Nel ASA

Q4 2018 interim report

Highlights of the quarter

- Nel ASA (Nel) reported revenues in the fourth quarter 2018 of NOK 124.9 million, up from NOK 115.6 million in the fourth quarter 2017, in line with the trading update provided in connection with the private placement completed 30 January 2019.
- Order backlog amounts to around NOK 350 million. The backlog does not include any orders under the Nikola supply contract
- The quarter is influenced by cost overruns related to certain projects, non-recurring- and ramp-up costs
- Cash balance of NOK 349.7 million (Q4 2017: 295.0), excluding the NOK 462.7 million in gross proceeds from the January 2019 share issue
- Participation in H2-Consortium Westküste in Germany, being selected as a preferred partner of Alstom for delivery of hydrogen production and fueling equipment for hydrogen trains
- Awarded a contract of EUR 2 million by Uno-X Hydrogen AS to deliver two additional H2Station® hydrogen fueling stations in Norway
- Awarded an R&D grant of EUR 1 million from EUDP for continued H2Station® hydrogen technology development
- Received a contract of EUR 2.5 from Shell for installation of two H2Station® in the Netherlands and entered into new framework agreement
- Awarded a grant under the PILOT-E scheme for the development and realization of a green fertilizer project together with Yara International ASA (Yara)

Subsequent events

- Awarded a USD 6 million contract with Shell Oil Products US for the delivery of a H2Station® solution for fueling of heavy-duty vehicles in California, USA
- Completed a successful private placement of 84 906 560 new shares, at a price per share of NOK 5.45, raising NOK 462.7 million in gross proceeds
- Received notice on bid winner for two hydrogen fueling stations in South Korea. The value of the proposed station solution is around EUR 2.8 million
- Awarded purchase order for a 2 MW PEM electrolyzer, and entered into a 30 MW framework contract agreement in Switzerland

Key figures

(Unaudited amounts in NOK million)	**2018 Q4**	**2017 Q4**	**2018 Full year**	**2017* Full Year**
Operating revenue	124.9	115.6	489.0	302.2
Total operating expenses	185.6	159.2	685.1	419.4
EBITDA	-41.9	-23.9	-131.6	-77.4
Operating loss	-60.7	-43.5	-196.1	-117.2
Pre-tax loss	-55.8	-44.6	-197.5	-124.4
Net loss	-54.5	22.7	-189.0	-52.4
Net cash flow from operating activities	-44.6	2.7	-142.6	-113.0
Cash balance end of period**	349.7	295.0	349.7	295.0

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

*** The 2018 4Q figure does not include the NOK 462.7 million in gross proceeds from the January 2019 share issue*

Financial development

NOTE: Nel issued a trading update 30 January 2019 as the company completed a successful private placement. The financial development for the quarter is in line with the trading update

Nel reported revenues in the fourth quarter 2018 of NOK 124.9 million (Q4 2017: 115.6 million), following growth in the Fueling and Solutions segments of 38%, while the development in Electrolyser was -6% compared to the same quarter last year.

At the end of 2018, Nel had an order backlog of around NOK 350 million. The order backlog does not at this stage include electrolyzers and associated fueling equipment to Nikola as part of its development of a commercial hydrogen station infrastructure in the US for truck and passenger vehicles. Backlog only includes firm purchase orders with agreed price, volume, timing and terms and conditions.

Costs of goods sold increased to NOK 79.2 million (58.0). Wage- and social cost expenses amounted to NOK 54.4 million (46.5) and other operating costs decreased to NOK 33.2 million (35.1).

The high cost level in the quarter was partly due to higher project cost than anticipated. In addition, there was a high level of business development- and sales activities, and considerable growth initiatives which affected the costs. The organization is generally prepared for a higher revenue level. At the end of the year 2018, 239 people were employed in Nel compared 202 at the end of 2017.

The non-cash costs for the stock option- and share incentive program, which are included in wages and social costs, were NOK 2.7 million in the quarter and are currently expected at an average of NOK 2-3 million per quarter going forward.

