Designed for safety – made for life

3rd Quarter Report 2010

Simtronics ASA

SIMTRONICS group

Simtronics ASA
Report for the third quarter 2010

- Reduced sales compared to third quarter last year
- Extinguishing still affected by soft markets and delays
- Detection faced reduced sales and profit
- Increased backlog and order pipeline

Simtronics experienced a 17 per cent reduction in sales in the third quarter of 2010 compared to the same period last year. The challenging market situation, including project delays, continued also in the third quarter.

The order flow did however remain satisfactory, with an order intake above sales in the quarter. The order backlog at the end of the quarter is strong.

Sales in the third quarter were NOK 64.6 million, which is a 17 per cent decline from the same quarter in 2009. Sales were at par with the previous quarter. Operating costs were reduced by nine per cent in the third quarter compared to last year. EBITDA was NOK -3.5 million in the quarter, compared to NOK 2.8 million in last year's third quarter. Net result was NOK -8.4 million, against NOK -2.1 million last year.

For the first nine months of 2010 Simtronics' revenues were NOK 198.5 million, down from NOK 225.0 million in the first three quarters of 2009. EBITDA year to date was NOK -9.6 million, compared to last year's NOK -4.9 million. The Group's net profit for the first nine months of 2010 was NOK -24.0 million, compared to NOK -16.1 million in 2009.

Postponed sales of products within both detection and extinguishing have given a different product mix on sales in the quarter, which is influencing negatively the contribution margin in the quarter.

Simtronics' financial expenses are now considerably higher than previously (NOK 4.5 million compared to NOK 2.6 million in 2009). The main reasons are that the interest payments, also included imputed interest, on the convertible loan and bridge financing provided by the Group's largest shareholder is higher than what was paid on the previous bank loans and increased costs on bank loans due to breach of covenant requirements, also including quarterly fees.

The challenging market conditions continued also in the third quarter. Both the European and Asian markets for extinguishing products remained soft. The market for nitrogen generators, which rely heavily on the ship building activity, remains difficult. However, the new management in Water Mist Engineering has succeeded in improving project control and restore efficiency.

In Detection business area deliveries have been postponed, which have given reduced sales and profitability in the quarter. While the North Sea market is slow in its recovery, the detection markets in Southern Europe demonstrated an upswing in the third quarter. The order flow has been strong in the quarter.

In order to offset the current market situation and operational difficulties, a number of initiatives have been taken. Simtronics' cost cutting programme, which was initiated at the beginning of the year and targets a 10 per cent reduction in operating costs on a full year basis, moved forward as planned also in the third quarter.

Simtronics enjoyed a satisfactory order flow in the third quarter. Order intake in the quarter was NOK 86 million, which is well above Simtronics' sales in the period. At the end of the third quarter Simtronics' order backlog stood at NOK 186 million (Q2 2010 164 million).

The strong order backlog establishes some confidence in the months ahead. Also, the pipeline for potential detection and/or extinguishing orders in the fourth quarter of 2010 and onwards remains promising.

Major contracts in the quarter were:

Project/customer	*Business Area*	*Delivery*	*Contract value (MNOK)*
DCNS, France (OI 2.4 – LOI 37.6 sign 11/10)	Detection	Q4 2010-15	40.0
Singe Buoy Moorinsg, Malaysia	Detection	Q4 2010	2.0
Odfjell Drilling, Norway	Extinguishing	Q3/Q4 2010	1.0
Undisclosed chemical tanker, Turkey	Extinguishing	Q3/Q4 2010	1.0

Simtronics is in breach with one of the bank loan covenants also at the end of the third quarter. As per 29 October 2010 Simtronics group is in a positive dialogue with DnB NOR regarding the covenant breach.

At the end of the third quarter Simtronics had cash and cash equivalents of NOK 22.5 million, including restricted cash of NOK 20 million (see note 3 to the accounts).

Simtronics' largest shareholder, Autronica Fire and Safety AS, on 12 July 2010 announced its intention to make a voluntary offer for all issued shares of Simtronics ASA at a price of NOK 2.05 per share. Simtronics' Board of Directors stated that is was prepared to recommend the offer as the best alternative to secure Simtronics' operations and shareholder value.

Autronica/UTC has in the third quarter conducted an extensive due diligence investigation of Simtronics on the basis of its announced intention to make a voluntary offer. Autronica/UTC has made no further announcement.

In August Simtronics accepted Autronica's offer for a NOK 18 million bridge financing. The bridge financing remains available through the end of 2010 or for a period of eight weeks following a possible withdrawal by Autronica from the proposed transaction. Simtronics expects a strong cash flow from operation in Q4, also enabling repaying the bridge financing.

The strong order intake in the third quarter and the accumulated order backlog suggest renewed sales growth and improved earnings in the months ahead. The detection products market remains promising and there are signs of recovery in the Asian shipbuilding industry as well as the European market for extinguishing solutions. The Company has the bridge financially strong focus on executing its order backlog.

