NORNE

TECO 2030

BUY

Key share data	
Sector	Engineering
Ticker	TECO
Market Cap (NOKm)	808
Net debt (NOKm)	107
EV (NOKm)	915
Net debt / equity	203%
Issued shares (m)	131



Performance			
	1m	3m	12m
TECO	-5%	14%	128%
OSEBX	0%	5%	30%

Norne Securities AS is a market maker in the shares of TECO 2030.

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First-mover in heavy-duty marine decarbonization

We initiate a coverage of TECO 2030 (TECO), a company that develops technology aimed at reducing heavy-duty marine sector's environmental footprint - hydrogen fuel cells and carbon capture technology. The management has a solid experience in the maritime sector and is partnering with renown companies AVL and Chart Industries. We base our estimates on company's guided production volumes and take a bullish stance towards the stock, supported by ongoing energy transition trends. Thus, we issue Buy recommendation with a TP of NOK 10/sh and identify NOK 5-22/sh valuation range as low/high scenarios. Yet, we emphasize that the investment is risky as the company is still in the development stage with almost no revenues and will inevitably need more financing.

Investment case

- Huge potential market for Hydrogen Fuel Cells (HFC) and Carbon Capture & Storage solution in maritime sector. The market for HFC and CCS is likely to grow at a fast pace due to regulatory requirements towards the reduction of marine industry emissions. Regulations by IMO and EU imply that maritime sector will have to meet increasingly stricter environmental regulations. To achieve this, shipping companies will have to utilize various technologies amongst them TECO 2030's.
- **First-movers advantage.** Marine Hydrogen Fuel Cell is a relatively new technology, and the competition is limited. Yet, competitors like Ballard and Hyundai pose a significant competition risk.
- Explicit focus on heavy-duty vessels with higher power density fuel cells vs competitors. Compared to Key competitors (Hyundai, PowerCell, Ballard Power) who are adapting their fuel cells from automotive industry, TECO 2030 fuel cells are specifically designed for maritime solutions and are expected to have higher power density.
- Flexible business model. TECO 2030 is setting up a production facility and innovation hub in Narvik, Norway where the production capacity and ramp up can be adjusted accordingly to the market demand.
- **Strong partnership with AVL.** TECO 2030 is developing Hydrogen Fuel Cell in close cooperation with AVL that is a global leader in power train systems with numerous partnerships with global industry leaders. In 2021, AVL has also signed a MoU with Hyundai Heavy Industries Group to develop 0.2-1.5MW HFCs for ships – this signifies the AVL's expertise in HFCs.
- **Our DCF based TP sands at NOK 10/sh.** This is implying attractive upside potential. However, we emphasize that this is a high risk case with limited revenues currently, lots of R&D activities and the need for further funding down the read.







TECO MARINE FUEL CELL

- Purpose-built MW scale hydrogen fuel cells
- Efficient, compact and flexible systems enabling zero emission or hybrid solutions



- TECO FUTURE FUNNEL exhaust gas cleaning system
- TECO Ballast Water Treatment System
- TECO AVL EPOS: combustion engine condition monitoring and automatic diagnosis

Source: TECO 2030

Hydrogen Technology – How it works

Hydrogen Fuel Cell generates electricity using a chemical reaction:

- Each fuel cell has a negative anode and a positive cathode and the reaction to produce the electricity happens inside of them with an electrolyte carrying electrically charged particles between them and a catalyst to speed up the reactions
- Hydrogen used for the reaction emits only water and warm air.



Source: Batterypoweronline

Company Profile

TECO 2030, a recent spin-off from the TECO Maritime Group, is an engineering and equipment development company with a focus on green marine technology aimed at tackling one of the biggest environmental challenges - combining growing global shipping volumes with increased scrutiny over emissions.

In collaboration with partners the company is focusing on development of Hydrogen Fuel Cells and Carbon Capture & Storage systems applied for marine industry. Currently, the company offers products in 4 main categories:

- **Hydrogen Fuel Cell** planned to be released in 2023 and is being developed with the partner AVL.
- **Carbon Capture & Storage System** being developed with the partner Chart Industries and planned to be released in 2023.
- Exhaust Gas Cleaning Systems developed by TECO 2030 and AVL.
- **Ballast Water Treatment Systems** TECO 2030 consults and resells the products produced by BIO-SEA and DESMI.

TECO 2030 solutions

Maritime Hydrogen Fuel Cell

Since the October 2020 IPO the company successfully deployed the raised capital towards fuel cell development and aims for prototype production in 2022, series production in 2023 and mass production by 2025.

TECO 2030 Marine Fuel Cell System is being developed in partnership with the Austrian engineering firm **AVL**, the world's largest independent company for development, simulation and testing of powertrain systems. The system is specifically designed for ships and other heavy-duty applications. It is based on a modular design, enabling scalable system configuration. Due to being compact, the systems are suitable for retrofitting older ships as well as installing in newbuilds and offers a zeroemission alternative for applications where only battery power is not a viable option due to weight and capacity.

Considering that most Western-European countries plan to rely on hydrogen as one of the options to achieve their ambitious climate targets, there is a potentially huge market for TECO.

Recent developments:

- Leading a <u>project</u> group to build TECO 2030's Hydrogen Fuel cells powered vessel for the Port of Narvik, Norway.
- Received NOK 50m in government <u>support</u> for fuel cell development with a prerequisite that TECO 2030 raises around NOK 160m in additional funding before the end of March 2023.
- Signed a supply frame <u>agreement</u> with **ChemGas** that could lead to the delivery of HFC modules with a combined capacity of up to 200MW.
- Signed a <u>MOU</u> with **Offshore Technology Development** (Keppel Offshore & Marine) for provision of TECO 2030's solutions.
- Received <u>approval in principle</u> by **DNV** for its Marine Hydrogen Fuel Cell System and Fuel Cell Module.
- Signed an <u>agreement</u> with **Everfuel** for delivery of green hydrogen to applicable projects with fuel cells developed by TECO 2030.
- Signed \underline{LOI} with **Greenstat** to cooperate on developing a H₂ value chain.
- Signed cooperation <u>agreement</u> on enhancing research and education in Norway on hydrogen and fuel cells with The Arctic University of Norway, Narvik.