Depreciation was NOK 18.8 million (19.6). The depreciation is mainly related to excess values derived from acquisitions completed in previous years and from the new accounting treatment of grants.

Operating loss amounted to NOK -60.7 million (-43.5), while the EBITDA ended at NOK -41.9 million (-23.9).

Net financial items amounted to an income of NOK 4.9 million. This was related to currency gains from translation of certain balance sheet items. These gains were partly offset by unrealized and realized losses from currency forward contracts. Share of loss from associates and joint ventures amounted to NOK 0.8 million (2.8) and is mainly related to Nel's ownership in Uno-X Hydrogen AS and Hyon AS.

Pre-tax loss was NOK -55.8 million (-44.6) and the net loss for the quarter was NOK -54.5 million, compared to a profit of NOK 22.7 million in the same quarter in 2017.

Total assets were NOK 1 939.9 million at the end of 2018, compared to NOK 1 764.8 million at the end of 2017. Total equity was NOK 1 578.8 million. Thus, the equity ratio was 81 percent.

Net cash flow from operating activities in the fourth quarter 2018 was NOK -44.6 million, compared to NOK 2.7 million in the same quarter last year. Net cash flow from investing activities was NOK -39.6 million (-29.1).

Nel’s cash balance at the end of the fourth quarter was NOK 349.7 million. This does not include the NOK 462.7 million in gross proceeds from the private placement completed in January 2019.

Nel in brief

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

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

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

Developments

Nel Hydrogen Electrolyser

Production and installation of electrolyzers for hydrogen production.

Nel Hydrogen Electrolyser recorded revenues of NOK 73.9 million, down from NOK 78.7 million in the fourth quarter 2017.

Green fertilizer project with Yara

Nel was awarded a grant under the PILOT-E scheme for the development and realization of a green fertilizer project together with Yara. The ambition of the project is to realize zero-emission fertilizer production using innovative solutions and cost-efficient hydrogen production from electrolysis based on renewable energy.

The project is leveraging on the development of the next generation alkaline electrolyzer, which is being developed for mega scale hydrogen production from renewables, used for industrial applications.

The PILOT-E scheme provides funding for Norwegian trade and industry and has been launched as a collaboration between the Research Council, Innovation Norway and Enova. The objective of the scheme is to develop and utilize novel products and services in the field of environment-friendly energy technology as a means of reducing emissions both in Norway and internationally.

Notodden plant

Nel is building the world's largest manufacturing electrolyzer plant, fully automated and able to deliver the Nel alkaline electrolyzers at a game changing cost. After completion, the total capacity at Notodden will be 360 MW/year, approximately ten times the current annual production capacity, and will accommodate the multi-billion NOK order from Nikola.

The manufacturing plant will be constructed as an extension of the current facility at Notodden, Norway, and is expected to add 30 to 40 new employees.

Subsequent announcements

Nel was awarded a purchase order for a 2 megawatt (MW) containerized Proton PEM® electrolyzer, as part of a 30 MW framework agreement with Hydrospider AG, an affiliated company of H2 Energy.

The electrolyzer will be used to produce green hydrogen for heavy-duty hydrogen trucks from Hyundai Motor Company, which will begin operation in Switzerland during late 2019.

Nel Hydrogen Fueling

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

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

EUDP grant

Nel was awarded an R&D grant of EUR 1 million from the Danish Energy Technology Development and Demonstration Program (EUDP) for continued H2Station® hydrogen technology development.

This development is vital for the joint technology development with Nikola Motor Company, and the work to revolutionize the heavy-duty trucking industry with a nationwide U.S. network of hydrogen stations.

Nel Hydrogen Solutions

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

Nel Hydrogen Fueling and Solutions recorded revenues of NOK 51.0 million, an increase from NOK 37.0 million in the same quarter in 2017, representing an organic growth of 38%.

