Nel ASA

Q4 2019 interim report

Highlights of the quarter

- Nel ASA (Nel) reported revenues in the fourth quarter 2019 of NOK 175.9 million, up from NOK 124.9 million in the fourth quarter 2018, in line with the trading update/company outlook published on 21 January 2020
- Order backlog of NOK 512.6 million at the end of the quarter, up 46% from the end of fourth quarter 2018. The backlog does not include any orders under the Nikola supply contract
- Cash balance of NOK 526.0 million (Q4 2018: 349.7)
- Purchase orders for H2Station® hydrogen fueling stations:
    - Two in Korea, EUR ~2.7 million
    - Multiple in the Netherlands, EUR ~3.0 million
    - Two in Europe, EUR ~2.0 million
    - Hydrogen fueling station solution for taxis in Denmark
- Established joint venture Green H2 Norway AS to supply green hydrogen to Hyundai trucks in Norway

Subsequent events

- Completed a successful private placement of 89 million new shares, at a price per share of NOK 9.50, raising NOK 845.5 million in gross proceeds
- Awarded contract for delivery of a 1 MW PEM electrolyser in the US
- Due to the travel restrictions related to the COVID 19 (Corona) virus some delays to the finalisation of certain international projects could occur

Key figures

(unaudited amounts in NOK million)	2019* Q4	2018 Q4	2019* Full year	2018 Full year
Operating revenue	175.9	124.9	569.7	489.0
Operating expenses	239.3	185.6	824.3	685.1
EBITDA excl. Kjørbo expenses**	-42.7	-41.9	-144.1	-131.6
EBITDA	-42.7	-41.9	-179.1	-131.6
Operating loss	-63.4	-60.7	-254.6	-196.1
Pre-tax loss	-95.1	-55.8	-277.2	-197.5
Net loss	-93.2	-54.3	-269.7	-188.8
Net cash flow from operating activities	-64.1	-44.6	-207.9	-142.6
Cash balance end of period	526.0	349.7	526.0	349.7

** The numbers for 2019 include effects of IFRS 16 and comparative figures have not been re-stated*
***In the second quarter 2019 Nel booked a provision of NOK 35 million related to the Kjørbo incident. EBITDA has been negatively affected by NOK 35 million in direct and indirect costs related to this incident during 2019. At the end of 2019 the remaining provision is NOK 10 million.*

Financial development

NOTE: Nel issued a trading update 21 January 2020 in relation to a private placement which was completed later that day. The financial development for the quarter is in line with the trading update.

Nel reported revenue and operating income in the fourth quarter 2019 of NOK 175.9 million (Q4 2018: NOK 124.9 million), following growth in the Fueling and Electrolyser segment of 32.2% and 46.7%, respectively, compared to the same quarter in 2018.

At the end of the fourth quarter 2019, Nel had an order backlog of NOK 512.6 million. The order backlog does not at this stage include electrolysers and fueling equipment for Nikola as part of its development of a commercial hydrogen station infrastructure in the US for truck and passenger vehicles.

Cost of goods sold (COGS) has increased with 43% from fourth quarter 2018. The increased COGS is related to the 41% increase in revenues and is also affected by high costs from project execution in the Fueling and Electrolyser divisions. Personnel expenses increased by 27% in the fourth quarter, which is explained by a higher number of employees, up from 239 employees by the end of 2018 to 318 at the end of 2019. Other operating expenses increased by 10% following costs associated to ramp-up activities preparing Nel for a higher revenue level.

The non-cash costs for the stock option- and share incentive program, which are included in personnel expenses, were NOK 1.9 million (2.9) in the quarter.

EBITDA ended at NOK -42.7 million (-41.9), while the EBITDA margin was -24.3% (-33.6%).

Depreciation and amortisation were NOK 20.7 million (18.8) in the quarter. IFRS 16 was implemented 1 of January 2019, and increased depreciation by NOK 3.4 million in the quarter.

Operating loss amounted to NOK -63.4 million (-60.7) in the period.

Net financial items amounted to a loss of NOK -31.7 million (4.9). Finance income is mainly interest income, while finance cost is mainly unrealised currency exchange loss from revaluing internal loans. Share of loss from joint ventures and associates is mainly related to reducing the investment in Uno-X Hydrogen AS to zero at year end. The decision to reduce the investment is based on a precautionary approach due to the passage of time and the limited remaining values in the joint venture. There are ongoing negotiations between the parties regarding the future of the joint venture and its operations.

