



# 2020 Sustainability Report



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Sustainability Report 2020

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info@nelhydrogen.com

+47 23 24 89 50

Karenslyst allé 49, PB 199 Skøyen,  
0212 Oslo, Norway

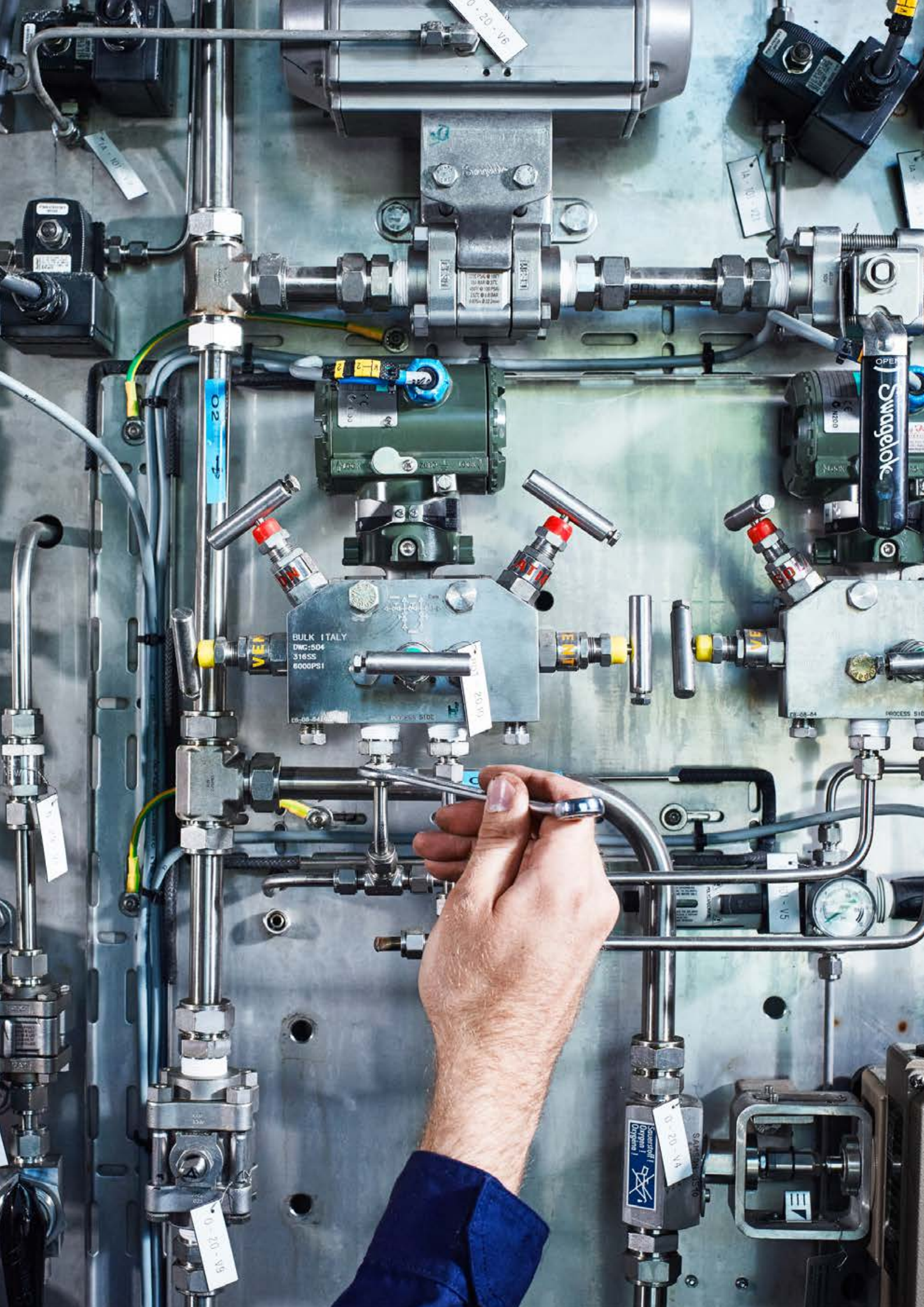
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# Introduction by the CEO

Dear fellow hydrogen enthusiast,

We are excited to announce our first ever sustainability report, as we know that our stakeholders have Environmental, Social, and Governance (ESG) sustainability at the top of their agendas. So do we! In Nel, sustainability has been at the core of everything we stand for since the beginning, it is in our DNA.

During 2020, we have completed Nel's first materiality assessment to ensure that our reporting is aligned with our business objectives, supports our strategy, and minimizes risks.

These material topics are focused on key areas for our company and our industry, taking into account the interests of stakeholders and the wider society. While we have been doing the work for years, now, for the first time, we are also reporting on the targets and progress for each material topic, and we have set goals for how to improve our work in the future.

Guided by reputable GRI standards, supplemented by considerations found in TCFD and Euronext, and focusing on three of UN's Sustainable Development Goals (SDGs), we have implemented a process based on stakeholder feedback and materiality to ensure that Nel reports on the important topics for our company and our industry.

With the ambition of unlocking the potential for renewables, Nel is at the forefront of enabling green hydrogen to reach fossil parity, representing one of the most significant achievements for zero-emission solutions and a carbon neutral planet. To put it into perspective, our new production facility at Herøya could deliver on an annual basis four-to-five million tons of global CO<sub>2</sub> reductions for our customers, or ten percent of the annual CO<sub>2</sub> emissions in Norway.

However, we also need to assess and address risk aspects and consequences of our operations and business relations, such as our supply chain, potential quality and safety issues, and the risk of corruption. This impact comes with a responsibility and requires that we comply with strict laws, norms, and regulations, that we listen to our stakeholders, and that we constantly strive to deliver quality products through responsible business operations.

Diversity is another key focus area for Nel. As we grow as a company, we are refining both how we create a diverse workplace in general, as well as ensure diversity in management. Going forward, we will increasingly work on targeted actions that embed diversity in our people and development processes, management training, and activities shaping inclusive organizational behaviour in management and in general.

I hope this report will provide new insights for you, our stakeholders, as well as provide the information you need about our response to the sustainability opportunities for our business and society. When it comes to reporting on sustainability, this is just the beginning; we aim to provide you with even more detailed insights in the years ahead. And with regards to the work we do, an emission-free future depends on green hydrogen and we are ready to continue to lead the way. For as we say in Nel: Thanks for the ride dinosaurs, we'll take it from here!



Best regards,  
Jon André Løkke, CEO

# Sustainability report

## SETTING THE STAGE FOR SUSTAINABILITY

The green hydrogen industry is experiencing an all-time high interest in its industry as the world starts turning ambitious sustainability objectives, such as the UN Sustainable Development Goals, into action. Countries and companies alike are unveiling energy transition roadmaps and for many, green hydrogen is an integral part of the strategy. Nel is working to meet this rising demand for reliable, efficient, and affordable energy solutions that support environmentally sustainable activities. Sustainability is at the core of everything Nel does and will remain so as Nel maintains its leadership role in the rapid development of the green hydrogen industry.

Since its inception, Nel has focused on supporting the transition from fossil fuels to renewable energy sources. We are now taking the next step: documenting *how* we contribute to environmentally sustainable activities. This is Nel's first sustainability report, and, with it, we aim to showcase the initiatives launched in 2020 and outline how these will be implemented going forward. Our goal is to be transparent about how we operate and to address the material topics our stakeholders identified as most important, while following international standards for sustainability reporting. This initial report sets a baseline, and Nel aspires to continuously develop and improve our ESG reporting in the years to come.



Photo: Melissa Rose

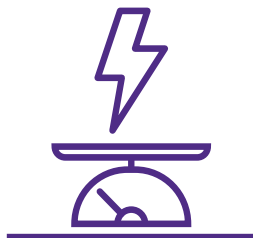
# Key highlights

At Nel, sustainability is an integral part of our identity. Our vision is to empower generations with clean energy forever. This vision is driving our ambitions and priorities. Combating climate change is high on our corporate agenda and we always incorporate sustainability into our strategic decision-making processes.

Nel experienced 7 recordable injuries in 2020. The majority of incidents were related to medical treatments and restricted work cases. Our view is that even one single incident is one too many, and we work continuously with preventive measures across the organization – such as safety training as well as building support programmes – to proactively reduce risks of incidents.