Oslo, 28 October 2010

John Afseth	Tore Amundsen	Ingeborg Lundegaard	Hans Inge Nerby	Rune Martini
Chairman of the Board	Member of the Board	Member of the Board	Member of the Board	President and CEO

Condensed Consolidated Statement of Comprehensive Income

SIMTRONICS GROUP	Quarterly		Accumulated Q3		Accumulated	
(NOK 1.000)	Q3-10	Q3-09	2010	2009	31 Dec 2009	Notes
Operating income	64,588	77,761	198,458	224,984	288,475	
Operating expenses	-68,039	-74,928	-208,100	-222,641	-292,609	
EBITDA before restructuring charges	-3,451	2,833	-9,642	2,343	-4,134	
Non-recurring expenses and restructuring charges	0	0	0	-7,200	-12,566	1)
EBITDA after restructuring charges	-3,451	2,833	-9,642	-4,857	-16,700	
Depreciations excess values	-1,168	-1,348	-3,695	-4,080	-5,389	2)
Depreciations ordinary items	-1,493	-1,227	-4,323	-4,058	-8,277	
EBIT	-6,112	257	-17,660	-12,994	-30,366	
Net financial items	-4,512	-2,598	-15,788	-8,359	-12,991	
EBT	-10,624	-2,340	-33,448	-21,353	-43,357	
Income tax	2,248	227	9,443	5,262	1,488	
Net profit (loss)	**-8,376**	**-2,113**	**-24,005**	**-16,090**	**-41,869**	
Other comprehensive income						
Foreign exchange translation differences	-328	-7,416	-4,149	-17,301	-19,747	
Total comprehensive income	**-8,704**	**-9,529**	**-28,154**	**-33,392**	**-61,616**	
Profit(loss) attributable to						
Non controlling interest	26	970	216	1,611	2,685	
Shareholders of the parent company	-8,402	-3,083	-24,221	-17,701	-44,555	
	-8,376	-2,113	-24,005	-16,090	-41,869	
Total comprehensive income attributable to						
Non controlling interest	-21	-943	-939	-3,211	-3,526	
Shareholders of the parent company	-8,684	-8,586	-27,214	-30,182	-58,091	
	-8,704	-9,529	-28,154	-33,292	-61,616	

Condensed Consolidated Statement of Financial Position

SIMTRONICS GROUP				
(NOK 1.000)	30/09/2010	30/09/2009	31 Dec. 2009	
Intangible assets	164,343	174,476	166,132	
Property, plant and equipment	9,403	12,112	11,762	
Financial assets (including NOK 20M in restricted cash)	23,525	36,510	33,829	3)
Total non current assets	197,271	223,098	211,723	
Inventories	45,767	51,861	60,946	
Accounts receivables	45,010	61,101	59,949	
Accrued revenue - net	39,855	33,126	17,175	
Other receivables	12,300	10,135	10,339	
Cash and cash equivalents	2,548	4,284	10,498	3)
Total current assets	145,481	160,506	158,907	
Total assets	342,752	383,604	370,630	
Paid in capital	81,922	102,595	81,922	
Retained earnings	-21,233	8,132	4,949	
Non controlling interest	22,055	25,653	25,338	
Total equity	82,743	136,380	112,209	8)
Convertible loan	65,981	0	64,235	5)
Other interest bearing liabilities	4,400	4,400	4,265	7)
Other non current liabilities	12,188	17,335	13,107	7)
Total non current liabilities	16,588	21,735	17,372	
Bank loans and other loans	50,007	67,260	41,627	4, 6)
Bank overdraft	55,960	76,704	47,523	4)
Accounts payables	40,075	43,561	41,672	
Other short term liabilities	31,398	37,965	45,991	
Total current liabilities	177,440	225,489	176,813	
Total equity and liabilities	342,752	383,604	370,630	

Condensed Consolidated Statement of Cash Flows

SIMTRONICS GROUP	Quarterly		Accumulated Q3		Accumulated	
(NOK 1.000)	Q3-10	Q3-09	2010	2009	31 Dec 2009	
Cash flow from operating activities	-17,002	-1,230	-28,374	-6,646	6,056	
Cash flow from investing activities	-1,408	-3,266	-5,815	-8,433	-26,374	
Cash flow from financing activities	17,249	736	13,065	11,140	22,591	
Net change in cash and cash equivalents	-1,162	-3,760	-21,124	-3,939	2,273	
Cash and cash equivalents at the beginning of period *)	23,710	38,045	40,498	38,224	38,224	3)
Cash and cash equivalents at the end of period *)	22,548	34,285	22,548	34,285	40,498	

*) Cash and cash equivalents includes restricted cash, ref. note 3

Consolidated Statement of Changes in Equity

SIMTRONICS GROUP			Accumulated
(NOK 1.000)	30/09/2010	30/09/2009	31 Dec 2009
Equity at the beginning of period (majority)	86,871	126,827	126,827
Share option expense	1,248	732	2,285
Paid in share capital and/or dividends paid	0	13,350	13,350
Debt conversion / convertible loan	0	0	2,500
Net income for the period, majority share	-24,221	-17,702	-44,555
Other comprehensive income, majority share	-3,210	-12,480	-13,536
Equity at the end of period (majority)	60,689	110,728	86,871
Non controlling interest at the beginning of period	25,338	33,573	33,573
Non controlling interest share from acquisitions and dividends	-2,560	-4,709	-4,709
Non controlling share of net income for the period	216	1,611	2,685
Other comprehensive income, Non controlling share	-939	-4,822	-6,211
Non controlling interest at the end of period	22,055	25,653	25,338
Equity at the end of period (total)	82,743	136,380	112,209