Pre-tax loss was NOK -95.1 million (-55.8) in the quarter and the net loss was NOK -93.2 million, compared to a loss of NOK -54.3 million in the same quarter 2018.

Comprehensive income is negative with NOK -106.4 million (-5.3) mainly due to negative currency translation differences, net of tax, of NOK -15.5 million in the quarter (49.0) related to translating excess values in USD and DKK into NOK using a lower currency rate than in the previous quarter.

Total assets were NOK 2 430.7 million at the end of the quarter, compared to NOK 1 944.4 million at the end of 2018, mainly due to an increase of cash, net working capital and non-current assets. Total equity was NOK 1 846.6 million, thus, the equity ratio was 76 percent.

Net cash flow from operating activities in the quarter was NOK -64.1 million, compared to NOK -44.6 million in the fourth quarter in 2019. The negative development is mainly due to the negative EBITDA of NOK -42.7 million and negative development in net working capital that is due to an increase in inventory and trade receivables. Net cash flow from investing activities was NOK -59.2 million (-39.7) from high investments in tangible and intangible assets.

Nel's cash balance at the end of 2019 was NOK 526.0 million (349.7). The increase from end of

2018 is mainly due to raising net proceeds of NOK 525.5 million, mainly from the capital increases in February and April. This is partly offset by negative cash flow from operations and high investment levels. On 21 January 2020 a private placement was completed raising NOK 845.5 million in gross proceeds.

Full year 2019
Nel reported revenue and operating income for 2019 of NOK 569.7 million (2018: NOK 489.0 million) a growth of 17%. Fueling achieved a growth for the year of 27%, while the growth in Electrolyser was 10%.

EBITDA for 2019 ended at NOK -179.1 million compared to NOK -131.6 million for 2018. The related EBITDA margin was -24.3% for 2019 and -33.6%. The Kjørbo incident has negatively affected EBITDA in 2019 by NOK 35 million in direct and indirect costs. At the end of 2019 the remaining provision related to the Kjørbo incident is NOK 10 million.

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 industrial gas companies with leading hydrogen technology.

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

Our hydrogen solutions cover entire the value chain: from hydrogen production technologies to hydrogen fueling stations, enabling industries to transition to green hydrogen, and providing fuel cell electric vehicles with the same fast fueling and long range as fossil-fuelled vehicles - without emissions.

Nel Hydrogen Electrolyser

Production and installation of electrolysers for hydrogen production.

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

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

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

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

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

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

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

With increasing demand for large scale electrolysers, Nel has also decided to significantly increase its manufacturing capacity of atmospheric alkaline electrolysers. In 2019 Nel secured a location for the new manufacturing plant at Herøya, Norway, and targets to have an initial capacity of 360 MW/year, around 10 times current capacity. The capacity at the new plant can be further expanded to beyond 1 GW/year. The new manufacturing plant will be highly automated and significant cost reductions are expected, which will be important in making renewable hydrogen cost competitive with fossil hydrogen and fossil fuels.

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

Nel Hydrogen Fueling

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

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

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

Nel's H2Station® manufacturing plant is in Herning, Denmark. It has name plate capacity of 300 hydrogen stations per year. Combining technology innovations with increased manufacturing capacity should enable Nel to further reduce the cost of hydrogen fueling station equipment.

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

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

Developments

Nel Hydrogen Electrolyser

Nel Hydrogen Electrolyser reported revenues of NOK 108.4 million in the fourth quarter 2019, a growth of 47% from NOK 73.9 million in the same quarter 2018. The increase is a result of higher sales of PEM electrolysers.

For 2019, Nel Hydrogen Electrolyser had revenues of 327.4 million, a growth of 10% from NOK 298.4 million from 2018.

Delivering a 3.5 MW alkaline electrolyser to ENGIE

Nel entered into a contract to deliver a 3.5 MW alkaline electrolyser and related equipment to ENGIE. The initial purchase order was previously communicated to the market without disclosing the customer.

The electrolyser is an element of ENGIE's hydrogen solution to produce renewable hydrogen for the world's largest fuel cell electric mining haul truck for Anglo American, a global mining company, and is scheduled to be installed during 2020.

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

Subsequent event: Received purchase order for 1 MW PEM electrolyser in the US

Nel Hydrogen Electrolyser has received a purchase order for a 1 megawatt containerised Proton PEM® electrolyser from Trillium Transportation Fuels, LLC (Trillium). The electrolyser will be used to produce hydrogen for a fleet of up to 12 fuel cell electric buses at the Champaign-Urbana Mass Transit District (MTD), in Urbana, Illinois, USA. Trillium is a leader in providing alternative fuel solutions for transit fleets, and MTD is an exciting innovator in the public transportation sector.