## Energy intensity

MWh/MNOK revenue



14.7

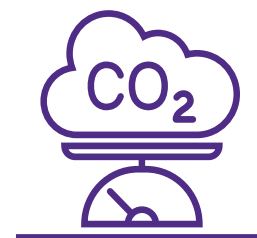
FTE



393

## CO<sub>2</sub> intensity

tCO<sub>2</sub>e/MNOK revenue



1.9

TRIF



11.2\*

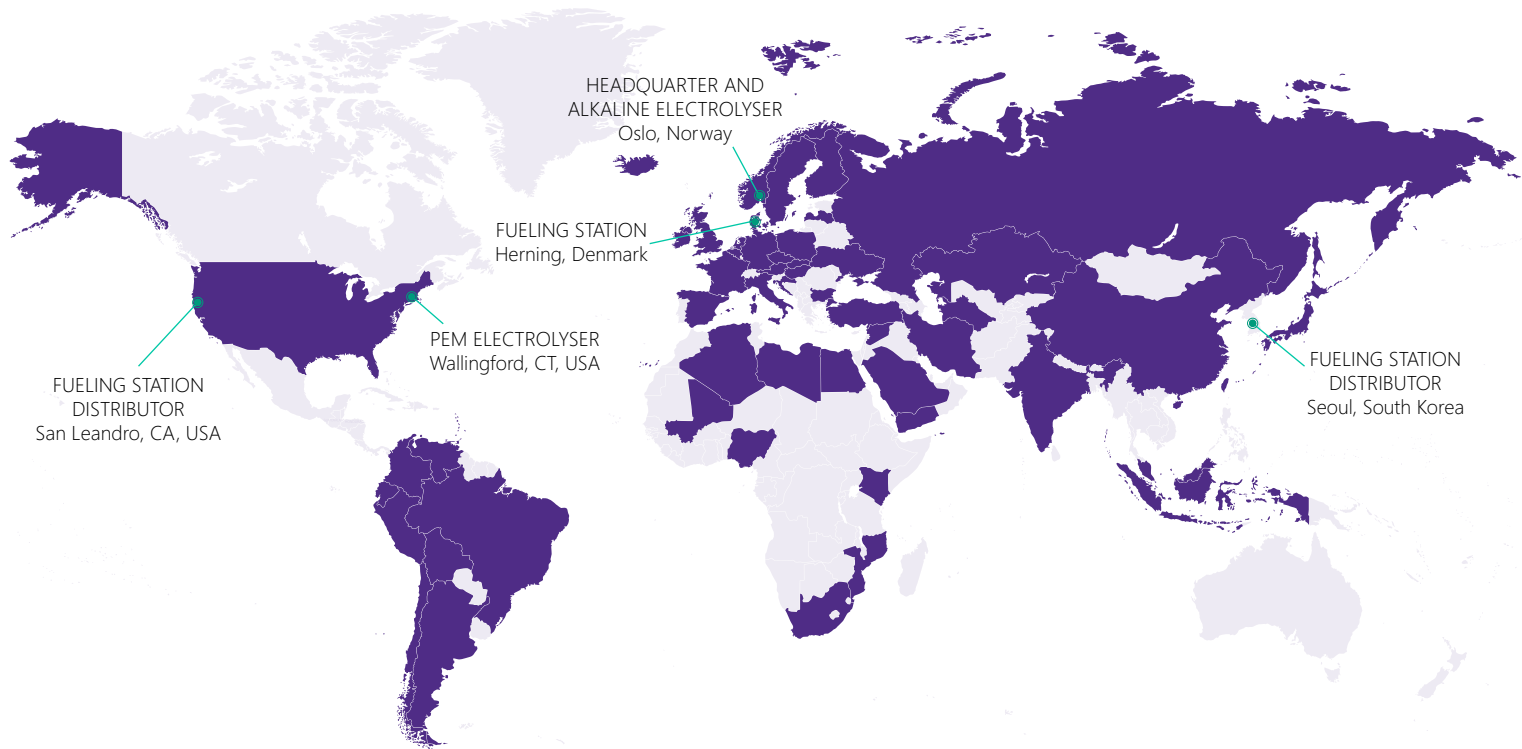
\* TRI has a coverage of 95% and covers the operational units. It does not include the corporate headquarters which has a TRI of 0.

## Selected UN Sustainable Development Goals



## WHERE WE ARE

Nel consists of electrolyser production facilities in Norway and Connecticut, USA, and one fueling station production facility in Denmark, supported by headquarters in Norway. Nel has a sales and support network with global reach, including service organizations close to the main markets for fueling stations – the U.S. West Coast, South Korea, and Northern Europe (based out of Denmark).



## MARKETS WE SERVE - A PURPLE WORLD

In total, we have delivered over 3500 electrolyser solutions to over 80 countries, and more than 110 H2Station™ solutions delivered, or in progress to be delivered, to 13 countries.



## WHO WE ARE

In 2020, we added 83 new employees to the team, a 21% increase in the total workforce compared to 2019. In 2021, we plan to add another 100 employees with a wide range of experience, expertise, and knowledge, who will contribute to the achievement of our strategic plans. We see our ability to attract and retain talent as key to our resilience. We expect expenditures related to organizational development to increase, in order to remain resilient in an ever-more competitive hydrogen industry. To ensure that Nel continues to deliver world-class technology and retains the leading position, we will strive to invest approximately 10% of revenue on innovation and technology. This investment will support our talented corporate technology team in developing standardised and scalable solutions with the pace required by our customers.

During 2020 we saw an increase from 310 to 393 in the total number of employees. In the same period, the number of women increased from 62 to 75. From 2018 to 2020 Nel has increased the representation of women in its workforce from 15% to 19%. Nel's Board of Directors consists of three men and three women.

As Nel continues to grow in its ramp-up phase, the size of our workforce will follow suit. People are key to our success and we achieve this by both attracting and retaining talent. As of 31. December 2020, Nel employs 393 people globally, with the majority being engineers, service technicians and developers. Nel is strongly committed to the principles of non-discrimination and equal opportunity, regardless of gender, nationality, culture, or other factors.

Our workforce is mainly stationed in Norway, Denmark and the United States, as this is where Nel has its production facilities. Nel does not have any seasonal variations. Most of our employees are hired on a full-time basis, with permanent contracts.

PERMANENT EMPLOYEES, BY REGION AND GENDER	2020	2019	2018
<b>Norway</b>	<b>98</b>	<b>55</b>	<b>37</b>
Women(%)	22 %	25 %	16 %
Men(%)	78 %	75 %	84 %
<b>Denmark</b>	<b>157</b>	<b>127</b>	<b>95</b>
Women(%)	15 %	16 %	13 %
Men(%)	85 %	84 %	87 %
<b>USA</b>	<b>121</b>	<b>118</b>	<b>117</b>
Women(%)	23 %	20 %	17 %
Men(%)	77 %	80 %	83 %
<b>South Korea</b>	<b>17</b>	<b>10</b>	<b>5</b>
Women(%)	12 %	10 %	0 %
Men(%)	88 %	90 %	100 %
<b>TOTAL</b>	<b>393</b>	<b>310</b>	<b>254</b>

AGE DISTRIBUTION OF WORKFORCE	2020	2019	2018
Under 30	<b>62</b>	52	30
30-49	<b>201</b>	154	133
50+	<b>130</b>	104	91

COLLECTIVE BARGAIN AGREEMENTS	2020	2019	2018
Norway	<b>24 %</b>	N/A	N/A
Denmark	<b>42 %</b>	39 %	36 %
USA	<b>0 %</b>	0 %	0 %
South Korea	<b>0 %</b>	0 %	0 %

PERMANENT AND TEMPORARY POSITIONS	2020	2019	2018
Permanent	<b>390</b>	308	259
Temporary	<b>3</b>	2	5
Women(%)	<b>33 %</b>	0 %	20 %
Men(%)	<b>67 %</b>	100 %	80 %

# Identifying material topics and stakeholders

Material topics are identified by assessing relevant issues that are of importance to key stakeholders and how these issues impact Nel's operations. Reviewing Nel's activities revealed the following key stakeholders:

