After the closing of 2016, in February 2017, Nel entered into a framework contract for the supply, construction and maintenance of H2Station® hydrogen fueling stations in California for Royal Dutch Shell Plc ("Shell") in a partnership with Toyota Motor Corp.

The announcement followed the California Energy Commission (CEC) Notice of Proposed Awards (NOPA) for the Grant Funding Opportunity. Through this project, Shell will build fueling stations at seven new locations for hydrogen cars in California through a partnership with Toyota Motor Corp.

The California Energy Commission is considering $16.4 million in grants toward these stations, with Shell and Toyota contributing their part. The contract between Nel and Shell has a potential value in excess of NOK 140 million depending of number of H2Stations and scope of equipment and services that Shell choses to execute under the framework contract.

California also represents an opportunity within hydrogen production, as 33 percent of the hydrogen must be renewable, compared with today's situation with no renewable hydrogen available on the market.

Nel and SunPower Corp. (Nasdaq: SPRW) have agreed to develop the first renewable hydrogen production plant in the USA. The parties are still evaluating different sites for this initial project.

Nel and SunPower will jointly develop, operate, maintain, and market the renewable hydrogen produced at the plant. The parties target to develop the project and start marketing renewable hydrogen (Ex Works/at the plant) at a price of less than 4 USD/kg.

Both the technical solution that Nel is developing together with SunPower, as well as the partnership itself, will have great potential going forward.

Uno-X Hydrogen AS, a Nel joint venture, entered in 2016 into an agreement with a Norwegian affiliate of Praxair, a leading global industrial gas company, as a strategic alliance to install 20 hydrogen fueling stations and the adjoining hydrogen production capacity needed, covering all the major cities in Norway by 2020.

Following the agreement, Praxair's Norwegian affiliate will hold 20 percent of Uno-X Hydrogen, with Uno-X Gruppen and Nel holding 41 percent and 39 percent respectively. The joint venture will build a network of hydrogen fueling stations with hydrogen production, allowing fuel cell electric vehicles (FCEVs) to operate in and between all the major cities in Norway. The stations will be deployed in cities like Oslo, Bergen, Trondheim, Stavanger, and Kristiansand, along with corresponding corridor locations.

The first station, a hydrogen fueling station with on-site hydrogen production, was co-located with Powerhouse Kjørbo, an energy-positive office building in Sandvika, Norway. At the station, hydrogen will be produced from excess solar energy from Powerhouse Kjørbo, making it the world's first hydrogen station integrated with an energy positive building. This represents an innovative example of the role hydrogen can play in grid balancing and utilisation of renewable energy.

Kjørbo is centrally located in Sandvika outside of Oslo, by two of the busiest roads in Norway with 80 000 cars passing daily. Uno-X Hydrogen was also awarded a grant of NOK 19.8 million from the Norwegian public enterprise Enova SF, for an expansion of the Norwegian hydrogen network to include Bergen.

The support is also a positive signal from the government in recognising hydrogen as an important zero-emission fuel for the Norwegian transport sector.

Nel Hydrogen Solutions was also awarded a contract by ASKO, Norway's largest grocery wholesaler, for the delivery of a new solar-powered hydrogen production facility and fueling station solution in Trondheim. This will enable ASKO's forklifts and delivery trucks to be fueled with locally produced renewable hydrogen.

The dedicated solar facility will produce energy for Nel's turn-key C-150 containerized electrolyser with the total production capacity of more than 300 kg of hydrogen per day. The H2Station® will be installed with three separate dispensers, two dispensers at 350 bar dedicated for forklifts and trucks, and one dispenser at 700 bar dedicated to cars. The installation will take place during the second half of 2017 at ASKO's facility at Tiller in Trondheim.

The hydrogen production plant is expected to be operational in the autumn of 2017, together with the H2Station® and combined forklift fueling solution. The delivery truck dispenser will be in place before the first hydrogen-fueled ASKO trucks from Scania are expected to be deployed during the autumn of 2018.

Nel announced early in 2017 that the company has entered into LoI with Hexagon Composites ASA and PowerCell Sweden AB to establish a joint venture (JV) for the development of integrated hydrogen projects. The joint venture will initially focus on opportunities in the maritime and marine segments, as well as projects to leverage renewable energy resources.

This cooperation is strategically important, as Nel will be working with global market leaders and utilising each party's respective technologies and competencies to develop new hydrogen solutions. The JV will be equally owned by the three parties and will initially focus on projects within marine applications. Over time, however, the JV may also evaluate projects within other application areas.

The JV is aimed at creating a one-stop-shop for customers wanting to utilize hydrogen technologies across the value chain: From renewable hydrogen production, to storage, distribution and dispensing, to generating electricity via fuel cells. The jointly-owned entity will manage and develop the projects to ensure that technologies from the JV-partners are effectively integrated into complete and optimal solutions for the customer.

Together with Nel's leading technology for hydrogen production and fueling, the three companies are positioned to deliver unparalleled customer value in the form of a zero-emission power solutions.
Hexagon Composites is a global market leader for storage and transport of gases under high pressure, while PowerCell is a leading fuel cell company in the Nordics developing and producing environmentally friendly power systems for stationary and mobile customer applications.

Also in 2017, Nel Hydrogen Solutions was awarded a contract by Icelandic Hydrogen for three H2Station® hydrogen fueling stations and a Nel C-series electrolyser.

Initially, Icelandic Hydrogen will establish three hydrogen fueling stations connected to central renewable hydrogen electrolysis production, and be aimed at a continuous long-term expansion of the network along with FCEV deployments to meet a growing hydrogen fuel demand. Icelandic Hydrogen is a newly established JV between the major Icelandic oil retail company Skeljungur HF (owning 90%) and Nel (owning 10%). The purpose of the JV is to establish a network of hydrogen fueling stations and renewable hydrogen production in Iceland.

Skeljungur is a stock exchange listed, major oil retail company operating in Iceland and the Faroe Islands, with more than 75 service stations throughout the countries and more than 200 employees. Skeljungur will provide the JV with locations for hydrogen fueling and retail operational expertise. Nel will provide both hydrogen production and fueling equipment as well as operational experience from more 30 hydrogen fueling station installations across Europe.

The contract has a total value of more than EUR 4 million. The target is to start shipping equipment towards the end of 2017 and install during 2018.

## ORGANISATION, STAFF AND MANAGEMENT

Through its operational business, the group has approximately 75 employees.

Bent Skisaker was appointed Chief Financial Officer (CFO) of Nel with effect from 1 September 2016. Skisaker came from a position as CFO of Eureka Pumps and has more than ten years' experience as CFO in various companies in the Aker group. Bent has also served eight years as an auditor and financial advisor at Ernst & Young/Arthur Andersen. Skisaker holds a Master in Accounting and Auditing from the Norwegian School of Economics (NHH), a B.A. of Business Organisation from Heriot-Watt University, and is qualified as a State Authorised Public Accountant in Norway.

Following the appointment, Nel's management group will consist of the following five executives and three division managers:

- Chief Executive Officer: Jon André Løkke
- Chief Financial Officer: Bent Skisaker
- Chief Technology Officer: Anders Søreng
- VP Market Development/PR: Bjørn Simonsen
- VP Business Development: Mikael Sloth

Division managers:

- SVP Nel Hydrogen Electrolyser: Lars Markus Solheim (operations in Notodden, Norway)
- SVP Nel Hydrogen Fueling: Jørn Rosenlund (operations in Herning, Denmark)
- SVP Nel Hydrogen Solutions: Jacob Krogsgaard (system integration)

The company practices a policy of equal treatment on all assignments and promotions. Currently, 12 % of the employees are women. Salaries, positions and duties are determined on the basis of qualifications and experience. The group has not adopted any further specific policies regarding human rights.

No accidents or injuries were recorded in 2016. In 2016, the sick leave rate was 2.6%, compared to 0.0% in 2015.

At the annual general meeting on 20 May 2016, a new Board of Directors was elected, comprising Martin

Nes (chairman), Øystein Stray Spetalen, Jan Christian Opsahl, Eva Dugstad, Anne Marie Gohli Russell, Kristin Hellebust, and Mogens Filterborg.

## CORPORATE SOCIAL RESPONSIBILITY

Following the business transformation from a healthcare company to hydrogen company, Nel has discontinued the previous guidelines and measures related to corporate social responsibility (CSR), including themes like environmental impact, employee rights and social aspects, in addition to anti-bribery measures. The company aims at a continued solid corporate culture and to preserve the integrity of Nel, by helping employees practise good business standards. Consequently, the development and implementation of new CSR guidelines was initiated in 2016, and is a prioritised task throughout 2017.

## CORPORATE GOVERNANCE

The board and management of Nel are committed to maintaining high ethical standards and promoting good corporate governance. The company believes that good corporate governance builds confidence among shareholders, customers and other stakeholders, and thereby supports maximal value creation over time. The equal treatment of all shareholders lies at the heart of the company's corporate governance policy. The company has only one class of shares, and all shareholders have equal rights. The company's shares are listed and freely transferable. Nel's Corporate Governance Report is based on the Norwegian Code of Practice for Corporate Governance dated 30 October 2014, which can be found on pages 22-25 of this annual report and on the company's website.

## SHAREHOLDERS AND FINANCING

Nel's shares are listed on the Oslo Stock Exchange under the ticker "Nel." At the end of 2016, the company had 683,678,252 outstanding shares, held by 12,037 shareholders. The nominal value of the Nel share is NOK 0.20 per share.

As a result of the development in 2016, and the rights issues completed in 2017, the company estimates that it has sufficient working capital for the 12 months following the balance sheet date. In accordance with section 3(3a) of the Norwegian Accounting Act, the board of directors, therefore, confirms that the going-concern assumption is met and that the annual accounts have been prepared in accordance with this assumption.

The company has placed considerable emphasis on providing shareholders, and investors in general, with timely and relevant new information about the company and its activities in compliance with applicable laws and regulations. Nel is committed to increase awareness of the stock in Norway and abroad. The list of shareholders includes a considerable number of Nordic institutional investors and private investors.

## RISKS AND UNCERTAINTY FACTORS

Nel's regular business activities entail exposure to various types of risk. The company proactively manages such risks and the board of directors regularly analyses its operations and potential risk factors and takes steps to reduce risk exposure. Nel places a strong emphasis on quality assurance, and has quality systems implemented, or under implementation, in line with the requirements applicable to its business operations.

The complete range of risk factors is discussed in detail in note 22.

## OTHER

In addition to the activities related to hydrogen, Nel continues to evaluate opportunities for its former healthcare business, including, but not limited to, possible mergers, acquisitions and strategic partnerships.

# Outlook

Nel is at the forefront of the hydrogen industry as a pure play company with market leading technology, a strong management team, a solid balance sheet and is positioned to play a leading role in a fast moving industry. With completion of the acquisition of Proton OnSite, Nel will both offer a complete range of electrolyser technology, and become the world's biggest electrolyser company, positioning the company even stronger for the market growth in the foreseeable future.

The company has the following 2017 outlook for its segments:

## NEL HYDROGEN ELECTROLYSER

- All-time high level of sales leads, both in traditional and new markets.
- Strong interest in new containerised turn-key solution.

## NEL HYDROGEN FUELING

- Development of new Herning facility.
- Ramp-up of H2Station® production 2017 and launch of a multipurpose hydrogen fueling station, which includes up to three separate dispensers connected to one fueling module.

## NEL HYDROGEN SOLUTIONS

- Well-positioned for the Californian market, both related to fueling stations and renewable hydrogen production.
- Development of the first renewable hydrogen production plant in the USA with SunPower Corp.
- Leveraging the JV with Hexagon Composites and PowerCell for the development of integrated hydrogen projects.

## SUBSEQUENT EVENTS

- Entered into an agreement with SunPower to build and operate the first solar-driven hydrogen production plant in the U.S.
- Entered into a LoI with Hexagon Composites and PowerCell to establish a JV for the development of integrated hydrogen projects.
- Awarded frame contract for multiple hydrogen fueling stations in California by Royal Dutch Shell Plc with a potential value in excess of NOK 140 million depending of number of H2Stations and scope of equipment and services.
- Entered into a non-binding term sheet to acquire Proton Energy Systems Inc., creating the world's largest hydrogen electrolyser company with a global footprint.
- Completed successful private placement of NOK 176.7 million in gross proceeds at a price per share of NOK 2.72.
- Awarded contract by H2 Frontier Inc. for a H2Station® hydrogen fueling station to be installed in Los Angeles, California.
- Received the first purchase orders on H2Station® equipment and services from Equilon Enterprises LLC (Royal Dutch Shell Plc) under the earlier announced California framework contract.

Oslo, 20 April 2017
The Board of Directors

Øystein Stray Spetalen
Board member

Martin Nes
Chairman

Anne Marie Gohli Russell
Board member

Eva Dugstad
Board member

Jan Christian Opsahl
Board member

Kristin Hellebust
Board member

Mogens Filtenborg
Board member

Jon André Løkke
CEO

# Corporate governance

## 1 Report on corporate governance

The Norwegian Code of Practice for Corporate Governance is intended to strengthen confidence in listed companies and thereby promote the best possible value creation over time, for the benefit of shareholders, employees and other stakeholders. Observance of the recommendations is based on the “comply or explain” principle. Nel’s Board of Directors and management have resolved to follow the recommendations of the code to the extent deemed reasonable in view of the company’s size.

The Norwegian Code of Practice for Corporate Governance can be found at www.nues.no. Nel will provide explanations of any non-compliance with the code.

Nel has introduced a set of corporate values, and the board has adopted ethical guidelines. The guidelines provide that the company’s board and employees should follow a high ethical standard in carrying out their work and duties. Although Nel’s guidelines discuss the company’s dealings with various interest groups, the company has not established guidelines dealing specifically with social responsibility. Such guidelines may be developed and current policy documents may be revised.

## 2 Business

The company’s business strategy is described in the annual report under “Report from the Board of Directors”.

## 3 Capital and dividend

The company’s registered share capital as of 31 December 2016 was NOK 136,735,650.40 consisting of 683,678,252 shares with a par value of NOK 0.20 per share.

Under the company’s strategy, and following the strengthening of the balance sheet in February 2017, dividends are not currently part of the plan for this stage of the business development process.

## 4 Equal treatment of shareholders and transactions with related parties

All shares in Nel carry one vote, and the shares are freely transferable. The company has only one share class, and all shareholders have equal rights. Existing shareholders are given priority in the event of share capital increases, unless special circumstances warrant deviation from this principle. At the general meeting in 2016, the board was granted authorization to increase the share capital with up to NOK 68 000 000, in addition to an authorization to acquire shares in Nel on behalf of the company.

Transactions between the company and related parties, including members of the board or persons employed by the company either personally or through companies belonging to related parties, must be based on terms achievable in an open, free and independent market, or on a third-party valuation. Major transactions with related parties must be approved by the general meeting.

## 5 Free transferability

The company’s shares are listed and freely transferable. The articles of association contain no restrictions on transferability.

## 6 General meeting

Shareholders can exercise their rights at general meetings, and the company wants general meetings to be a meeting place for shareholders and the board of directors. The company will seek to enable as many shareholders as possible to participate in general meetings. Meeting documents will be published on the company's website no later than 21 days before a general meeting. The company endeavours to ensure that meeting documents are sufficiently detailed to enable shareholders to take a view on all matters to be considered. The deadline for notifying attendance at a general meeting is set as close to the meeting as possible.

Shareholders who are unable to participate themselves may vote by proxy. The proxy form will be designed so that it can be used to vote on all matters up for consideration, and on candidates for election.

The company will encourage board members to attend general meetings. The members of the nomination committee and external auditors are also invited to attend.

In accordance with the articles of association, general meetings are chaired by the board chair if no-one else is elected to do so. Minutes of general meetings are published in the form of stock exchange notifications and on the company's website.

## 7 Nomination committee

In accordance with Nel's articles of association, the general meeting has established a nomination committee comprising three members. These must be shareholders or representatives of shareholders. The nomination committee evaluates and proposes board members to the general meeting, and makes recommendations on director remuneration. No board members or representatives of company management are members of the nomination committee.

Nomination committee members are elected for a one-year term. At the general meeting on 20 May 2016, the following persons were elected to the nomination committee and serve until the 2017 annual general meeting:

- Glen Ole Rødland, chairman
- Magne Myrehaug, member
- Leif Eriksrød, member

## 8 Corporate assembly and board, composition and independence

Nel has chosen not to have a corporate assembly due to the limited size of the company and the small number of employees. The functions of the corporate assembly have been transferred to the general meeting and Board of Directors.

The board and board chair are elected by the general meeting. The board's composition is designed both to represent the interests of all shareholders and meet the company's need for expertise, capacity and balanced decision-making. The board should function as an effective collegiate body.

The board is elected for a one-year term, and board members may stand for re-election. The CEO is not a member of the board. According to its articles of association, Nel's board must have between four and seven members. At the general meeting on 20 May 2016, a new Board of Directors was elected, comprising Martin Nes (chairman), Øystein Stray Spetalen, Jan Christian Opsahl, Eva Dugstad, Anne Marie Gohli Russell, Kristin Hellebust and Mogens Filtenborg.

Acting CFO until 1 September 2016, Lars Christian Stugaard, is employed on a management-for-hire contract with investment group and Nel shareholder Ferncliff TIH AS ("Ferncliff"). Ferncliff is associated with chairman Martin Nes and board member Øystein Stray Spetalen.

Se also note 6 for transactions with related parties.

Jan Christian Opsahl, Eva Dugstad, Kristin Hellebust and Mogens Filtenborg are considered independent from the company's day-to-day management. Anne Marie Gohli Russell was Nel Hydrogen AS' logistics manager until April 2016.

The board is authorised to assess the day-to-day management and significant contracts entered into by the company on an independent basis. The board's current composition is set out in the annual report together with key information highlighting the directors' expertise.

The shareholdings of directors and senior management are outlined in note 5.

## 9 The board's work

A plan for the board's work is prepared every year. The board has also adopted instructions for the board and CEO detailing the work and responsibilities of the board and CEO, respectively. The board ensures that the company's business is properly organised and that plans and budgets are prepared. The board's plans and rules of procedure ensure that the board is kept informed of the company's financial position and that the business, asset management and accounts are subject to controls.

The chairman ensures the proper functioning of the board. The chairman chairs board meetings and prepares board matters in cooperation with the CEO. The chairman keeps minutes of board meetings, which are approved and signed by all board members. In addition to ordinary board meetings, annual strategy meetings are held, devoted to the in-depth assessment of major challenges and opportunities for the company. The board manages the company's strategic planning, and assesses its strategy regularly.

The board aims to evaluate its composition and board work at least once a year. The evaluation may also cover the way in which the board functions, at both individual and group level, in relation to the objectives that have been set for its work. The evaluation reports are presented to the nomination committee.