Nel Hydrogen Fueling

Nel Hydrogen Fueling reported revenues of NOK 67.5 million in the fourth quarter 2019, a growth of 32% from NOK 51.0 million in the same quarter 2018 following higher production.

For 2019, Nel Hydrogen Fueling had revenues of 242.4 million, a growth of 27% from NOK 190.6 million from 2018.

Received purchase order for two hydrogen fueling stations in Korea from HyNet

Nel Korea Co., Ltd received a purchase order from Hydrogen Energy Network Co., Ltd. (HyNet) for two H2Station® hydrogen fueling stations in Korea. The value of the purchase order is around EUR 2.7 million. HyNet is a special purpose company established to roll out 100 hydrogen fueling stations in Korea by 2022, as part of the national ambition in Korea to have more than 300 stations operational by the same year.

With the two latest orders Nel has sold 12 H2 station orders in Korea during 2019

Received purchase order from OrangeGas for multiple hydrogen fueling stations in the Netherlands

Received a purchase order from OrangeGas for the delivery of multiple H2Station® units for fueling of predominately light duty fuel cell electric vehicles in the Netherlands.

The contract has a total value of approximately EUR 3 million and also includes an operation and maintenance contract. The stations will be located in the Netherlands and will expand the fueling coverage for hydrogen powered light-duty vehicles, and in the future also heavy-duty cell electric vehicles. The H2Station® units will be delivered during 2020.

Received purchase order for two hydrogen fueling stations in Europe

The contract value is approximately EUR 2 million. The customer has requested to remain unnamed, and further details will be disclosed during the first half of 2020.

Received purchase order from Everfuel for hydrogen fueling station for taxis in Copenhagen

Nel has received a purchase order from Everfuel Europe A/S (Everfuel) for the delivery of a H2Station® fueling solution for a fleet of taxis in Copenhagen, Denmark.

The H2Station® fueling solution will be installed during 2020 and is supported by the European Hydrogen program “Fuel Cells and Hydrogen Joint Undertaking” under the “Hydrogen Mobility Europe” project.

Subsequent event: Update on joint venture Uno-X Hydrogen AS

Uno-X Hydrogen AS is a JV owned 39% by Nel, which owns and operates hydrogen fueling infrastructure in Norway. Since the incident at one of its stations in June, the remaining two JV-stations have been out of operation. Nel has selected a precautionary approach and written-down the investment to zero during fourth quarter. Due to the passage of time and the considered low remaining values in the joint venture. There are ongoing negotiations between the parties regarding the future of the joint venture and its operations.

Corporate developments

Nikola

Nel is together with Nikola currently working on the techno-economical optimisation of the commercial station solution. This is a time-consuming process, but the parties aim to finalise the process during first half of 2020.

Established new joint venture to supply green hydrogen to Hyundai trucks in Norway

Nel announced the establishment of Green H2 Norway, a joint venture together with H2 Energy AS (H2 Energy), Greenstat AS (Greenstat) and Akershus Energi Infrastruktur AS (Akershus Energi). Green H2 Norway will establish renewable hydrogen production facilities in Norway to supply hydrogen to Hyundai trucks which are expected in Norway from 2020.

The sites for producing renewable hydrogen will be capable of delivering green hydrogen not only to Hyundai trucks, but also other applications like buses, cars, and ferries. The parties intend to establish the first production site just outside Oslo to serve the Oslo/Akershus region.

Subsequent event: Completed private placement with NOK 845.5 million in gross proceeds

Nel raised approximately NOK 845.5 million in gross proceeds through a private placement of 89 million new shares at a price per share of NOK 9.50. The proceeds will be used to:

- Maintain and strengthen market position through accelerated investments in technology and organization to take advantage of the attractive market opportunities
- Strengthening investment in development and innovation across segments and technologies to stay on the technological forefront
- Continue to develop the organization, both within management systems, engineering, project execution, production and process improvement
- Additional focus on people and safety
- Strengthening the balance sheet and financial position to satisfy counterparty requirements on large scale projects
- Ability to satisfy contractual obligations
- Ability to provide required bonds/guarantees
- The proceeds will also fund additional working capital in response to increased order volumes and contract sizes, as well as general corporate purposes

Risks and uncertainty factors

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

Outlook

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

The hydrogen market is expected to grow significantly, and renewable hydrogen is on a trajectory to outcompete fossil hydrogen. There is an increased adoption of industrial hydrogen applications with huge overall potential. In addition, there is a strong momentum within mobility, and especially for heavy duty applications such as trucks and buses. Renewable hydrogen as the preferred future fuel alternative will facilitate true zero emission from production to use.