- Employees
- Shareholders
- Customers
- Suppliers
- Partners
- Governments

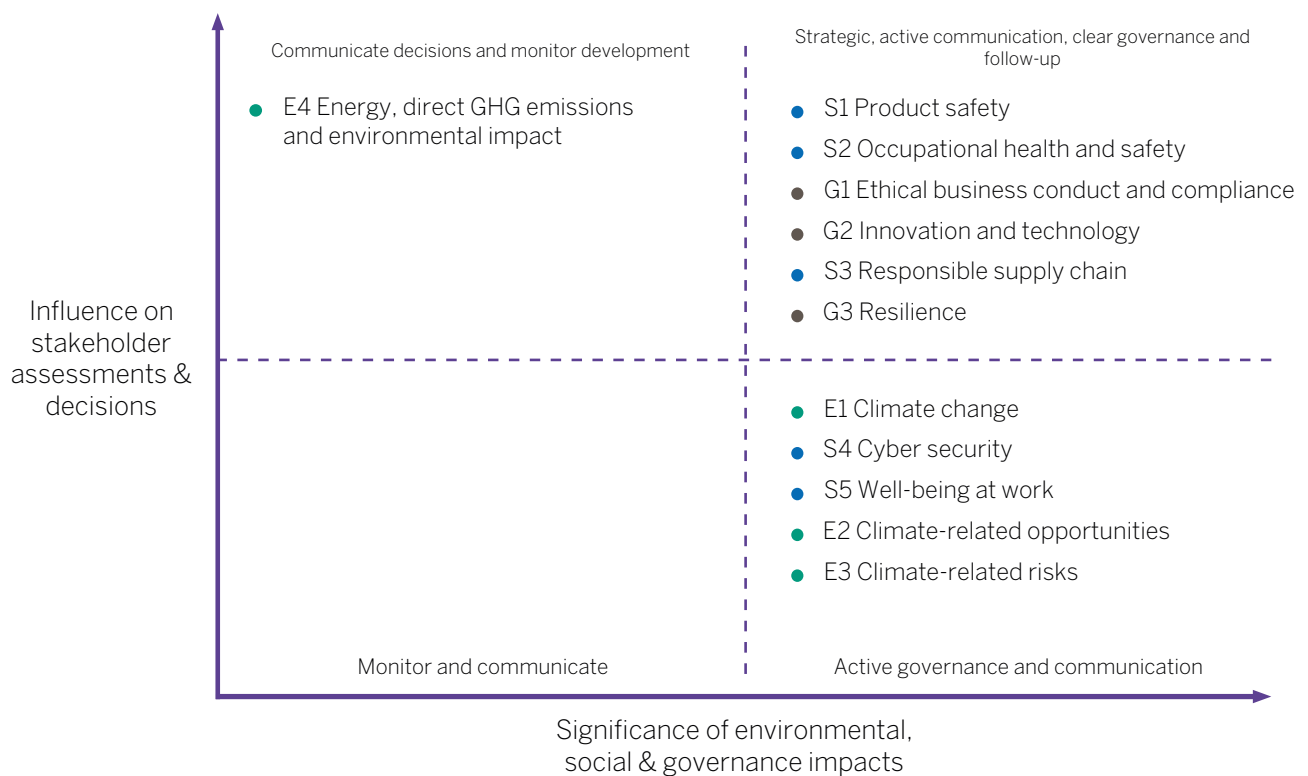
In early 2020, Nel conducted an extensive materiality analysis through a series of interviews with the above-

mentioned key stakeholder groups. The findings of this process were then converted into a materiality matrix, outlining the key ESG topics for Nel.

As reflected in our core values, we consider product safety and occupational health and safety as our most material topics. Safety concerns shall be addressed in every decision we make and every stakeholder we impact. We place safety above all.

In this matrix, we outline three main categories: Environmental, social, and governance factors, which are represented by the following colour scheme:

- (E) Environmental
- (S) Social
- (G) Governance



\*The labelling system followed in the matrix is used for structuring of the report and is not referring to any standards or frameworks.



# Stakeholders and their perspectives

## STAKEHOLDER DIALOGUE

Stakeholders are driving forces in Nel's operations, and frequent stakeholder interaction is important to account for concerns in all parts of the value chain. Overall, Nel experiences continuously rising expectations in all aspects of our work and we strive to address concerns that are expressed. We aim to improve our stakeholder dialogue in 2021 by setting up a structured stakeholder dialogue programme.

**Employees.** Employees are the cornerstone of Nel's activities. Employees generally express views related to occupational health and safety, career development, and timely two-way communication as key areas of concern. In 2020, Nel updated its employee policies in collaboration with the HSE department, implemented preventative measures against Covid-19 to ensure employee safety, and initiated a process to refine our recruitment strategy.

**Shareholders.** Our shareholders are vital contributors to the development of our company and important stakeholders with the power to influence our operations. As such, it is important to maintain regular stakeholder dialogue with our shareholders as our business develops. In January 2021, we held our first capital markets day (CMD), allowing for a deep-dive into our current operations and important activities. Quarterly presentations, annual reports, and investor relations activities are other channels employed to keep an open dialogue with this group.

**Customers.** Our customers are the enablers of our operations. They are generally concerned with product safety, cost of ownership, responsible supply chains, and the applicability of solutions. Our customer-relationships are formed on a project basis and active communication is required throughout the customer journey.

**Suppliers.** Active communication is also required to establish a well-functioning supply chain. Topics raised by suppliers are context dependent as their priorities are dictated by their motivations and goals. Most of the issues raised by our suppliers are related to quality, cost, and delivery concerns. In addition, we see an increased focus on ESG-related topics.

**Partners.** As we develop and mature our technologies, strategic partners are significant drivers behind our progress. Their concerns are usually aligned with those raised by suppliers and customers, and our dialogue with them follows similar structures.

**Governments.** Governments play a vital role as the regulatory body that forms policies and procedures, awards grants, and presents roadmaps for the energy transition. Regular dialogue and monitoring are necessary to ensure our product development meets requirements set by different governments.



# UN Sustainable Development Goals

Nel supports the UN Sustainable Development Goals and we strive to document the actions we are taking to meet them. Presented in 2015, the 17 goals were developed to address the most prominent sustainability concerns we are facing as a society at large. The Sustainable Development Goals are the most unifying and universally accepted set of goals and aspirations

that are to be met by 2030, to protect our planet and the people who inhabit it. We support all of the sustainability goals outlined by the UN, however, we have chosen to focus on those where we have determined we will have the greatest impact:

Our selected goals are:

## 7 AFFORDABLE AND CLEAN ENERGY



At Nel, we provide clean energy alternatives to a vast range of industries and applications. In doing so, we contribute to increasing the share of renewables in the total energy consumption. Our main contribution towards Goal 7 was unveiled at our first capital markets day, where we outlined our strategic ambitions to 1) capitalise on the rapid development in the industry by an extensive expansion of our organizational capabilities, and 2) an ambitious target cost of USD 1.5/kg that will significantly decrease total cost of ownership and consequently increase the applicability of our solutions.

## 8 DECENT WORK AND ECONOMIC GROWTH



Ensuring that employees work in a safe and healthy environment is the key to any successful business. All Nel sites have management systems in place that safeguard our employees' health and safety. Nel aims to provide a workplace for everyone that is free of incidents and injuries, and to promote a culture of hazard identification and awareness through incident reporting and self-accountability. We have set a QHSE target of zero incidents, including for sites with Nel equipment. Further, we have a policy of zero-tolerance for discrimination of any kind, and grievance mechanisms are present should such a case emerge.


## 13 CLIMATE ACTION



Our vision is to empower generations with clean energy forever. Our business model is built on facilitating the transition towards a more sustainable society with our fully-integrated solutions to produce, store, and distribute hydrogen from renewable energy.