In 2016, the Board of Directors conducted five board meetings.

## 10 Risk management and internal controls

Risk management and internal controls are important to Nel. They enable the company to achieve its strategic objectives, and are an integral part of management decision-making processes, the organisational structure and internal procedures and systems.

Risk management and internal control requirements have been evaluated by management and the board of directors, and a set of appropriate systems has been established. In this context, emphasis is also given to ensuring that the company operates in accordance with accepted ethical guidelines and values, including guidelines on how employees can communicate matters relating to illegal or unethical behaviour on the company's part to the board. Nel believes that its values and control procedures meet social responsibility requirements and are proportionate to the scope and nature of its business, but has not yet developed specific social responsibility guidelines.

Nel's regular business activities entail exposure to various types of risk. The company proactively manages such risks, and the board regularly analyses its operations and potential risk factors and takes steps to reduce risk exposure. Nel places a strong emphasis on quality assurance, and has quality systems implemented, or under implementation, in line with the requirements applicable to its business operations.

The full range of risk factors is discussed in more detail in the notes to the annual accounts.

The company's financial reporting complies with the laws and regulations applicable to companies listed on the Oslo Stock Exchange. Nel has also adopted basic financial reporting procedures and guidelines. The Board of Directors reviews the company's financial position frequently through reporting and reviews at board meetings, and reviews the financial statements at the end of every quarter. At least once a year, the board assesses the company's risk profile by reference to strategic, operational and transactional factors.

As a listed company, Nel has a special responsibility relating to the insider trading rules, the provision of information and share trading. The company has guidelines to ensure that board members, senior management and other insiders comply with relevant legislation and rules relating to insider trading in the company's shares.

## 11 Board remuneration

Nel's general meeting determines the remuneration of the Board of Directors based on a recommendation by the nomination committee. Board remuneration must reflect the board's expertise and time investment, as well as the complexity of the business and the fact that Nel is a listed company. Remuneration takes the form of a fixed annual amount, and is not tied to the company's performance or share price.

In this regard, please also see the assessment regarding the independence of the directors and board chair set out in section 8 above. The board remuneration for 2016 is outlined in note 5.

## 12 Remuneration of senior management

The board prepares guidelines on the remuneration of the company's senior management. These guidelines, as well as details of the remuneration packages of the CEO and other senior executives, are set out in the notes to the annual accounts.

The guidelines on the remuneration of senior management must be submitted to the general meeting. The board considers that the remuneration paid to senior management reflects market practice and that the remuneration packages do not include any unreasonable terms, for example in connection with resignation or termination of employment.

Incentive schemes for the CEO and other employees are set out in the notes to the annual accounts. The incentive schemes cover all non-temporary employees, and have been submitted in detail for the general meeting's approval.

Acting CFO until 1 September 2016, Lars Christian Stugaard, is employed on a management-for-hire contract with Ferncliff TIH AS as outlined in note 6.

## 13 Information and communication

The company publishes a financial calendar on an annual basis, which includes the dates of general meetings and dates for the presentation of interim reports. All press releases and stock exchange notifications are posted on the company's website, www.nelhydrogen.com. Stock exchange notifications are also available at www.newsweb.no.

The company complies with all applicable disclosure laws and practice, including equal treatment requirements. The ability to provide information about the company in addition to published reports is restricted under stock exchange regulations. Inside information is only released to persons other than primary insiders when the company considers it necessary, and then only in accordance with a system of insider declarations and insider lists. The insider lists are maintained by the CFO.

Nel wishes to maintain a constructive, open dialogue with its shareholders, analysts and the stock market in general. The company holds regular presentations for investors, analysts and shareholders. The company's CEO is responsible for external communication and investor relations. The CEO and board chair are both authorised to speak on behalf of the company, and may delegate their authority in this regard as they consider appropriate.

## 14 Company takeovers

In the event of a takeover, the company's board and management will endeavour to ensure the equal treatment of shareholders. The board will ensure that shareholders are given information and time to evaluate the bid, and will endeavour to provide a recommendation to shareholders as to whether or not the bid should be accepted. The board and management will help ensure that there are no unnecessary disruptions to the business in the event of a takeover. Moreover, such a situation will be governed by the provisions applicable to listed companies.

## 15 Auditor

The auditor attends the board meeting at which the annual financial statements are reviewed. The auditor presents an annual audit plan to the board.

The board has adopted guidelines on management's use of the auditor for services other than auditing. The notes to the accounts state that use of the auditor for other services has been limited.

The fee payable to the auditor is specified in Note 5 to the annual accounts, and is categorised under the item statutory audit and other services. The board submits proposals regarding the fees payable for the statutory audit to the general meeting for approval.

# Members of the board

Martin Nes
chairman

CEO of the Ferncliff group. Martin Nes has a law degree from the University of Oslo, and also holds a Master of Laws degree from University of Southampton, England. He previously spent several years with the Norwegian law firm Wikborg Rein, working in both the Oslo and London offices, and with the shipping law firm Evensen & Co. Mr Nes has extensive corporate experience and is chairman and/or a member of the boards of several listed companies.

Øystein Stray Spetalen,
board member

Øystein Stray Spetalen is the chairman and owner of the investment firm Ferncliff TIH AS. He is an independent investor, and has previously worked for the Kistefos group as an investment manager, as a corporate advisor at various investment banks, and as a portfolio manager for Gjensidige Forsikring. Mr Spetalen is a chartered petroleum engineer, educated at the Norwegian University of Science and Technology.

Jan Christian Opsahl
board member

Jan Christian Opsahl holds a degree in business and computer science from the University of Strathclyde in Glasgow. He is also a Sloan Fellow from London Business School/M.I.T. In the period 1985–2008, he was President/CEO and chairman of the board of Tomra Systems ASA. From 1988 to 1997, he was President/CEO of Tandberg ASA, serving as executive chairman of the board in the period 1997–2010. He was chairman of the board of Tandberg Television ASA from 1989 to 2007, and deputy chairman of the board of Komplett.no from 1999 to 2005.

Eva Dugstad
board member

Eva Dugstad holds a Cand. Pharm. degree from the University of Oslo. Her previous appointments include that of Managing Director and Deputy Managing Director at Institute for Energy Technology (IFE) during 2006-2016. She has also had the positions as Production Manager, Research Director and Innovation promoter at IFE. In the period 2000-2003 she worked with research and quality assurance for Photocure AS and Norwegian Medicinal Depot and was responsible for the pharmaceutical development of a new product in the cancer treatment field. Ms Dugstad has been involved in several committees and boards in both the public and private sectors.

Anne Marie Gohli Russell
board member

Anne Marie Gohli Russell has been with Nel Hydrogen (Norsk Hydro Electrolysers) since 1986. In the period 1986 to 1993, she worked as a secretary in the project department. From 1993 to 1998, she was a senior secretary and transport coordinator. From 1998 to 2013, she was employed as a purchasing manager, and has been a logistics manager for the company from 2013 until April 2016.

Kristin Hellebust
board member

Kristin Hellebust is the CEO and co-founder of Nordisk Film Shortcut AS, a position she has held since 2010. Hellebust was from 2005 until 2015 CEO and co-founder of Storm Studios AS. Prior to this, she practiced as an attorney at Advokatfirmaet Selmer DA (2001-2005). Hellebust holds board positions in the listed companies Techstep ASA and Saga Tankers ASA, and previously Bionor Pharma ASA. Hellebust has a law degree from University of Oslo.

# Management

## Corporate group management

Mogens Filtenborg
board member

Mr. Mogens Filtenborg is the owner and Director of the investment and consultancy company Zuns ApS. Mr. Filtenborg joined Vestas Wind Systems A/S in 1997 and served as its Executive Vice President, Member of Management Board and Director of Operations/ Chief Technology Officer of Vestas Wind Systems A/S until 2005; Managing Director of SKOV A/S from 1992 to 1997; Production manager of SKOV A/S from 1986 to 1992. He serves as Chairman of the Board in DEIF A/S, Heta A/S, OJM A/S and Sonne A/S. He serves as a Director of the Board in Kemp & Lauritzen A/S, Niebuhr Gears A/S, Frontmatec A/S and Fleksi A/S. He is former Director of H2 Logic A/S and a number of other companies. Mr. Filtenborg is educated at the University of Aalborg, Denmark as an engineer. He is a Danish citizen and resides in Sunds, Denmark.

Jon André Løkke
CEO from 4 January 2016

Løkke comes from the position as CEO of Norsk Titanium AS, developing and industrializing 3D printing technology for the production of titanium components for the aerospace and other industries. He has ten years' experience from the REC group, including positions as senior vice president in REC Wafer, investor relations officer in REC ASA and CFO in REC ASA. Mr Løkke has also worked for the ABB group and holds an International MBA degree from Glasgow University and a Bachelor degree in business and economics from Southampton University.

Bent Skisaker
CFO from 1 September 2016

Skisaker comes from a position as CFO of Eureka Pumps and has more than ten years experience as CFO in various companies in the Aker group. Bent has also served eight years as an auditor and financial advisor at Ernst & Young/Arthur Andersen. Skisaker holds a Master in Accounting and Auditing from the Norwegian School of Economics (NHH), a B.A.(with honors) of Business Organisation from Heriot-Watt University, and is qualified as a State Authorised Public Accountant in Norway.

Lars Christian Stugaard
interim CFO from 4 January 2016 to 1 September 2016

Lars Christian Stugaard was appointed acting chief executive officer of Diagenic ASA, now Nel ASA, effective from 1 April 2014. Mr Stugaard is also CEO of Strata Marine & Offshore AS, and has worked for the Ferncliff group since 2003. During his 11-year tenure with Ferncliff, he has worked in the fields of financial management, general business development and analysis. He holds a BSc degree from the Norwegian School of Management in Oslo.



Management Continues ›

**Anders Søreng**
CTO

Anders Søreng joined Nel from May 2016. He has previously served as Senior Vice President in REC Solar, where he held various management positions since 2008. He has recently worked as SVP & CTO of Norsk Titanium and holds a PhD from the Norwegian University of Science and Technology (NTNU).

**Bjørn Simonsen**
VP Market development/PR

Bjørn Simonsen joined Nel September 2014, and has since January 2015 been with Nel. He has experience from the hydrogen sector since 2008, and began as a research engineer at Institute for Energy Technology (IFE), followed by key positions in the HyNor-project, The Norwegian Hydrogen Council and Norwegian Hydrogen Forum. He holds a MSc in Energy and Environmental Science from NTNU.

**Mikael Sloth**
VP Business development

Mikael Sloth was appointed Director of Business Development in Nel as of June 2016. He is co-founder and served as Business Development Manager in H2 Logic since 2003. Mikael holds positions of trusts in various European hydrogen forums. Mikael served as board member of the €2,5 billion European Joint Technology Initiative for Hydrogen and Fuel Cells during 2008-2015.

## Divisional managers

**Lars Markus Solheim**
SVP Nel Hydrogen Electrolyser

Lars Markus Solheim has been with Nel since 2005. He has extensive experience from employment in Nel Hydrogen, with previous positions as Lead Automation Engineer and Director of Operations. He has experience in Nel Hydrogen both from engineering, site activity and administrative work. He holds a BSc in System Engineering from Buskerud University College.

**Jørn Rosenlund**
SVP Nel Hydrogen Fueling

Jørn Rosenlund was appointed Manager of Nel Hydrogen Fueling as of June 2016. Previously he held the a position as COO in H2 Logic. He has a background of 15 years in senior management positions on operations and supply chain management in EagleBurgmann (2013-2015) and Danfoss (2000-2013) with several years working in Denmark USA, Canada and Germany.

**Jacob Krogsgaard**
SVP Nel Hydrogen Solutions

Jacob Krogsgaard as appointed Manager of Nel Hydrogen Solutions as of June 2016. He is one of the co-founders and was Managing Director of H2 Logic since 2003. Mr. Krogsgaard also serves as CEO and board member of Danish Hydrogen Fuel A/S as well as board member of Copenhagen Hydrogen Network A/S – both are joint venture companies with leading energy and gas companies.

## Declaration by the Board of Directors and the CEO

"We confirm that, to the best of our knowledge, the financial statements for the period from 1 January 2016, up to and including 31 December 2016, have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company, and that the directors' report includes a fair review of the development and performance of the business and the position of the company as a whole, together with a description of the principal risks and uncertainties the company faces."

Oslo, 20 April 2017
The Board of Directors

Øystein Stray Spetalen
Board member

Martin Nes
Chairman

Anne Marie Gohli Russell
Board member

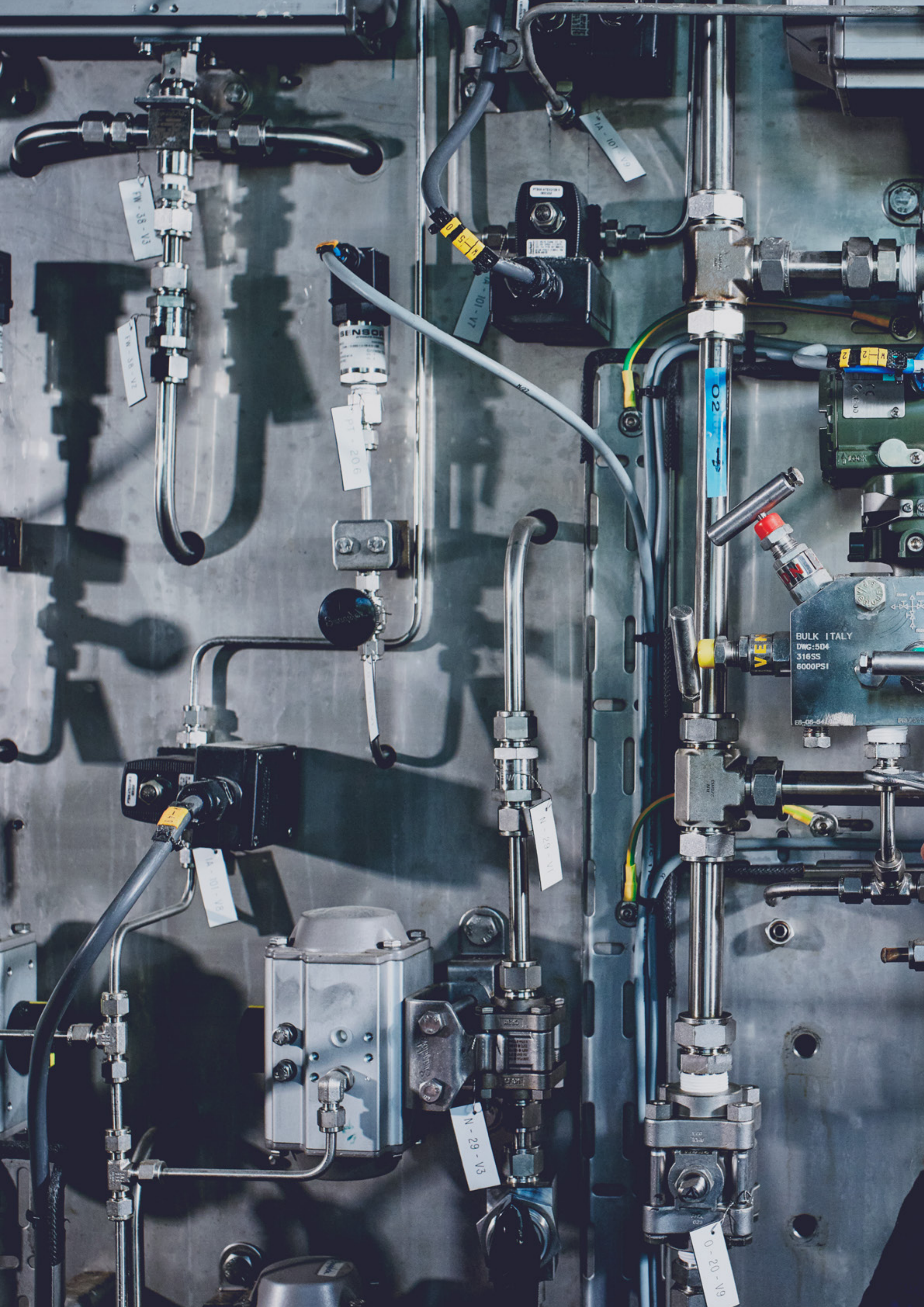
Eva Dugstad
Board member

Jan Christian Opsahl
Board member

Kristin Hellebust
Board member

Mogens Filtenborg
Board member

Jon André Løkke
CEO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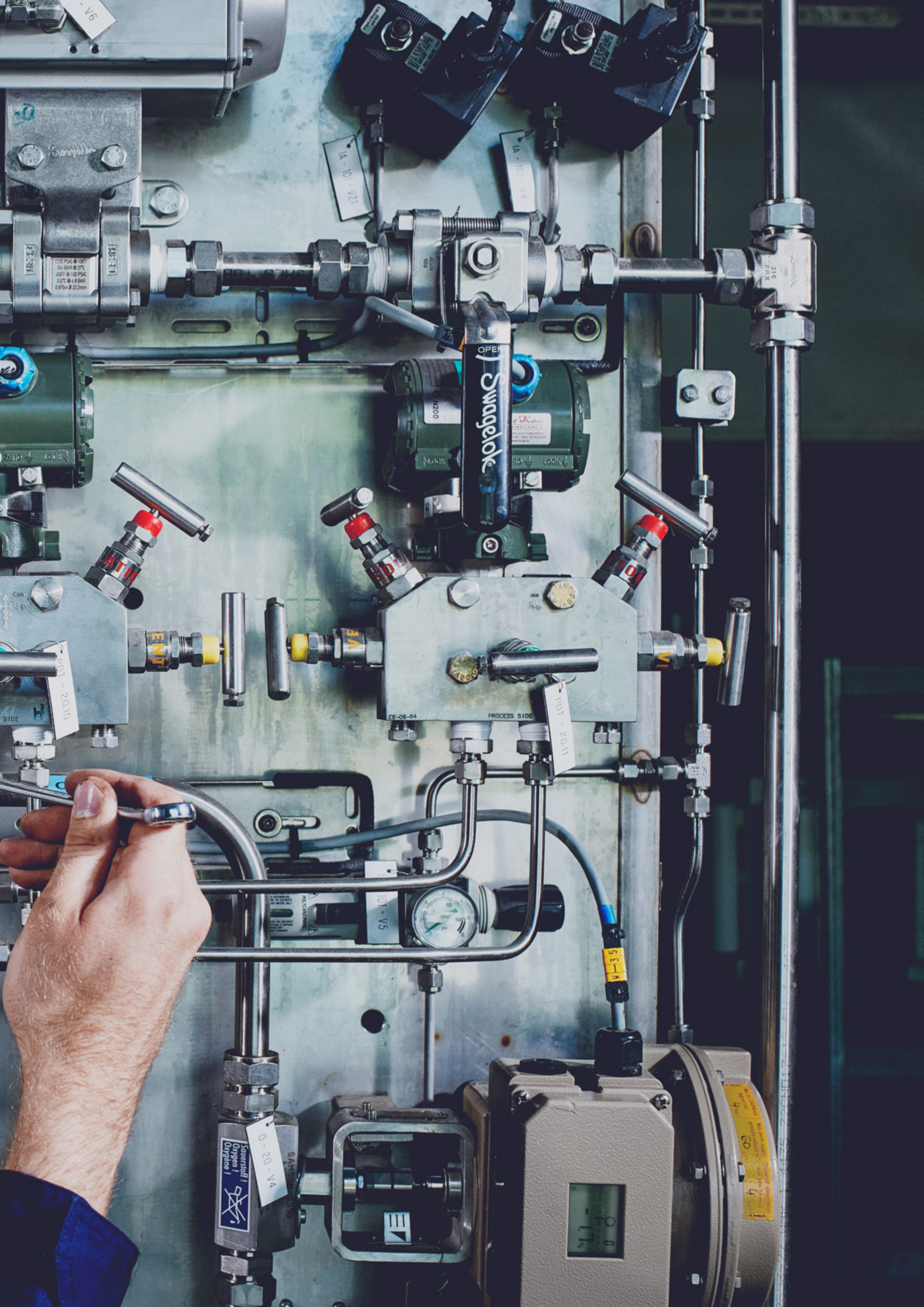
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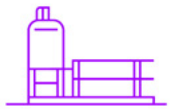