To maintain and strengthen its leading position in a growing market, Nel will accelerate investments in organization and technology.

Markets in which Nel operates show high activity and strong growth momentum making it increasingly important to be a financially strong counterpart, especially for larger contracts. Nel targets to maintain its current leading position in the electrolysis sector, continuing to develop both PEM and alkaline technologies to satisfy specific customer needs and preferences.

As for the development of revenues in 2019, we expect the second half of 2020 to have a higher proportion of the full year revenues than the first half of the year.

Oslo, 5 March 2020

The Board of Directors

Ole Enger

Chair

(Sign)

Beatriz Malo de Molina

Board member

(Sign)

Mogens Filtenborg

Board member

(Sign)

Finn Jebsen

Board member

(Sign)

Hanne Blume

Board member

(Sign)

Jon André Løkke

CEO

(Sign)

Condensed interim financial statements

Consolidated statement of comprehensive income (unaudited)

(amounts in NOK thousands)	Note	Q4 2019	Q4 2018	Full year 2019	Full year 2018
Revenue and operating Income					
Revenue from contracts with customers		163 188	117 228	519 050	453 187
Other operating income		12 664	7 646	50 657	35 861
Total revenue and operating income	4	175 852	124 874	569 707	489 049
Operating expenses					
Cost of goods sold		112 912	79 169	342 374	298 545
Personnel expenses		68 982	54 416	243 194	182 726
Depreciation and amortisation	5, 6	20 687	18 781	75 500	64 470
Other operating expenses		36 679	33 200	163 209	139 369
Total operating expenses		239 260	185 565	824 277	685 110
Operating loss		-63 408	-60 691	-254 570	-196 061
Finance income		6 261	1 944	12 643	4 818
Finance cost		-12 458	3 834	-6 501	-1 529
Share of loss from associates and joint ventures		-25 504	-837	-28 811	-4 731
Net financial items		-31 701	4 942	-22 668	-1 442
Pre-tax loss		-95 109	-55 749	-277 238	-197 503
Tax expense (income)		-1 939	-1 478	-7 529	-8 676
Net loss		-93 170	-54 271	-269 710	-188 827
Items that are or may subsequently be reclassified to income statement:					
Currency translation differences		-15 546	49 013	2 240	31 356
Cash flow hedges, effective portion of changes in fair value		1 583	0	-2 388	0
Cash flow hedges, reclassified to income statement		758	0	1 602	0
Other comprehensive income		-13 206	49 013	1 453	31 356
Total comprehensive income		-106 375	-5 257	-268 256	-157 471
Basic EPS *(figures in NOK)* 1)		-0.08	-0.05	-0.22	-0.18
Diluted EPS *(figures in NOK)* 1)		-0.08	-0.05	-0.22	-0.18
Weighted average number of outstanding shares (million)		1 235	1 102	1 204	1 052

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

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

Consolidated statement of financial position (unaudited)

(amounts in NOK thousands)	Note	31.12.2019	31.12.2018
ASSETS			
Intangible assets	5	1 118 075	1 100 029
Property, plant and equipment	6	256 170	135 383
Other non-current assets		66 089	72 333
Total non-current assets		1 440 334	1 307 746
Inventories		205 234	134 804
Trade receivables		183 333	108 659
Contract assets		37 103	8 212
Other current assets		38 688	35 233
Cash and cash equivalents		525 982	349 747
Total current assets		990 340	636 655
TOTAL ASSETS		2 430 673	1 944 401
EQUITY AND LIABILITIES			
Shareholders' equity		1 846 618	1 578 978
Total equity		1 846 618	1 578 978
Deferred tax liability		63 343	69 481
Non-current interest bearing debt		30 577	32 859
Lease liabilities		79 121	-
Other non-current liabilities		70 605	67 558
Total non-current liabilities		243 646	169 899
Trade payables		92 197	69 473
Lease liabilities		12 066	-
Contract liabilities		151 729	68 640
Other current liabilities		84 417	57 411
Total current liabilities		340 409	195 524
Total liabilities		584 055	365 423
TOTAL EQUITY AND LIABILITIES		2 430 673	1 944 401

