Nel ASA

Q3 2018 interim report

Highlights of the quarter

- Nel ASA (Nel) reported revenues in the third quarter 2018 of NOK 116.0 million, up from NOK 111.7 million in the third quarter 2017:
    - There was growth in the Fueling and Solutions segment, while the development in Electrolyser was negative compared to the same quarter last year
- Order backlog amounts to NOK 365 million. The backlog does not include any orders under the Nikola supply contract
- The quarter is influenced by non-recurring costs
- Cash balance of NOK 434.1 million (Q3 2017: 252.8)
- Raised NOK 46.8 million in gross proceeds in a subsequent offering
- Announced the construction of the world's largest electrolyzer plant at Notodden
- H2BusEurope selected for proposed award of approximately EUR 40 million
- Received purchase order for first Power-to-Gas (P2G) project in Australia
- Invested USD 5 million into Nikola Motor Company ("Nikola") as part of their C-round financing
- Received a EUR 2 million contract by Uno-X Hydrogen AS to build the two next H2Station® hydrogen fueling stations in Norway
- Received a EUR 2 million contract by H2 Mobility to build two H2Station® hydrogen fueling stations in Germany
- Granted NOK 7.5 million in funding for hydrogen fueling stations in Denmark
- Officially opened new Nel H2Station® factory in Herning, Denmark, with nameplate capacity of 300 H2Stations per year
- Settlement in legal dispute with PDC Machines Inc.

Subsequent events

- Participation in H2-Consortium Westküste in Germany, being selected as a preferred partner of Alstom

Key figures

KEY FIGURES *(Unaudited amounts in NOK million)*	**2018** Q3	**2017** Q3	**2018** YTD	**2017*** YTD	**2017*** Full year
Operating revenue	116.0	111.7	364.2	186.6	298.4
Total operating expenses	182.2	145.0	499.5	260.2	415.6
EBITDA	-53.3	-18.5	-89.7	-53.5	-81.2
Operating loss	-66.3	-33.3	-135.4	-73.6	-117.2
Pre-tax loss	-67.4	-36.4	-141.8	-79.8	-124.4
Net loss	-65.5	-32.6	-134.5	-75.2	-52.4
Net cash flow from operating activities	-37.4	-90.9	-97.9	-104.3	-113.0
Cash balance end of period	434.1	252.8	434.1	85.6	295.0

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

Financial development

Nel reported revenues in the third quarter 2018 of NOK 116.0 million (Q3 2017: 111.7 million), following growth in the Fueling and Solutions segments, while the development in Electrolyser was negative compared to the same quarter last year, partly due to a few customers experiencing project delays, which delays revenue recognition.

At the end of the third quarter 2018, Nel had an order backlog of NOK 365.3 million. The order backlog does not at this stage include electrolyzers and associated fueling equipment to Nikola as part of its development of a commercial hydrogen station infrastructure in the US for truck and passenger vehicles. Backlog only includes firm purchase orders with agreed price, volume, timing and terms & conditions.

Costs of goods sold increased to NOK 78.1 million (65.8). Wage- and social cost expenses amounted to NOK 42.7 million (44.7) and other operating costs increased to NOK 48.5 million (19.7). The high cost level in the quarter was due to:

- Legal and settlement cost of NOK 19.0 million, following the legal dispute with PDC Machines, Inc. regarding alleged misappropriations of compressor trade secrets.

- Cost overruns related to two specific projects of NOK 7.0 million

- A provision for non-refundable VAT and non-deductible tax, related to transaction costs from acquisitions made in 2014, 2015 and 2017, entailing an increase in other operating cost of NOK 3.4 million

In addition, there was a high level of business development activities and considerable growth initiatives which affected the costs.

The expenses from Nel Korea Inc. Ltd are consolidated from this quarter.

Depreciation was NOK 13.0 million (14.8). The depreciation is mainly related to excess values derived from acquisitions completed in previous years.

Operating loss amounted to NOK -66.3 million (-33.3), while the EBITDA ended at NOK -53.3 million (-18.5)

The non-cash costs for the stock option- and share incentive program, which are included in wages and social costs, were NOK 2.6 million in the quarter and are currently expected at an average of NOK 2-3 million per quarter going forward.