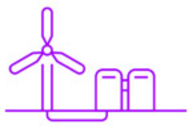

# Statement of comprehensive income

| Nel ASA | | | Amounts in NOK | Nel group | |
|---|---|---|---|---|---|
| 2016 | 2015 | NOTE | OPERATING INCOME AND OPERATING EXPENSES | 2016 | 2015 |
| 0 | 0 | 3 | Sales revenues | 98 446 407 | 88 539 241 |
| 3 184 060 | 2 400 000 | 3 | Other operating income | 16 032 287 | 11 385 889 |
| 3 184 060 | 2 400 000 | | Total operating income | 114 478 693 | 99 925 130 |
| | | | | | |
| 0 | 0 | | Cost of goods sold | 60 840 526 | 42 116 302 |
| 13 175 319 | 1 308 719 | 5 | Salaries and personnel expenses | 60 265 624 | 29 890 749 |
| 35 049 | 0 | 11,12 | Depreciation and amortisation | 10 430 799 | 15 512 200 |
| 0 | 0 | 11 | Impairment of tangible and intangible assets | 0 | 51 760 |
| 14 450 297 | 15 491 299 | 5,8 | Other operating expenses | 38 253 486 | 30 612 933 |
| 27 660 665 | 16 800 018 | | Total operating expenses | 169 790 435 | 118 183 943 |
| | | | | | |
| -24 476 605 | -14 400 018 | | Operating profit / (loss) | -55 311 741 | -18 258 813 |
| | | | | | |
| | | | FINANCIAL INCOME AND FINANCIAL EXPENSES | | |
| 2 232 936 | 2 281 799 | 23 | Interest income | 2 398 800 | 2 303 249 |
| 115 568 | 286 757 | | Financial income group | 0 | 0 |
| 40 624 | 10 340 | 8,24 | Other financial income | 1 199 934 | 2 882 138 |
| 18 343 | 5 002 | 24 | Interest expense | 628 901 | 503 048 |
| 0 | 0 | 19 | Share of loss from associated companies | 2 931 583 | 13 285 946 |
| 49 791 | 116 638 | 8 | Other financial expenses | 7 363 693 | 917 305 |
| 2 320 994 | 2 457 256 | | Net financial items | -7 325 443 | -9 520 911 |
| -22 155 611 | -11 942 761 | | Pre-tax profit / (loss) | -62 637 185 | -27 779 724 |
| 0 | 0 | 9 | Tax for the year | -6 808 058 | -6 049 008 |
| -22 155 611 | -11 942 761 | | Net profit / (loss) | -55 829 127 | -21 730 716 |
| -22 155 611 | -11 942 761 | | Profit / (loss) attributable to equity holders of the company | -55 829 127 | -21 730 716 |
| | | | | | |
| | | | Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax) | | |
| 0 | 0 | | Currency translation differences | -19 617 357 | 20 220 161 |
| -22 155 611 | -11 942 761 | | Comprehensive income / (loss) | -75 446 484 | -1 510 555 |
| | | | | | |
| | | | Earnings per share | -0.0818 | -0.0416 |
| | | | Diluted earnings per share | -0.0818 | -0.0416 |

# Statement of financial position as of 31 December

| Nel ASA 2016 | Nel ASA 2015 | NOTE | Amounts in NOK<br>ASSETS | Nel group 2016 | Nel group 2015 |
|---|---|---|---|---|---|
| | | | NON-CURRENT ASSETS | | |
| | | | Intangible assets | | |
| 0 | 0 | 11, 4 | Technology, R&D | 57 854 326 | 46 644 658 |
| 0 | 0 | 11 | Customer relationship | 27 860 514 | 31 569 219 |
| 0 | 0 | 11 | Goodwill | 317 628 748 | 332 958 118 |
| 0 | 0 | | Total intangible assets | 403 343 588 | 411 171 995 |
| | | | Tangible fixed assets | | |
| 262 495 | 0 | 12 | Land, buildings and other property | 44 778 058 | 15 829 107 |
| 150 119 | 0 | 12 | Machinery, equipment, fixtures and fittings etc. | 1 025 494 | 700 371 |
| 412 614 | 0 | | Total tangible fixed assets | 45 803 552 | 16 529 478 |
| | | | Financial assets | | |
| 200 000 | 0 | 19 | Investments in associates | 13 708 242 | 7 296 958 |
| 530 373 299 | 420 057 400 | 20,21 | Investments in group companies | 0 | 0 |
| 17 770 568 | | | Loans to group companies | | |
| 548 343 867 | 420 057 400 | | Total financial assets | 13 708 242 | 7 296 958 |
| 548 756 481 | 420 057 400 | | Total non-current assets | 462 855 383 | 434 998 430 |
| | | | CURRENT ASSETS | | |
| | | | Inventory | | |
| 0 | 0 | 13 | Raw materials, work in progress and finished goods | 36 265 934 | 15 022 578 |
| | | | Receivables | | |
| 0 | 0 | 17,22 | Accounts receivable | 34 974 145 | 40 361 155 |
| 27 816 958 | 24 597 316 | | Accounts receivable group companies | 0 | 0 |
| 362 309 | 1 062 110 | 17,22 | Other current receivables | 3 312 373 | 10 717 438 |
| 28 179 267 | 25 659 426 | | Total receivables | 38 286 518 | 51 078 593 |
| 0 | 0 | | Financial current assets | 0 | 1 506 715 |
| 157 212 007 | 296 515 921 | 14 | Cash and cash equivalents | 225 466 740 | 313 042 472 |
| 185 391 274 | 322 175 347 | | Total current assets | 300 019 191 | 380 650 359 |
| 734 147 755 | 742 232 747 | | TOTAL ASSETS | 762 874 573 | 815 648 789 |

# Statement of financial position as of 31 December

| Nel ASA 2016 | Nel ASA 2015 | NOTE | Amounts in NOK<br>EQUITY AND LIABILITIES | Nel group 2016 | Nel group 2015 |
|---|---|---|---|---|---|
| | | | EQUITY | | |
| | | | Paid in capital | | |
| 136 735 650 | 136 120 265 | 15 | Share capital | 136 735 650 | 136 120 265 |
| | | 15 | Treasury shares | -1 376 715 | 0 |
| 608 817 353 | 602 314 269 | 15 | Share premium | 608 213 164 | 601 710 080 |
| 11 115 587 | 1 200 000 | 15 | Other capital reserves | 11 115 587 | 1 200 000 |
| 756 668 590 | 739 634 534 | | Total paid in capital | 754 687 686 | 739 030 345 |
| | | | Other equity | | |
| -25 691 967 | -3 536 356 | 15 | Retained earnings | -83 468 401 | -8 021 917 |
| -25 691 967 | -3 536 356 | | Total other equity | -83 468 401 | -8 021 917 |
| 730 976 623 | 736 098 178 | | Total equity | 671 219 285 | 731 008 428 |
| | | | Non-current liabilities | | |
| 0 | 0 | 9 | Deferred tax | 13 551 937 | 21 027 472 |
| 0 | 0 | | Total provisions | 13 551 937 | 21 027 472 |
| | | | Long term debt | | |
| 0 | 0 | 10 | Other long term debt | 12 550 252 | 14 640 642 |
| 0 | 0 | | Total non-current liabilites | 12 550 252 | 14 640 642 |
| | | | Current liabilities | | |
| 834 551 | 5 190 492 | | Accounts payable | 16 789 938 | 16 759 614 |
| 0 | 0 | 9 | Taxes payable | 370 195 | 374 980 |
| 1 043 415 | 300 616 | | Public duties payable | 1 346 945 | 3 185 473 |
| 60 000 | | | Liabilites to group comanies | | |
| 1 233 166 | 643 461 | 18 | Other current liabilities | 47 046 020 | 28 652 180 |
| 3 171 132 | 6 134 569 | | Total current liabilities | 65 553 098 | 48 972 247 |
| 3 171 132 | 6 134 569 | | Total liabilities | 91 655 288 | 84 640 361 |
| 734 147 755 | 742 232 747 | | TOTAL EQUITY AND LIABILITIES | 762 874 573 | 815 648 789 |

Oslo, 20 April 2017

| | | | |
|---|---|---|---|
| Martin Nes<br>Chairman | Eva Dugstad<br>Board member | Jan Christian Opsahl<br>Board member | Øystein Stray Spetalen<br>Board member |
| Anne Marie Gohli Russel<br>Board member | Mogen Filtenborg<br>Board member | Kristin Hellebust<br>Board member | Jon André Løkke<br>CEO |

# Statement of cash flows

| Nel ASA 2016 | Nel ASA 2015 | NOTE | Amounts in NOK | Nel group 2016 | Nel group 2015 |
|---|---|---|---|---|---|
| | | | CASH FLOWS FROM OPERATING ACTIVITIES | | |
| -22 155 611 | -11 942 761 | | Loss before tax | -62 637 185 | -27 779 724 |
| 0 | 0 | | Taxes paid | 0 | 0 |
| 18 343 | 5 002 | | Interests cost, reversed | 628 901 | -503 048 |
| -2 232 936 | -2 281 799 | | Interests income, reversed | -2 398 800 | -2 303 249 |
| 35 049 | 0 | 11,12 | Depreciation and amortisation | 9 732 435 | 15 512 200 |
| 0 | 0 | 12 | Impairment of tangible and intangible assets | 466 988 | 51 760 |
| 0 | 0 | | Loss from sale of tangible fixed assets | 0 | 0 |
| 0 | 0 | | Fair value granted option rights | 0 | 0 |
| 589 705 | 0 | | Change in provisions | -1 376 715 | -1 167 995 |
| 0 | 0 | 13 | Change in inventories | -21 243 355 | -1 391 599 |
| -3 219 642 | 0 | | Change in trade receivables | 5 387 010 | -20 971 792 |
| -4 355 941 | 3 835 487 | | Change in trade payable | 30 324 | 5 547 131 |
| -10 580 780 | -8 243 160 | 18 | Changes in other current assets and other liabilities | 37 243 647 | -4 803 174 |
| -41 901 812 | -18 627 232 | | Net cash flow from operating activities | -34 166 751 | -37 809 490 |
| | | | CASH FLOWS FROM INVESTMENT ACTIVITIES | | |
| -447 663 | 1 | 12 | Acquisitions of fixed assets | -44 506 393 | -580 696 |
| 0 | 0 | 12 | Disposal of fixed assets | 36 666 | 0 |
| -200 000 | 0 | 19 | Acqusition of associated companies | -15 737 233 | 0 |
| -106 087 500 | -100 057 400 | 21 | Acqusition of subsidiaries | 0 | -83 182 232 |
| -106 735 163 | -100 057 399 | | Net cash flow from investment activities | -60 206 960 | -83 762 928 |
| | | | CASH FLOWS FROM FINANCING ACTIVITIES | | |
| -18 343 | -5 002 | | Interests paid | -628 901 | 472 126 |
| 2 232 936 | 2 281 799 | | Interests received | 2 398 800 | 2 303 249 |
| 7 118 469 | 355 757 500 | 15, 19 | Gross cash flow from share issues | 7 118 469 | 355 757 500 |
| 9 333 062 | 339 462 977 | | Net cash flow from financing activities | 6 797 978 | 336 117 536 |
| -139 303 914 | 220 778 346 | | Net change in cash and cash equivalents | -87 575 734 | 214 545 118 |
| 296 515 922 | 75 737 577 | 14 | Cash balance as of January 1st | 313 042 472 | 98 497 355 |
| 157 212 008 | 296 515 921 | | Cash balance as of 31st of December | 225 466 738 | 313 042 472 |

Restricted cash included in the cash balance as of 31 December is NOK 5 530 131 in 2016 and NOK 7 687 115 in 2015.

(Amounts in NOK)

Nel ASA

# Statement of changes in equity

| Nel group | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | | | |
|---|---|---|---|---|---|---|---|
| | NUMBER OF SHARES | SHARE CAPITAL | SHARE PREMIUM | OTHER RESERVE | CURRENCY CONVERSION EFFECTS | RETAINED EARNINGS | TOTAL EQUITY |
| Equity as of 31st of December 2014 | 338 929 104 | 67 785 821 | 133 462 534 | 1 200 000 | 0 | -6 511 362 | 195 936 993 |
| Increase of capital 06.01.2015 | 50 000 000 | 10 000 000 | 55 000 000 | | | | 65 000 000 |
| Increase of capital 29.01.2015 | 10 000 000 | 2 000 000 | 11 000 000 | | | | 13 000 000 |
| Increase of capital 05.06.2015 | 51 301 852 | 10 260 370 | 58 997 130 | | | | 69 257 500 |
| Increase of capital 25.06.2015 | 148 148 148 | 29 629 630 | 170 370 370 | | | | 200 000 000 |
| Increase of capital 10.07.2015 | 22 222 222 | 4 444 444 | 25 555 555 | | | | 30 000 000 |
| Increase of capital 19.08.2015 | 30 000 000 | 6 000 000 | 61 500 000 | | | | 67 500 000 |
| Increase of capital 17.12.2015 | 30 000 000 | 6 000 000 | 105 000 000 | | | | 111 000 000 |
| Transaction cost rel. to capital increases | | | -18 571 320 | | | | -18 571 320 |
| Gain sale shares owned by company | | | -604 189 | | | | -604 189 |
| Comprehensive income 2015 | | | | | 20 220 161 | -21 730 716 | -1 510 555 |
| Equity as of 31st of December 2015 | 680 601 326 | 136 120 265 | 601 710 080 | 1 200 000 | 20 220 161 | -28 242 078 | 731 008 429 |
| Increase of capital 16.06.2016 | 3 076 926 | 615 385 | 6 503 084 | | | | |
| Transaction cost rel. to capital increases | | | | | | | 7 118 469 |
| Treasury shares | | | | | | -1 376 715 | -1 376 715 |
| Options and share program | | | | 9 915 587 | | | 9 915 587 |
| Comprehensive income 2016 | | | | | -19 617 357 | -55 829 127 | -75 446 484 |
| Equity as of 31st of December 2016 | 683 678 252 | 136 735 650 | 608 213 164 | 11 115 587 | 602 804 | -85 447 920 | 671 219 285 |

EARNINGS PER SHARE

| Nel group<br>EARNINGS PER SHARE: | 2016 | 2015 |
|---|---|---|
| Profit/loss for the year | -55 829 127 | 21 730 716 |
| Average number of shares | 682 253 593 | 522 566 595 |
| Earnings per share | -0.082 | -0.042 |

# Statement of changes in equity

| Nel ASA | NUMBER OF SHARES | SHARE CAPITAL | SHARE PREMIUM | OTHER RESERVE | CURRENCY CONVERSION EFFECTS | RETAINED EARNINGS | TOTAL EQUITY |
|---|---|---|---|---|---|---|---|
| Equity as of 31st of December 2014 | 338 929 104 | 67 785 821 | 135 547 534 | 0 | 0 | 7 521 405 | 210 854 760 |
| Reallocation of equity OB 2015 | | | -2 085 000 | 1 200 000 | | 885 000 | 0 |
| Increase of capital 06.01.2015 | 50 000 000 | 10 000 000 | 55 000 000 | | | | 65 000 000 |
| Increase of capital 29.01.2015 | 10 000 000 | 2 000 000 | 11 000 000 | | | | 13 000 000 |
| Increase of capital 05.06.2015 | 51 301 852 | 10 260 370 | 58 997 130 | | | | 69 257 500 |
| Increase of capital 25.06.2015 | 148 148 148 | 29 629 630 | 170 370 370 | | | | 200 000 000 |
| Increase of capital 10.07.2015 | 22 222 222 | 4 444 444 | 25 555 555 | | | | 30 000 000 |
| Increase of capital 19.08.2015 | 30 000 000 | 6 000 000 | 61 500 000 | | | | 67 500 000 |
| Increase of capital 17.12.2015 | 30 000 000 | 6 000 000 | 105 000 000 | | | | 111 000 000 |
| Transaction cost rel. to capital increases | | | -18 571 320 | | | | -18 571 320 |
| Comprehensive income 2015 | | | | | | -11 942 761 | -11 942 761 |
| Equity as of 31st of December 2015 | 680 601 326 | 136 120 265 | 602 314 269 | 1 200 000 | 0 | -3 536 356 | 736 098 178 |
| Increase of capital 16.06.2016 | 3 076 926 | 615 385 | 6 503 084 | | | | 7 118 469 |
| Options and share program | | | | 9 915 587 | | | 9 915 587 |
| Comprehensive income 2016 | | | | | | -22 155 611 | -22 155 611 |
| Equity as of 31st of December 2016 | 683 678 252 | 136 735 650 | 608 817 353 | 11 115 587 | 0 | -25 691 967 | 730 976 623 |

# Notes to the accounts for 2016

## Note 1 Company information

Nel ASA (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 its foundation in 1927, Nel has a proud history of development and continual improvement of hydrogen plants. Our hydrogen solutions cover the entire 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 entire hydrogen value chain: Nel Hydrogen Electrolyser, Nel Hydrogen Fueling, and Nel Hydrogen Solutions. Nel also holds a number of patents related to tests for early detection and diagnosis of diseases. 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 company's head office is in Karenlyst allé 20, N-0278 Oslo, Norway. The annual accounts were approved by the Board of Directors on 20 of April 2017.