FCM 400 - standardized 400kW module





Source: TECO 2030

Mini Bulk Carrier - possible Revenue

Length: 140 m. Size: 12,000 DWT Power: 4 MW



Source: TECO, Norne Securities



billion Euro in turnover

Source: AVL

Pros of Hydrogen Fuel Cells:

- TECO 2030 offers a complete turn-key solution that allows the replacement of fossil fuel system partially or completely on existing vessels as well as installation on newbuilds.
- The design is flexible and has the ability for same design to be used for land-based applications.
- In general, compared to traditional fossil fuel engines, Hydrogen fuel cells offer instantaneous emission-free power supply and fast refuelling. There are no moving parts in the fuel cell therefore it is highly reliable and silent in operation.

Cons of Hydrogen Fuel Cells:

- The cost of fuel cells can be higher than conventional fossil alternative due to the current low deployment of the technology in the industry and lack of economies of scale.
- The infrastructure for hydrogen refuelling is not yet in place and will be important for the technology deployment.

TECO 2030's Hydrogen Fuel Cell competitive advantages

- It is scalable which means that TECO 2030 will be able to cover a wide market of ships anywhere from 400 kW up to multi-MW scale while competitors tend to focus more on smaller power.
- Significantly higher power density TECO 2030's 20ft container solution has the potential of 3.2 MW power output compared to competitors' of around 2 MW for the same size.
- Less materials are needed to build the same power fuel cells.
- Long lasting maritime network and experience coming from TECO Group.
- Automated production of fuel cells will be in the first of its kind factory in the country- The TECO 2030 Innovation Centre in Narvik, Norway.

Partnership with AVL

To develop the production facility in Narvik, TECO 2030 is partnering with AVL, which is the world's largest independent company in powertrain development, simulation and testing. Notably, AVL owns 4x more fuel cell patents than all competitors combined and has experience in developing engines for the maritime sector, passenger cars, commercial and construction vehicles, trains, mining and other heavy machinery. AVL develops products using advanced simulation technologies, whose benefits include increased efficiency and performance, and reduced development costs and time-to-market.

Solid industrial expertise from AVL strengthens the confidence in TECO 2030's ability to implement the planned marine HFC production lines. All intellectual property and patents developed as part of the cooperation between TECO 2030 and AVL will be owned 50/50 by the two companies, with TECO 2030 as the sole commercial holder.







TECO 2030 Marine Carbon Capture & Storage solution

Technologies for CO_2 reduction from fossil fuels include post-combustion capture methods, typically utilizing processes like absorption or cryogenic capture. While such technologies (so-called Carbon Capture and Storage (CCS)) is a relatively unproven concept for the maritime application, it is being used at power plants and other land-based applications which help capture up to 40 Mt of CO_2 each year (CCS Institute). However, CCS today is used solely onshore, and in a stable environment, fixed position and with low space restrictions for installation. To date, there is no CCS technology commercially available for use onboard ships, which means that the application potential of CCS in this industrial sector is unexploited.

TECO 2030 currently has technologies to remove SOx and NOx emissions from ship exhaust and is developing the technologies to reduce Particulate matters. However, carbon capture and storage (CCS) technology is TECO 2030's foremost development sector as a significant potential is identified for the maritime market. In essence, TECO 2030 is developing cryogenic carbon capture for ship-board installation. Cryogenic carbon capture relies on phase change, thus separating the CO_2 from the gas in the form of a liquid or solid matter.

CCS can be applicable to all type of ships from fishing to ultra large container ships. Also, DNV predicts that more than 30% of the ships will choose CCS as decarbonisation option (DNV, 2021). By obtaining a portion of that market, TECO 2030 can generate significant revenues, while the upcoming regulatory restrictions will make the need for CCS systems global.

This system gives the shipowner a more flexible control of emissions and environmental impact which is of huge importance considering that EU plans to include shipping into Emission Trading System where the overall goal is to cut carbon emissions by 55% compared to 1990 and by 2050 EU aims to be emissions free which means the exact same for the shipping industry. Therefore, if the ship owners want to continue using high sulphur fuel oil they will be forced to use emissions reduction systems like CCS.

Recent developments:

- TECO 2030 has been granted up to NOK 4m in support in the form of tax deductions for developing Carbon Capture & Storage technology for ships
- Signed MOU agreement with Chart industries to use their Cryogenic carbon capture technology to develop CCS for the maritime industry
- CCS test unit currently in use in USA with the capacity of 1 ton/day that captures over 99% of exhaust gas CO₂



Source: TECO 2030

Cryogenic Carbon Capture Skid Test





Source: TECO 2030



Pros of TECO 2030 CCS

- 30%-60% lower energy consumption and cost than alternatives with increasing relative advantage as CO₂ composition increases ranging from low CO₂ (e.g., NGCC, 4%) to high CO₂ (e.g., coal, cement, steel, 15%-25%).
- Robustly handles NOX, SOX, Hg, and other pollutants to which alternative technologies are very sensitive. May eventually be able to completely replace SOX, NOX, and Hg controls.
- Recovers a significant amount of useable water from gas streams, requiring minimal water for operation.
- Easily retrofits on any source of CO₂ emissions without the need for new steam generators or upstream process integration that are required by alternative solutions.
- Built around equipment familiar to power and industrial customers (e.g., refrigeration systems, heat exchangers, processing vessels) with no toxic chemical emissions.
- The core innovation can be applied in multiple applications and large markets: low-pressure dehydration, direct contact heat exchangers, heat exchanger process controls, etc.
- Chemical free system/operation with the possibility to make modularised designs.

Cons of TECO 2030 Carbon Capture & Storage solution

- The technology is still in the early development stage compared to alternatives.
- Currently tested in a small industrial scale of 1ton/day and requires a significant scale up to cover the market potential.

Partnership with Chart Industries, Inc.