Net financial expenses amounted to NOK 1.1 million of which NOK 1.1 million is related to Nel's ownership in Uno-X Hydrogen AS and Hyon AS.

Pre-tax loss was NOK -67.4 million (-36.4) and the net loss for the quarter was NOK -65.5 million, compared to a loss of NOK -32.6 million in the same quarter last year.

Total assets were NOK 1 908.9 million at the end of the quarter, compared to NOK 1 725.7 million at the end of 2017. Total equity was NOK 1 582.1 million. Thus, the equity ratio was 83 percent.

Net cash flow from operating activities in the third quarter 2018 was NOK -37.4 million, compared to NOK -90.9 million in the same quarter last year. Net cash flow from investing activities was NOK -48.9 million (-24.4), mainly related to the USD 5 million investment into Nikola as part of their C-round financing.

Nel’s cash balance at the end of the third quarter was NOK 434.1 million. The company raised NOK 46.8 million in gross proceeds in the subsequent offering following the NOK 281 million private placement in June.

Nel in brief

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

Since its origins in 1927 as part of Norsk Hydro, Nel has a proud history of development and continuous improvement of hydrogen plants.

Our hydrogen solutions cover the value chain from hydrogen production technologies to manufacturing of hydrogen fueling stations, providing all fuel cell electric vehicles with the same fast fueling and long range as conventional vehicles today. The company has three divisions, covering the hydrogen value chain: Nel Hydrogen Electrolyser, Nel Hydrogen Fueling, and Nel Hydrogen Solutions.

Developments

Nel Hydrogen Electrolyser

Production and installation of electrolyzers for hydrogen production.

Nel Hydrogen Electrolyser recorded revenues of NOK 64.1million, down from NOK 83.3 million in the third quarter 2017.

New Notodden plant

In August, Nel announced the construction of the world's largest manufacturing electrolyzer plant, fully automated and able to deliver the Nel alkaline electrolyzers at a game changing cost. The total development will have a name plate capacity of 360 MW/year, approximately ten times the current annual production capacity, and the new facility will accommodate the multi-billion NOK order from Nikola.

The manufacturing plant will be constructed as an extension of the current facility at Notodden, Norway, with total planned investments of around NOK 150 million.

The expansion of the Notodden facility is expected to add 30 to 40 new employees.

During 2018, the Notodden facility was expanded from a production capacity of 25 to 40 MW/year, through debottlenecking and optimizing the existing plant. When fully expanded, optimized and ramped up, the total Notodden facility will be able to deliver up to 360 MW worth of electrolyzers per year at a five-shift operation, representing more than 160 A485 units per year.

P2G project in Australia

Nel received a purchase order for the first Power-to-Gas (P2G) project in Australia from the ATCO Group that will use a Proton® PEM electrolyzer.

This contract is strategically important as it opens up a new P2G market and builds on the P2G experience that Nel has gained in many other parts of the world.

ATCO is developing an industry leading Clean Energy Innovation Hub (CEIH) based at the company's Jandakot Operations facility in Western Australia. The CEIH incorporates the production, storage and use of hydrogen, as well as the commercial application of clean energy in micro-grid systems. The CEIH will produce green hydrogen from electrolysis solar energy and inject the hydrogen into the micro-grid system at the Jandakot facility.

Some of the experience gained from this project include optimizing hydrogen storage solutions, blending hydrogen with natural gas and using hydrogen as a direct fuel.

ATCO's CEIH project is supported by the Australian Renewable Energy Agency and will be fully operational during 2019.

Electrolyzer developments

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

Nel Hydrogen Fueling

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

Nel Hydrogen Fueling reports financial figures together with Nel Hydrogen Solutions.

Official opening of new H2Station® factory

Late in the third quarter, Nel announced the official opening of the new Nel H2Station® factory in Herning, Denmark. The state-of-the-art, large-scale production facility has an annual capacity of 300 hydrogen stations per year.

With serial production according to lean principles, the large-scale manufacturing plant represents significant improvements in existing production efficiency and capacity. The factory also allows for both CE and UL-certified stations to be manufactured on the same production line, providing assurance of product safety and more cost-effective deployment of hydrogen fueling.