# Key performance indicators and goals for 2021

Area	Ambition
Sustainable governance	<b>Compliance</b> <ul style="list-style-type: none"> <li>100% of executive management and other relevant employees to have completed anti-corruption training by 2022</li> <li>100% of all employees to have completed Code of Conduct training by 2022</li> </ul>
	<b>Innovation and Technology</b> <ul style="list-style-type: none"> <li>10 % of revenue in 2021 and 2022 to be spent on Innovation and Technology</li> <li>Five new innovative ideas and two new patent applications/trade secrets to be developed in 2021</li> </ul>
Climate and environment	<b>Environmental impact</b> <ul style="list-style-type: none"> <li>Assess and develop reporting procedures for key scope 3 emissions</li> <li>Targets for emission reduction will be set in 2021</li> </ul>
Social responsibility	<b>Well-being at work</b> <ul style="list-style-type: none"> <li>Conduct corporate employee satisfaction survey annually</li> <li>Other relevant well-being targets will be implemented in 2021 to ensure we maximize our contribution to sustainability with the proper indicators</li> </ul>
	<b>Product safety</b> <ul style="list-style-type: none"> <li>Zero product-related incidents, including at sites with Nel equipment</li> <li>Recognized safety leader within the industry, setting new industry safety standards across the value chain</li> </ul>
	<b>Occupational health and safety</b> <ul style="list-style-type: none"> <li>QHSE target of zero incidents, including at sites with Nel equipment</li> <li>Recognized safety leader within the industry, setting new industry safety standards across the value chain</li> </ul>
	<b>Responsible supply chain</b> <ul style="list-style-type: none"> <li>Launch Qualification Questionnaire 2021</li> <li>100% of new direct high risk/critical suppliers screened in 2021</li> </ul>
Selected UN Sustainable Development Goals	

# Standards and frameworks

## TOPIC BOUNDARIES

The information in this report covers all consolidated subsidiaries within the Nel Group unless otherwise specified.

## GRI-STANDARDS

This report has been prepared in accordance with the GRI Standards: Core option

The overarching framework that guides the structure of the report is the GRI-standards, the most widely used standard for ESG-reporting. We have identified, prioritized, and implemented material topics based on stakeholder engagement in the past year. Climate-related disclosures have been calculated using methods presented by The Greenhouse Gas Protocol Initiative. The GRI Standards Index for Nel can be found on our website.

Visit [www.nelhydrogen.com/sustainability](http://www.nelhydrogen.com/sustainability)

## TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

TCFD is a set of voluntary and consistent disclosures that aim to enhance the understanding of a company's climate risks and opportunities. This year, we have started implementing the TCFD's recommendations and aim to improve our reporting on the TCFD topics in the coming years.

## WORLD ECONOMIC FORUM

This report contains disclosures from WEF IBC "Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation."

## EURONEXT ESG GUIDELINES

The report is prepared with guidance found in the Euronext ESG guidelines. Several topics – such as materiality analysis, implementation processes, and report preparations – have been guided by elements found in the Euronext ESG guidelines.

## NORWEGIAN ACCOUNTING ACT

The report addresses the legal requirements for company reporting as specified in the Norwegian Accounting Act ("Regnskapsloven") for reporting on corporate social responsibility.



# G.1 Ethical Business Conduct and Compliance

## GOVERNING BODY

The Nel group has been established in recent years through several acquisitions. Every company acquired has had its own set of legacy policies. The group is in the process of implementing a set of common guidelines for the entire group to adhere to. In 2020, we launched the Nel Compliance System, which states that the Board of Directors is responsible for overseeing and safeguarding the group's policies and procedures. The sustainability procedures are owned by the CEO. The Board Audit and Risk Committee will perform preparatory tasks for the Board of Directors' assessment of the group's sustainability work. A new ESG policy and procedures will be fully implemented in 2021 across the group.

Nel ASA commits to incorporating ESG considerations into all strategic decision making. In particular, the topics defined as most material will be taken into consideration. Nel will work to improve on material topics and report in an accurate and transparent manner.

In 2021, we will implement an Enterprise Risk Management (ERM) system, including both climate risk and risks related to QHSE. The system will enable us to fully embed management of sustainability and climate-related risks in our process. We identify, evaluate, and manage risks to create sustainable value and avoid incidents. Our intention is that the enterprise risk assessment and related actions will be reviewed annually by Board Audit and Risk Committee and the Board of Directors.

## OPERATIONALIZING ESG

### ESG Group

An ESG Group has been established consisting of various individuals representing the most material topics, as defined by the materiality matrix. The ESG Group identifies and monitors the company's performance against strategic KPIs, actively communicates vertically and horizontally within the organization, performs gap analysis, and drives the implementation of material topics. In addition, we have engaged a Sustainability Associate, who works directly with ESG topics.

## External engagements

To initiate our strategic work with ESG, we onboarded external consultants to conduct initial interviews, assist with the materiality assessment, and, following this, a gap analysis based on the materiality matrix. In the last few months, their assistance was directed at assessing the status quo and guiding the reporting process.

## COMPLIANCE

Nel conducts business on all continents and the demand for Nel's hydrogen solutions is growing internationally. Growth is expected to increase significantly in the coming years. Through our expanding portfolio of international projects, Nel has a significant number of third-party relationships and we frequently participate in joint ventures, consortiums, and other forms of alliances and collaborations with other companies operating in the hydrogen industry. For businesses with a significant international footprint, a robust culture of compliance is vital to achieve sustainable value creation and success.

In 2020, the Board of Directors and the executive management team revised Nel's compliance system. The Board of Directors approved the content of the overall compliance programme and the individual compliance policies. The individual procedures have been approved by the CEO. The Board of Directors and the executive management team are enrolled in the compliance training programme and their training is monitored and followed up in the same manner as for other employees.

The purpose of the compliance programme is to prevent and mitigate compliance risks by enabling all persons and entities working for or on behalf of Nel to understand, observe, and adhere to Nel's governance framework. All of Nel's activities must comply with national, regional, and international laws. Through the Nel Code of Conduct, we stipulate the essential requirements for ethical business conduct at Nel.

The Nel Anti-Bribery and Corruption Policy ("ABAC Policy") and the Nel Competition Law Policy were completed and launched in October 2020, and a revised Nel Code of Conduct was completed and launched in December 2020. These three policies represent cornerstones in the compliance programme and dictate the kind of behaviour Nel expects, and demands, from its employees and others acting on Nel's behalf, across all of Nel's business activities. To complement the ABAC Policy and Competition Law Policy, Nel also introduced the Nel Gifts & Hospitality Procedure and the Nel Dawn-Raid Procedure, respectively.

In February 2021, Nel completed and launched the Nel Third-Party Management and Integrity Due Diligence Procedure ("Third-Party Procedure"). The Third-Party Procedure notably states that conducting an integrity due diligence of the counterparty is a mandatory requirement for entering into any business relationship with a third party.

Training of employees is crucial for an effective compliance programme. In 2020, Nel therefore entered into an agreement with a reputable third-party provider of compliance services. This allows us to conduct both generic courses on general compliance topics and courses that are developed specifically for Nel based on our policies and procedures. The service providers' training software allows Nel to enroll employees in various training modules and efficiently monitor and follow up to ensure that training is completed. It further allows us to conduct targeted training for specific categories/groups of employees.

## WHISTLEBLOWING

In September 2020, our whistleblowing channel – the Nel Ethics Hotline – was completed and launched on our intranet, accessible to all Nel employees. In addition to the whistleblowing channel, we established a system for conducting investigation procedures. Going forward, we will work to raise awareness of the initiative and the focus will be training and follow up to ensure that compliance and ethical business practice is implemented across all Nel's business units, by all employees and persons acting on Nel's behalf. In 2021, we aim to publish some of our governing policies, such as the Code of Conduct on our website to increase the public's accessibility to the work that we do here at Nel.

In 2020, we had no cases reported through the Nel Ethics Hotline.

Compliance targets for 2021:

- 100% of Nel's executive management team to have completed the anti-bribery and corruption and Code of Conduct training by 2022
- 100% of Nel's employees to have completed the Code of Conduct training by 2022



## G.2 INNOVATION AND TECHNOLOGY

All research and development (R&D) work at Nel focuses on safe and cost-efficient products for our customers. This includes reducing both initial capital expenditures, upgrades and operational expenses during the products' lifetime. Maintaining a leading position requires that Nel pursues product optimization and cost-reduction programmes. At Nel, being "number one by nature" will always be our strategic ambition, and consistent R&D is necessary to maintain and develop this position further. The total R&D spend for 2020 was NOK 115.8 million, of which NOK 84.3 million was capitalized and 31.5 million was expensed. The total spend in Electrolyser Norway, Electrolyser US and Fueling was NOK 32.7 million, NOK 37.6 million and NOK 45.5 million, respectively. The R&D spend in 2020 was 18% of annual revenue and other operating income.