TECO 2030 is cooperating with Chart Industries, Inc. on developing marine carbon capture and storage solutions for the maritime industry. Chart Industries, Inc. is a leading independent global manufacturer of highly engineered equipment servicing multiple applications in the energy and industrial gas markets. The company's unique product portfolio is used in every phase of the liquid gas supply chain, including upfront engineering, service and repair. Being at the forefront of the clean energy transition, Chart Industries. Inc. is a leading provider of technology, equipment and services related to liquefied natural gas, hydrogen, biogas and CO_2 capture amongst other applications. Chart Industries, Inc. is committed to excellence in environmental, social and corporate governance (ESG) issues both for its company as well as its customers.



Source: DNV



Source: TECO 2030





Source: DNV

TECO 2030 Future Funnel

Another TECO 2030 product aimed at reducing maritime emissions is the Exhaust Gas Cleaning System ("EGCS") (also known as scrubber), branded as the "Future Funnel". TECO 2030's scrubbers use seawater to process the exhaust gas emitted from the ship's engine and comply with the 2020 sulphur cap introduced by IMO.

The process reduces the emission of particles to the air as well as Sulphur Oxides content in the exhaust. It can capture and remove up to 99% of Sulphur Dioxide, this way allowing vessels to continue sailing on more economical high Sulphur Fuel Oil while being fully compliant with the IMO 2020 Sulphur cap rules. The funnel is available in several capacities and sizes that fits pretty much every heavy vessel.

As of June 2020, there were around 98,000 vessels of which 3,710 have installed Exhaust Gas Cleaning Systems and run their ships on High Sulphur Oil, which is equivalent to 3.78% of all ships sailing today (World Fleet Register). The rest of the world's fleet are using other types of fuel such as, Very and Ultra low fuel oil, Marine Gasoline, LNG, Hydrogen, Methanol or Battery. However, all ships are required to comply with **IMO 2020 Sulphur Cap**, either using compliant fuel of up to 0.5% sulphur or install an EGCS. While in specific designated emission control areas, sulphur limits are even stricter of 0.1%.

In the long-term Future Funnel comes at significant lower costs compared to using compliant fuel therefore the market will not go away anytime soon.

TECO is in further development of the **Future Funnel GEN2** where Particulate Matter and Black Carbon will be removed in accordance with IMO's rules that are expected to be set by 2023.

EGCS variety

Today there are three alternative operational designs for an EGCS, which is Open-loop, Closed-loop, and Hybrid.

- Open loop systems use seawater, which is alkaline by nature, to wash the sulphur dioxide out of the exhaust. The resulting discharge water must meet MARPOL requirements before it is discharged.
- Closed-loop systems add chemicals, such as caustic soda, to the wash water to enhance alkalinity. The wash water is then recirculated through the system and partially purged.
- Hybrid EGCS systems can operate either in closed-loop or in openloop mode, offering more flexibility.

The hybrid system that TECO provides can be used as either an open or closed loop, depending on the requirements and rules of the geographical location.

EGCS systems are chosen accordingly to the regulations in the area. For example, the closed loop system is used for vessels operating in areas where discharges overboard are prohibited, and the alkalinity of the seawater is low. The exhaust gases are washed on board, and substances are collected in a separate tank, which is emptied into ports for further treatment.



Source: TECO 2030



*Cases based on: +/- 3products sold at +/-5% price anually

TECO 2030 Ballast Water Treatment System

Ballast tanks are water tanks located around the ship to control ship's total weight depending on the weight and location of its carriage to keep the optimal waterline. Ships transfer approximately 10 billion tons of ballast water annually between oceans. Therefore, ballast water tanks can contain thousands of microbes carried across the globe to a new ecosystem where they are considered invasive species and may damage constructions, causing bridge collapses or environmental pollution and diseases. Therefore, a preventative measure is needed and TECO 2030 Ballast Water Treatment deals with specifically that type of risks.

TECO 2030 Ballast Water Treatment System is developed and manufactured by the company BIO-SEA, and DESMI Ocean Guard. TECO 2030 is acting as a service agent in this matter and has already sold 10 of the systems in 2021 resulting in revenues of almost NOK 10m. The system is designed for inactivation and elimination of organisms, to comply with the IMO D-2 standard and USCG regulations for water discharge during ballasting operations:

- Less than 10 viable organisms per cubic metre and per millilitre.
- Less than 1 colony forming unit per 100 millilitres of several types of bacteria.

Approximately 13,000 out of 98,000 vessels are equipped with Ballast Water Treatment Systems meaning that around 85,000 vessels will need ballast water treatment systems installed by 2024 according to global regulations and laws (IMO). TECO 2030 is looking to supply a part of that market and after 2024 it is expected that the product implementation has been achieved and TECO 2030's efforts subsequently reduced.



Source: IMO, American Bureau of Shipping (ABS) (2021)

Sector overview – supportive climate policies

Global seaborn trade has increased steadily over many years, and it is expected to continue growing. The international shipping industry carries about 90% of world trade (TECO 2030). At the same, time the maritime industry is responsible for around 2.9% of global greenhouse gas emissions (IMO). OECD has estimated that seaborn trade in the period between 2020-2029 will grow by 4% per year, and 3.3% per year from 2030-2040. That is primarily due to the marine transport being the most energy efficient mode of transportation. Yet, the huge volumes will inevitably result in increasing pollution. Therefore, the growing industry will be heavily affected by the new regulations that are about to take effect soon.

Shipping sector emissions' reduction targets

'Fit for 55' Package: Key facts



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IN PARTNERSHIP WITH ITALY



There is increasing pressure on the shipping industry to mitigate the negative environmental effects. One of the major regulations set in place by IMO is to reduce CO_2 emissions per transport work, as an average across international shipping, by at least 40% by 2030, moving towards 70% by 2050, compared to 2008.

The EU and several other countries have introduced emission reduction goals for shipping that are more ambitious than the IMO targets. The EU introduced a firm target of at least 55% emission reduction by 2030, and the maritime industry will also have to play their part in achieving this goal if proposals are accepted:

- Ships operating in European waters will from 2023 have to pay to emit CO².
- Maximum limits will be imposed on the greenhouse gas content of energy used by ships arriving to or departing from EU ports, and over time the limits will be tightened to encourage ships to switch to more sustainable fuels.
- Proposals are made to make it mandatory for most polluting ships to connect to onshore power supply or use zero emission technologies at berth from 2030.