## Note 2a Accounting principles

### ACCOUNTING PRINCIPLES

#### Basis for the preparation of the annual accounts

The company's consolidated financial statements and the company`s financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as approved by EU. Accounts are based on the principles of historical cost and fair value. The consolidated financial statements are presented in Norwegian kroner, which is also the functional currency of the company. The financial statements are prepared based on a going concern assumption.

### CONSOLIDATION PRINCIPLES

#### Subsidiaries

The consolidated financial statements comprise the financial statements of the group and its subsidiaries as at 31 December 2016. Control is achieved when the group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the group controls an investee if, and only if, the group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the group has less than a majority of the voting or similar rights of an investee, the group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The group's voting rights and potential voting rights

The group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the group obtains control over the subsidiary and ceases when the group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the group gains control until the date the group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, noncontrolling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

### Investment in associates and joint ventures

The group's investments in its associate and joint venture are accounted for using the equity method.

The statement of profit or loss reflects the group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The group does not recognise its share of losses if this means that the carrying amount of the investment becomes negative (including unsecured receivables)

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquirer's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

### Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash-generating units



Note 2 Continues ›

that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquire are assigned to those units.

Where goodwill has been allocated to a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

In accordance with IFRS the company tests at least annually whether it is necessary to do an impairment of capitalised goodwill The value of the cash generating unit will be stipulated as the recoverable amount, which is the higher of net sales value and utility value. The estimated recoverable amount is calculated on the basis of the present value of budgeted cash flows. The calculation requires the use of estimates relating to future cash flows. Uncertainty will normally attach to budgeted cash flows. Events, changes in assumptions and management assessments will all affect the evaluation of impairments in the relevant period. Please refer to note 11 for further information.

### Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured, regardless of when the payment is being made. The group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from sales of services and long-term construction projects are recognised in line with project completion. Sale of products is recognised at delivery time, i.e. when both the control and risk is mainly transferred to buyer. Revenue from services rendered is recognised in the period the service is performed. Revenue from licence is recognised at the delivery time of the licensed products or the licensed technology, i.e. when both the control and risk is mainly transferred to buyer.

### Construction contracts

Long-term projects based on contract or arrangement whereby the group uses the percentage of completion. Completion is measured by physical measurement of progress, or if more appropriate, accrued costs. Revenue is recognised in 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 recognised in its entirety.

### Research and development

Research activities are defined as activities whose purpose is to generate new technological understanding or knowledge. Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the group can demonstrate:

- The technical feasibility of completing the intangible asset so that the asset will be available for use or sale
- Its intention to complete and its ability and intention to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Sufficient substantiation is deemed to exist when necessary regulatory approvals for sales and marketing are in place, and when future economic benefits are supported through estimates. Research and development costs consist of costs relating to the company's own research and laboratory department, costs relating to the purchase of external laboratory- and research services and clinical studies. Capitalised development costs are recognised at cost price after the deduction of accumulated depreciation and impairments. The capitalised value is amortised over the period of expected future earnings from the related project. Gains and losses that arise on the sale of an intangible asset are measured as the difference between the net proceeds of the sale and the book value on the transaction date.

## Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grants relate to an expense item, it is normally recognised as other operating income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset. The grant is recognised in profit or loss over the useful life of a depreciable asset as a reduced depreciation expense.

## Pensions

The company has defined contribution pension scheme for its employees. This scheme is funded through payments to insurance companies. A defined contribution plan is one under which the group pays fixed contributions to a separate legal entity. The group 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 periods. For defined contribution plans, the group pays contribution to publicly- or privately administered pension insurance plans on an obligatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as a payroll expense when they fall due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## Share capital

The share capital comprises the number of shares multiplied by their nominal value, and are classified as equity. Expenses which can be attributed directly to the issue of new shares or options (less tax) are recognised in equity as a reduction in the proceeds received.

## Tax

The tax expense in the income statement comprises of the tax payable for the period and of the change in deferred tax. Deferred tax is calculated at the prevailing tax rate in the respective countries where the parent company and subsidiaries are tax resident. I.e 24% for ASA and Norwegian subsidiaries, and 22% for Danish subsidiaries. Deferred tax is calculated on the basis of temporary differences that exist between accounting and tax values, as well as any tax loss carry forward at the end of the financial year. The deferred tax asset is recognised if it is probable that the company will have profit to be able to utilise the tax asset.

On each balance sheet date, the company will review any deferred tax asset not recognised in the income statement. The company recognises deferred tax assets not previously recognised in the accounts insofar as it has become probable that the company can utilise the deferred tax asset. Similarly, the company will reduce the deferred tax asset insofar as it tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is can no longer utilise it. Deferred realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred tax and the deferred tax asset are recognised at their nominal value and are classified as non-current assets or long-term liabilities in the balance sheet.

## Tangible assets

Tangible assets are recognised at cost price after deduction for accumulated depreciation and any impairment. The assets are depreciated using the straight-line method over the expected useful life of the asset. Costs of direct maintenance on the operating assets are expensed as they are incurred under operating expenses, while additional spending or improvements are added to the asset's cost price and depreciated in step with depreciation of the asset. The depreciation period and method and potential residual value are assessed annually to ensure that the method and period used are in accordance with the economic realities of the asset.



Note 2 Continues ›

### Receivables

Receivable are recognised initially in the balance sheet at their fair value. Provision for bad debts is recognised in the accounts when objective indicators suggest that the group will not receive a settlement in accordance with the original terms. Significant financial problems at the customer, the probability that the customer will go into liquidation or undergo financial reconstruction, and postponements of or shortfalls in payment are regarded as indicators that a receivable needs to be written down. The provision represents the difference between the carrying amount and the present value of expected cash flows discounted by the effective interest rate. Changes in the provision are recognised in the profit and loss account as other operating expenses.

### Inventory

Inventory comprises purchased raw materials, finished goods and work in progress. Inventory is valued at the lower of cost and net selling price. Obsolescence is considered for inventory and write down performed on obsolete goods.

### Cash and cash equivalents

Cash and cash equivalents includes cash, bank deposits and all other monetary items due within three months or less. No overdraft facilities are used by the company.

### Impairment of tangible fixed assets, intangible assets and goodwill

An assessment of impairment loss for fixed- and intangible assets with finite useful lives is made when there is an indication of impairment. Independent of whether there are indications of impairment, goodwill and intangible assets with indefinite life  are tested for impairment annually.

If the impairment test reveals that an asset's carrying amount is higher than the recoverable amount, an impairment loss will be recognised in the income statement. The recoverable amount is the higher of the fair value less cost to sell and value in use (the discounted cash flow from continued use). The fair value less cost to sell is the amount that can be obtained in an orderly transaction between market participants minus sales costs. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. If this is the case, recoverable amount is determined for the cash-generating unit to which the asset belongs.

If there are indications that an impairment loss recognised in prior periods for an asset other than goodwill may no longer exist or may have decreased, the recoverable amount of that asset is estimated. Reversal of impairment losses are only reversed insofar as the carrying amount of the asset does not exceed the carrying amount that would have been determined (net after depreciation or amortisation) if no impairment loss had been recognised previously. The reversal of previous impairment loss is recognised when the reversal can be related to an event after the impairment loss has been recognised.

Impairment losses previously recognised on goodwill are not reversed.

### Foreign exchange and currency

Transactions in foreign currencies are converted to functional currency applying the exchange rate on the transaction date. Foreign exchange gains / losses arising from changes in exchange rate between the transaction date and payment date is recorded as financial income / expense in the Statement of comprehensive income.

On the balance sheet date monetary items in foreign currency are converted to exchange rates at the balance sheet date. Non-monetary items are capitalized at historical exchange rate on the transaction date.

In the consolidated statement of financial position, the assets and liabilities of foreign operations are translated into NOK (the group's presentation currency) at the rate of  exchange prevailing at the reporting date, and the consolidated income statements profit or loss is translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the rate of exchange at the reporting date.

### Earnings per share

Earnings per share are calculated by dividing the profit/loss for the year by the corresponding weighted average of the number of outstanding shares during the reporting period. The key figure 'diluted earnings per share' is based on the same calculation as for earnings per share, but it also takes into account all potential shares that have been outstanding during the period, and which will have a diluting effect. Potential shares relate to agreements that confer the right to issue shares in future. When the company reports a negative result, the effect of potential shares is disregarded so that the calculation is the same as for earnings per share.

### Objectives, policies and processes for managing capital

The company's objective is to manage the capital structure to safeguard the company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders. The company sets the size of capital in proportion to business strategy, risk and financial marked conditions. The company manages the capital structure and makes adjustments to it in the light of changes in economic conditions, perceived risk associated with product development and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the company may adjust the amount of new share issue, dividends paid to shareholders, return capital to shareholders, and sell assets to reduce debt or increase the debt by taking up loans.

### Provision, conditional obligations and assets

The group makes provisions when a legal or constructive obligation exists as a result of past events, it is more likely than not that an transfer of financial resources will be required to settle the obligation, and the amount of the obligation can be estimated with a sufficient degree of reliability. When the group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. When the effect is significant provisions are calculated by discounting expected cash flows at a pre-tax rate that reflects current market time value of money and if appropriate the risks specific to the liability. Increase in provision as a result of time passing, is presented as interest expense.

### Events after the balance sheet date

New information about the company's positions on the balance sheet date is taken into account in the financial statement. Information is provided about events after the balance sheet date that do not affect the company's position on the balance sheet date, but which will affect the company's future position if this is essential information.

### Segment reporting

Nel operates within two operating segments. The current segmentation best reflects how the business is managed. The two segments are:

- Hydrogen Fueling (including Solutions) which offers H2Stations® for fast fueling of fuel cell electric vehicles as well as services in relation to the supply of these stations.
- Hydrogen Electrolyser which offers hydrogen plants based on water electrolysis technology for use in various industries.

### Cash flow statement

The company uses the indirect method for the presentation of the cash flow statement.



Note 2 Continues ›

### New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016 and have not been applied in preparing these consolidated financial statements. None of these are expected to have any impact on the consolidated financial statements of the group, except the following set out below:

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard is effective for annual periods beginning on or after January 1, 2018 and earlier application is permitted.

IFRS 16 Leases replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). The new leases standard requires lessees to recognise assets and liabilities for most leases, which is a significant change from current requirements. For lessor, IFRS 16 substantially carries forward the accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The company has operating leases related to equipment and offices for NOK 3 million per year  The standard is effective for accounting periods beginning on or after January  1, 2019. Nel is currently assessing the impact of IFRS 16 and plans to adopt the new standard on the required effective date.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a significant impact on Nel`s financial statements.

## Note 2b  Estimates

THE USE OF ESTIMATES

The preparation of financial statements require the management to make assessments and to prepare estimates and assumptions that influence amounts recognised in the accounts for assets and obligations, revenues and expenses. Estimates and related assumptions are based on the best of the management's knowledge of historical and relevant events, experience and other factors that seem reasonable under the circumstances. The actual results may deviate from such assumptions. Estimates and underlying assumptions are subject to continuous assessment.

### Business combination

There are prepared an acquisition analysis which identifiable assets and liabilities are measured at fair value at the acquisition date. The group must allocate the cost of acquired companies on acquired assets and liabilities measured at fair value. The valuations require the management to make significant evaluation of chosen methods, estimates and assumptions. Significant intangible assets that the group has recognised include such as customers and technology.

Please refer to note 21 and 24 for details.

### Deferred tax asset

The group provides for expected tax assets on the basis of estimates. The deferred tax asset relates to the Company's significant carry loss forward that is not capitalized. When the final outcome deviates from the estimates that are basis for the original provision, the deviations will affect the tax expense and the provision for deferred tax in the period in which the decision is made. The deferred tax asset of loss carry forwards is included when it is probable that the loss carry forward can be utilized. Historical earnings and expected future earnings will be used as the basis for assessing probability in this context.

Please refer to note 9 for details.

### Impairment of goodwill and intangible assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by the group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 11.

## Note 2c Judgements

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 recognised in the consolidated financial statements:

### Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The group initially measures the cost of cash-settled transactions with employees using a binomial model to determine the fair value of the liability incurred. For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. For the measurement of the fair value of equity-settled transactions with employees at the grant date, The company has considered only hold equity instruments.

The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 5.

### Acquisition of businesses

The acquisition method of accounting is used to account for business combinations by the group The consideration transferred for the acquisition of a subsidiary comprises the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree at the date of acquisition either at fair value or at the noncontrolling interest's proportionate share of the acquiree's net identifiable assets. The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill . Please refer to note 21 and 24 for moe information. Construction contract When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the balance sheet date ("percentage-of-completion method"). When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that are likely to be recoverable. When it is probable that total contract



Note 2 Continues ›

costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Contract revenue comprises the initial amount of revenue agreed in the contract and variations in the contract work and claims that can be measured reliably. A variation or a claim is recognised as contract revenue when it is probable that the customer will approve the variation or negotiations have reached an advanced stage such that it is probable that the customer will accept the claim. The stage of completion is measured by reference to the ratio of contract costs incurred to date to the estimated total costs for the contract. Costs incurred during the financial year in connection with future activity on a contract are excluded from the costs incurred to date when determining the stage of completion of a contract. Such costs are shown as construction contract work-in-progress on the balance sheet unless it is not probable that such contract costs are recoverable from the customers, in which case, such costs are recognised as an expense immediately. At the balance sheet date, the cumulative costs incurred plus recognised profit (less recognised loss) on each contract is compared against the progress billings. Where the cumulative costs incurred plus the recognised profits (less recognised 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 recognised profits (less recognised 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”.

## Note 3 Business segments

(Amounts in NOK)

Group:
The management 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.

The group operates within two business segments, Hydrogen Fueling (including Solutions) and Hydrogen Electrolyser. 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 New Nel Hydrogen AS, based in Notodden, Norway, the group offers hydrogen plants based on water electrolysis technology for use in various industries.

| 2016 | BUSINESS SEGMENTS | | | |
|---|---|---|---|---|
| EXTERNAL REVENUES BY CUSTOMER LOCATION | FUELING | ELECTROLYZER | OTHER / ELIMINATION *) | TOTAL |
| Norway | 9 928 869 | 19 789 854 | | 29 718 723 |
| Denmark | 54 960 381 | 3 500 300 | | 58 460 681 |
| Saudi Arabia | | 6 798 260 | | 6 798 260 |
| Ireland | | 2 065 439 | | 2 065 439 |
| Turkey | | 3 632 928 | | 3 632 928 |
| Germany | | 5 378 354 | | 5 378 354 |
| Other countries | 6 203 720 | 2 220 588 | | 8 424 308 |
| Total revenues | 71 092 970 | 43 385 723 | 0 | 114 478 693 |
| | | | | |
| Total operating expenses | 87 182 109 | 52 317 837 | 30 290 489 | 169 790 435 |
| Operating profit | -16 089 139 | -8 932 114 | -30 290 489 | -55 311 742 |
| Financial income | 808 831 | 2 905 471 | -115 568 | 3 598 734 |
| Financial expenses | 1 171 363 | 2 098 834 | 7 653 980 | 10 924 177 |
| Tax expense | -2 917 008 | -1 952 292 | -1 938 758 | -6 808 058 |
| Profit after tax from continuing operations | -13 534 663 | -6 173 185 | -36 121 279 | -55 829 128 |
| | | | | |
| Total assets | 390 362 022 | 78 867 487 | 293 645 065 | 762 874 573 |
| | | | | |
| Total liabilities | 33 244 430 | 3 834 684 | 54 576 174 | 91 655 288 |

*) Major eliminations are excess value on on intangible assets and depreciation of these excess values made in the consolidatation of the financial statements not recognised in the business segments.

| REVENUES FROM SINGLE CUSTOMERS ABOVE 10% OF TOTAL REVENUES | 2016 |
|---|---|
| Danish Hydrogen Fuel A/S, Denmark (in the Fueling segment) | 16 964 052 |



Note 3 Continues ›

(Amounts in NOK)

| 2015 | BUSINESS SEGMENTS | | | |
|---|---|---|---|---|
| EXTERNAL REVENUES BY CUSTOMER LOCATION | FUELING | ELECTROLYZER | OTHER / ELIMINATION | TOTAL |
| Norway | 410 389 | 21 590 817 | | 22 001 206 |
| Denmark | 38 576 543 | 0 | | 38 576 543 |
| Chile | | 9 561 832 | | 9 561 832 |
| India | | 5 203 355 | | 5 203 355 |
| Russia | | 4 549 390 | | 4 549 390 |
| Sweden | | 3 809 208 | | 3 809 208 |
| Other countries | 2 051 944 | 14 082 691 | 88 962 | 16 223 597 |
| Total revenues | 41 038 875 | 58 797 293 | 88 962 | 99 925 130 |
| | | | | |
| Total revenues | 41 038 875 | 58 886 255 | 0 | 99 925 130 |
| Total operating expenses | 35 223 663 | 58 300 418 | 76 266 354 | 169 790 435 |
| Operating Profit | 5 815 213 | 585 837 | -76 266 354 | -69 865 304 |
| Finance income | 171 071 | 1 430 331 | 1 997 332 | 3 598 734 |
| Finance costs | 11 497 395 | 1 200 556 | -1 773 774 | 10 924 177 |
| Tax expense | -26 626 977 | 4 606 460 | 15 212 460 | -6 808 058 |
| Profit after tax from continuing operations | 21 115 866 | -3 790 848 | -87 707 708 | -70 382 690 |
| | | | | |
| Total assets | 347 877 616 | 139 265 702 | 275 731 255 | 762 874 573 |
| | | | | |
| Total liabilities | 37 118 556 | 25 217 933 | 22 303 872 | 84 640 361 |

| REVENUES FROM SINGLE CUSTOMERS ABOVE 10% OF TOTAL REVENUES | 2015 |
|---|---|
| Danish Hydrogen Fuel A/S, Denmark (in the Hydrogen fueling stations segment) | 22 350 594 |
| Glencore Nikkelverk AS, Norway (in the Hydrogen Electrolysis solutions segment) | 13 257 399 |

## Note 4 Public grants

(Amounts in NOK)

ASA
No public grants in 2016 nor 2015

Group

| | | RECOGNISION IN ACCOUNTS | | | |
|---|---|---|---|---|---|
| GRANTOR / TYPE OF GRANT | COUNTRY | INCOME | RED. OF CAP. R&D | 2016 | 2015 |
| 2016 | | | | | |
| HyfillFast | Denmark | 520 860 | 263 478 | 784 339 | |
| Copernic | Denmark | 167 330 | 0 | 167 330 | |
| H2Cost | Denmark | 0 | 524 215 | 524 215 | |
| REST | Denmark | 0 | 913 245 | 913 245 | |
| HyBoost | Denmark | 0 | 9 599 866 | 9 599 866 | |
| HyFAST EU | Denmark | 15 799 098 | 0 | 15 799 098 | |
| New Bus Fuel | Denmark | 207 710 | 0 | 207 710 | |
| H2ME1 | Denmark | 4 035 860 | 0 | 4 035 860 | |
| Phaedrus | Denmark | 0 | 0 | 0 | |
| Hyac | Denmark | 0 | 0 | 0 | |
| H2ME2 | Denmark | 0 | 5 969 564 | 5 969 564 | |
| Innovasjon Norge | Norway | 300 000 | | 300 000 | |
| Norsk Forskningsråd | Norway | 75 360 | | 75 360 | |
| 2015 | | | | | |
| FCH-JU | EU | 10 074 181 | | | 10 074 181 |
| Energistyrelsen (EUDP) | Denmark | 716 168 | | | 716 168 |
| Transnova / Enova | Norway | | 3 337 755 | | 3 337 755 |
| Energistyrelsen (EUDP) | Denmark | | 3 937 099 | | 3 937 099 |
| Det Strategiske Forskningsråd (DSF) | Denmark | | 808 414 | | 808 414 |
| Total | | | | 38 376 587 | 18 873 617 |

The company is not aware that there are any unfulfilled conditions associated with these public grants.