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

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

Nikola

Nel has been awarded a contract for delivery of 448 electrolyzers and associated fueling equipment to Nikola. Under the multi-billion NOK contract, to be gradually ramped up from 2020 through 2025, Nel will deliver up to 1 GW of electrolysis plus fueling equipment.

The contract value of these deliverables is currently not included in the reported order backlog, as exact timing and station design per site is still under discussion. The two demo stations are included in the backlog (originally with a value of USD 9 million).

Purchase order in Norway

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

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

Purchase orders in the Netherlands

Nel received purchase orders from Shell Nederland Verkoopmaatschappij B.V. for installation of two H2Station® in the Netherlands.

The orders follow the signing of a new framework agreement between Nel and Shell Global Solutions International B.V.

The two H2Station® units in the Netherlands will be manufactured and installed during 2019, with a total contract value of approximately EUR 2.5 million.

Nel Hydrogen has delivered several H2Station® solutions for Shell since 2014, both in Europe and in the U.S.

Subsequent announcements

Nel entered into a contract for the delivery of a H2Station® solution for fueling of heavy-duty vehicles (HDV) with Shell in the US, a market which is showing a faster growth than earlier anticipated.

Nel is gearing up the efforts and technology developments toward offering solutions that can accommodate growth in this segment.

The H2Station® equipment will be deployed in the U.S. and will be capable of fueling both heavy duty trucks as well as light duty vehicles. The work related to the contract will start soon and exact delivery time to be agreed.

The H2Station® order has a total value of more than USD 6 million.

Nel Korea Co., Ltd., has received the notice as bid winner of two H2Station® hydrogen fueling station from Gangwon Technopark in South Korea.

The value of the proposed station solution is around EUR 2.8 million, and the H2Station® units are scheduled to be installed in Gangneung and Samcheok during 2019. With the proposed financing in place, Nel and the end customer will now work to finalize necessary agreements.

Subsequent corporate development

After the closing of the quarter, Nel raised NOK 462.7 million in gross proceeds through a private placement of 84 906 560 new shares at a price per share of NOK 5.45.

The net proceeds will be used for continued investment in development and innovation across segments and technologies to stay on the technological forefront and to take advantage of the attractive market opportunities, including:

- Upgrading existing H2Station® technology to better accommodate heavy duty vehicle applications
- Development of high capacity cooling/compression technologies to accommodate future Nikola stations as well as other future HDV applications
- Development of next generation electrolyzer technology for industrial applications, such as ammonia, refineries, etc.
- Fund additional working capital in response to increased order volumes and improved positioning to benefit from markets with high activity and growth momentum
- General corporate purposes

Risks and uncertainty factors

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

Outlook

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

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

Key areas of focus include:

- Continuing work on the x10 factory expansion at Notodden to support deliveries to Nikola and other customers
- Leveraging the fast-growing HDV opportunities, increasing our technology development activities
- Develop next generation electrolyzer technology for industrial applications, such as ammonia, refineries, etc.
- Continue to explore further market penetration strategies in China
- Ongoing collaboration on H2Bus Europe for a large-scale hydrogen bus rollout
- Supporting Alstom & partners for hydrogen train opportunities in Germany
- Significant tender activities for larger projects for electrolyzers and H2Stations, continuing to strengthen pipeline

Ongoing growth initiatives and focus on long term high value orders will have a negative impact on Nel's ability to deliver positive EBITDA in the short term.

Oslo, 26 February 2019

The Board of Directors

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

Condensed interim financial statements

Statement of comprehensive income (unaudited)