However, the legislative reform proposals put forward in the Fit for 55 package will have to be agreed by EU ministers and members of the European Parliament in 2022.

Clydebank Declaration for green shipping corridors

During the UN Climate Change Conference UK 2021, Clydebank Declaration signatories emphasised the importance of limiting the increase in global temperature after the findings of 2 major studies:

- Fourth IMO Greenhouse Gas study 2020 Estimates that if no actions taken, by 2050 international shipping emissions will represent 90-130% of 2008 emission.
- IPCC Working Group I contribution to the Sixth Assessment Report (2021) – States that global warming will increase during the 21st century unless reductions in CO₂ and GHG emissions occur and highlights the international shipping part in it.

The declaration will support the establishment of green shipping corridors for zero emission maritime routes between 2 or more ports with the aim to establish at least 6 green routes by 2025. Further revisions will be undertaken to increase the number of green corridors by 2030. Signatories will contribute to the establishment by:

- Establishing partners to accelerate the decarbonisation of shipping industry.
- Identifying and exploring actions to address barriers to the formation of green corridors.
- Considering the inclusion of provisions for green corridors in the development or review of National Action Plans.
- Ensuring that wider consideration is taken for environmental impacts and sustainability.















Norway Hydrogen Roadmap

Domestic shipping and fishing account for around 8.6% of Norwegian emissions. The government has an ambition to halve these emissions by 2030. To do so, it will support the development of technologies related to using ammonia and hydrogen as a fuel and plan to make such systems operational by 2030. TECO 2030 is directly contributing to that aim and thus is likely to receive further government funding.

The government plans to:

- Support zero and low emission solutions in all vessel categories.
- Stimulate further growth and competitiveness in the Norwegian maritime industry.
- Introduce zero emission requirement for cruise ships and ferries in fjords that are considered as world heritage as soon as this is technically feasible, and no later than 2026.
- Extend the environmental requirements to other Norwegian fjords.
- Consider introducing requirements for zero and low emission systems for new operations vessels involved in petroleum production.
- Provide funding for maritime emission free technology development which could benefit TECO 2030.

PILOT-E scheme

A great example of Norway's actions was the set up and implementation of the PILOT-E scheme that is a collaboration between the Research Council, Innovation Norway and Enova SF. The objective of the scheme is to promote more rapid development and deployment of new, environmentfriendly energy technology products and services to help to reduce emissions both in Norway and internationally.

Some of the most recent projects with funding from PILOT-E includes:

- Samskip AS development and building of cost-competitive maritime container ships that use hydrogen fuel cells.
- Selfa Arctic AS and Flying Foil AS projects for zero emission highspeed ferries.

What is more, EU's FCH 2 JU programme funded the NOK 240m project for the modified ship to sail on ammonia produced using electrolysis for a test period of one year from 2024. This suggests that TECO 2030's technology could also be potential beneficiary of EU funding in the future.

Grant and subsidy opportunities for TECO 2030

TECO 2030 will inevitably need financing to achieve it's production goals. However, in addition to traditional financing, the company could be entitled to receive supportive funding from the following:

- Research Council supports hydrogen research and innovation initiatives across the entire value chain including hydrogen use and new solutions. The initiative is open for research as well as business communities and TECO 2030 has already received a NOK 5.4m and NOK 4m. tax relieves.
- Innovation Norway contributes to innovation in business, sustainable growth and exports for competitive Norwegian companies and development in the rural areas. They offer financing, consulting, expertise, networking, and profiling. Hydrogen technology is one of the priority areas for Innovation Norway and TECO 2030 has already



ENOVA



Raskere fra idé til marked

Green Hydrogen @ Blue Danube



Source: Verbund











Everfuel



been granted NOK 50m with condition of raising additional capital of NOK 160m.

- Gassnova a state company operating in carbon capture and storage (CCS) field. Gassnova aims to stimulate technology research, development related to capture, transport, and storage of CO₂.
- Enova SF a Norwegian government enterprise responsible for promotion of environmentally friendly production and consumption of energy. One of the key Enova's focus areas is hydrogen - in 2021 the enterprise published a funding scheme aimed at realizing costefficient green hydrogen production which primarily would be publicly available for maritime transport.
- **PILOT-E** a funding offer for Norwegian business and industry, established by the Research Council of Norway, Innovation Norway and Enova. The funding scheme investments into emission reductions and new products and services related to energy transition.

Green Hydrogen @ Blue Danube Project

TECO 2030 is an active contributor to the European project for production, transportation and use of green hydrogen - Green Hydrogen @ Blue Danube. This project will greatly advance decarbonisation by means of green hydrogen – benefiting TECO 2030 with:

- Stable supply roads.
- Highlighting TECO 2030 presence in the market.
- Experience and guidance in the systems approval.
- Foundation to future projects.

Verbund AG, the developer of the project is Austria's leading energy utility and one of the largest producers of hydroelectricity in Europe. It has been exploring green hydrogen with the goal of extending the green electricity value chain and thus taking important steps towards decarbonisation. It has already launched several flagship projects:

- The construction and operation of one of the world's largest electrolysis plants as part of the H2FUTURE project with Voestalpine, Siemens, APG, K1-MET and TNO.
- Verbund also developed and now operates the HOTFLEX project, which deploys a reversible solid oxide electrolyser and fuel cell

Verbund aims to bring all the key players together from the Hydrogen producers, electricity providers and industrial partners to fleet operators and manufacturers to collaborate in the same objective of meeting the climate targets. Also, for this purpose there is a possible funding incentive by the EU Important Projects of Common European Interest (IPCEI) framework.

Some of the key partners involved in the project:

- Agrana
- AVL
- Bayernoil
- Bosch
- Chemgas
- Cummins
- Siemens Energy
- TECO 2030

Besides, being part of a **Green Hydrogen @ Blue Danube project**, TECO has already signed its first fuel cell supply agreement with **ChemGas**.