## Note 5 Salaries and personnel expenses, number of employees, remuneration

(Amounts in NOK)

ASA

| SALARIES AND PERSONNEL EXPENSES | 2016 | 2015 |
|---|---|---|
| Salaries | 6 142 844 | 1 136 641 |
| Social security tax | 874 770 | 160 370 |
| Pension expense | 62 893 | 2 716 |
| Other payroll expenses*) | 6 094 812 | 8 993 |
| Total | 13 175 319 | 1 308 720 |

| | | |
|---|---|---|
| Average number of FTEs | 3.0 | 1.0 |

Group

| SALARIES AND PERSONNEL EXPENSES | 2016 | 2015 |
|---|---|---|
| Salaries | 42 657 186 | 24 639 578 |
| Reimbursement | 0 | 0 |
| Social security tax | 3 160 352 | 2 514 087 |
| Pension expense | 3 454 176 | 1 851 367 |
| Other payroll expenses *) | 10 993 909 | 885 690 |
| Total | 60 265 624 | 29 890 749 |

*) 2016: Included in this amount are expenses related to the company's stock option- and stock purchase incentive schemes, amounting to NOK 5 918 976 and NOK 10 259 911 in ASA and group, respectively

| | | |
|---|---|---|
| Average number of FTEs | 74.6 | 60.9 |
| Hereof women | 8.9 | 7.8 |

| REMUNERATION OF LEADING PERSONNEL 2016 | SALARY | BONUS | PENSION EXPENCE | REMUNERATION OF THE BOARD | OTHER REMUNERATION | TOTAL REMUNERATION |
|---|---|---|---|---|---|---|
| **Management team** | | | | | | |
| Jon André Løkke, CEO | 2 298 108 | 0 | 29 232 | | 0 | 2 327 340 |
| Bent Skisaker, CFO *) | 666 667 | 0 | 0 | | 0 | 666 667 |
| Lars Christian Stugaard, CFO *) | 0 | 0 | 0 | | 2 125 000 | 2 125 000 |
| Anders Søreng, CTO **) | 740 771 | 0 | 17 369 | | 71 589 | 829 729 |
| Bjørn Simonsen, VP Market Dev & PR | 896 262 | 0 | 16 292 | | 0 | 912 554 |
| Mikael Sloth , VP Business Dev | 1 329 432 | 0 | 104 020 | | 133 486 | 1 566 938 |
| Total management team | 5 931 239 | 0 | 166 913 | 0 | 2 330 075 | 8 428 227 |

Jon Andrè Løkke has a 6 months notice period, plus is entitled to 6 months severence pay.
*) Bent Skisaker commenced the position as CFO on 1 September 2016. Until then Lars Christian Stugaard served as CFO, hired in from Ferncliff Tih 1 AS.
**) Anders Søreng commenced the position as CTO on 1 May 2016.

(Amounts in NOK)

| REMUNERATION OF LEADING PERSONNEL 2016 | SALARY | BONUS | PENSION EXPENSE | REMUNERATION OF THE BOARD | OTHER REMUNERATION | TOTAL REMUNERATION |
|---|---|---|---|---|---|---|
| **The Board** | | | | | | |
| Martin Nes - chairman | | | | 260 000 | | 260 000 |
| Øystein Stray Spetalen | | | | 130 000 | | 130 000 |
| Jan Christian Opsahl | | | | 130 000 | | 130 000 |
| Eva Dugstad | | | | 130 000 | | 130 000 |
| Ann Marie Russell | | | | 130 000 | | 130 000 |
| Kristin Hellebust | | | | 119 166 | | 119 166 |
| Mikael Sloth | | | | 130 000 | | 130 000 |
| Harald Arnet | | | | 15 000 | | 15 000 |
| Total the Board | | | | 1 044 166 | | 1 044 166 |

| REMUNERATION OF LEADING PERSONNEL 2015 | SALARY | BONUS | PENSION EXPENSE | REMUNERATION OF THE BOARD | OTHER REMUNERATION | TOTAL REMUNERATION |
|---|---|---|---|---|---|---|
| **Management team** | | | | | | |
| Lars Christian Stugaard, CEO/CFO***) | 0 | 0 | 0 | 0 | 2 400 000 | 2 400 000 |
| Total management team | 0 | 0 | 0 | 0 | 2 400 000 | 2 400 000 |

***) CEO/CFO has been hired from Ferncliff Tih 1 AS since April 2014. Chief executive services for CEO/CFO has been invoiced with NOK 2 400 000.

| | SALARY | BONUS | PENSION EXPENSE | REMUNERATION OF THE BOARD | OTHER REMUNERATION | TOTAL REMUNERATION |
|---|---|---|---|---|---|---|
| **The Board** | | | | | | |
| Martin Nes | | | | 175 000 | 0 | 175 000 |
| Hanne Skaarberg Holen | | | | 145 000 | 0 | 145 000 |
| Øystein Stray Spetalen | | | | 120 000 | 0 | 120 000 |
| Glen Ole Rødland | | | | 28 383 | 0 | 28 383 |
| Leif Eriksrød | | | | 31 617 | 0 | 31 617 |
| Andreas Berdal Lorentzen | | | | 11 616 | 0 | 11 616 |
| Total the Board | | | | 336 616 | 0 | 336 616 |

**Loans and security furnished to leading personnel, shareholders etc.**

No loans or guarantees have been given to the CEO, members of the Board or their related parties.



Note 5 Continues ›

(Amounts in NOK)

## AUDITOR FEES

ASA

| FEES TO THE AUDITOR - ERNST & YOUNG AS | 2016 | 2015 |
|---|---|---|
| Statutory auditing services | 622 042 | 360 986 |
| Attestation services | 70 000 | 938 446 |
| Non-auditing services | 0 | 0 |
| Total | 692 042 | 1 299 432 |

Group

| FEES TO THE AUDITORS | 2016 | 2015 |
|---|---|---|
| Statutory auditing services | 1 498 001 | 693 468 |
| Attestation services | 483 730 | 959 492 |
| Non-auditing services | 164 330 | 552 281 |
| Total | 2 146 061 | 2 205 241 |

Amounts are exclusive VAT.

### Pension

The company and the group has a pension plan that meets the requirements of the Pension Acts of Norway (and Denmark for the Danish group company.

### Share options and subscription rights

Nel ASA has issued share options and Matching Shares to management and employees. If the options are exercised, they will be settled in shares. The following vesting conditions apply:

| NAME | NUMBER OF OPTIONS | EXPIRY | STRIKE PRICE (NOK) | FAIR VALUE | COST OF PERIOD |
|---|---|---|---|---|---|
| Jon André Løkke | 6 000 000 | 04.01.2020 | 3.00 | 1.3140 | 4 433 770 |

| NAME | NUMBER OF MATCHING SHARES | EXPIRY | STRIKE PRICE (NOK) | FAIR VALUE | COST OF PERIOD |
|---|---|---|---|---|---|
| Jon André Løkke | 200 000 | 15.06.2017 | | 2.13 | 233 425 |
| Jon André Løkke | 200 000 | 15.06.2018 | | 2.13 | 116 712 |
| Bent Skisaker | 200 000 | 15.06.2017 | | 2.62 | 221 692 |
| Bent Skisaker | 200 000 | 15.06.2018 | | 2.62 | 97 395 |
| Bjørn Simonsen | 200 000 | 15.06.2017 | | 2.13 | 233 425 |
| Bjørn Simonsen | 200 000 | 15.06.2018 | | 2.13 | 116 712 |
| Anders Søreng | 200 000 | 15.06.2017 | | 2.13 | 233 425 |
| Anders Søreng | 200 000 | 15.06.2018 | | 2.13 | 116 712 |
| Total | | | | | 1 369 498 |

IFRS-2 presumes that the fair value of the services expected to be received is the same as the fair value of the equity instruments granted at grant date. Therefore, although the services are recognised over the vesting period, they are measured only once, at grant date, unless the arrangement is modified. The fair value of options granted are calculated using the Black-Scholes model. Fair value for the Matching Shares is equal to the share price at grant.

## INPUT PARAMETERS FOR BLACK-SCHOLES OPTION PRICING MODEL:

### Option program

| | |
|---|---|
| No of options granted: | 6 000 000 |
| Grant Date: | January 4th 2016 |
| Share price (spot): | NOK 4.67 |
| Strike price: | NOK 5.46 |
| Amendment date: | August 30th |
| Share price (spot): | NOK 2.44 |
| Strike price: | NOK 3.00 |
| Lifetime (time until expiration): | 2 years and 3 months (from January 4th 2016 to April 4th 2018) |
| Expected volatility: | 60% (weighted average of peer group) |
| Assets drift (risk free interest rate): | 0.78% |
| Expected dividends: | not applicable |

### Share purchase program

| | |
|---|---|
| Matching Shares: | Share Price at Grant Date June 15th 2016: NOK 2.13 (Price at subscription date, which was paid by subscriber: NOK 2.476). |
| Matching Shares: | Share Price at Grant Date September 2nd 2016: NOK 2.62 (Price at subscription date, which was paid by subscriber: NOK 2.476). |

Total number of shares subcribed for in the share purchase program: 3 276 926.

For each share subscribed by the employee in the Incentive Program in 2016, the employee will receive 2 matching shares, 1 after 12 months after subscription and 1 after 24 months. Originally subscribed shares must be kept for the entire period in oder for matching shares to be granted.

## Note 6 Related parties

(Amounts in NOK)

### Group

#### The group's related parties transactions were

Øystein Stray Spetalen, a board member of the company and the owner of Ferncliff, controls 4.86 % of Nel ASA through Strata Marine & Offshore AS and Ferncliff Maris AS as per 31 December 2016. He sold his shares in March 2017.

Transactions entities controlled by Øystein Stray Spetalen amounts to NOK 2.380 million. The major items are: hire of CFO amounting to NOK 2.125 million (ref. to note 5) and rental of offices, car parking and other administrative services until November 2016 amounting to NOK 0.247 million.

#### Transactions with associated comanies

| | REVENUE | COST OF GOODS SOLD | SALARIES AND PERSONNEL EXPENSES |
|---|---|---|---|
| Uno X Hydrogen AS | 9 407 031 | 5 423 664 | 1 344 995 |
| Danish Hydrogen Fuel A/S | 16 964 051 | 6 771 590 | 997 829 |
| Copenhagen Hydrogen Network A/S | 3 165 631 | 1 125 070 | |

There were no other major transactions with related parties during the year ended 31 December 2016.

## Note 7 Construction contracts

### Group

| SPECIFICATION OF ITEMS RELATED TO CONSTRUCTION CONTRACTS | 2016 | 2015 |
|---|---|---|
| **Profit & loss** | | |
| Revenues | 88 733 863 | 88 211 572 |
| Costs of goods sold | 27 528 032 | 34 450 199 |
| Wages/salaries directly/indirectly related | 8 520 088 | 10 224 382 |
| Other related costs | 1 647 270 | 1 873 240 |
| Gross contribution from construction contracts | 51 038 473 | 41 663 750 |
| **Assets** | | |
| Accounts receivables | 11 421 269 | 15 527 315 |
| Prepayments to suppliers | - | 228 653 |
| Accrued project progress | 8 574 684 | 12 529 741 |
| **Liabilities** | | |
| Prepayments from customers | 21 002 265 | 10 528 989 |
| Cost provision | 4 489 814 | 4 195 107 |

#### Work in progress

There are two major percentage of completion projects in progress as per 31.12.2016:
One project with contract value NOK 22.8 million has recognised revenues of NOK 19.8 million representing a completion rate of 87%. Another project with contract value NOK 22.6 million has recognised revenues of NOK 3.5 million representing a completion rate of 15%.

## Note 8 Specification of operating items

(Amounts in NOK)

ASA

| SPECIFICATION OF OTHER OPERATING EXPENSES | 2016 | 2015 |
|---|---|---|
| Office premises etc. | 815 413 | 24 905 |
| Administrative costs | 2 096 542 | 1 250 316 |
| Professional fees | 10 295 368 | 13 896 048 |
| Patent costs | 0 | 172 397 |
| Travel expenses | 1 242 974 | 147 633 |
| Laboratory costs | 0 | 0 |
| Other operating expenses | 14 450 297 | 15 491 299 |
| | | |
| Foreign exchange: | | |
| Foreign exchange gain | -40 624 | -10 340 |
| Foreign exchange loss | 49 791 | 116 638 |
| Net foreign exchange | 9 167 | 106 298 |

Group

| SPECIFICATION OF OTHER OPERATING EXPENSES | 2016 | 2015 |
|---|---|---|
| Electricity | 2 181 635 | 1 772 107 |
| Office premises etc. | 2 103 478 | 585 278 |
| Rental costs | 2 244 419 | 998 141 |
| Administrative | 10 841 846 | 7 345 253 |
| Professional fees | 15 073 338 | 17 326 076 |
| Patent costs | 0 | 319 125 |
| Travel expenses | 5 605 926 | 2 266 952 |
| Laboratory costs | 202 844 | 0 |
| Other operating expenses | 38 253 486 | 30 612 933 |
| | | |
| Foreign exchange: | | |
| Foreign exchange gain | -960 734 | -985 511 |
| Foreign exchange loss | 915 612 | 868 795 |
| Net foreign exchange | -45 122 | -116 716 |

## Note 9 Taxes

(Amounts in NOK)

ASA

| CALCULATIONS OF THE TAX BASE FOR THE YEAR | 2016 | 2015 |
|---|---|---|
| Profit / loss before tax | -22 155 611 | -11 942 761 |
| Permanent differences | 5 989 643 | -18 542 500 |
| Change in temporary differences | -181 933 | 167 847 |
| Use of tax losses carried forward | 0 | 0 |
| The year's taxable income | -16 347 901 | -30 317 414 |
| | | |
| Profit / loss before tax | -22 155 611 | -11 942 761 |
| Tax 25 % tax in 2016/ 27 % tax in 2015 estimated | -5 538 903 | -3 224 546 |
| Tax effect of: | | |
| Permanent differences | 1 496 532 | -5 006 475 |
| Change in temporary differences | | 45 319 |
| Change in not-recognised deferred tax assets (tax liabilities) | 4 042 371 | 8 185 702 |
| Total income tax expense/(revenue) | 0 | 0 |

| Income tax expense comprises | 2016 | 2015 |
|---|---|---|
| Income tax payable | 0 | 0 |
| Change in deferred tax | 0 | 0 |
| Total income tax expense/(revenue) | 0 | 0 |

| Specification of temporary differences | 2016 | 2015 |
|---|---|---|
| Receivables | | 0 |
| Tangible fixed assets, incl. goodwill | -1 039 903 | -1 361 836 |
| Inventory | 0 | 0 |
| Pension | 0 | 0 |
| Provisions for liabilities | -653 333 | -513 333 |
| Tax losses carried forward | -415 103 488 | -398 752 072 |
| Basis for deferred tax (asset) | -416 796 724 | -400 627 241 |
| | | |
| Nominal tax rates for next year | 24 % | 25 % |
| Deferred tax (asset) | -100 031 214 | -100 156 810 |
| | | |
| Deferred tax (asset) not recognised in Statement of financial position | -100 031 214 | -100 156 810 |
| | | |
| Deferred tax (asset) in the Statement of financial position | 0 | 0 |

The majority of the deferred tax asset is related to tax loss carry forward. As of 31.12.2016 it is deemed not probable that the tax loss carry forward can be utilised, thus the deferred tax asset has not been capitalised.

Group Tax effect group contribution granted. Tax effect group contribution received. (Amounts in NOK)

| CALCULATIONS OF THE TAX BASE FOR THE YEAR | 2016 | 2015 |
|---|---|---|
| Nominal tax rate | 25 % | 27 % |
| Profit/loss before tax | -62 637 185 | -27 778 598 |
| Tax this years profit/loss estimated | -15 659 296 | -7 500 221 |
| Tax effect of: | | |
| Tax rates different from Norway (22% in Denmark) | 256 593 | -55 852 |
| Permanent differences | 3 287 149 | -5 110 055 |
| Change in tax rates recognised temporary differences | 1 400 570 | -1 286 582 |
| Change in not-recognised deferred tax assets (tax liabilities) | 3 629 248 | 8 334 999 |
| Currency translation differences / other adjustments | 277 679 | -431 296 |
| Total income tax expense/(revenue) | -6 808 057 | -6 049 008 |

| Income tax expense comprises | 2016 | 2015 |
|---|---|---|
| Income tax payable | 0 | 374 980 |
| Change in deferred tax | -6 808 057 | -6 423 988 |
| Total income tax expense/(revenue) | -6 808 057 | -6 049 008 |

| Specification of temporary differences | 2016 | 2015 |
|---|---|---|
| Receivables | -874 237 | -898 301 |
| Customers contracts | 12 561 904 | 15 913 643 |
| Intangible assets | 53 491 729 | 68 482 751 |
| Tangible assets | 234 655 | -1 735 522 |
| Inventory / Work in progress | 23 520 948 | 9 972 363 |
| Warranties | 0 | -2 336 732 |
| Other accruals | -5 713 733 | -1 012 412 |
| Tax losses carried forward | -446 535 427 | -401 289 228 |
| Basis for deferred tax (asset) | -363 314 161 | -312 903 439 |
| | | |
| Nominal tax rates for next year | 24 % | 25 % |
| Net deferred tax (asset) | -87 101 963 | -78 225 860 |
| Deferred tax (asset) not recognised in statement of financial position | -100 653 901 | -99 253 331 |
| Deferred tax (asset) in the statement of financial position | 13 551 937 | 21 027 472 |

| Changes in recognised deferred tax (asset) | 2016 | 2015 |
|---|---|---|
| As of 1 January | 21 027 472 | 15 983 734 |
| Recognised in the income statement | -6 808 057 | -5 137 406 |
| Change deferred tax not recognised in statement of financial position | | |
| Acquisitions | 0 | 10 984 284 |
| Translation differences on deferred taxes | 277 679 | 710 086 |
| Effect of change in tax rates | -564 664 | -1 286 582 |
| Other | -380 491 | -226 644 |
| As of 31 December | 13 551 937 | 21 027 472 |

The majority of the deferred tax asset is related to tax loss carry forward . As of 31.12.2016 it is deemed not probable that it can be utilized in near future. Due to this deferred tax asset has not been capitalized.