In the beginning of 2020, it was decided to establish a Corporate technology team that reports to Nel's CEO. The team is responsible for Nel's core technology areas and includes a professional network which strengthens the focus and knowledge of process safety and performance across the different technology disciplines. The technology portfolio includes multiple key development programmes for both electrolyzers and fueling stations. Nel has an active IP protection strategy and has more than 100 active patents. Nel's IPR strategy is gatekept and further developed by a Nel IPR committee that works across the organization and meets bi-weekly.

### Electrolyser

Our electrode manufacturing process in Notodden, Norway, has almost a century-long history. In 2018, the strategy to further improve processes for our electrode manufacturing was strengthened. The goal is to reduce the number of processes required, thus markedly reducing the consumption of energy, raw materials, chemicals, and the factory footprint. By implementing these changes, Nel will be able to reduce the cost and emission of electrode manufacturing. The specific energy consumption of producing hydrogen from Nel electrolyzers is targeted to be reduced by up to 10% through various improvement enablers. Standardization is an important step for scaling up manufacturing with related cost-reduction programmes in place. The standardization will be skid-based, containing prefabricated modules where all safety standards are embedded in the system. In addition, Nel sees the potential to improve the efficiency and capacity of its cell stacks. To achieve this, key enablers are improvements to the electrode form, increasing the active electrode area, and increasing current density.

### Fueling

Nel has in recent years carried out vast development activities to support its light-duty fueling station products. Some of the core technologies are the control and cooling systems, as these ensure a fast, safe and complete fueling of the vehicle according to the SAE J2601 standard, which is required by the car manufacturers. Certain components are also compliant with international emission standards. In addition, the entire system and platform design are key to achieving a stable and reliable system, ensuring high availability for vehicle users. Nel has also initiated a heavy-duty fueling station product platform development that will serve the increased need for truck, bus and train hydrogen fueling. Overall, we see a large increase in utilization of our fueling stations and are investing in engineering to continuously improve on their safety and reliability.

Innovation and technology targets for 2021:

- 10 % of revenue in 2021 and 2022 to be spent on Innovation and Technology
- Five new innovative ideas and two new patent applications/trade secrets to be developed in 2021

## G.3 RESILIENCE

### Resilience in Nel's strategy

Considering 100 % of Nel's revenue comes from green hydrogen technology, the resilience of Nel's strategy within the different climate-related scenarios is robust. Key considerations are how fast our customers' industries move, how complex the green technology will be and price competitiveness. The strategy is stress-tested against different scenarios to assess parity with both fossil energy, grey and blue hydrogen. On our CMD held January 21, 2021, we launched our target which should enable our customers in certain markets to produce green renewable hydrogen from a large-scale Nel facility at USD 1.5 per kilo from low-cost renewable power, already by 2025. Achieving this would allow green hydrogen to start to reach fossil parity, representing one of the most significant achievements for zero-emission solutions.

The hydrogen market is already large but with only a fraction served by electrolysis there are significant opportunities to turn the existing market green. In addition, we see regulations supporting the transition across the globe, with the EU and the US pledging hundreds of billions of dollars into their zero-emission programs where hydrogen serves a vital part as the energy carrier of choice. The growth will not only come

from industrial applications, but also from transforming the current diesel-based heavy-duty transportation to run on zero-emission and cost-efficient green hydrogen. These developments require low-cost electrolysis and ultra-fast fueling, both areas where Nel is the global leader. Thus, we see a resilience in our strategy to invest in both electrolyser technologies, PEM and Alkaline, and hydrogen fueling technology.

There is uncertainty associated with the timing and pace of the exponential growth expected in the hydrogen industry. There is a risk that Nel is either moving too quickly or too slowly, meaning we are either over- or under investing in technology and ramp-up.

#### Resilience in manufacturing facilities

In 2019, we initiated the alkaline electrolyser capacity expansion at Herøya in Norway. The new manufacturing facility will start test production during Q2 2021 and start ramp-up in Q3 2021. The capacity of the facilities is 500 MW annually for the initial investments and can be expanded to 2 000 MW. This compares to 40 MW annually at the current production facilities. The reduction in CO<sub>2</sub> footprint from own production in the initial 500 MW production line is 1 000 000 tCO<sub>2</sub>e compared to same scale of production in traditional facilities. The new facilities are fully automated and designed according to lean manufacturing and industry 4.0 principles. It will enable Nel to have an industrial scale production at a game-changing cost.

### ASSOCIATION MEMBERSHIPS

The 2019 progress report on the UN Sustainable Development Goals states that “with the stakes so high, strong international cooperation is needed now more than ever to ensure that countries have the means to achieve the SDGs.”

Nel is working closely with international associations that aim to drive the industry and a shift in global energy consumption forward. In 2020 we joined the board of Hydrogen Europe. Hydrogen Europe is the initiator of the 2x40 GW Green Hydrogen Initiative, and we joined the board to contribute to making Europe the leading region globally for green hydrogen technologies.

Some of our memberships include:

- Hydrogen Europe
- Hydrogen Council
- Australian Hydrogen Council
- CHBC
- Hydrogen.no
- Renewable Hydrogen Alliance (RHA)
- California Fuel Cell Partnership



### EXTERNAL INITIATIVES

Nel supports the UN Sustainable Development Goals and aims to sign the UN Global Compact in 2021.

### STRATEGIC ALLIANCES

Cooperation is vital in a rapidly growing industry. Combining resources, expertise and knowledge is a key enabler that allows us to effectively improve the entire value chain, ranging from main procurement items to service and aftersales.

Strategic alliances can help shorten the timeline to achieving full competitiveness for our technologies. We are engaged in numerous strategic alliances, both domestically and internationally, and are actively pursuing new alliances in all areas of our business. Our manufacturing facilities are working towards ambitious product development goals and optimizations throughout the value chain.

Some of our alliances include:

- EPC-partners: Optimize our hydrogen turnkey solutions. Predictable project execution.
- Equipment suppliers: Secure capacity and drive down cost in a market with increasing demand.
- Raw material suppliers: Sustainable supply chain to support continuous production at Nel's manufacturing facilities.



# Climate and Environment

## E.1 CLIMATE CHANGE

Addressing Nel's efforts to combat climate change requires looking at both our contribution to the overall energy transition, as well as the emissions we generate in the manufacturing stage.

### Our contribution

The Alkaline electrolyzers and PEM electrolyser equipment produced by Nel have no emissions in use when connected to renewable power sources like wind, solar, or hydro power, either grid-connected or off-grid. In fueling, our dispensers unlock the potential to decrease dependence on fossil-based solutions for mobility, thus contributing to the decarbonization of one of the most polluting industries. The flexibility of hydrogen as a fueling source in fuel cell electric vehicles is evidenced in its applicability in both passenger cars, heavy-duty vehicles, buses, train, marine transport, and a vast array of industrial and construction equipment.

In 2020, we measured our contribution through revenue split by product category. The total group revenue was NOK 651.9 million, which can be disaggregated to NOK 337.5 million and 314.3 million for Electrolyser and Fueling, respectively.

### Improving sustainability in production

Sustainability in production is a vast topic and is necessary to address in more detail. In our decision to report in accordance with established international sustainability standards lies an important commitment to increase our focus on sustainability in our actions, not just in the opportunities that arise from our products in operation. This requires an organizational realignment and we will continuously pursue improvements in all our operations going forward. Among other initiatives, we are working on phasing out the use of hazardous chemicals in production and have set KPIs directly aimed at reducing the carbon footprint at the individual manufacturing facilities. Going forward, we aim to address reduction of emissions in the logistics of our supply chain, as well as the shipment of outgoing products. See additional information on the selection of our suppliers in section 'S.3 Responsible supply chain'.