Source: Norne Securities

Estimates

As mentioned previously, the key in TECO 2030's success lies in its ability to successfully develop Marine Fuel Cell and CCS businesses, as it is likely to constitute around 90% of the company's revenues in the long term. Also, as there is high uncertainty related to CCS business, we do not include separate forecasts, but emphasize that this area poses strong upside to the results if the development is successful.

Key points for the basis of the estimates used in the valuation:

- Marine Fuel Cells fastest growing and most lucrative business area
 - Production In its October 2021 presentation, TECO indicated that fuel cell production at the factory is planned to start at the end of 2023 with small scale output, increasing to 400 MW/year by 2025 and 1.2 GW in 2030. We use this in our model and assume gradual production ramp-up from 15MW in 2023 up to the guided output, with sharper production increase in 2026, given the plan to automate production lines. We also assume that all production will be sold. Yet, we emphasize that the sales can deviate significantly depending on the demand.
 - Pricing We expect higher initial pricing of NOK 11m per MW in 2023 and use TECO 2030's indicated price level of NOK 5m per MW in the long-term assumptions. We think it is reasonable to expect higher initial pricing as the company is likely to have stronger pricing power and face limited competition, while downward trend in hydrogen fuel cells prices is probable due to lower volumes, more competition and likely emergence of new costeffective production technology.
 - Costs –Due to continues development of production lines and plans to employ 40 employees by the end of 2023 the OPEX will be rather significant and considering the plans to produce only 15MW of fuel cells in that year, the EBITDA will be negative. As per TECO 2030's management and our financial model, we expect the EBITDA to turn positive in 2024 due to significant increase in fuel cells production. We expect the EBITDA margin to stabilize at 16% from 2027.
- **Future Funnel Scrubbers** The systems are developed by TECO but manufactured by partners. No contracts have been secured yet and the sales assumptions are highly uncertain, dependent on the demand and the reliability on the manufacturers.
 - **Product sales** the company indicated that it is reasonable to expect 5 scrubber deliveries in 2022 and we assume that this number will increase by 3 deliveries every year there on.
 - Pricing We expect, on average, a price of NOK 13.5m per scrubber. As TECO 2030 can offer a variety of sizes as well as open or closed loop and hybrid systems, the individual prices per Future Funnel may vary significantly.
 - **Costs** We assume an EBITDA margin of 15% as the production is flexible and with limited fixed costs.









Source: Norne Securities

- Ballast Water Treatment System Developed and manufactured by the company BIO-SEA and DESMI Ocean Guard, where TECO 2030 acts as a service agent and uses the revenues to support Fuel Cell development and other solutions
 - Sales According to the company, it's reasonable to expect an increase of 5 products sold each year, reaching 35 BWTS sold in 2024 respectively. After the 2024 they expect to reduce their activity level within this segment and mostly focus on Hydrogen Fuel Cells, CCS and Future Funnels.
 - **Pricing** The average revenue was around NOK 0.95m throughout the 2021 and we expect it to increase by 3% YoY.
 - Costs We assume TECO's guided 15% EBITDA margin for BWTS to remain flat as there shouldn't be any major changes to the product or production processes.

Financial Forecasts

- **Revenues** To arrive at estimated revenues we multiply the expected produced Marine Fuel Cells output by the expected price, assuming all production will be sold. We do the same for Future Funnels and Ballast Water Treatment Systems. We arrive at revenue estimates of NOK 3.8bn in 2025 and NOK 6.4bn in 2030 with the potential to be higher from if CCS solution is developed successfully.
- **Gross Profit** We use the guided Gross Profit Margin of 30% for both Marine Fuel Cell output production as well as Future Funnel. However, the margin is higher for Ballast Water Treatment Systems, since TECO acts as a sales agent. For this reason, the overall Gross Profit is higher until 2024, when less BWTS sales are expected.
- EBITDA Similar to company guidance, we expect EBITDA margin for fuel cells to turn positive in 2024. We assume the EBITDA margin to gradually increase until reaching 16% level in 2027. As for EGCS and BWTS product – we assume a flat 15% margin.
- **Net Profit** To get to EBIT, we assume a 10-year economic life of the production plant to calculate depreciation. Then, after applying tax rate of 22%, we get to estimated net profit margin of around 12% by the end of the forecasting period.

CAPEX

The company has indicated that the CAPEX will be around USD 95m (NOK 820m) for the whole period between 2022-2030. Largest expenditure is expected during the first phases of factory development in 2023-2024. Somewhat lower expenditure is expected after semi-automated production line is up and running from 2025. Moving forward the expenditure is expected flat until 2030 once production lines are running at around full capacity.

Financing

The current cash position of the company is far from sufficient to cover the expected capital expenditure. Currently, the company could run out of money within a few years. Thus, TECO will have to raise capital and the plan is to do it gradually as needed. In our model, we assume that the company will issue 88m shares @ NOK 5/sh, raising NOK 440m in 2022. In addition, we include the government grant of NOK 50m.





% - Deviation from the last price

Valuation

We initiate the coverage of TECO with a Buy recommendation and the Target Price of NOK 10/sh, which provides a solid >50% upside from the last share price. We arrive at the TP by using DCF model and applying 30% discount as the company is still in early stages of the development and haven't secured financing. We plan to start lifting the discount once the company gets type approval for marine HFCs, launches CCS product, secures financing, and makes progress with the plant construction in Narvik. In the DCF model, we use a higher-than-usual discount rate of 12.8% to reflect high uncertainty in long-term estimates.

Also, by applying faster/slower production ramp up and bigger/smaller production capacity as well as 5% discount/premium to the fuel cells pricing expectations we derive a low/high valuation range of NOK 5/sh and NOK 22/sh.

Key triggers for the stock:

- Successful deployment of the first commercialized fuel cells.
- Successful development of CCS.
- Announcements of new contracts and LOI's.

Key risks:

- Setbacks in establishing the factory in Narvik.
- The business plan is revolving around partnership with AVL, Chart Industries and being a part of Green Hydrogen @ Blue Danube project, this introduces 3rd party risk of changing or not keeping up to the agreed terms.
- Introduction on new competitors with similar business models.
- The company will need further financing and that poses a significant risk if favourable terms are not agreed.