PROFIT & LOSS	**Note**	**2018**	**2017**	**2018**	**2017**
(amounts in NOK thousands)		Q4	Q4	Full year	Full year
Operating Income					
Sales income		117 228	108 344	468 926	286 365
Other operating income	8	7 646	7 301	20 123	15 855
Total operating income	**4,6**	**124 874**	**115 645**	**489 049**	**302 220**
Operating expenses					
Cost of goods sold		79 169	57 974	298 545	163 638
Wages and social costs		54 416	46 516	182 726	130 021
Depreciation	8	18 781	19 612	64 470	39 762
Other operating costs		33 200	35 072	139 369	85 961
Total operating expenses		**185 565**	**159 175**	**685 110**	**419 382**
Operating loss		**-60 691**	**-43 530**	**-196 061**	**-117 162**
Financial income		1 944	3 252	4 818	6 973
Financial expenses		-3 834	1 497	1 529	7 183
Share of loss from associates and joint ventures		837	2 842	4 731	7 074
Net financial items		**4 942**	**-1 087**	**-1 442**	**-7 284**
Pre-tax loss		**-55 749**	**-44 617**	**-197 503**	**-124 447**
Tax expense (income)		-1 222	-67 350	-8 530	-72 000
NET LOSS		**-54 527**	**22 733**	**-188 973**	**-52 447**
Items that may subsequently be reclassified to profit or loss					
Currency translation differences		49 013	7 431	31 356	18 237
TOTAL COMPREHENSIVE INCOME		**-5 513**	**30 164**	**-157 617**	**-34 210**
Basic EPS *(figures in NOK)*		**-0.049**	**0.054**	**-0.179**	**-0.063**
Diluted EPS *(figures in NOK)*		**-0.048**	**0.053**	**-0.176**	**-0.061**

Statement of financial position (unaudited)

BALANCE SHEET	Note	2018	2017
(amounts in NOK thousands)		Q4	Year end
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Technology	8	420 135	377 677
Customer relationship		69 151	78 329
Customer contracts		0	9 575
Goodwill	5	608 837	591 735
Total intangible assets		**1 098 124**	**1 057 317**
Tangible fixed assets			
Land, buildings and real estate		110 681	79 654
Fixtures and fittings, tools, etc.		24 702	16 544
Total tangible fixed assets		**135 383**	**96 198**
Financial fixed assets			
Investments in associates and joint ventures		18 451	16 865
Other financial fixed assets		53 882	10 161
Total financial fixed assets		**72 333**	**27 026**
Total non-current assets		**1 305 841**	**1 180 541**
CURRENT ASSETS			
Inventories		134 804	138 723
Trade receivables		108 659	96 791
Other receivables		40 875	53 768
Cash and cash equivalents		349 747	295 000
Total current assets		**634 085**	**584 282**
TOTAL ASSETS		**1 939 926**	**1 764 823**
EQUITY AND LIABILITIES			
Equity			
Share Capital		222 710	199 743
Share premium reserve		1 585 570	1 289 233
Other paid-in capital		29 934	19 188
Treasury shares		-12	-4 405
Retained earnings		-259 371	-94 373
Total equity		**1 578 832**	**1 409 387**
NON-CURRENT LIABILITIES			
Deferred tax liability		65 152	68 273
Non-current interest bearing debt		32 026	6 538
Other non-current liabilities	8	74 434	66 752
Total non-current liabilities		**171 613**	**141 563**
CURRENT LIABILITIES			
Accounts payable		69 473	64 857
Social security, VAT etc. payable		6 962	3 060
Other current liabilities		113 046	145 957
Total current liabilities		**189 481**	**213 874**
Total liabilities		**361 094**	**355 437**
TOTAL EQUITY AND LIABILITIES		**1 939 926**	**1 764 823**

Statement of changes in equity (unaudited)

Statement of changes in Equity *(amounts/numbers in NOK thousands/thousands)*	Number of shares	Share capital	Share premium	Other reserves	Treasury shares	Curr. conv. effects	Other equity	Total equity
As of 31.12.2016	**683 678**	**136 736**	**608 213**	**11 116**	**-1 377**	**603**	**-84 071**	**671 219**
Net loss 2017							-52 447	-52 447
Currency translation differences						18 237		18 237
Capital increases 2017	315 037	63 007	681 020					744 027
Acquisition Proton OnSite							17 049	17 049
Options and share program				8 072			9 213	17 285
Treasury shares					-3 028			-3 028
Other changes							-2 957	-2 957
As of 31.12.2017	**998 715**	**199 743**	**1 289 233**	**19 188**	**-4 405**	**18 840**	**-113 213**	**1 409 387**
Opening balance adjustment - IFRS 15 adoption							-3 037	-3 037
Net loss 2018							-188 973	-188 973
Capital increases 2018	114 836	22 967	296 337					319 305
Currency translation differences						31 356		31 356
Options and share program				10 746	4 124		-4 124	10 746
Other changes					269		-219	50
As of 31.12.2018	**1 113 551**	**222 710**	**1 585 570**	**29 934**	**-12**	**50 196**	**-309 566**	**1 578 832**