In 2021, we aim to implement direct targets and measurable metrics to reduce emissions. We will improve on emission reporting, formalise initiatives through policies and procedures, and encourage dialogue across divisions to identify key areas of improvement. In addition, we aim to implement targets for million tonnes CO<sub>2</sub> equivalents avoided from our products and CO<sub>2</sub> payback time.

## E.2 CLIMATE-RELATED OPPORTUNITIES

### Decarbonise sectors

Green hydrogen holds a central role in the global megatrend that is climate change. This is because efforts to limit global warming to 1.5 degrees Celsius, as recommended by the Paris Climate Agreement and the IPCC special report, has accelerated the drive towards low carbon solutions in all sectors, including industries and transport. It has generated renewed interest from governments and business owners in hydrogen as an important part of the solution. Governments are recognizing green hydrogen's ability to decarbonize sectors that would otherwise be impossible to fully decarbonize – such as personal or public transport, freight logistics, industrial heating and industry feedstock – and its role in energy security. There are numerous ways of producing renewable energy, but there is a lack of flexible storage solutions. Green hydrogen is a fully-functional energy carrier produced from renewable energy sources but can also be an intermediary storage solution in situations where production and use occur at different points in time. This is integrated in Nel's vision of empowering generations with clean energy forever, as hydrogen is unlocking the potential of renewable energy.

### Talent and financing

Nel can capitalize on its contribution to climate change mitigation and the interest in green hydrogen technology to attract and retain talent, which proves advantageous in innovation, technology and project execution. In addition, access to green financing could potentially lower the group's cost of capital.

### EU Taxonomy regulation

The Taxonomy Regulation entered into force on 12 July 2020. In 2021, the EU Taxonomy Regulation is expected to be issued and adopted by the EU and is also expected to be part of the EEA Agreement and relevant legislation in Norway. The Taxonomy Regulation is mandatory for certain market participants to comply with – and considered highly relevant for others. The purpose of the framework is to have common definitions for what constitutes sustainable activities and to be used by any relevant market participant. Nel's business activities are covered by the EU Taxonomy on Sustainable activities for Climate Mitigation. In the course of 2021 Nel will report on the percentage of its activities that are taxonomy aligned after completing the necessary Do No Significant Harm and Social Safeguards analyses. All of Nel's current activities have the potential to be taxonomy aligned; thus, Nel regards the potential for full alignment with the EU taxonomy as high.

### Energy utilization

Using hydrogen in conjunction with renewable energy sources, such as solar and wind power, allows for a higher utilization of the power output. The overproduction of energy in peak hours can be converted to hydrogen and subsequently utilized at a later point in time. This is important as users can avoid having to sell the electricity back to the grid, just to purchase it again at peak costs. Such a business case becomes highly relevant in areas where the grid cannot guarantee that sufficient levels of renewable energy will be available during off-hours.

## E.3 CLIMATE-RELATED RISKS

### Regulatory risks and Geopolitics

While climate change is the megatrend, the anticipated role of green hydrogen as a sustainable activity contributing to climate change mitigation could change. How geopolitics will impact and shape climate policies going forward constitutes a risk for Nel. We would not be significantly impacted by the introduction of a potential carbon tax or restrictions on the use of carbon-intensive assets. Further, we do not consume products from conflict areas and our consumption of rare materials is limited.

### Technology Risk

Along with the significant increase in the development of the hydrogen market comes increased competition. This also results in increased activity and pace in research and development across the hydrogen industry. Nel's electrolyser technology consist of both Alkaline and PEM. Currently, the Alkaline technology platform presents the advantage of having the lowest cost, the highest efficiency and of being the better solution for large scale. PEM technology platform has the advantage of dynamic response and intermittent operation.

It is a risk that one of the existing technologies in Nel becomes obsolete. In addition, Nel continuously monitors the developments and possibilities of a disruptive technology emerging. Today, Anion Exchange Membrane (AEM) and Solid Oxide (SOEL) represent possible disruptors. While all technologies can potentially co-exist, the required investments in new technology constitutes a material risk for Nel. In addition, we cannot know for certain whether green hydrogen emerges as the preferred technology as the world transitions into renewable energy.

### Reputation Risk

Nel recognizes the importance of maintaining a strong

brand in the developing hydrogen industry. Reputational risk comprises: i) any damage to brand value that will cause lost opportunities, ii) challenges in recruiting and retaining talent that in turn could halt technology developments and damage customer experience, and iii) challenges in attracting investors due to damaged reputation which could affect the going concern status of the group.

### Physical Risk

None of our manufacturing facilities are located in environments overly exposed to physical risks. Relatedly, our facilities are not located in the areas most exposed to sustained long-term shifts in climate patterns. However, our delivered solutions require continuous access to water and electricity, a shortage of which could impact our products' performance.

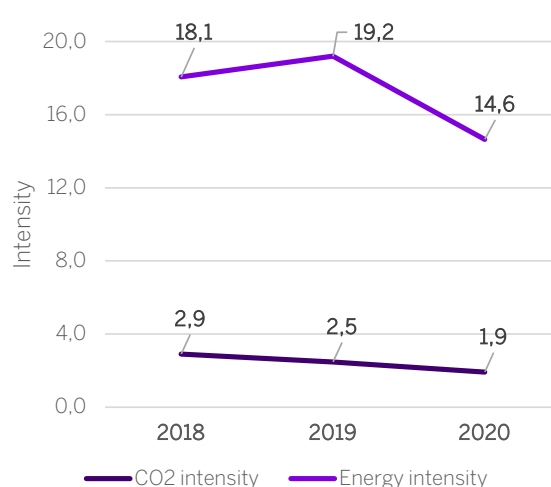
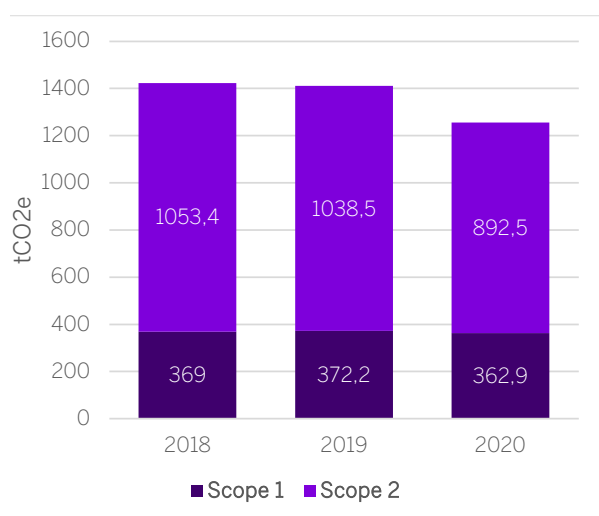
## E.4 ENVIRONMENTAL IMPACT, ENERGY AND GHG EMISSIONS

We strive to be transparent with regards to our impact on the environment, and for the first time we have collected data that provides a relative overview of our emissions and their origins. We report on scope 1 and 2 for the 2020 report, for which we have conducted an extensive analysis to report emission dating back to 2018.

The main contributor towards our carbon footprint is

related to scope 2 emissions. The electrolyser division consumes significant energy while performing tests on our products, before they are shipped to our customers. Other inputs include water and chemicals. We expect our absolute emissions to grow as we continue the ramp up our strategy, including adding a new manufacturing facility that will increase our production capacity twelve-fold. In addition, activity levels are expected to increase further at all our locations. Our goal is to decrease our CO<sub>2</sub> footprint and water consumption per product produced. We will achieve this by improving the stability and scalability of our production processes.

We disclose our CO<sub>2</sub> intensity, which is defined as total emissions (tCO<sub>2</sub>e) from scope 1 and scope 2 over MNOK revenue. We have seen a significant improvement from 2018 to 2020 on the emissions required for manufacturing products sold. The inclusion of scope 3 emissions is dependent on data from several sources, e.g., travel agencies, freight forwarders, other logistics and meters. To date, this is not included in our calculation of CO<sub>2</sub> intensity as it has been challenging to gather complete and accurate data. For next year's report, we aim to extend our reporting scope and include a selection of scope 3 emissions. These have been identified to be air travel, waste and downstream distribution. For that reason, we recognize that the emissions could be significantly higher as we include scope 3 emissions going forward.