DCF model

NOKm	4Q 2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenues	5	92	302	1,380	3,763	4,541	4,880	4,920	5,320	6,357
EBIT	-6	-63	-84.96	3	340	588	723	725	785	947
Tax on EBIT	0	0	0	0	-38	-126	-155	-155	-168	-203
NOPLAT (+)	-6	-63	-84.96	3	302	462	568	570	617	744
Depreciation & amortization (+)	0	7	23.42	36	45	50	55	59	63	66
Capital expenditure (-)	-3	-130	-130	-108	-86	-86	-86	-86	-86	-86
Change in working capital (- or +)	9	0	-8	-54	-119	-39	-17	-2	-20	-52
Free Cash Flow to the Firm	0	-186	-199.16	-122	142	387	520	541	573	672
NPV of FCFF	0	-160	-151.88	-83	85	206	245	226	212	221

WACC calculation		Valuation, NOKm		Assumptions	
Debt ratio	0.0%	Net debt	0	L.t. growth	2.5%
Cost of debt (after tax)	nm	Minority interest	0	Tax rate	22%
		NPV cash flow		# shares, m*	219
Risk free rate	2.0%	4Q 2021E - 2029E	799	* Including assumed	88mln. Shares issu
Beta	1.8	2030E -	2,195		
Market risk premium	6.0%	Total NPV cash flow	2,994		
Cost of equity	12.8%	Equity value	2,994		
WACC	12.8%	Value per share, NOK	13.65		

3.5%
20.3
17.0
14.8
12.3
10.6

Scenario analysis	4Q 2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
High Case										
Revenues	5	110	420	1,715	4,615	5,576	6,008	6,078	6,582	7,856
EBIT	-6	-51	-41	114	596	898	1,061	1,072	1,164	1,397
NPV of FCFF	0	-150	-119	-25	182	332	367	337	320	334
Value per share, NOK	22.4									
Low Case										
Revenues	5	76	209	1,100	3,038	3,512	3,487	3,512	4,030	5,003
EBIT	-6	-75	-121	-91	123	279	305	303	398	541
NPV of FCFF	0	-170	-180	-146	-39	76	89	86	99	115
Value per share, NOK	4.9									





Marine HFC Production - The company has indicated that the actual HFC production capacity can be higher than guided, while the production is flexible and the ramp up could be faster if the company is faced with strong demand. To account for this, we derive a 'High' case by assuming a 15% higher production in the ramp up phase and increase the final plant capacity by 15%. Likewise, the company may face weaker-than-expected demand or sales that could be hampered by introduction of fiercer competition – in that "low" case, we assume 20% lower production in all periods.

Future Funnel Sales - To arrive at final valuations for different scenarios, we also alter sales in Future Funnel – assuming growth in number of products sold of +5/+3/+2 units YoY for high/base/low case scenarios.

Pricing - The pricing is still highly uncertain for both products, to reflect this we adjust it by +/-5% in high/low scenarios.



Significant deviations in valuation – Using the aforementioned assumptions we arrive at NOK 5/sh valuation for low case and NOK 22/sh for high case scenarios, signifying both the high risk of the investment and the huge upside potential that comes with it.

Source: Norne Securities

Hydrogen Fuel Cells Revenue Scenarios 8.000 6,000 NOKm 4,000 2,000 0 2028 2023 2024 2025 2026 2021 2029 2030 2022 ■ High ■ Base ■ Low

Hydrogen Fuel Cell Production Scenarios











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"Hyundai Motor signing MOU to Commercialize Hydrogen Fuel Cell Propulsion Systems for Marine Vessels" Source: Hyundai



PowerCellution's 'Marine System 200'



Source: PowerCellution



Competition Overview

Hyundai Motor Company

Hyundai Motor is a South Korean multinational automotive manufacturer headquartered in Seoul, South Korea.

- The company is collaborating with **AVL** to apply its fuel cell system technology to marine vessel propulsion systems.
- It will be developing marine fuel cells with an output of 0.2-1.5 MW that would be applied to coastal island area ferries and tugboats, inland water cargo ships, and medium hydrogen carriers.
- The Fuel Cells are scheduled to be developed by 2025.
- The plan includes each affiliated unit of making use of its infrastructure and technical competitiveness.

PowerCell Sweden AB

PowerCell Sweden is a Sweden based company active in the field of clean energy. The company owns a product brand PowerCellution that focuses on hydrogen-electrification fuel cell technology, including solutions for marine industry.

- The company is partnering with leading industrial players, such as Siemens Energy and Hitachi-ABB Power Grids. Notably, Siemens Energy is involved in Green Hydrogen @ Blue Danube.
- Its marine Hydrogen fuel cells are scalable to several megawatts and highly modular. This allows the cells to be retrofitted and integrated into new vessels.
- The marine fuel cell prototype was already developed in 2020 and the system will be out in the market by the end of 2021.

Ballard Power Systems Inc.

Ballard Power Systems Inc. is a developer and manufacturer of proton exchange membrane fuel cell products for markets such as heavy-duty motive, portable power, material handling as well as engineering services.

- Ballard has a Marine Center of Excellence in Hobro, Denmark, that is dedicated to engineering, manufacturing, and servicing fuel cell marine applications.
- The FCwave[™] technology that is used in marine applications is adapted from fuel cells that were designed for electric trucks and buses deployed. The company is offering modular, scalable power cells available in 200 kW increments.