Settlement of legal dispute

Nel agreed to settle the legal dispute with PDC Machines, Inc. (PDC), regarding alleged misappropriations of compressor trade secrets.

Substantial efforts by Nel and its advisors to reach a solution in this dispute have entailed additional legal- and other related costs in the third quarter.

The parties look forward to continuing their joint efforts to provide products and services of the highest quality to customers in the hydrogen industry.

Nel Hydrogen Solutions

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

Nel Hydrogen Fueling and Solutions recorded revenues of NOK 51.8 million, increase from NOK 28.2 million in the same quarter in 2017, representing a growth of 84%.

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

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

Nikola

Nel has been awarded a contract for delivery of 448 electrolyzers and associated fueling equipment to Nikola. Under the multi-billion NOK contract, to be gradually ramped up from 2020 through 2025, Nel will deliver up to 1 GW of electrolysis plus fueling equipment. The contract value of these deliverables is currently not included in the reported order backlog, as exact timing and station design per site is still under discussion. The two demo stations are included in the backlog (originally with a value of USD 9 million).

H2BusEurope

The Connecting Europe Facility program (CEF) proposed an award on close to EUR 40 million for the H2BusEurope project.

The H2BusEurope project is developed by Nel and other leading industry partners aiming to deploy 600 fuel cell city buses in selected regions in Europe and establish infrastructure to provide sufficient supply of green hydrogen from Nel H2 stations.

Further details on the project are expected in the coming months.

Grants received in Denmark

Nel was granted NOK 7.5 million in funding through "Brintpuljen" for establishing H2 fueling stations in Sønderborg and Herning, Denmark.

The new station in Sønderborg will help the German and Danish network, whereas the station in Herning will be a showcase station, located right next to the new Nel H2Station® factory.

After delivery of these two stations, Denmark will have 12 H2 fueling stations in operation.

Purchase order in Germany

Nel received a purchase order from H2 Mobility Deutschland GmbH & Co. KG (H2 Mobility) for hydrogen equipment to build two H2Station® fueling stations in Germany.

The purchase order has a total value of approximately EUR 2 million, and the H2Station® fueling stations are planned for installation in Germany medio 2019.

Purchase order in Norway

Nel was awarded a contract by Uno-X Hydrogen AS (Uno-X Hydrogen) to build the next two H2Station® hydrogen fueling stations in Norway.

The purchase order has a value of approximately EUR 2 million and the fueling stations will be delivered during the first and second quarter of 2019.

Corporate

During the third quarter the subsequent offering following the private placement, that was completed in the second quarter and raised NOK 281 million in gross proceeds, was finalized. The subsequent offering received valid subscriptions for a total of 69.7 million offer shares. Hence, 15 million offer shares were issued at NOK 3.12 per share, raising NOK 46.8 million in gross proceeds. The new registered share capital of Nel is NOK 222 710 276, divided on 1 113 551 382 shares.

The proceeds raised through the private placement and subsequent offering will be used primarily to fund the expansion of the production facility at Notodden. The funds will contribute to continue our ambitious technology and product development plans. It will also will be used to accommodate and prepare for all deliveries to be made under the Nikola contract.

In addition, Nel invested USD 5 million into Nikola as part of their C-round financing. On August 6, 2018, Nikola announced that they had secured USD 100 million investment (pre-money valuation of USD 1.1 billion) in the current C-round and that the process to raise more than USD 200 million was progressing well. Nel's USD 5 million investment is in line with our communicated strategy and further strengthening the partnership and collaboration between Nel and Nikola.

Risks and uncertainty factors

Nel is exposed to risk and uncertainty factors, which may affect some or all of the company's activities. Nel is exposed to financial, market and s operational risk. In addition, there is risk related technology, implementation and execution of current and future products. There are no significant changes in the risks and uncertainty factors detail in our Annual Report for 2017.

Outlook

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

Further, Nel intends to position itself to address the expected growth in our markets.