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

Consolidated statement of cash flows (unaudited)

(amounts in NOK thousands)	Q4 2019	Q4 2018	Full year 2019	Full year 2018
Cash flow from operating activities				
Pre-tax loss	-95 109	-55 749	-277 238	-197 503
Depreciation and amortisation	20 687	18 781	75 500	64 470
Change in net working capital	-20 999	-10 448	-71 637	-19 450
Other adjustments	31 339	2 789	65 440	9 914
Net cash flow from operating activities	-64 082	-44 627	-207 935	-142 569
Cash flow from investment activities				
Investments in tangible and intangible assets	-56 761	-37 982	-118 862	-94 512
Cash outflow investments in other financial assets	0	0	-7 849	-42 131
Cash outflow loan given to associated companies/ joint ventures	-975	0	-5 975	-9 796
Acquisition of associated companies/ joint ventures	-3 085	-1 540	-3 085	-3 478
Acquisition of subsidiaries	0	-161	0	-6 883
Sale of subsidiaries	1 653	0	1 653	0
Acquistion of subsidiaries cash balance	0	0	0	13 342
Net cash flow from investing activities	-59 168	-39 682	-134 118	-143 458
Cash flow from financing activities				
Interest paid	-2 409	-298	-5 922	-704
Interest received	3 266	953	9 515	3 270
Gross cash flow from share issues	1 042	0	545 984	332 259
Transaction costs connected to share issues	-102	-294	-20 426	-12 955
Proceeds from new loan	0	0	0	27 280
Payment of lease liabilities	-2 439	0	-8 163	0
Payment of non-current liabilities	-1 088	-427	-2 700	-8 378
Net cash flow from financing activities	-1 729	-66	518 288	340 773
Net change in cash and cash equivalents	-124 978	-84 374	176 235	54 747
Cash and cash equivalents beginning of period	650 960	434 121	349 747	295 000
Cash and cash equivalents	525 982	349 747	525 982	349 747

Consolidated statement of changes in equity (unaudited)

(amounts in NOK thousands)	Share capital	Share premium	Treasury shares	Other components of equity	Retained earnings	Total equity
Equity as of 01.01.2018	199 743	1 289 233	-4 405	18 840	-94 025	1 409 386
IFRS 15 adoption					-3 037	-3 037
Net loss					-188 827	-188 827
Currency translation differences				31 356		31 356
Capital increase	22 967	296 337				319 305
Options and share program			4 124		6 622	10 746
Other changes			268		-220	49
Equity as of 31.12.2018	222 710	1 585 570	-12	50 196	-279 486	1 578 978
Net loss					-269 710	-269 710
Currency translation differences				2 240		2 240
Hedging reserve				-786		-786
Capital increase	21 710	503 848				525 558
Options and share program			-2		6 312	6 310
Other changes					4 028	4 028
Equity as of 31.12.2019	244 421	2 089 418	-14	51 649	-538 855	1 846 618

Notes to the interim financial statements

Note 1 Organization and basis for preparation

Corporate information

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

Nel (org. no 979 938 799) was formed in 1998 and is a Norwegian public limited company listed on the Oslo Stock Exchange. The group's head office is in Karenslyst allé 20, N-0278 Oslo, Norway. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on 5 March 2020.

Basis for preparation

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

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

Implementation of new accounting standards

The group has implemented IFRS 16 in 2019 with the modified retrospective approach. Hence, the comparative figures for 2018 have not been adjusted. With the transition to IFRS 16 the group has recognized right-of-use assets of NOK 36.0 million, and lease liabilities of NOK 39.7 million as of 1 January 2019. A further description of the impact of the initial application is disclosed in the tables below.

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

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

Reconciliation of lease commitments to lease liabilities

(unaudited amounts in NOK thousands)	
Operating lease commitments at 31 December 2018 as disclosed in the group's consolidated financial statements	51 357
Short term and low value exemption	-1 187
Gross liabilities at 1 January 2019	50 170
Effect of discounting	-12 758
Lease liabilities recognised at initial application	37 412
Changes to initial application	2 336
Lease liabilities recognised at initial application	39 748
Weighted average incremental borrowing rate applied	9.6%
Right of use assets recognised at initial application	37 412
Changes to initial application	-1 378
Right of use assets recognised at initial application	36 034

The difference between lease liabilities and right of use assets of NOK 3.7 million is accrued rent as of 31 December 2018.