Annual Financial Data

Profit & Loss (NOKm)	2020	2021E	2022E	2023E	2024E	2025E
Revenues	2	16	92	302	1,380	3,763
OPEX	-31	-46	-96	-167	-393	-744
Adj. EBITDA	-30	-38	-56	-62	40	385
Depreciation	-2	-4	-7	-23	-36	-45
Adj. EBIT	-32	-42	-63	-85	3	340
EBIT	-32	-42	-63	-85	3	340
Net financial items	-1	-1	-3	-3	-3	-3
Pretax profit	-33	-44	-66	-88	0	337
Taxes	0	2	14	19	-0	-73
Net profit	-33	-42	-52	-69	0	265
Net profit margin	nm	-255%	-57%	-23%	0%	7%
Adj. Profit after taxes	-33	-42	-52	-69	0	265
EPS rep. (NOK)	-0.23	-0.33	-0.24	-0.31	0.00	1.21
EPS adj. (NOK)	-0.23	-0.33	-0.24	-0.31	0.00	1.21
Margins						
Operating margin	nm	-258%	-69%	-28%	0%	9%
ROE	-59%	-70%	-18%	-15%	0%	47%
ROCE	-58%	-35%	-16%	-15%	1%	51%
Tax rate	0%	4%	22%	22%	21%	22%
Growth rates (YoY)						
Operating revenues	na	655%	456%	230%	357%	173%
EBIT (adj)	na	33%	49%	34%	-104%	10509%
EPS (adj)	na	47%	-27%	29%	-100%	>100%

Cash flow (NOKm)	2020	2021E	2022E	2023E	2024E	2025E
Pre-tax Profit (loss)	-27	-44	-66	-88	0	337
Depreciation & Amortization	2	4	7	23	36	45
Net financial income/expense	-0	0	-	-	-	-
Share based expenses	-	4	-	-	-	-
Tax paid	-	-	-	-	-	-38
Cash earnings in operations	-25	-35	-59	-64	37	344
Change in Working Capital	1	-0	-	-8	-54	-119
Cash flow from operating activities	-24	-35	-59	-72	-17	225
CAPEX	-14	-14	-130	-130	-108	-86
Other investments	-6	-3	-	-	-	-
Cash flow from investing activities	-19	-17	-130	-130	-108	-86
Free cash flow	-43	-52	-189	-202	-125	139
Change in Debt	9	-0	-	-	-	-
New share issues & share buy-backs	75	41	440	-	-	-
Proceeds from public funding	-	0	50	-	-	-
Repayment of interest	-0	-	-	-	-	-
Cash flow from financing activities	83	41	490	-	-	-
Cash flow for the period	40	-11	301	-202	-125	139
Cash at the beginning of the period	4	44	32	334	132	7
Cash at the end of the period	44	32	334	132	7	146

Balance sheet (NOKm)	2020	2021E	2022E	2023E	2024E	2025E
Intangible assets	20	28	28	28	28	28
Goodwill	2	2	2	2	2	2
PP&E	0	4	126	232	304	345
Other financial assets	-	36	36	36	36	36
Right-of-use assets	1	82	76	70	64	58
Deferred tax asset	-	1	16	35	34	-
Long term assets	23	154	284	403	469	470
Inventories	6	7	7	15	69	188
Accounts receivable	9	10	10	30	138	376
Other current assets	0	2	2	2	2	2
Cash and cash equivalents	44	32	334	132	7	146
Current assets	59	51	352	179	216	712
Total assets	82	205	637	582	684	1,182
Shareholders equity	56	69	507	438	439	703
Lease Liability	0	116	110	104	98	92
Other long term liabilities	-	0	0	0	0	0
Long-term liabilities	0	117	111	105	99	93
Current lease liabilities	-	4	4	4	4	4
Short term interest bearing debt	2	2	2	2	2	2
Accounts payable	10	10	10	30	138	376
Other short term liabilities	15	4	4	4	4	4
Current liabilities	27	19	19	39	147	386
Total liabilities and equity	82	205	637	582	684	1,182
Working Capital	5	7	7	15	69	188
Net IB debt	-42	86	-222	-26	93	-52
Capital employed	56	186	618	543	537	796
Net IB debt / equity	-75%	124%	-44%	-6%	21%	-7%
Equity / total assets	68%	34%	80%	75%	64%	60%

Share data	2020	2021E	2022E	2023E	2024E	2025E
Shares outstanding, year end (mill.)*	120	131	219	219	219	219
Share price, year end (NOK)	6.70	6.15	6.15	6.15	6.15	6.15
Market cap (NOKm)	804	808	1,349	1,349	1,349	1,349
Enterprise value (NOKm)	762	893	1,127	1,323	1,442	1,297
EPS rep. (NOK)	-0.23	-0.33	-0.24	-0.31	0.00	1.21
EPS adj. (NOK)	-0.23	-0.33	-0.24	-0.31	0.00	1.21
DPS (NOK)	-	-	-	-	-	-

*Assuming 82m equity issue in 2022

Valuation	2020	2021E	2022E	2023E	2024E	2025E
EV/Sales	349.1	54.2	12.3	4.4	1.0	0.3
EV/EBITDA	-25.6	-23.5	-20.0	-21.5	36.4	3.4
EV/EBIT (adj)	-23.8	-21.0	-17.8	-15.6	449.7	3.8
P/E (adj)	-29.6	-18.4	-25.3	-19.6	3,951.8	5.1
P/B (excl. goodwill)	15.1	12.1	2.7	3.1	3.1	1.9

Growth (YoY)	2020	2021E	2022E	2023E	2024E	2025E
Revenues	-	655%	456%	230%	357%	173%
EBITDA	-	nm	nm	nm	nm	nm
EBIT (adj)	-	nm	nm	nm	nm	nm
Pre-tax profit (rep)	-	nm	nm	nm	nm	nm
Net profit (adj)	-	nm	nm	nm	nm	nm
EPS(rep)	-	nm	nm	nm	nm	nm
EPS (adj)	-	nm	nm	nm	nm	nm

Margins	2020	2021E	2022E	2023E	2024E	2025E
EBITDA (adj)	nm	-230.9%	-61.3%	-20.4%	2.9%	10.2 %
EBIT (adj)	nm	-257.6%	-69.1%	-28.1%	0.2%	9.0%
Pre-tax profit	nm	-264.7 %	-72.1%	-29.0%	0.0%	9.0%
Net profit (adj)	nm	-255.1%	-56.6%	-22.8%	0.0%	7.0%

Profitability	2020	2021E	2022E	2023E	2024E	2025E
ROE	-58.7%	-70.3 %	-18.2%	-14.6 %	0.1%	46.6 %
ROCE	-57.6%	-35.2%	-15.8%	-14.6 %	0.6%	51.0%
Dividend yield	-	-	-	-	-	-