Statement of cash flow (unaudited)

CASH FLOW STATEMENT	**Note**	**2018**	**2017**	**2018**	**2017**
(amounts in NOK thousands)		Q4	Q4	Full year	Full year
Cash flow from operating activities					
Pre-tax loss		-55 749	-44 617	-197 503	-124 447
Interest costs, reversed		298	48	704	311
Interests income, reversed		-953	-216	-3 271	-2 442
Depreciation		18 781	15 818	64 470	35 968
Change in provisions		3 444	37 526	12 480	44 002
Change in inventories		6 490	-26 083	3 919	-102 457
Change in trade receivables		-40 655	23 279	-11 868	-61 817
Change in trade payables		-2 449	-14 319	4 616	48 067
Change in other short-term receivables and liabilities		26 166	11 229	-16 116	49 798
Net cash flow from operating activities		*-44 626*	*2 663*	*-142 569*	*-113 018*
Cash flow from investment activities					
Acquisitions of fixed assets		-37 982	-29 130	-94 513	-71 898
Cash outflow investments in other financial assets		0	0	-42 131	0
Cash outflow loan given to associates/ joint ventures		0	0	-9 796	-198
Acquisitions of associates/ joint ventures		-1 540	0	-3 478	-8 624
Acquisitions of subsidiaries		-161	0	-6 883	-169 220
Acquisition of subsidiaries cash balance		0	0	13 342	30 669
Net cash flow from investing activities		*-39 683*	*-29 130*	*-143 458*	*-219 272*
Cash flow from financing activities					
Interest paid		-298	-48	-704	-311
Interest received		953	216	3 271	2 442
Gross cash flow from share issues		0	245 000	332 259	428 033
Transaction costs connected to share issues		-294	-9 291	-12 954	-23 623
Proceeds from new loan		0	0	27 280	0
Payment of long-term liabilities		-427	0	-8 378	-4 719
Net cash flow from financing activities		*-65*	*235 878*	*340 773*	*401 823*
Net change in cash and cash equivalents		*-84 374*	*209 411*	*54 747*	*69 533*
Cash and cash equivalents beginning of period		434 121	85 589	295 000	225 467
Cash and cash equivalents		**349 747**	**295 000**	**349 746**	**295 000**

Notes to the interim financial statements

Note 1 Organization and basis for preparation

Corporate information

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

Nel ASA (org. no 979 938 799) was formed in 1998 and is a Norwegian public limited company listed on the Oslo Stock Exchange. The group's head office is in Karenslyst allé 20, N-0278 Oslo, Norway. The condensed interim consolidated financial statements were authorized for issue by the Board of Directors on 26 February 2019.

Basis for preparation

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

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

During the fourth quarter a change has been implemented related to the accounting treatment for grants, see note 8 for details.