\*CO<sub>2</sub> intensity is calculated using scope 1 & 2 emissions (tCO<sub>2</sub>e) over MNOK revenue. Energy intensity is calculated based on MWh consumption over MNOK revenue.



# Social Responsibility

At Nel, social responsibility refers to how we address social issues that ultimately impacts our contribution to society at large. We have identified product safety and occupational health and safety as our most material topics, followed by a responsible supply chain, cyber security and well-being at work. Nel's focus on safety is condensed in a programme initiated in 2020. The purpose of the programme is to strengthen all the good work that is on-going throughout Nel. This to foster a common, sustainable safety culture that drives a zero-tolerance attitude towards HSE incidents for all Nel employees. The described efforts will drive change, improve, and continuously endorse a sustainable safety culture at Nel. The philosophy behind Nel's continuous journey is to go from being compliant, to being committed. This is a common approach for high-performance companies, inspired and based on best practices and it is anchored with Nel's executive management team and Board of Directors. Objectives and progress will be reviewed on an annual basis.

The programme will focus on the following three areas:

- Product safety, which relates to Nel's ability to ensure methods and tools for how to design products safely. The safety programme will investigate product design tools across the group, including common design criteria
- Workplace safety, which relates to ensuring a transparent governance structure, including updated standards and procedures for working safely, both at Nel sites and externally. It deals with the whole organization around HSE initiatives and activities, at both the global and local levels
- Stakeholder safety relates to suppliers, contractors, customers and partners that Nel engages with. All should be brought up to a minimum knowledge in Nel's safety procedures and rules of conduct at our locations

Nel recognises that ensuring workplace, stakeholder and product safety in a diligent manner is a license to operate within the hydrogen industry.

The above three categories will have the following focus areas:

1. Transition to a HSE mindset and development of a commitment culture
2. Development and implementation of a Nel HSE management system
3. Standardization of programme activities where relevant throughout the organization
4. Training and evaluation of the organization and system effectiveness

## S.1 PRODUCT SAFETY

Safety has first priority at Nel. Management and all employees are strongly committed to the company's promise of delivering fail-safe products to our customers. The product safety risks include the risk of major accidents and near misses related to malfunctions in our products and/or insufficient service during operations and maintenance. Each division and legal entity in Nel are responsible for the development, implementation and maintenance of risk management framework and system within each discipline. In our development of products, Nel never compromises on safety requirements, codes and standards.

Where applicable, safety requirements include third-party product certification for design and manufacturing. In addition, a Nel HSE committee that works across the organization and consists of participants from each legal entity, as well as the corporate function, ensures learning across sites and the establishment of best practice. Third-party experts are involved as subject matter experts when applicable. In 2021, Nel will continue the implementation of even more rigorous methodologies, e.g., an audit system where specific areas will be assessed to identify areas of improvements.

In 2020, Nel adopted the strategic decision to establish the Nel Business System (NBS). NBS will be implemented across Nel in 2021. NBS focuses on how Nel will achieve customer satisfaction and have HSE and quality as first priorities to achieve this. The introduction and training for both leadership and Nel as a whole for this initiative will be conducted in 2021. The Nel Business System will be a part of our employee value programme.



#### Product safety targets for 2021:

- Zero product-related incidents, including at sites with Nel equipment
- Recognized safety leader within the industry, setting new industry safety standards across the value chain

## S.2 OCCUPATIONAL HEALTH AND SAFETY

As part of Nel's response to the COVID-19 pandemic, the company established a task force team with representatives from all of Nel's main sites. This team developed guidelines for preventive measures to ensure Nel employees' safety. This was extended to all Nel sites, where the local management teams are responsible for execution and follow-up. The team meets on a weekly basis to discuss the status of the pandemic locally at the various sites and adapt preventive measures accordingly. As an example, the number of on-site employees was reduced to a minimum to keep the business operational. In addition, changes we made with regards to shipping and receiving, to keep up efficient work processes and business rhythm. As a side effect of these adjustments, Nel reduced its total number of discretionary trips made to customers, restricting trips to a business-essential basis. This also caused reduced emissions.

Management is strongly committed to the QHSE-system and safety as our #1 priority. All Nel sites have management systems in place that safeguard our employees' health and safety. Ensuring that employees work in a safe and healthy environment is the key to any successful business. Nel aims to provide a workplace for everyone that is free of incidents and injuries, and to promote a culture of hazard identification and awareness through incident reporting

and self-accountability. Employees are provided with appropriate training and equipment to perform their job safely. Each employee is personally responsible for working in a safe manner, following all health and safety policies and procedures, participating in training and identifying and reporting any health and safety issues and hazards to management or the relevant internal stakeholders. The guiding principles for workplace safety are laid out in the Nel Code of Conduct.

Nel strives to minimize risks of accidents and work-related illnesses among its workers and employees. Each division and local entity have in-place processes and systems to ensure compliance with all applicable rules and regulations; divisions also have policies related to hazards and specific work tasks at risk that reflect the activities at the divisions. Each Nel location has a management team member assigned to ensure that all mandated health and safety guidelines are followed. Relevant indicators on work related injuries and illness are monitored and reported at a corporate, divisional and local level.

The safety culture of the organization is the product of individual and group values, attitudes, perceptions, competencies and patterns of behaviour that determine the commitment to, and the style and proficiency of, the organization's health and safety management.

#### Occupational health and safety targets for 2021:

- QHSE target of zero incidents, including at sites with Nel equipment
- Recognized safety leader within the industry, setting new industry safety standards across the value chain

## S.3 RESPONSIBLE SUPPLY CHAIN

Nel's yearly spend on purchasing goods and services is 70% of total revenue, equalling approximately NOK 450 million. The total spend will increase in line with Nel's increased activity level. A responsible supply chain is therefore an integral component of our sustainability efforts, and we seek to select and develop suppliers with high standards.

Nel's global supply chain includes a variety of suppliers, from the large international organizations to specialist local suppliers. In 2020, we engaged with 1696 direct and indirect suppliers. We perform risk-assessments of our supply chain on a regular basis. The main sustainability risks include bribery and corruption, breach of human rights and labour laws, fatal accidents and poor environmental performance. Mitigation of

these risks is done through a thorough supplier selection and follow-up programme, in accordance with Nel's Procurement Policy. Our procurement process includes several steps of information gathering. Before suppliers are shortlisted and invited to tender, they must pass a pre-qualification process that includes verification of QHSE (Quality, Health, Safety and Environment) systems and sustainability considerations. We verify that our suppliers comply with Nel's Code of Conduct, including compliance with regulatory requirements, QHSE policy, anti-corruption policy and environmental practices.

The supplier selection process involves a four-stage approach:

1. Collect prequalification data from suppliers
2. Perform due diligence desk top analysis, resulting in supplier shortlisting
3. Invite qualified suppliers to tender based on Nel's standard contract conditions and specific requirements
4. Perform audit of shortlisted suppliers before contract award

Achievements and results in 2020 include the development and implementation of a structured supplier due diligence process. The initiative to have parts of the due diligence process automated commenced late in 2020 and the development will continue in 2021. The goal is to have a supplier portal on our corporate website where suppliers can access relevant documentation related to our due diligence process and submit their information and attachments directly.

In 2020 Nel implemented category management. Dedicated sourcing teams perform supplier selection and manage longer-term contracts, to ensure that qualified capacity within main categories will be available for our projects. A target in 2021 is to implement a supplier development programme to measure and provide feedback to the suppliers on agreed key performance targets. All main suppliers shall be screened against social and environmental criteria. Further, the goal is to perform audits of a minimum of 10 of the suppliers we procure from, representing the major categories and highest risks, in 2021.

As Nel strengthens its contracting and procurement team, it is our goal to run all new team members in this unit through an anti-corruption and anti-bribery training in 2021. Additionally, we will work closely with our legal department to organize specific contract training

sessions, also focusing on anti-corruption and the achievement of sustainability goals.

We will continue to work with suppliers to optimize our value chain and promote sustainable business practices.