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

Key areas of focus include:

- Ongoing growth initiatives and focus on long term high value orders will have a negative impact on Nel's ability to deliver positive EBITDA in the short term
- Initiated x10 factory expansion at Notodden to support deliveries to Nikola and other customers
- Nel continues to explore further market penetration strategies in China
- Build-up of Nel in South Korea in response to positive market developments
- Ongoing collaboration on H2Bus Europe for a large-scale hydrogen bus rollout
- Nel is preferred supplier for hydrogen train opportunity in Germany
- Significant tender activities for larger projects for electrolyzers and H2Stations

Oslo, 31 October 2018

The Board of Directors

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

Condensed interim financial statements

Statement of comprehensive income (unaudited)

PROFIT & LOSS	**Note**	**2018**	**2017**	**2018**	**2017**	**2017**
(amounts in NOK thousands)		Q3	Q3	Q1-Q3	Q1-Q3	Full year
Operating Income						
Sales income		113 662	107 395	351 697	178 020	286 365
Other operating income		2 288	4 329	12 477	8 555	12 061
Total operating income	**4,6**	**115 951**	**111 724**	**364 174**	**186 575**	**298 426**
Operating expenses						
Cost of goods sold		78 148	65 848	219 377	108 475	163 638
Wages and social costs		42 668	44 665	128 310	83 504	130 021
Depreciation		12 959	14 842	45 689	20 150	35 968
Other operating costs		48 460	19 674	106 168	48 078	85 961
Total operating expenses		**182 235**	**145 029**	**499 545**	**260 208**	**415 588**
Operating loss		**-66 284**	**-33 306**	**-135 370**	**-73 633**	**-117 162**
Financial income		1 038	1 284	2 874	3 721	6 973
Financial expenses		1 030	1 711	5 363	5 686	7 183
Share of loss from associates and joint ventures		1 074	2 653	3 894	4 232	7 074
Net financial items		**-1 066**	**-3 080**	**-6 384**	**-6 197**	**-7 284**
Pre-tax loss		**-67 350**	**-36 386**	**-141 754**	**-79 830**	**-124 447**
Tax expense (income)		-1 855	-3 802	-7 308	-4 650	-72 000
NET LOSS		**-65 496**	**-32 584**	**-134 446**	**-75 180**	**-52 447**
Items that may subsequently be reclassified to profit or loss						
Currency translation differences		-946	10 129	-17 658	10 806	18 237
TOTAL COMPREHENSIVE INCOME		**-66 442**	**-22 455**	**-152 104**	**-64 374**	**-34 210**
Basic EPS *(figures in NOK)*		**-0.061**	**-0.036**	**-0.130**	**-0.095**	**-0.063**
Diluted EPS *(figures in NOK)*		**-0.060**	**-0.036**	**-0.128**	**-0.095**	**-0.061**

Statement of financial position (unaudited)

BALANCE SHEET *(amounts in NOK thousands)*	**Note**	**2018** Q3	**2017** Year end
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Technology		346 996	338 510
Customer relationship		69 184	78 329
Customer contracts		0	9 575
Goodwill	5	579 948	591 735
Total intangible assets		**996 127**	**1 018 150**
Tangible fixed assets			
Land, buildings and real estate		84 401	79 654
Fixtures and fittings, tools, etc.		26 256	16 544
Total tangible fixed assets		**110 657**	**96 198**
Financial fixed assets			
Investments in associates and joint ventures		17 580	16 865
Other financial fixed assets		52 230	10 161
Total financial fixed assets		**69 810**	**27 026**
Total non-current assets		**1 176 594**	**1 141 374**
CURRENT ASSETS			
Inventories		141 295	138 723
Trade receivables		68 005	96 791
Other receivables		88 875	53 768
Cash and cash equivalents		434 121	295 000
Total current assets		**732 295**	**584 282**
TOTAL ASSETS		**1 908 889**	**1 725 656**
EQUITY AND LIABILITIES			
Equity			
Share capital		222 710	199 743
Share premium reserve		1 585 864	1 289 233
Other paid-in capital		27 942	19 188
Treasury shares		-281	-4 405
Retained earnings		-254 095	-94 373
Total equity		**1 582 141**	**1 409 387**
NON-CURRENT LIABILITIES			
Deferred tax liability		60 469	68 273
Other long-term liabilities		52 516	34 123
Total other long-term liabilities		**112 985**	**102 395**
CURRENT LIABILITIES			
Accounts payable		71 922	64 857
Social security, VAT etc. payable		1 707	3 060
Other current liabilities		140 134	145 957
Total current liabilities		**213 764**	**213 874**
Total liabilities		**326 749**	**316 269**
TOTAL EQUITY AND LIABILITIES		**1 908 889**	**1 725 656**