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

Note 2 Going concern

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

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

Note 3 Significant estimates, judgements and assumptions

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

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

- Impairment of goodwill
- Share based payments
- Development expenses

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

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

Note 4 Segments

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

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

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

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

(amounts in NOK million)	Fueling and Solutions 2018 Q4	2017 Q4	2018	2017	Electrolyser 2018 Q4	2017 Q4	2018	2017	Other/ elimination* 2018 Q4	2017 Q4	2018	2017	Total 2018 Q4	2017 Q4	2018	2017
Operating revenue	51.0	37.0	190.7	105.1	73.9	78.7	298.5	196.8	0.0	0.0	-0.2	0.3	124.9	115.6	489.0	302.2
Operating expenses	75.8	53.8	269.9	141.8	94.3	81.1	328.5	200.4	-3.2	4.6	22.3	37.4	166.8	139.6	620.6	379.6
EBITDA	**-24.9**	**-16.8**	**-79.2**	**-36.7**	**-20.4**	**-2.4**	**-29.8**	**-3.7**	**-3.2**	**-4.7**	**-22.5**	**-37.0**	**-41.9**	**-23.9**	**-131.6**	**-77.4**
Depreciation	8.9	5.1	16.8	6.9	1.2	1.4	5.0	3.5	8.6	13.2	42.7	29.4	18.8	19.6	64.5	39.8
EBIT	**-33.8**	**-21.9**	**-96.0**	**-43.6**	**-21.6**	**-3.8**	**-34.8**	**-7.2**	**-5.5**	**-17.8**	**-65.2**	**-66.4**	**-60.7**	**-43.5**	**-196.1**	**-117.2**
Net financial items	-2.0	-1.1	-4.6	-6.4	0.5	0.7	-1.6	0.4	6.5	-0.6	4.8	-1.3	4.9	-1.1	-1.4	-7.3
Pre-tax loss	**-35.8**	**-23.0**	**-100.6**	**-50.0**	**-21.1**	**-3.1**	**-36.4**	**-6.7**	**-2.3**	**-18.5**	**-60.4**	**-67.7**	**-55.7**	**-44.6**	**-197.5**	**-124.4**
Total Assets	325.5	259.3	325.5	259.3	388.6	322.3	388.6	322.3	1225.8	1183.3	1225.8	1183.3	1939.9	1764.8	1939.9	1764.8
Total Liabilities	186.4	169.9	186.4	169.9	339.4	238.6	339.4	238.6	(164.6)	(53.0)	(164.6)	(53.0)	361.1	355.4	361.1	355.4

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

Note 5 Goodwill

The table below shows the movements in goodwill during 2018 and 2017.

(amounts in NOK million)	**2018**	**2017**
Goodwill as of 01.01	591.7	317.6
Acquisition of Proton Onsite in 2017	0	257.7
Currency translation differences	17.1	16.4
Goodwill as of 31.12	**608.8**	**591.7**

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

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

Revenue recognized on a point in time measurement basis:

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

Revenue recognized on a progress based measurement basis:

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

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

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

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

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

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

Specification of revenues *(amounts in NOK million)*	**2018 Q1**	**2018 Q2**	**2018 Q3**	**2018 Q4**	**2018 Full Year**
Revenue from construction contracts (progress based)	42.4	37.4	60.7	55.6	196.1
Revenue recognized at point in time	68.5	80.9	48.7	56.9	254.9
Public grants	1.6	17.6	6.6	12.2	38.0
Total	**112.5**	**135.8**	**116.0**	**124.9**	**489.0**

Implementation effect of IFRS 15:

Under previous revenue recognition policy Nel Hydrogen Electrolyser division and in specific service/aftermarket projects, revenue was recognized over time based on progress of the project.

Under IFRS 15, revenue from service/aftermarket in Nel Hydrogen Electrolyser division to be recognized at point in time at delivery.

The company has applied the modified retrospective approach in transitioning to the new principle. Under this approach, the cumulative effect of initially applying IFRS 15 is recognized at the date of the initial application, i.e. in the 2018 opening balance and comparative periods are not restated. Consequently, previously recognized revenue from service/aftermarket in Nel Hydrogen Electrolyser division that had not been delivered as of 31 December 2017, was reversed effective 1 January 2018, along with the related project costs, and will be recognized in the 2018 and future periods statements of profit and loss, without prior period being restated. The net negative effect of implementation on 1 January 2018 was NOK 3 million.