Responsible supply chain targets for 2021:

- Implementation of the automated pre-qualification and due-diligence process to ensure that suppliers and their sub-suppliers comply with sustainability requirements
- Continue to follow up suppliers and verify compliance by performing audits of 10 key category suppliers at a minimum
- Develop and commence implementation of a supplier development programme to enhance suppliers' performance

## S.4 CYBER SECURITY

Protecting our operations is essential and will become increasingly important as the global use of connected devices continues to rise. An IT-report is presented to the Board of Directors annually, showcasing our current status and outlining concerns that need attention going forward. Protecting our intellectual property will remain a priority, especially as the use of big data, such as at our fueling stations and electrolyzers, continues to increase in importance.

Additionally, we have identified unintentionally opening or downloading malicious content stemming from emails as our most commonplace security threat. Consequently, all relevant employees are required to go through IT-security training on a monthly basis. An external consultant has been hired to uncover and report on IT-related security threats.

As far as we are aware, there were no breaches of customer privacy in 2020, nor were there any reported cases of identified leaks, thefts, or loss of customer data.

Our manufacturing facilities are only somewhat integrated into the IT-systems and run mostly independently. This will to a certain extent change as our new production facility at Herøya will have a higher degree of robotization and will consequently be more connected to IT-systems relative to our other manufacturing facilities. Our IT-staff is involved in the construction process of the new factory, to ensure safety and mitigate the risk of breach.



## S.5 WELL-BEING AT WORK

Until now HR has been managed at a division/site level. From 2021 Nel is strengthening its focus on HR development at the overall corporate level. The HR directors in the business and the newly-recruited Chief HR Officer (CHRO) will work in a matrix organization ensuring HR is aligned across and with the Nel Business System. This approach will help establish a common HR governance, a strong foundation for people and organizational development and support continuous HR improvements across the business. In 2021, priorities included building a robust HR Business system across the organization and establishing common relevant people data of quality. This will give us a solid basis for following up targets and strategies, in order to develop our people and organization, and ensure the proper strategic growth. In 2021 we will also introduce more common systems and systematic approaches to HR processes across our businesses. This will also include a high focus on developing a common culture with concrete development tools at all levels of the organization.

Our HR work is essential to continue attracting and developing the best talents in our industry, in order to develop world-class technology, products and solutions for our customers. Managing people and competences lies at the core of Nel's further development.

A large number of competence development activities were performed in 2020, linked to ISO certifications. Going forward, more skills development programmes will be adopted, in alignment with our culture and values, based on the Nel Business System.

### Key figures

	2020	2019	2018
Sick-leave	4.28%	2.36%	1.82%
Retention	92%	88%	88%
Coverage of employees	91%*	94%	83%

\* The decrease in coverage for 2020 is attributed to the rapid expansion of our service station in South Korea and corporate headquarters. We have initiated actions to improve on our reporting in 2021.

# Sustainability moving forward

Being accountable for our environmental footprint is emerging as a pivotal component in corporate transparency, and we aim to provide information as sought out by our key stakeholders. Nel strongly believes that the green hydrogen market has a potential of unknown magnitude, supported by a wide body of research. Virtually every industry needs to realign their consumption habits if we are to stand a chance of achieving the UN Sustainable Development Goals, and renewable hydrogen will be a part of the energy mix that enables the transition.

Ramp-up investments, organizational expansion and new markets were a few of the highlights of this past year, signalling that demand is growing fast. We must ensure that sustainable business is leading our operations. During the ramp-up stage of our business, taking a precautionary principle approach is necessary to promote sustainability within the organization. Moving forward, our global presence, coupled with strong financing, will help us remain the preferred partner that provides world-class safety. It will ensure that we maintain our position as a technology front-runner, through scalability and cost leadership.

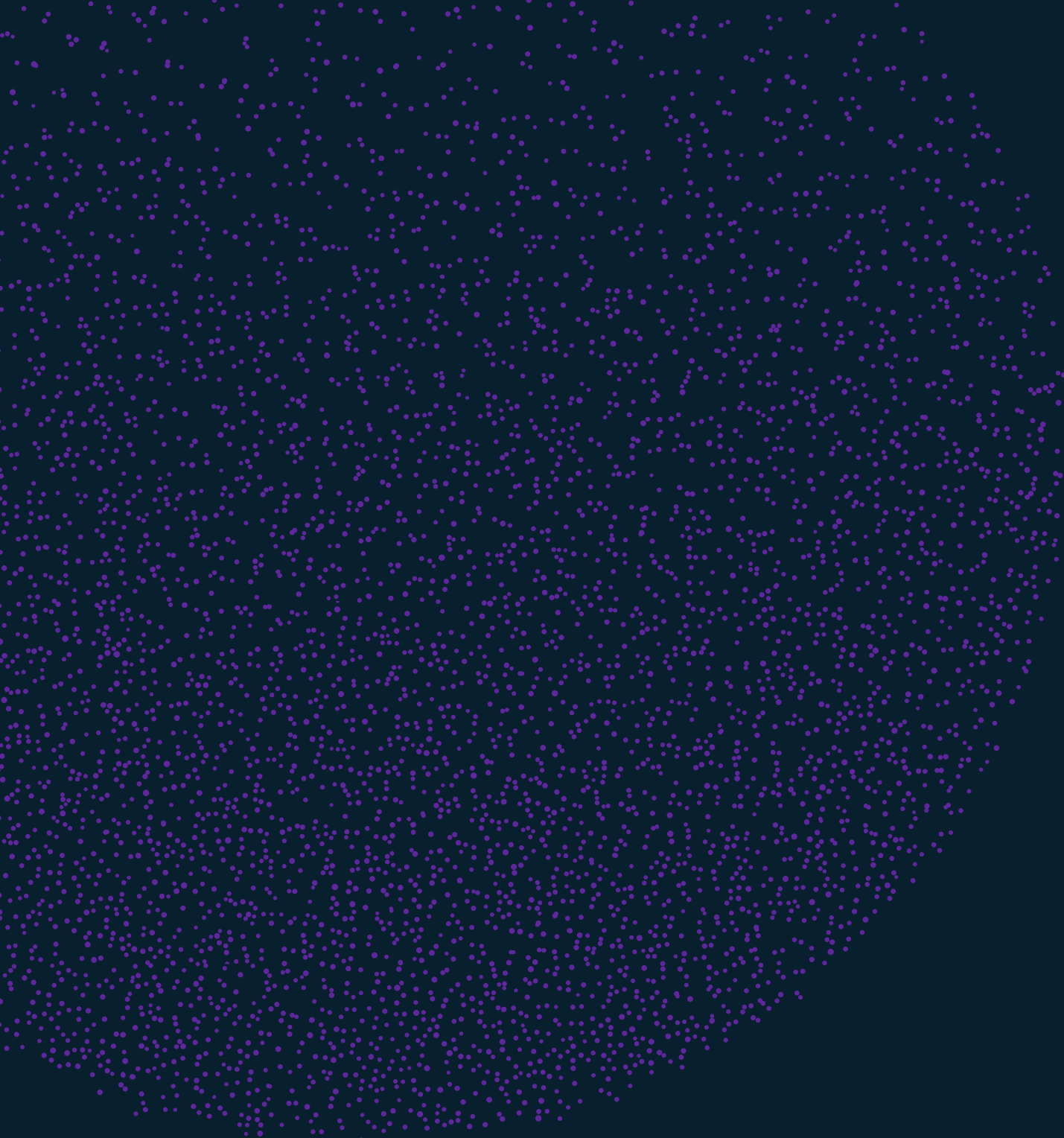
2020 is the first reporting year Nel is publishing a sustainability report in compliance with international ESG-standards. Reporting according to these standards required an organizational realignment and the establishment of data collection methods, supporting actions, and formalizing procedures. In the coming year we will work on improving the reporting method and the content we present, to ensure that next year's report will be even more comprehensive. Our goal is to further develop and improve our reporting in the coming years, with the aim of including a wider range of ESG-reporting standards into our report. Among other things, we aim to quantify environmental targets and metrics, improve our emission reporting and demonstrate our ESG commitment at all levels of the organization. In 2021, more information pertaining to our sustainability efforts will be published on our website.

The GRI Standards Index for Nel can be found on our website. Visit [www.nelhydrogen.com/sustainability](https://www.nelhydrogen.com/sustainability).









info@nelhydrogen.com  
+47 23 24 89 50  
www.nelhydrogen.com

Office address:  
Karenslyst allé 49,  
0279 Oslo, Norway