Statement of changes in equity (unaudited)

STATEMENT OF CHANGES IN EQUITY *(amounts/numbers in NOK thousands/thousands)*	Number of shares	Share capital	Share premium	Other reserves	Treasury shares	Curr. conv. effects	Other equity	Total equity
As of 31.12.2015	**680 601**	**136 120**	**601 710**	**1 200**	**0**	**20 220**	**-28 242**	**731 008**
Net loss 2016							-55 829	-55 829
Currency translation differences						-19 617		-19 617
Capital increases 2016	3 077	616	6 503					7 119
Options and share program				9 916				9 916
Treasury shares					-1 377			-1 377
As of 31.12.2016	**683 678**	**136 736**	**608 213**	**11 116**	**-1 377**	**603**	**-84 071**	**671 219**
Net loss 2017							-52 447	-52 447
Currency translation differences						18 237		18 237
Capital increases 2017	315 037	63 007	681 020					744 027
Acquisition Proton OnSite							17 049	17 049
Options and share program				8 072			9 213	17 285
Treasury shares					-3 028			-3 028
Other changes							-2 957	-2 957
As of 31.12.2017	**998 715**	**199 743**	**1 289 233**	**19 188**	**-4 405**	**18 840**	**-113 213**	**1 409 387**
Opening balance adjustment - IFRS 15 adoption							-3 037	-3 037
Net loss 2018							-134 446	-134 446
Capital increases 2018	114 836	22 967	296 631					319 598
Currency translation differences						-17 658		-17 658
Options and share program				8 753	4 124		-4 124	8 753
Other changes							-456	-456
As of 30.09.2018	**1 113 551**	**222 710**	**1 585 864**	**27 942**	**-281**	**1 182**	**-255 916**	**1 581 501**

Statement of cash flow (unaudited)

CASH FLOW STATEMENT	Note	2018	2017	2018	2017	2017
(amounts in NOK thousands)		Q3	Q3	Q1-Q3	Q1-Q3	Full year
Cash flow from operating activities						
Pre-tax loss		-67 350	-36 386	-141 754	-79 830	-124 447
Interest cost reversed		175	85	406	263	311
Interest income reversed		-1 085	-521	-2 317	-2 226	-2 442
Depreciation		12 959	14 842	45 689	20 150	35 968
Change in provisions		1 295	1 424	9 036	17 892	44 002
Change in inventories		-6 613	10 937	-2 572	-76 374	-102 457
Change in trade receivables		54 286	-44 898	28 787	-85 096	-61 817
Change in trade payables		3 908	30 821	7 065	62 386	48 067
Change in other short-term receivables and liabilities		-34 982	-67 220	-42 282	38 569	49 798
Net cash flow from operating activities		*-37 408*	*-90 916*	*-97 942*	*-104 266*	*-113 018*
Cash flow from investment activities						
Acquisitions of fixed assets		-13 219	-15 591	-56 530	-42 768	-71 898
Cash outflow investments in other financial assets		-42 131	0	-42 131	0	0
Cash outflow loan given to associates/joint ventures		-160	-198	-9 796	-198	-198
Acquisitions of associates/joint ventures		0	-8 624	-1 938	-8 624	-8 624
Acquisitions of subsidiaries		-6 722	0	-6 722	-169 220	-169 220
Acquisition of subsidiaries cash balance		13 342	0	13 342	0	30 669
Net cash flow from investing activities		*-48 891*	*-24 413*	*-103 775*	*-220 810*	*-219 272*
Cash flow from financing activities						
Interest paid		-175	-85	-406	-263	-311
Interest received		1 085	521	2 317	2 226	2 442
Gross cash flow from share issues		332 259	376	332 259	202 287	428 033
Net cash flow from share issues - not registered		-271 590	0	0	0	0
Transaction costs connected to share issues		-12 661	-402	-12 661	-14 332	0
Proceeds from new loan		0	0	27 280	0	0
Payment of long-term liabilities		-7 221	-669	-7 952	-4 719	-4 719
Net cash flow from financing activities		*41 698*	*-259*	*340 838*	*185 199*	*401 823*
Net change in cash and cash equivalents		*-44 602*	*-115 588*	*139 122*	*-139 877*	*69 533*
Cash and cash equivalents beginning of period		478 723	368 349	295 000	225 467	225 497
Cash and cash equivalents		**434 121**	**252 761**	**434 121**	**85 590**	**295 000**