During the fourth quarter in 2018, NOK 0.1 million of revenue was recognized due to the IFRS adoption. For 2018, NOK 2.6 million of the restatement of NOK 3.0 million has been recognized. The related aftermarket projects have been deemed to be delivered to the customer since the control of the products have been transferred from the company to the customer during 2018.

Note 7 Expected Impact from Implementation of IFRS 16

In January 2016 the IASB issued IFRS 16 Leases. The standard is effective and will be implemented in the group accounts from 1 January 2019. Note 2a in the group's annual report for 2017 provides a description of the general change in accounting that will be implementation following the of this standard.

Nel has chosen to use the modified retrospective method in implementing IFRS 16, which gives rise to an implementation effect in the opening balance, but the comparable figures do not change.

The group has made an analysis of the expected impact on the 2019 financials based on the contracts in place at year-end 2018. The new standard is expected to mainly impact the group's recognition of long-term office leases and to some extent leases for service vehicles.

The group's analysis indicates that the total effects on the financial statements for 2019 will be limited. Total lease payments for the group's consolidated entities in operation at year end 2018 are expected to reach approximately NOK 10 million in 2019, of which approximately NOK 8 million and NOK 3 million will be recognized as depreciation expenses and interest expense respectively. The opening balance of the group's consolidated statement of financial position is expected to increase by approximately NOK 40 million corresponding to the lease liability.

Note 8 Change in principle accounting for grants

Previously, grants received that relate to an acquisition of assets have been presented "net" in Nel's financial statements. A net presentation entails that when a grant is received it is deducted from the cost of the asset. Subsequently, this will reduce the depreciation expense.

During the fourth quarter Nel has implemented a "gross" presentation of grants received in relation to the acquisition of assets. A gross presentation entails that the grant received is presented separately as deferred income. The deferred income is presented as a non-current liability and is amortized over the useful life of the related asset. The amortized part of the deferred income is presented as other operating income in the statement of comprehensive income and the depreciation charge to the assets is equally higher.

Nel receives several types of grants. Applying the "net-method" (old principle) some of these grants, based on their nature, have been recognized as other operating income. Under the "gross-method" (new principle) all grants received will be recognized as other operating income. Nel's opinion is that this change in accounting principle will provide more consistent and transparent financial information when applied over time.

The effects of the change in accounting principle is illustrated in the tables below containing key figures using the "net approach" instead of the "gross approach" related to grants.

Extract of statement of comprehensive income *(amounts in NOK million)*	**2018 Q4**	**2017 Q4**	**2018 Full Year**	**2017 Full year**	**2018 Effect Q4 and full year**	**2017 Effect Q4 and full year**
Operating revenue	119.4	111.9	483.5	298.4	(5.5)	(3.8)
Operating expenses	166.8	139.6	620.6	379.6	0	0
EBITDA	**(47.4)**	**(27.7)**	**(137.1)**	**(81.2)**	**(5.5)**	**(3.8)**
Depreciation	13.3	15.8	59.0	36.0	(5.5)	(3.8)
EBIT	(60.7)	(43.5)	(196.1)	(117.2)	0	0
Pre-tax loss	(55.7)	(44.6)	(197.5)	(124.4)	0	0

Extract of statement of financial position *(amounts in NOK million)*	**2018**	**2017**	**Effect 2018**	**Effect 2017**
Technology	371.2	338.5	(48.9)	(39.2)
Total intangible assets	1 049.2	1 018.1	(48.9)	(39.2)
Total Assets	**1 891.0**	**1 725.7**	**(48.9)**	**(39.2)**
Other non-current liabilities	25.5	27.6	(48.9)	(39.2)
Total non-current liabilities	122.7	102.4	(48.9)	(39.2)
Total liabilities	312.2	316.3	(48.9)	(39.2)
Total equity and liabilities	**1 891.0**	**1 725.7**	**(48.9)**	**(39.2)**

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 analyze 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 operating profit/(loss) (EBIT) on a separate line in note 4 segments.

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

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

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

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

Organic growth: 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 will be 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 contracts/ purchase orders received from customers where revenue is yet to be recognized.

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