## Note 10 Long term debts - pledges

(Amounts in NOK)

Group

Long term loans

| LENDER | COMPANY | MATURITY | INTEREST RATE | 2016 | 2015 |
|---|---|---|---|---|---|
| 1) DNB Bank AS | New Nel Hydrogen P60 AS | July 2017 | 6,25 % | 0 | 500 000 |
| 2) DNB Bank AS | New Nel Hydrogen Eiendom AS | July 2024 | 6,25 % | 3 000 000 | 3 400 000 |
| 3) Innovasjon Norge | New Nel Hydrogen AS | July 2019 | 5,75 % | 1 666 667 | 2 083 333 |
| 4) Nykredit | Nel Hydrogen A/S | 2028 | 1,18 % | 5 303 143 | 6 024 863 |
| Total long term loans | | | | 9 969 810 | 12 008 196 |
| | | | | | |
| Long term warranties | | | | | |
| Warranties / service liab. *) | Nel Hydrogen A/S | Maxim. Dec'17 | | 2 580 443 | 2 337 241 |
| Warranty in favor of CHN | Nel Hydrogen A/S | Maxim. Dec'19 | | 0 | 295 204 |
| Total long term warranties | | | | 2 580 443 | 2 632 445 |
| | | | | | |
| Total long term debt | | | | 12 550 253 | 14 640 641 |

*) Warranties covering service liabilities on delivered projects. Duration normally 12 to 24 months after delivery.

| MATURITY ANALYSIS FOR LONG TERM LOANS: | 2017 | 2018 | 2019 | 2020 | 2021 | 2021 › | TOTAL |
|---|---|---|---|---|---|---|---|
| 2) DNB Bank AS | 400 000 | 400 000 | 400 000 | 400 000 | 400 000 | 1 000 000 | 3 000 000 |
| 3) Innovasjon Norge | 416 668 | 416 668 | 416 668 | 416 668 | 0 | 0 | 1 666 667 |
| 4) Nykredit | 409 050 | 409 050 | 409 050 | 409 050 | 409 050 | 3 257 895 | 5 303 143 |
| Estimated interest cost *) | 318 936 | 265 158 | 211 379 | 157 600 | 115 801 | 50 446 | 1 119 320 |
| Total long term loans & interest payments | 1 544 654 | 1 490 875 | 1 437 097 | 1 383 318 | 924 851 | 4 308 341 | 11 089 130 |

*) Based on prevailing debt installment agreements and interest rates.

| CARRYING AMOUNT OF ASSETS THAT ARE PLEDGED | 2016 | 2015 |
|---|---|---|
| Accounts receivables | 22 871 587 | 16 118 097 |
| Fixed assets | 875 375 | 955 451 |
| Inventory | 9 721 110 | 7 415 495 |
| Building | 3 597 700 | 3 383 842 |
| Total | 37 065 772 | 27 872 885 |

| Guarantees | 2016 | 2015 |
|---|---|---|
| Bank guarantee | 4 489 814 | 5 147 965 |

The bank guarantee applies to advance payments from customers.

| | 2016 | 2015 |
|---|---|---|
| Cash credit facilities | 17 110 800 | 10 999 800 |
| Cash credit limits: | | |

The management assess that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed project. Based on this evaluation, allowances are taken into account for the expected losses of these receivables.

The fair values of the group's interest-bearing borrowings and loans are estimated to be unsignificant different from nominal value thus fair value is equal.

## Note 11 Intangible assets

ASA: There are no intangible assets at ASA level

| Group | TECHNOLOGY | CUSTOMER RELATIONSHIP | CUSTOMER CONTRACT | GOODWILL | TOTAL |
|---|---|---|---|---|---|
| Acq. cost acquired into group in 2015 | 9 000 000 | 33 000 000 | 9 600 000 | 60 798 914 | 112 398 914 |
| Additions | 39 862 957 | 2 592 480 | 0 | 257 584 268 | 300 039 705 |
| Disposals | 388 339 | 0 | 0 | 0 | 388 339 |
| Currency effects | 1 906 675 | 237 919 | 0 | 14 574 936 | 16 719 530 |
| Acquisition cost 31.12.2015 | 51 157 971 | 35 830 399 | 9 600 000 | 332 958 118 | 429 546 488 |
| | | | | | |
| Additions | 13 335 934 | 0 | 0 | 0 | 13 335 934 |
| Disposals | 0 | 0 | 0 | 0 | 0 |
| Reclassification | 4 100 640 | 0 | 0 | -4 100 640 | 0 |
| Currency effects | -1 590 372 | -146 888 | 0 | -10 761 742 | -12 499 003 |
| Acquisition cost at 31.12.2016 | 67 004 172 | 35 683 511 | 9 600 000 | 318 095 736 | 430 383 419 |
| | | | | | |
| Acc. depr. acquired into group in 2015 | 225 000 | 825 000 | 2 400 000 | 0 | 3 450 000 |
| The year's depreciation | 4 236 552 | 3 436 180 | 7 200 000 | 0 | 14 872 732 |
| The year's impairment | 51 760 | 0 | 0 | 0 | 51 760 |
| Acc. depreciation and impairment at 31.12.2015 | 4 513 312 | 4 261 180 | 9 600 000 | 0 | 18 374 492 |
| Carrying amount at 31.12.2015 | 46 644 659 | 31 569 219 | 0 | 332 958 118 | 411 171 996 |
| | | | | | |
| The year's depreciation | 4 829 261 | 3 568 884 | 0 | 0 | 8 398 145 |
| The year's impairment | 0 | 0 | 0 | 466 988*) | 466 988 |
| Reclassification | 0 | 0 | 0 | 0 | 0 |
| Currency effects | -192 728 | -7 067 | 0 | 0 | -199 795 |
| Acc. depreciation and impairment at 31.12.2016 | 9 149 846 | 7 822 997 | 9 600 000 | 466 988 | 27 039 831 |
| Carrying amount at 31.12.2016 | 57 854 327 | 27 860 514 | 0 | 317 628 748 | 403 343 588 |
| | | | | | |
| Useful life | 10 years | 10 years | 11 years | | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | | |

*) Impairment of NOK 466 988 is goodwill in Hyme AS. Hyme AS is discontinued in January 2017.



Note 11 Continues ›

The addition of goodwill in 2015 relates to goodwill in H2 Logic AS of 256.5 MNOK, and the remaining 1.1 MNOK relates to the aquisition of Rotoboost H2 AS, Hyme AS (the remaining 43% of the shares), and the shelf companies Nel Fuel AS/Nel Fuel Norway AS. On the acquisition dates, total goodwill after the valuation of intangible assets amounted to NOK 257.6 MNOK.

Reference is made to notes 21 for further information concerning the aquisition of H2Logic A/S and Rotoboost H2 AS respectively.

The group performed its annual impairment test in December 2016 and 2015. The group considers the relationship between its market capitalisation and its book value, among other factors, when reviewing for indicators of impairment. As at 31 December 2016, the market capitalisation of the group was 1.91 times above the book value of its equity, indicating no impairment of goodwill and impairment of the assets.

Goodwill and intangible assets are related to CGU Electrolyser and CGU Fueling. The group has calculated recoverable amount for both the CGU Electrolyser and CGU Fueling. The recoverable amount is based on a value in use calculation using cash flow projections based on customer relationships, customer contracts and the company's technology and future expectations over a period of 5 years respectively for CGU Electrolyser and CGU Fueling, based on existing business models. It is used discounting of cash flow from financial budgets. The expected cash flow is based on company estimates for the period 2017 to 2021. Terminal value is included in the calculations. Estimates and pertaining assumptions are made to the best of the management's knowledge of historical and current events, experience and other factors that are deemed reasonable in the circumstances.

### Key assumptions used in value in use calculations and sensitivity to changes in assumptions

The calculation of value in use for both the CGU Electrolyser and CGU Fueling is most sensitive to the following assumptions

- Revenue
- EBIT
- Discount rate

Discount rates represent the current market assessment of the risks, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the group's investors. The cost of debt is based on the interest-bearing borrowings the group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

### CGU Electrolyser

Allocated goodwill to CGU Electrolyser is NOK 61.3 million. The growth in the terminal values for CGU Electrolyser is 2.5%, in accordance with the long-term inflation target set by the Norwegian Central Bank.

A sensitivity analysis has been carried out, which indicates sensitivity to changes in WACC, and a relative strong dependence on the company achieving forecasted EBITDA levels to avoid impairment. The range is +/-2% in EBITDA and +/-1% in WACC.

### Changes in EBITDA

| CHANGES IN WACC | -2% | -1% | 0% | 1% | 2% |
|---|---|---|---|---|---|
| -1% | -34 | -14 | 6 | 26 | 46 |
| -0,5% | -36 | -17 | 3 | 23 | 43 |
| 0% | -39 | -19 | 0 | 19 | 39 |
| 0,5% | -41 | -22 | -3 | 16 | 35 |
| 1% | -43 | -25 | -8 | 13 | 31 |

Negative number in the table indicates impairment.

Revenues are based on existing customer contracts and anticipated developments within the markets the CGU is in. Operating revenues are dependent on the assumptions underlying, and changes in assumptions will affect the future value of the unit. It should be emphasised that the impairment test is based on an expected compound annual growth rate in revenues from 2016 to 2021 of about 40%, and an EBIT margin which is expected to improve gradually throughout the period to a level of about 10% at the end.

Compared to the financial projections made as per 31.12.2015 for the CGU Electrolyser, the projections made per 31.12.2016 are equally good, or better. A good order intake both in the industrial market (i.e was awarded a contract for electrolyser plant in Mexico in December 2016) and in the fueling market (i.e was awarded a contract by ASKO, Norway's largest grocery wholesaler for the delivery of a new solar-powered hydrogen production facility and fueling station solution in October 2016 and a contract by Icelandic Hydrogen for three H2Station® hydrogen fueling stations and a Nel C-series electrolyser in February 2017) substantiates the forward looking projections which are basis for the carrying value.

It is estimated a pre-tax WACC for the CGU Electrolyser of 14.1%.

### CGU Fueling

Allocated goodwill to CGU Fueling is NOK 256.3 million. The growth in the terminal value for CGU Fueling is 2.5 %, in accordance with the long-term inflation target set by the Danish Central Bank.

A sensitivity analysis has been carried out, which indicates moderate sensitivity to changes in WACC and EBITDA margin. The presented ranges in the sensitivity matrix only yield impairment at the limits of the range. The range is +/-2% in EBITDA and +/-1% in WACC.

### Changes in EBITDA

| CHANGES IN WACC | -2% | -1% | 0% | 1% | 2% |
|---|---|---|---|---|---|
| -1% | 17 | 66 | 115 | 164 | 213 |
| -0,5% | 8 | 56 | 104 | 452 | 200 |
| 0% | -1 | 46 | 93 | 141 | 188 |
| 0,5% | -9 | 37 | 83 | 129 | 176 |
| 1% | -18 | 28 | 73 | 118 | 164 |

Negative number in the table indicates impairment.

Revenues are based on existing customer contracts and anticipated developments within the markets the CGU is in. Operating revenues are dependent on the assumptions underlying, and changes in assumptions will affect the future value of the unit. Annually revenues are expected  an increase in 2017 and onwards, when Hydrogen car producers will roll out their cars. It should be emphasised that the impairment test is based on an expected compound annual growth rate in revenues from 2016 to 2021 of about 50%, and an EBIT margin which is expected to improve gradually throughout the period to a level of about 13% at the end.

Compared to the financial projections made as per 31.12.2015 for the CGU Fueling, the projections made per 31.12.2016 are equally strong. However, there a slight delay in timing as the roll out of fuel cell elctrical vehicles are postponed compared with the view as per 31.12.2015. The announcement in February 2017 that Nel has entered into a framework contract for the supply, construction and maintenance of H2Station® hydrogen fueling stations in California for Royal Dutch Shell Plc in a partnership with Toyota Motor Corp., and the subsequent receival of the first purchase orders from this important player shows our solid position in this market, and substantiates the forward looking projections which are basis for the carrying value.

It is estimated a pre-tax WACC for the CGU Fueling of 12.2%.

## Note 12 Tangible fixed assets

| ASA | OFFICE MACHINES | PRODUCTIONS EQUIPMENT | OTHER EQUIPMENT | BUILDING | TECHNICAL IN-STALLATIONS | TOTAL |
|---|---|---|---|---|---|---|
| Acquisition cost at 1.1.2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| Additions | 0 | 0 | 0 | 0 | 0 | 0 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisition cost at 31.12.2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| Additions | 185 168 | 0 | 0 | 0 | 262 495 | 447 663 |
| Disposals | 0 | 0 | 0 | 0 | 0 | 0 |
| Acquisition cost at 31.12.2016 | 185 168 | 0 | 0 | 0 | 262 495 | 447 663 |
| | | | | | | |
| Accumulated depreciation at 1.1.2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation for the year | | 0 | 0 | 0 | 0 | 0 |
| Accumulated depreciation at 31.12.2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| Carrying amount at 31.12.2015 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | | | | | |
| Depreciation for the year | 35 049 | 0 | 0 | 0 | 0 | 35 049 |
| Accumulated depreciation at 31.12.2016 | 35 049 | 0 | 0 | 0 | 0 | 35 049 |
| | | | | | | |
| Carrying amount at 31.12.2016 | 150 119 | 0 | 0 | 0 | 262 495 | 412 614 |
| | | | | | | 0 |
| Useful life | 3 years | 8 years | 3 years | 40 years | 5 years | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | Straight-line | Straight-line | |

Note 12 Continues ›

(Amounts in NOK)

| Group | OFFICE MACHINES | PRODUCTIONS EQUIPMENT | OTHER EQUIPMENT | BUILDING | TECHNICAL IN-STALLATIONS | TOTAL |
|---|---|---|---|---|---|---|
| Acquisition cost at 1.1.2015 | 177 052 | 1 023 328 | 37 469 | 2 788 530 | 1 141 452 | 5 167 831 |
| Additions | 88 234 | 1 095 109 | 0 | 11 315 129 | 0 | 12 498 472 |
| Disposals | 0 | -512 609 | 0 | -7 924 | 0 | -520 533 |
| Acquisition cost at 31.12.2015 | 265 286 | 1 605 828 | 37 469 | 14 095 735 | 1 141 452 | 17 145 770 |
| | | | | | | |
| Additions | 342 582 | | | 29 238 032 | 1 589 846 | 31 170 460 |
| Disposals | | | | -36 666 | | -36 666 |
| Reclassification | | -634 219 | | 634 219 | | 0 |
| Currency effects | | | | -791 497 | | -791 497 |
| Acquisition cost at 31.12.2016 | 607 868 | 971 609 | 37 469 | 43 139 823 | 2 731 298 | 47 488 067 |
| | | | | | | |
| Accumulated depreciation at 1.1.2015 | 23 885 | 35 828 | 4 500 | 17 930 | 18 952 | 101 095 |
| Depreciation for the year | 156 419 | 158 532 | 0 | 324 517 | 0 | 639 468 |
| Reversed depreciation disposals | 0 | -124 271 | 0 | 0 | 0 | -124 271 |
| Accumulated depreciation at 31.12.2015 | 180 304 | 70 089 | 4 500 | 342 447 | 18 952 | 616 292 |
| | | | | | | |
| Carrying amount at 31.12.2015 | 84 982 | 1 535 739 | 32 969 | 13 753 288 | 1 122 500 | 16 529 478 |
| | | | | | | |
| Depreciation for the year | 156 419 | 180 140 | | 613 361 | 384 370 | 1 334 289 |
| Reversed depreciation disposals | | | | | -36 666 | -36 666 |
| Reclassification | | | | | | 0 |
| Currency effects | | | | -229 401 | | -229 401 |
| Accumulated depreciation at 31.12.2016 | 336 723 | 250 229 | 4 500 | 726 407 | 366 656 | 1 684 514 |
| | | | | | | |
| Carrying amount at 31.12.2016 | 271 145 | 721 380 | 32 969 | 42 413 416 | 2 364 642 | 45 803 554 |
| | | | | | | |
| Useful life | 3 years | 8 years | 3 years | 40 years | 40 years | |
| Depreciation plan | Straight-line | Straight-line | Straight-line | Straight-line | Straight-line | |

## Note 13 Inventory

| Group | 2016 | 2015 |
|---|---|---|
| Finished goods | 5 517 636 | 1 978 288 |
| Work in progress | 13 184 664 | 2 409 655 |
| Raw material | 17 563 634 | 10 634 636 |
| | 36 265 934 | 15 022 579 |

Inventory is valued at the lowest of cost and net selling price. As of 31.12.16 inventory is measured at cost.