The Management Team







Tore Enger – CEO

- Has an extensive network in the industry and is thus crucial for TECO 2030's access to shipowners
- Initiated a large number of products and services to the Maritime Industry throughout the last 25 years
- Was also the Chairman and major shareholder of Scanship Holding (now Vow) that is a very successful company with huge growth over the last years

Pal Christian Johnsen - CFO

- Holds a Master of Finance and Accounting from The Flinders University of South Australia
- 7 years with the TECO group of companies
- Previously worked for TECO Group in various projects from 2006 to 2010 in addition to, amongst others, Økokrim (Special Investigator) and AS Naturbetong (CFO), before joining TECO in October 2018

Tor-Erik Hoftun- EVP of Operations

- Bachelor in Nautical Sciences from UIT and UNIS
- Worked as Project Engineer and Project Development Manager in Scanship AS with focus on wastehandling and water purification



Erling Hoftun - Chief Operating Officer

- 19 years' experience from Scanship ASA (VOW)- VP Project, sales and Marketing
- 2 years with AF DECOM Offshore AS, In charge of decommissioning of offshore units in the north sea
- 4 years' experience as CEO for VVS Miljø AS
- 7 years with the TECO group of companies



Shyam Tapa - Chief Development Officer

- Holds a Master of Science in Energy and Environmental Engineering.
- More than 10 years' experience in project management
- Has been in charge of R&D in a family business turning it into a multinational 350 employee company-Yara Marine



Arild Eiken – Chief Technology Officer

- Educated Naval Architect from NTNU Norwegian University of Science and Technology
- 21 years' experience from, among others, AKSO and Equinor
- Previously responsible for fuel cells and hydrogen at HYON, Powercell, NEL and Hexagon
- Arild joined TECO in December 2020 and he is the overall responsible • of TECO Marine Fuel Cell and Hydrogen

The Board of Directors

Sigurd Gaarder Lange - Chairman

TECO Group from 2005

Pia Meling - Board Member

September 2020









Birgit Liodden - Board Member Joined the Company as member of the Board of Directors in early September 2020 For the past 15 years, Liodden has promoted the next generation, diversity, sustainability and the need for change across the maritime industry

She is the Founder & CEO of The Ocean Opprtunity Lab



Marit Kirkhusmo – Board Member

Master of Law from the University of Oslo and currently partner in the Energy, Shipping and Offshore department in SANDS Law firm DA

Holds a business degree from BI Norwegian Business School, Oslo Joined the TECO Group of Companies in 2000 and became a partner in

member, in TECO Group controlled companies

Holds an MBA from the Norwegian School of Economics

management of vessels at the dry bulk operator Klaveness

Lange has held various positions, such as CEO, CFO and board

Joined the Company as member of the Board of Directors in early

Meling has broad management experience from the shipping and the maritime industry, both within chartering and commercial

- Kirkhusmo is a shipping, offshore and finance lawyer with approximately 25 years of experience from major law firms
- Has extensive experience as Board member from private and public companies, hereunder from the Board of Directors of GIEK - the Norwegian Export Credit Agency



Herman Marcussen – Board Member

- Has a business degree from Oslo Business School / BI
- Joined the Company as member of the Board of Directors in September 2020
- Mr. Marcussen has more than 30 years of experience in the shipping industry and is presently working with SeaLeague AS, where he is a partner and member of the board
- He has previously been a partner and board member with P.F.Bassoe • AS / Pareto for several years

Recommendation, valuation, risk, and sources

Recommendation and target price

Recommendation history for TECO share during the last 12 months:

Date	Recommendation	Target price (NOK)
26/11/2021	BUY	10

Valuation

To arrive at our share price target, we have used the rounded result of DCF with 30% discount.

Risks

The main risks to our target price on TECO 2030:

- **Financing** The company is planning for significant capital investments and external financing is inevitable. This poses significant risk if the company can't achieve favourable terms.
- **Technology and production risk** –The Carbon Capture & Storage production hasn't started yet. The same is applicable for Fuel Cells and TECO 2030 still must get the type approval for the product. Any setbacks in the planned production ramp up or design failures pose a significant risk for the share price.
- Partnership risk TECO 2030 is reliant on partners like AVL and Chart Industries with regards to the product development, while Future Funnel is being manufactured by third parties. Any 3rd parties' failure may result in significant delays.
- Risk of new competitors There are huge companies like Hyundai or Ballard that are developing marine fuel cell technologies. New competitors with better availability of resources and more cost-effective solutions may materially affect TECO 2030's pricing power.

Sources

The sources used in the preparation of this report were: TECO 2030, European Commission, Bloomberg, International Maritime Organization, Marine Environment Protection Committee, PowerCell, Ballard, Hyundai, Verbund, Enova, DNV, Global CSS Institute, Chart Industries, Research Council of Norway, Innovation Norway, AVL, Batterypoweronline, Newsweb, Hydrogen Council.

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	Total return next 12 months (upside to target price)			
Risk	Buy	Hold	Sell	
Low	>10%	2% - 10%	< 2%	
Medium	> 15%	3% - 15%	< 3%	
High	>25%	5% - 25%	< 5%	

Our risk assessments range from "high risk" to "medium risk" and "low risk" and are based on a subjective assessment of the following factors: 1) volatility in the share price, 2) liquidity in the share, 3) strength of the balance sheet, 4) absolute earnings level and trend and 5) estimate risk.

Share prices used in the report are as of market close on the last trading day if the report is being published before the stock market opening, or market price within 15 min. before the publication if the report is published during the trading hours of the Oslo Stock Exchange.

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Responsible analyst(s)	0
All Norne analysts	0
Other Norne employees	0
Norne Securities AS	0

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Distribution of Norne Securities' recommendations during three months up till September 30, 2021:

	Buy	Hold	Sell
Total	68	27	2
% of total	70%	28%	2%
Corporate clients*	36	12	0
% of corporate clients*	75%	25%	0%

* Includes publicly disclosed not immaterial investment banking services or issues of financial instruments where Norne Securities AS has been lead manager or co-lead manager, and market making clients during the 12 months prior to the overview date.

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