Under the accounting standards effective prior to the adoption of IFRS 16, lease expenses would be higher, included in operating expenses. Under IFRS 16, lease expenses within the scope of IFRS 16 are removed and replaced by depreciation of right-of-use assets and interest expense. IFRS 16 has a net positive effect on EBIT and a net negative effect on pre-tax loss in Q4 of 2019 due to higher interest expense being recognized early in the lease term and lower interest expenses to be recognised later in the lease term. The net negative effect on pre-tax loss was NOK 1 169 thousand in Q4.

IFRS 16 effects on statement of comprehensive income

(unaudited amounts in NOK thousands)	Excl IFRS 16 effects Q4 2019	IFRS 16 effects	Q4 2019
Total operating income	175 852	0	175 852
Total operating expenses excl depr.	221 846	-3 273	218 573
Depreciation	17 254	3 434	20 687
Operating loss	-63 248	-161	-63 408
Net financial items	-30 692	-1 008	-31 701
Pre-tax loss	-93 940	-1 169	-95 109

Note 2 Going concern

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

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

Note 3 Significant estimates, judgements and assumptions

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

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

- Impairment of goodwill
- Share based payments
- Development expenses

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

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

Note 4 Segments

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

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

Nel Hydrogen Fueling

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

Nel Hydrogen Electrolyser

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

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

(amounts in NOK million)	Q4 2019	Q4 2018	Change	Full year*** 2019	Full year 2018	Change
Revenue and operating income						
Nel Hydrogen Fueling	67.5	51.0	32%	242.4	190.6	27%
Nel Hydrogen Electrolyser	108.4	73.9	47%	327.4	298.4	10%
Total	175.9	124.9	41%	569.7	489.0	17%
EBITDA***						
Nel Hydrogen Fueling	-11.4	-20.5		-84.8	-74.9	
Nel Hydrogen Electrolyser	-20.8	-13.7		-47.7	-23.3	
Other and eliminations*	-10.5	-7.7		-46.7	-33.4	
Total	-42.7	-41.9		-179.1	-131.6	
Total assets**						
Nel Hydrogen Fueling	773.7	614.6	26%	773.7	614.6	26%
Nel Hydrogen Electrolyser	1 108.1	937.2	18%	1 108.1	937.2	18%
Other and eliminations*	548.9	392.6	40%	548.9	392.6	40%
Total	2 430.7	1 944.4	25%	2 430.7	1 944.4	25%

** Other and eliminations comprises of parent company and elimination of intercompany transactions.*
*** Total assets per segment includes excess values on intangible assets derived from the consolidation of the financial statements.*
****In the second quarter 2019 Nel booked a provision of NOK 35 million related to the Kjørbo incident. EBITDA has been negatively affected by NOK 35 million in direct and indirect costs related to this incident during 2019. At the end of 2019 the remaining provision is NOK 10 million.*

Property, Plant and Equipment by geographical area (amounts in NOK million)	31.12.2019	31.12.2018
Norway	113.2	28.5
Denmark	93.6	91.2
USA	47.3	15.6
South Korea	2.1	0.1
Total	256.2	135.4

Note 5 Intangible assets

(amounts in NOK million)	Goodwill	Technology	Customer relationship	Total
Carrying amount of 01.01.2019	608.8	422.0	69.2	1 100.0
Additions	0	68.9	0	68.9
Amortisation	0	-38.8	-12.5	-51.3
Currency translation differences	0.3	-0.4	0.5	0.4
Carrying amount as of 31.12.2019	609.2	451.7	57.2	1 118.1

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

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

Note 6 Property, plant and equipment

Property, plant and equipment comprise owned and leased assets

(amounts in NOK million)	Land, buildings and real estate	Fixtures and fittings, tools, etc.	Right-of-use assets	Total
Carrying amount as of 31.12.2018	110.7	24.7	0	135.4
Effect of IFRS 16 leases implementation	0	0	36.0	36.0
Carrying amount as of 01.01.2019	110.7	24.7	36.0	171.4
Additions	41.1	10.0	57.9	109.1
Depreciations	-13.9	-0.5	-9.9	-24.2
Currency translation differences	-0.6	0.2	0.2	-0.1
Carrying amount as of 31.12.2019	137.4	34.4	84.3	256.2

Nel entered into a lease agreement for a manufacturing facility at Herøya in Norway during the quarter and recognized additions of NOK 50 million as right-of-use assets within ‘Property, plant and equipment’.

Alternative Performance Measures

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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