## Note 14 Restricted bank deposits

(Amounts in NOK)

| ASA | 2016 | 2015 |
|---|---|---|
| Restricted bank deposits for employee's withheld taxes at 31.12. | 364 120 | 165 741 |

| Group | 2016 | 2015 |
|---|---|---|
| Restricted bank deposits for employee’s withheld taxes at 31.12. | 1 116 706 | 875 582 |
| Other restricted bank accounts | 4 049 305 | 6 645 792 |

## Note 15 Share capital and shareholders

ASA

At 31.12.2016 the company’s share capital was NOK 136 735 650, consisting of 683 678 252 shares each with a nominal value of NOK 0.20. The company has only one share class and no special regulations relating to the shares. One share thus confers one vote.

| SHARE HOLDERS AS OF 31.12.2016: | | NUMBER OF SHARES | SHARE |
|---|---|---|---|
| H2 HOLDING APS | 7400 HERNING, DENMARK | 126 755 557 | 18,54 % |
| STRATA MARINE & OFFSHORE AS | OSLO | 25 908 055 | 3,79 % |
| NORDNET LIVSFORSIKRING AS | OSLO | 17 752 751 | 2,60 % |
| VERDIPAPIRFONDET ALFRED BERG GAMBA | OSLO | 16 526 581 | 2,42 % |
| ELMO HOLDING AS | NOTODDEN | 15 500 000 | 2,27 % |
| JEMO INVEST AS | ULEFOSS | 15 500 000 | 2,27 % |
| LMS HOLDCO AS | VESTFOSSEN | 15 500 000 | 2,27 % |
| MAMY INVEST AS | NOTODDEN | 15 500 000 | 2,27 % |
| DALLAS ASSET MANAGEMENT AS | OSLO | 15 016 292 | 2,20 % |
| STOREBRAND VEKST | BOURNEMOUTH BH7 7DA, GREAT BRITAIN | 14 817 376 | 2,17 % |
| CARNEGIE INVESTMENT BANK DK BRANC | DK-1023 COPENHAGEN K, DENMARK | 9 707 414 | 1,42 % |
| STATOIL PENSJON | STAVANGER | 7 943 811 | 1,16 % |
| FERNCLIFF MARIS AS | OSLO | 7 303 230 | 1,07 % |
| NETFONDS LIVSFORSIKRING AS | OSLO | 6 457 620 | 0,94 % |
| VERDIPAPIRFONDET HANDELSBANKEN NORGE | OSLO | 6 000 000 | 0,88 % |
| NORDNET BANK AB | 16714 BROMMA, SWEDEN | 5 754 028 | 0,84 % |
| CIPI LAMP UCITS SWEDBANK SMB | LONDON, GREAT BRITAIN | 5 000 000 | 0,73 % |
| VERDIPAPIRFONDET STOREBRAND OPTIMA | BOURNEMOUTH BH7 7DA, GREAT BRITAIN | 4 397 634 | 0,64 % |
| DANSKE BANK A/S | DK-1023 COPENHAGEN K, DENMARK | 4 107 866 | 0,60 % |
| INGVE ELLINGVÅG | AVERØY | 2 383 500 | 0,35 % |
| Total, 20 largest shareholders | | 337 831 715 | 49,41 % |
| Total others | | 345 846 537 | 50,59 % |
| Total number of shares | | 683 678 252 | 100,00 % |



Note 15 Continues ›

(Amounts in NOK)

Nel owns 2 355 136 treasury shares, through its subsidiary New Nel Hydrogen AS.

| SHARES REPRESENTED/OWNED BY BOARD MEMBERS AS PER 31.12.2016 | ASSIGNMENT | NUMBER OF SHARES |
|---|---|---|
| Martin Nes | Chairman of Board | 0 |
| Øystein S. Spetalen 1) | Board member | 33 211 285 |
| Jan Christian Opsahl 2) | Board member | 15 016 292 |
| Mogens Filtenborg 3) | Board member | 1 813 493 |
| Anne Marie Gohli Russel | Board member | 376 923 |
| Eva Karin Sandanger Dugstad | Board member | 0 |
| Kristin Hellebust | Board member | 0 |
| Mikael Sloth | Board member | 0 |

1) Represents Strata Marine & Offshore AS, Ferncliff Maris AS
2) Represents Dallas Asset Management AS
3) Represents Zuns ApS

| SHARES AND FORWARD CONTRACTS BY THE MANAGEMENT | ASSIGNMENT | NUMBER OF OPTIONS |
|---|---|---|
| Jon André Løkke | CEO | 6 000 000 |

There were no dividends paid out in 2015 or 2016.

## Note 16 Lease commitments

Group

The company has entered into the following lease agreements of significance:

| RENTAL/LEASE AGREEMENTS: | MATURITY | 1 YEAR | 1-5 YEARS | 6TH YEAR |
|---|---|---|---|---|
| Rent at Heddalsvegen 11, 3674 Notodden | July 2018 | 632 724 | 2 560 000 | 660 000 |
| Rent at Karenlyst Allé 20, Oslo | November 2021 | 448 200 | 2 465 100 | 622 500 |
| Oper. Lease agreements at New Nel Hydrogen, Notodden: | | | | |
| Machines | | 80 000 | 400 000 | 110 000 |
| IT systems | | 910 000 | 4 000 000 | 1 100 000 |
| Office machines | | 45 000 | 200 000 | 60 000 |
| Misc. Operational lease agreements at Nel Hydrogen A/S, Denmark | | 859 207 | 1 150 090 | - |

## Note 17 Accounts receivable

(Amounts in NOK)

Group

As at 31 December, the ageing analysis of accounts receivables is, as follows:

| | | | PAST DUE BUT NOT IMPAIRED | | | | |
|---|---|---|---|---|---|---|---|
| | TOTAL | NEITHER PAST DUE NOR IMPAIRD | <30 DAYS | 30-60 DAYS | 61-90 DAYS | 91-180 DAYS | >180 DAYS |
| 2015 | 40 361 155 | 29 107 582 | 5 007 137 | 1 785 363 | 267 595 | 990 979 | 3 202 501 |
| 2016 | 34 974 145 | 20 438 948 | 7 837 049 | 1 187 452 | 274 123 | -284 038 | 5 520 611 |

| BAD DEBTS | 2016 | 2015 |
|---|---|---|
| Accruals for bad debts | 1 034 067 | 1 007 074 |

Accounts receivables are non-interest bearing and are on 30 days terms.

See Note 24 on credit risk of accounts receivable, which explains how the group manages and measures credit quality of accounts receivable that are neither past due nor impaired.

## Note 18 Other current balance sheet items

ASA

| SPECIFICATION OF OTHER CURRENT ASSETS | 2016 | 2015 |
|---|---|---|
| Other currennt receivables | 362 309 | 1 062 110 |
| Total lending and receivables | 362 309 | 1 062 110 |
| Specification of other current liabilities | | |
| Other current liabilities | 579 830 | 130 128 |
| Vacation- and board of directors remuneration accrual | 653 336 | 513 333 |
| Total other current liabilities | 1 233 166 | 643 461 |



Note 18 Continues ›

(Amounts in NOK)

ASA

| SPECIFICATION OF OTHER CURRENT ASSETS | 2016 | 2015 |
|---|---|---|
| Work in progress, net receivable | 344 026 | 8 130 570 |
| VAT net receivable | 755 669 | 813 454 |
| Miscellaneous receivables | 2 212 677 | 1 773 414 |
| Total lending and receivables | 3 312 372 | 10 717 438 |
| Specification of other current liabilities | | |
| Credit facilities | 1 521 821 | 2 177 827 |
| Work in progress, net payable | 10 202 783 | 3 419 285 |
| VAT net payable | 0 | 861 515 |
| Prepayments from suppliers | 19 798 387 | 10 625 018 |
| Vacation- and board of directors remuneration accrual | 8 191 079 | 5 809 080 |
| Conditional liability reg. acquisition of Rotoboost AS | 3 750 000 | 3 289 704 |
| Other current liabilities | 3 581 950 | 2 469 749 |
| Total other current liabilities | 47 046 020 | 28 652 180 |

## Note 19 Investments in associated companies

| Group | | | | ACQUISITION VALUES | | CARRYING VALUES | |
|---|---|---|---|---|---|---|---|
| | COUNTRY | INDUSTRY | OWNERSHIP | 2016 | 2015 | 2016 | 2015 |
| Sagim SAS | France | Electrolyzer | 37.03 % | 100 000 | 100 000 | 100 000 | 100 000 |
| Glomfjord Hydrogen AS**) | Norway | Electrolyzer | 28.57 % | 200 000 | 0 | 200 000 | 0 |
| Uno-X Hydrogen AS***) | Norway | Fueling | 39.00 % | 15 737 223 | 0 | 13 408 242 | 0 |
| Danish Hydrogen Fuel A/S *) | Denmark | Fueling | 51.50 % | 0****) | 21 480 694 | 0 | 602 603 |
| Total | | | | 16 037 223 | 21 580 694 | 13 708 242 | 702 603 |

*) Danish Hydrogen Fuel A/S is considered to be an associated company because it is regulated in both an investment - and shareholder agreement that no party may hold more than 49.99 % of the votes in the company.
**) Glomfjord Hydrogen AS has no activity in 2016.
***)Uno-X Hydrogen AS was last year a 100% owned company by Nel ASA, but has in 2016 been partly sold. Nel ASA now owns 39% and Uno-X Hydrogen AS is now an associated company.
****)The group does not recognise its share of losses if this means that the carrying amount of the investment becomes negative (including unsecured receivables).

(Amounts in NOK)

The group has an ownerhip share in Copenhagen Hydrogen Network (CHN) which is under 10%, and has made an impairment of a financial instrument at NOK 6.2 million related to this investment.

| | DANISH HYDROGEN FUEL AS | | UNO-X HYDROGEN AS | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Current assets | 12 173 888 | 33 349 382 | 22 586 431 | 7 652 626 |
| Non-current assets | 0 | 2 304 911 | 9 501 765 | 2 216 958 |
| Current liabilities | 5 158 663 | 11 766 477 | 36 000 000 | 3 766 897 |
| Non-current liabilities | 29 793 637 | 36 242 216 | 778 921 | 1 129 973 |
| Equity | -22 778 412 | -12 354 401 | -1 556 777 | 4 972 706 |
| Group's carrying amount of the investment | | | | |
| Revenues | 641 897 | 0 | 19 296 | 16 561 922 |
| Depreciations | 9 349 297 | -13 884 790 | 145 788 | 291 098 |
| Other costs | 2 218 739 | -869 470 | 1 250 907 | 16 270 824 |
| Interest income | 2 338 | 0 | 85 719 | 1 504 |
| Interest costs | 373 131 | -9 982 | 295 097 | 32 150 |
| Profit before tax | -11 296 932 | 0 | -1 586 777 | 639 978 |
| Tax costs | 0 | 0 | 0 | 107 409 |
| Net profit | -11 296 932 | -14 764 242 | -1 586 777 | 532 569 |
| Group’s share of profit for the year recognised | -5 817 920 | -6 116 705 | -728 519 | |
| Group’s share of profit for the year not recognised | -5 215 317 | 0 | 0 | |
| Elimination of internal profit related to sale to DHF and Uno-X 1) | 0 | -7 169 241 | -1 600 461 | |
| Share of profit (loss) from an associate | -602 603 | -13 285 946 | -2 328 980 | |

The group does not recognise its share of losses if this means that the carrying amount of the investment becomes negative (including unsecured receivables).

1) Sale from Nel Hydrogen A/S to Danish Hydrogen Fuel A/S and Uno-X Hydrogen AS is recognised with 100 % in other operating income in the consolidated statement of comprehensive income, and the elimination of internal profit related to this sale is included in share of profit (loss) from an associate under net financial items in the consolidated statement of comprehensive income.

2) Statutory accounts for 2016 are not approved yet.

| | SAGIM SAS | GLOMFJORD HYDROGEN AS | DANISH HYDROGEN FUEL AS | UNO-X HYDROGEN AS | TOTAL |
|---|---|---|---|---|---|
| As of 1 of January 2016 | 100 000 | 200 000 | 602 603 | 0 | 902 603 |
| Added capital in 2016 | 0 | 0 | 0 | 15 737 233 | 15 737 233 |
| Share of profit (loss) from an associate | 0 | 0 | -602 603 | -2 328 980 | -2 931 583 |
| Per 31 of Descember 2016 | 100 000 | 200 000 | 0 | 13 408 253 | 13 708 253 |

## Note 20 Subsidiaries

(Amounts in NOK)

ASA

| COMPANY | 2016 | 2015 |
|---|---|---|
| New Nel Hydrogen Holding AS | 137 800 000 | 120 000 000 |
| Nel Hydrogen A/S (DK) | 388 289 900 | 300 002 400 |
| Nel Fuel AS | 55 000 | 55 000 |
| Total | 526 144 900 | 420 057 400 |

Group

The following subsidiaries are included in the consolidated financial statements:

| COMPANY | LOCATION | MAIN OPERATIONS | CONSOLIDATED FROM | OWNERSHIP / VOTES 2016 | OWNERSHIP / VOTES 2015 |
|---|---|---|---|---|---|
| New Nel Hydrogen Holding AS | Notodden, Norway | Investment | | 100 % | 100 % |
| New Nel Hydrogen AS | Notodden, Norway | Hydrogen | | 100 % | 100 % |
| New Nel Hydrogen Eiendom AS | Notodden, Norway | Real estate | | 100 % | 100 % |
| New Nel Hydrogen P60 AS | Notodden, Norway | Hydrogen | | 100 % | 100 % |
| Hyme AS | Oslo, Norway | Hydrogen | 31.03.2015 | 100 % | 100 % |
| Rotoboost H2 AS 2) | Notodden, Norway | Product Development | 30.09.2015 | 100 % | 100 % |
| Nel Hydrogen A/S (DK) 1) | Herning, Denmark | Hydrogen fuel stations | 30.06.2015 | 100 % | 100 % |
| Nel Fuel AS | Oslo, Norway | Investment | | 100 % | 100 % |

1) and 2) See note 21 for details related to these acquisitions.

## Note 21 Business Combinations

(Amounts in NOK)

### Acquisition of Nel Hydrogen A/S

Nel ASA acquired 100% of the shares in Nel Hydrogen A/S for a total purchase price and consideration of MNOK 300 million. The acquisition was financed through NOK 100 million in cash and NOK 200 million in a share emission towards the former owner of Nel Hydrogen A/S. These shares were issued at NOK 1.35 per share. The transaction was closed on June 26th 2015. In the Consolidated financial statement, Nel Hydrogen A/S' figures are included as from third quarter 2015 onwards.

The transaction represents an increased focus on the Hydrogen Refuelling Station market which is one of Nel`s three strategic focus areas within its hydrogen business segment.

The acquisition of Nel Hydrogen A/S is considered to be a business combination under IFRS 3 and consequently all assets acquired and liabilities assumed are accounted for at its fair value at the acquisition date. Based on the purchase price, it is assessed that the carrying amount of assets and liabilities in Nel Hydrogen A/S represents its fair value at the acquisition date. Based on the purchase price allocation, Nel Hydrogen A/S has allocated fair value adjustments as described below.

| COST OF BUSINESS COMBINATION | SHARES ACQUIRED | AMOUNT (MNOK) |
|---|---|---|
| Agreed purchase price | 100 % | 300.0 |
| Book value equity | | 20.0 |
| Excess value | | 280.0 |
| Goodwill pre-acquisition | | - |
| Excess value to be allocated | | 280.0 |
| Excess value is allocated to: | | |
| Financial assets | | 6.0 |
| Customer relationships | | 2.6 |
| Technology | | 20.8 |
| Deferred tax | | -5.8 |
| Total allocated | | 23.5 |
| Goodwill | | 256.5 |
| The acquired goodwill is not tax deductible | | |

Measured from the transaction date total revenue and profit generated from Nel Hydrogen A/S are MNOK 41.0 and MNOK minus 4.9 respectively.

If Nel Hydrogen AS had been acquired on 1 January 2015 total revenue and profit for the combined entity for 2015 would have been 42.0 MNOK and 10.7 MNOK higher, respectively.

The goodwill of NOK 256.5 million comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the Hydrogen fueling station segment. None of the goodwill recognised is expected to be deductible for income tax purpose.



Note 21 Continues ›

## Acquisition of Rotoboost H2 AS

Nel ASA's subsidiary New Nel Hydrogen AS acquired 100% of the shares in RotoBoost H2 AS for a conditional acquisition price. 8.0 MNOK was a base price, whereas the conditioned fullfilment of 2 specific conditions/milestones will increase the total consideration with respectively 2.0 MNOK and 3.0 MNOK. The acquisition was financed through cash payment. The transaction was closed and the shares were transferred to Nel / New Rotoboost H2 AS on 20 September 2015. In the Consolidated financial statement, Rotoboost H2 AS' figures are included as from fourth quarter 2015 onwards.

RotoBoost AS develops a rotolyzer, which is a pressurized, compact electrolyser, which utilizes a vertical, rotating cell pack, providing full operational flexibility while allowing for low production costs. This opens up new market segments for Nel, and provides an ideal solution for hydrogen refuelling stations where space is limited, or integration with renewable energy sources. The technology is patented and has been verified through extensive testing.
The acquisition of Rotoboost H2 AS is considered to be a business combination under IFRS 3 and consequently all assets acquired and liabilities assumed are accounted for at its fair value at the acquisition date. Based on the purchase price, it is assessed that the carrying amount of assets and liabilities in Rotoboost H2 AS represents its fair value at the acquisition date. Based on the purchase price allocation, Rotoboost H2 AS has allocated fair value adjustments as described below.

| COST OF BUSINESS COMBINATION | FULLFILMENT PROBABILITY | SHARES ACQUIRED | AMOUNT (MNOK) |
|---|---|---|---|
| Agreed purchase price | | 100 % | 8.0 |
| 1. conditional addition, based on fullfilment of certain conditions | 75 % | | 2.0 |
| 2. conditional addition, based on fullfilment of certain conditions | 75 % | | 3.0 |
| Maximum total acquisition price | | | 13.0 |
| | | | |
| Estimated total acquisition price, based of fulfillment probability | | | 11.8 |
| Book value equity | | | 9.6 |
| Excess value | | | 2.2 |
| Goodwill pre-acquisition | | | - |
| Excess value to be allocated | | | 2.2 |
| Excess value is allocated to: | | | |
| Technology | | | 2.2 |
| Deferred tax | | | -0.6 |
| | | | |
| Total allocated | | | 1.6 |
| Goodwill | | | 0.6 |
| The acquired goodwill is not tax deductible | | | |

Measured from the transaction date total revenue and profit generated from RotoBoost H2 AS are MNOK 0 and MNOK -0.2 respectively.

If RotoBoost H2 AS had been acquired on 1 January 2015 total revenue and profit for the combined entity for 2015 would have been 0 MNOK and 0.6 MNOK lower, respectively.

The goodwill of NOK 60.8 million comprises the value of expected synergies arising from the acquisition. Goodwill is allocated entirely to the Hydrogen segment.

None of the goodwill recognised is expected to be deductible for income tax purpose.

Group:

## RISKS RELATING TO THE AQUISITION OF NEL HYDROGEN A/S AND ROOTOBOOST H2 AS

Prior to the acquisition of Nel Hydrogen A/S and Rotoboost H2 AS, Nel completed a full and comprehensive due diligence of the aquired companies based on the information and documentation received by the seller and its advisor. If it, at a later stage, becomes evident that the information provided does not properly reflect the acquired companies' business and financial condition, this may affect the group's business, financial condition and results of operations.

## OPERATIONAL RISK FACTORS

### Technological change

There are risks associated with technological change, and if competitors gain advantages in the development of alternative technologies, this could affect the competitive position of the company.

The market for Nel's products and services is subject to technological change. The success of the company depends on the timely perception of new trends, developments and customer needs, constant further development of engineering expertise and ensuring that the portfolio of products and services keeps pace with technological developments. This presents the risk that competitors may launch new products and services earlier or at more competitive prices or secure exclusive rights to new technologies. If these circumstances were to materialize, it could have a significant adverse effect on the company's business, prospects, financial results or results of operations.

### Intellectual property rights

Nel seeks to protect important proprietary electrolyser manufacturing processes, documentation and other written materials, and other intellectual property primarily under patent, trade secret and copyright laws. It also typically requires employees, consultants and companies that have access to its proprietary information to execute confidentiality agreements. The steps taken by the group to protect its proprietary information may not be adequate to prevent misappropriation of its technology. In addition, Nel's proprietary rights may not be adequately protected because:

- people may not be deterred from misappropriating its technologies despite the existence of laws or contracts prohibiting misappropriation;
- policing unauthorized use of the group's intellectual property is difficult, expensive and time-consuming, and the group may be unable to determine the extent of any unauthorized use; and
- the laws of certain countries in which the group markets or plans to market its products may offer little or no protection for its proprietary technologies.