Notes to the interim financial statements

Note 1 Organization and basis for preparation

Corporate information

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

Nel ASA (org. no 979 938 799) was formed in 1998 and is a Norwegian public limited company listed on the Oslo Stock Exchange. The group's head office is in Karenslyst allé 20, N-0278 Oslo, Norway. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on 31 October 2018.

Basis for preparation

The financial information is prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”). This financial information should be read together with the annual report for the year ended 31 December 2017 prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU.

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

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

Note 2 Going concern

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

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

Note 3 Significant estimates, judgements and assumptions

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

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

- Impairment of goodwill
- Share based payments
- Development expenses

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

Refer to the annual report of 2017 for more details related to key judgements, estimates and assumptions.

Note 4 Segments

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

The executive management group is the chief operating decision maker (CODM) and monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment.

Segment performance is evaluated based on profit or loss and is measured consistently with profit or loss in the consolidated financial statements.

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

	Fueling and Solutions			Electrolyser			Other/ elimination*			Total		
	2018	2017	2017	2018	2017	2017	2018	2017	2017	2018	2017	2017
(amounts in NOK million)	Q3	Q3		Q3	Q3		Q3	Q3		Q3	Q3	
Operating revenue	51.8	28.2	101.3	64.1	83.3	196.8	0.1	0.2	0.3	116.0	111.7	298.4
Operating cost	89.1	37.1	144.9	73.7	87.7	203.9	19.4	20.2	66.7	182.2	145.0	415.6
Operating profit (loss)	**-37.3**	**-8.9**	**-43.6**	**-9.7**	**-4.3**	**-7.2**	**-19.3**	**-20.1**	**-66.4**	**-66.3**	**-33.3**	**-117.2**
Net financial items	-1.3	-0.9	-6.4	-0.7	0.4	0.4	.0.9	-2.6	-1.3	-1.1	-3.1	-7.3
Pre-tax profit (loss)	-38.6	-9.8	-50.0	-10.4	-3.9	-6.7	-18.4	-22.6	-67.7	-67.4	-36.4	-124.4
Total assets	298.6	199.8	232.2	322.8	243.4	310.2	1287.4	1037.1	1183.3	1908.9	1480.3	1725.7
Total liabilities	259.6	127.1	142.8	254.9	183.1	226.5	-187.7	63.0	-53.0	326.7	373.2	316.3

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

Note 5 Goodwill

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

(amounts in NOK million)	2018 Q3	2017 Full year
Goodwill as of 01.01	591.7	317.6
Acquisition of Proton Onsite in 2017	-	257.7
Currency translation differences	-11.8	16.4
Goodwill as of 30.09.2018/31.12.2017	**579.9**	**591.7**

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

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

Revenue recognized on a point in time measurement basis:

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

Revenue recognized on a progress based measurement basis:

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

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

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

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

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

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

Specification of revenues in 2018:

	2018	2018	2018	2018
(amounts in NOK million)	Q1	Q2	Q3	YTD
Revenue from construction contracts (progress based)	42.4	37.4	60.7	140.3
Revenue recognized at point in time	68.5	80.9	48.7	198.0
Public grants	1.6	17.6	6.6	25.8
Total	**112.5**	**135.8**	**116.0**	**364.2**

Implementation effect of IFRS 15:

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

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

Alternative Performance Measures

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

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

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

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

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

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

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

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

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

Organic growth: is defined as internally generated growth from increased output/revenues in the group were growth from takeovers, acquisitions or mergers is not taken into account.

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

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