Unauthorized copying or other misappropriation of the group's proprietary technologies could enable third parties to benefit from its technologies without paying for doing so. Any inability to adequately protect its proprietary rights could harm the group's ability to compete, to generate revenue and to grow its business. This could have a significant adverse effect on the group's business, prospects, financial results and results of operations.

Some of the group's patents are due to expire within the next couple of years which means that the group will lose the sole right to certain technology in certain areas. Although the company believes that this will have little effect on its competitive position, no assurance can be made to this point.

The group may not obtain sufficient patent protection on the technology embodied in its products and production processes, which could significantly harm its competitive position and increase its expenses significantly. The group's issued patents may be challenged, invalidated or declared unenforceable, or a competitor may have filed similar patent applications as the group. The group's present and future patents may provide only limited protection for its technology and may not be sufficient to provide competitive advantages. For example, competitors could be successful in challenging any issued patents or, alternatively, could develop similar or more advantageous technologies on their own or design around the group's patents. Also, patent protection in certain countries may not be available or may be limited in scope and any patents obtained may not be as readily enforceable as in all jurisdictions, making it difficult for the group to effectively protect its intellectual property from misuse or infringement by other companies in these countries. Any inability to obtain and enforce intellectual property rights in some countries could have a significant adverse effect on the group's business, prospects, financial results and results of operations. In addition, given the costs of obtaining patent protection and the sometimes limited potential for protection,


Note 22 Continues ›

the group may choose not to protect certain innovations that later turn out to be important. There is also a general risk that the group receives information subject to confidentiality agreements, regarding other parties' know-how and trade secrets in relation to technology which may hinder the group from development of similar intellectual assets

### Disputes

The group could get involved in intellectual property disputes that could be time-consuming and costly and could result in loss of significant rights and/or penalties. From time to time, the group, its customers or third parties with whom the group works may receive claims, including claims from various industry participants, alleging infringement of their patents. Although the group is not currently aware of any parties pursuing infringement claims against the group, there can be no assurance that it will not be subject to such claims in the future.

The group has certain registered trademarks and has applied for registration of certain trademarks. Although the group does not consider registration of trademarks to be critical in the marketing of its products, and that the present use of such trademarks to the group's knowledge most likely does not violate any third party's rights, there can be no guarantee that no third party will be successful in claiming damages from the group and/or in stopping the group from using such trademarks in the relevant jurisdiction, in which case it could harm the group's ability to compete, generate revenue and to grow its business.

Although the group is currently not aware of infringement of the group's intellectual property by other parties, it cannot guarantee that such infringement does not currently exist or will not occur in the future. To protect its intellectual property rights and to maintain its competitive advantage, the group may file suits against parties who it believes are infringing its intellectual property. Intellectual property litigation is expensive and time consuming, could divert management's attention from the group's business and could have a material adverse effect on the group's business, prospects, financial results or results of operations. In addition, the group's enforcement efforts may not be successful.

### Key personnel

The successful development and performance ofthe group's business depends on the group's ability to attract and retain skilled professionals with appropriate experience and expertise. Further, if the group loses the service of its senior management or key personnel, it may not be able to execute its business strategy. There is no assurance, however, that the group will be able to attract or retain such personnel on acceptable terms or at all. Any failure to attract or retain such personnel could have a material and adverse effect on the group's business and operations.

The success of the group depends on qualified executives and employees, in particular certain executive officers of the group and employees with research and development expertise. The loss of executives, key employees in the area of research and development, or other employees in key positions could have a material adverse effect on the market position and research and development expertise of the group. Considerable expertise could be lost or access thereto gained by competitors. Post-contractual prohibitions on competition exist only for certain members of the group's management and despite the existence of such post-contractual prohibitions, no assurance can be given that such prohibitions will be complied with or, if breached, can be enforced effectively. Due to intense competition, there is a risk that qualified employees will be attracted by competitors and that the group will be unable to find a sufficient number of appropriate new employees. There can be no assurance that the group will be successful in retaining these executives and the employees in key positions or in hiring new employees with corresponding qualifications. If the group fails to do so, it could have a significant adverse effect on the group's business, prospects, financial results and results of operations.

### Adverse publicity

Product liability claims against the group could result in adverse publicity and potentially monetary damages. Currently there are no product liability claims against the group. It is possible that its products could result in injury, whether by product malfunctions, defects, improper installation or other causes. the group cannot predict whether or not product liability claims will be brought against it or the effect of any resulting negative publicity on its business. Moreover, the group may not have adequate resources in the event of a successful claim against it. The successful assertion of product liability claims against the group could result in potentially significant monetary damages, which could have a significant adverse effect on the group's business, prospects, financial results and results of operations. As of the date of this annual report, the group is unaware of any current or pending product liability claims made against the company.

### Dependence of third parties in manufacturing

The group's manufacturing operations rely on external subcontractors and suppliers of services and goods to varying degrees. This operating model inherently contains a risk to the group's goodwill and branding. If suppliers fail to meet agreed or generally accepted standards in areas such as environmental compliance, human rights, labour relations and product quality, this could have a significant adverse effect on the the group's business, prospects, financial results and results of operations. If the the group fails to develop or maintain its relationships with its suppliers or such suppliers are prevented from supplying, the the group may be unable to manufacture its products or its products may be available only at a higher cost or after a long delay, which could prevent the the group from timely delivering its products to its customers and the the group may experience order cancellation, customer claims and loss of market share.

### Financial risk

The group is exposed to financial risk associated with changes in foregin exchange rates. The group doesn`t uses financial derivatives instruments with the purpose of speculating in currency.

The group does not use financial instruments in connection with the management of financial risk. The group uses financial instruments such as bank loans.

The purpose of this financial instrument is to provide capital for investments that are necessary for its operations. In addition, financial instruments such as  accounts receivable, accounts payable, etc. that are directly related to the group's daily operations.

The key financial risks the groups is exposed to be related to interest rate risk, liquidity risk, currency risk and credit risk.

### Liquidity risk

Liquidity risk is the potential loss that occurs when the group fails to fulfil its contractual obligations when they fall due.

However, the group has a strong liquidity position as per 31.12.2016 which is  further stregthened by the private placement in February 2017  which raised NOK 176.7 million in gross proceeds.

The strong cash position is a good basis for the group's growth strategy.

The group monitors its risks associated for lack of capital up against the company's planned activities.

The group will if necessary attempt to raise capital through private placements, debt financing, partnerships, and strategic alliances or from other sources. The group may fail to raise capital on acceptable terms, or not do it at all, and can result in a liquidation.

### Currency risk

The group's transactions mainly take place in NOK, DKK and EUR. The group's revenues will be influenced by variations in the exchange rate against NOK, the same will apply to expenses in other currencies. The group also gets advance payments for customers and will thus reduce the fluctuation risk. The group does secure larger contracts in foreign currency by entering forward currency contracts . The risk is considered to be medium.



Note 22 Continues ›

(Amounts in NOK)

Currency fluctuation effects on net profit of the year:

| P&L accounts | | | | CHANGES IN EXCHANGE RATE NOK/FOREIGN CURRENCIES | | | |
|---|---|---|---|---|---|---|---|
| NET PROFIT IN FOREIGN CURRENCIES | | VALUE IN NOK | | -10% | -5% | +5% | 10% |
| DKK | 28 140 527 | 34 393 352 | | -3 439 335 | -1 719 668 | 1 719 668 | 3 439 335 |
| EUR | 2 044 339 | 18 562 598 | | -1 856 260 | -928 130 | 928 130 | 1 856 260 |
| | | | Effect on net profit | -3 053 474 | -1 526 737 | 1 526 737 | 3 053 474 |
| **Balance sheet** | | | | | | | |
| NET RECEIVABLES/LIABILITIES IN FOREIGN CURRENCIES | | | | | | | |
| DKK | 6 587 452 | 8 051 184 | | -805 118 | -402 559 | 402 559 | 805 118 |
| EUR | 234 569 | 2 129 886 | | -212 989 | -106 494 | 106 494 | 212 989 |
| | | | Effect on net profit | -1 539 596 | -769 798 | 769 798 | 1 539 596 |
| | | | Total effect on net profit | -4 593 071 | -2 296 535 | 2 296 535 | 4 593 071 |

### Interest rate risk:

The group's risk exposure in relation to changes in market interest rates are the group's loans and bank deposits, and a change in interest rates may therefore affect the capital return. The group has small amount of long-term debt obligations and the marked interest looks to be stabile low in the nearest future. Due to the low amount of debt in the group it is considers that a change in interest rates will have an unsignificant effect for the group. A change on 100 points will have an effect on +/- NOK 150.000. Thus the risk is considered to be medium since the marked interest are low.

| MATURITY ANALYSIS FOR LONG TERM LOANS: | | CHANGES IN EXCHANGE RATE NOK/FOREIGN CURRENCIES | | | |
|---|---|---|---|---|---|
| | 2017 | -2% | -1% | +1% | +2% |
| 2) DNB Bank AS | 500 000 | -10 000 | -5 000 | 5 000 | 10 000 |
| 3) DNB Bank AS | 400 000 | -60 000 | -30 000 | 30 000 | 60 000 |
| 4) Innovasjon Norge | 416 668 | -33 333 | -16 500 | 16 500 | 33 333 |
| 5) Nykredit | 409 050 | -106 063 | -53 032 | 53 032 | 106 063 |

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The group is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

### Trade receivables

Customer credit risk is managed by each business unit subject to the group’s established policy, procedures and control relating to customer credit risk management.
Credit quality of a customer is assessed based on an credit rating scorecard and individual credit limits are defined in accordance with this assessment. Other receivables are prepaid expenses or accruals. Outstanding customer

receivables are regularly monitored. Maximum risk exposure is outstanding receivables of MNOK 34.9. Nel credit risk is considered to be medium, as claims are mainly against various international companies.

An impairment analysis is performed at each reporting date on an individual basis for major clients. In addition, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 17. The group does not hold collateral as security. The group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

## RISK FACTORS RELATED TO MARKET

### Regulatory issues

The group's  operations are subject to numerous environmental requirements. Such laws and regulations govern, among other matters, air pollution emissions, wastewater discharges, solid and hazardous waste management, and the use, composition, handling, distribution and transportation of hazardous materials. Many of these laws and regulations are becoming increasingly stringent (and may contain "strict liability"), and the cost of compliance with these requirements can be expected to increase over time.

The group's  production depends on various discharge permits granted by various authorities. From time to time, breaches of the allowed emission limits set out in such permits may occur. If such limits of the relevant permits should be exceeded, this may have a significant effect on the group's operations and result, as the group may be ordered to temporarily halt production, be subject to fines and/or be ordered to undertake corrective measures.

The group cannot predict the impact of new or changed laws or regulations relating to health, safety, the environment or other concerns or changes in the ways that such laws or regulations are administered, interpreted or enforced. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. To the extent that any of these requirements impose substantial costs or constrain the group's ability to expand or change its processes, the group's business, prospects, financial results and results of operations could suffer. Any breach of such requirements could in addition result in fines or other substantial costs and/or constraint the group's ability to operate its production plant, which could have a significant adverse effect on its business, prospects, financial results and results of operations.

### Competition

The group competes with a large number of competitors. Many competitors are developing and are currently producing products based on technologies that may have costs similar to, or lower than, the group's projected costs. Many of the group's existing and potential competitors may have longer operating histories, greater name recognition, structurally better cost positions through geographical location or agreements with local authorities (including direct and indirect subsidies), better access to skilled personthe group, better access to research and development partners, access to larger customer bases and significantly greater financial, sales and marketing, manufacturing, distribution, technical and other resources than the group. As a result, they may be able to respond more quickly than the group can to the changing customer demands or to devote greater resources to the development, promotion and sales of their products. the group's business relies on sales of its products, and competitors with more diversified product offerings may be better positioned to withstand a decline in the demand for products of the types that the group offers. It is possible that new competitors or alliances among existing competitors could emerge and rapidly acquire significant.

### Financial assets and liabilities

All significant financial assets are classified as loans and receivables and all significant financial liabilities are measured at amortised cost. The group does not hold significant financial assets or liabilities measured at fair value through profit or loss, held-to-maturity investments or available-for-sale financial assets.

## Note 23 Events after the balance sheet date

(Amounts in NOK)

Group:

January 19th 2017: Nel announced that the company has entered into Letter of Intent with Hexagon Composites ASA and PowerCell Sweden AB to establish a joint venture for the development of integrated hydrogen projects. The joint venture will initially focus on opportunities in the maritime and marine segments as well as projects to leverage renewable energy resources.

February 1st 2017: Nel Hydrogen Fueling, a division Nel, announced the launch of a multipurpose hydrogen fueling station, which includes up to three separate dispensers connected to one fueling module.

February 13th, 2017: Nel Hydrogen Solutions, a division of Nel was awarded a contract by Icelandic Hydrogen for three H2Station® hydrogen fueling stations and a Nel C-series electrolyser.

February 20th 2017: Nel Hydrogen Solutions, a division of Nel entered into a framework contract for the supply, construction and maintenance of H2Station® hydrogen fueling stations in California, following the California Energy Commissions Notice of Proposed Awards for the Grant Funding Opportunity GFO-15-605.

February 21st 2017: Nel Hydrogen Solutions, a division of Nel entered into a framework contract for the supply, construction and maintenance of H2Station® hydrogen fueling stations in California for Royal Dutch Shell Plc in a partnership with Toyota Motor Corp.

February 27th 2017: Nel entered into a non-binding term sheet to acquire the Connecticut U.S. based hydrogen technology company Proton Energy Systems Inc. This will create the world's largest hydrogen electrolyser company with a global footprint. The purchase price corresponds to an enterprise value of USD 70 million. The contemplated acquisition will be settled by USD 20 million in cash, and new shares of Nel paid in equal instalments after 12 months and 24 months at an agreed share price of NOK 2.72.

February 28th 2017: The company announced that it has raised NOK 176.7 million in gross proceeds through a private placement of 64.980.000 new shares, at a price per share of NOK 2.72.

March 6th 2017: Nel Hydrogen Solutions, a division of Nel was awarded a contract by H2 Frontier Inc. for a H2Station® hydrogen fueling station to be installed in Los Angeles, California.

March 27th 2017: Nel Hydrogen Solutions, a division of Nel received the first purchase orders on H2Station® equipment and services from Equilon Enterprises LLC (Royal Dutch Shell Plc, "Shell") under the earlier announced California framework contract.

## Note 24 Going concern

The financial statement is presented on the going concern assumption under International Financial Reporting Standards. As per the date of this report the company has sufficient working capital for its planned business activities over the next twelve month period.

The Board of Directors confirmed on  this basis that the going concern assumption is valid, and that financial statements are prepared in accordance with this assumption.

Building a better working world

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**INDEPENDENT AUDITOR'S REPORT**

To the Annual Shareholders' Meeting of NEL ASA

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of NEL ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the balance sheet as at 31 December 2016, the statements of comprehensive income, the statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of NEL ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2016 and their financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations 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.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

*Assessment of impairment of goodwill*
At December 31, 2016 the recorded amount of goodwill was NOK 317.6 million, 42% of total assets. Estimating the recoverable amount of the intangible assets requires management judgment including estimates of future sales, gross margins, operating costs, terminal value growth rates, capital expenditures and the discount rate. Management's annual impairment assessment is a key audit matter because the assessment process is complex, requires significant judgment and imposes estimation uncertainties.

Our audit procedures included, among others, an evaluation of assumptions for revenue projected by management based on the development in the market. We considered the accuracy of management's prior year assumptions and evaluated the level of consistency applied in the valuation methodology from previous years. Furthermore, we compared the risk premiums in the weighted average cost of capital with external data, and considered management's adjustments for company specific factors. We also tested the mathematical accuracy of the valuation model and performed sensitivity analysis of the assumptions used. We assessed the Group's disclosures included in note 2 and 11 in the consolidated financial statements about those assumptions to which the outcome of the impairment test is most sensitive.

## Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and CEO (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management for the financial statements

Management is 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.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the

financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report and in the statements on corporate governance and corporate social responsibility

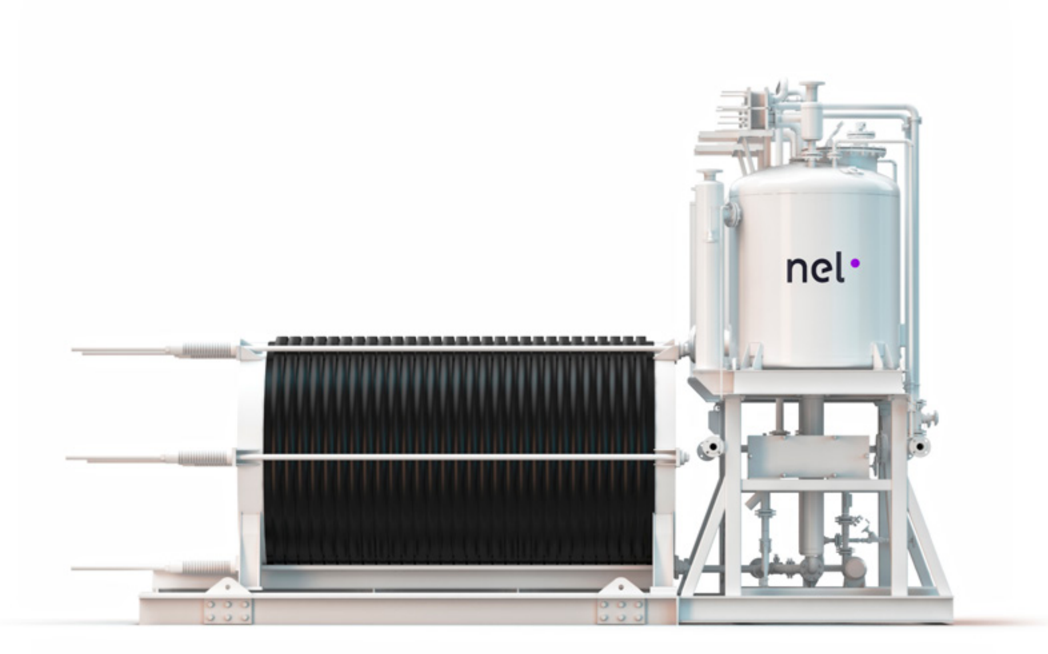
Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report, the statements on corporate governance and corporate social responsibility concerning the financial statements, the going concern assumption and the proposal for the allocation of the result 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 ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 20 April 2017
ERNST & YOUNG AS

Rolf Berge
State Authorised Public Accountant (Norway)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