	Quarterly		Accumulated Q3		Accumulated
Key Figures	Q3-10	Q3-09	2010	2009	31 Dec 2009
Earnings per share (NOK)					
EPS basic	-0.123	-0.044	-0.353	-0.257	-0.650
EPS diluted	-0.123	-0.044	-0.354	-0.255	-0.649

Notes to the interim report

Basis of preparation

The financial figures have been prepared and presented based on IFRS (International Financial Reporting Standards). This quarterly report has been prepared on the basis of IAS 34 and the accounting principles described in the Annual Financial Statements for 2009, except as mentioned below. However, the quarterly report does not contain the information required for a full year financial statement for the Group, and should be read in conjunction with the Annual Financial Statements for 2009. The quarterly figures have not been audited.

The Annual Financial Statements for 2009 was prepared on the basis of the EU-adopted IFRS's and the accompanying interpretations, and the additional Norwegian disclosure requirements as required by the Norwegian Accounting Act and by Stock exchange rules and regulations, in effect at 31 December 2009.

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009, except as for the changes in IFRS 3 and IAS 27 with effect for the Group from 1 January 2010.

* IFRS 3 (revised) introduces significant changes in the accounting for business combinations occurring after 1 January 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

* IAS 27 (amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The preparation of interim financial statements in compliance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Estimates and underlying assumptions are based on historic experience and other factors considered reasonable under the circumstances. The estimates constitute the basis for the assessment of the net book value of assets and liabilities when these values can not be derived from other sources. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period. If the changes affect future periods, the effect of the changes is allocated between the current and future periods. Significant areas of estimation uncertainty and critical judgements in applying accounting policies that may have material effect on the amount recognised in the financial statements are the same as those described in the Annual Report for 2009.

1) Non-recurring expenses and restructuring charges 2009

The Board of Directors proposed for the extraordinary General Assembly held on 4 May 2009 that Simtronics Group should acquire the Electrotech division in Technor. The transaction value was estimated to NOK 186,8M. However, the transaction was not approved by the extraordinary General Assembly. Transaction costs related to the rejected transaction were expensed in the first quarter 2009. Consequently, these non-recurring expenses had a negative impact of NOK 7.2M on EBITDA for the first quarter in 2009.

During the fourth quarter of 2009 the Group had other non-recurring costs related to the restructuring of the Group. Hereunder costs related to the merger, integration and relocation of the subsidiaries Water Mist Engineering AS and ETech Process AS. The Group also decided to discontinue the start-up of a subsidiary in Korea. Total restructuring expenses were NOK 8,4M (including non-recurring depreciation) for the full year. Restructuring expenses is shown on a separate line in the report for the purpose of presenting the results of the ordinary operations in the group, totalling NOK 12.6M (15.6M if non-recurring depreciation is included) for the full year 2009.

2) Depreciation of excess values

For information purposes, depreciations have been split in ordinary depreciations and depreciation of excess values (from acquisitions made in 2007 and 2008).

3) Restricted cash

Non-current financial assets includes NOK 20M in restricted cash, restricted cash at year-end was NOK 30M. Classified as long term financial assets due to loan covenants.

4) Loan covenants

Simtronics Group has loan agreements with DnB NORfor both long term bank loans and overdraft facilities. The loans and overdraft facilities have loan covenants which should be complied with at the end of each quarter. Simtronics ASA have received a waiver from DnB NOR for 2009 and 2010. A condition for the waiver is that Simtronics group's EBITDA, develop according to the internal quarterly estimates that the company has for 2010, taken into consideration 20% headroom, compared to the company's own estimates for the EBITDA development. As per 30 September 2010 was in breach with one of the loan covenants. As per 29 October 2010 Simtronics group is in a positive dialogue with DnB NOR regarding the covenant breach.The first measurement under the covenants for the original loan agreement will take place after first quarter 2011. Consequently, in the condensed Statement of Financial Position, the long term loans of NOK 32.0 M have been reclassified from non-current liabilities to current liabilities in second quarter 2010.

5) Convertible loan

On 18 November 2009 an extraordinary General Assembly approved a convertible loan of NOK 71.6M from Autronica Fire & Safety AS. The loan period is 3 years with a 7% fixed annual interest to be paid on a half year basis. The loan is unsecured and rank junior to loans from DnB NOR. The loan can be converted into shares in Simtronics on the request from the lender based on a share price of 2.36. The loan is recorded at a discounted fair value of NOK 66.0M. The conversion right has been valued to NOK 2.5M and is recorded as an equity component in accordance with IAS 32. The convertible loan has loan covenants that are linked with the loan covenants for the bank loans, ref. note 4.

6) Autronica bridge loan

On 3 August 2010 Simtronics ASA received a bridge funding of NOK 18 million with Autronica Fire and Security AS. The loan is due for repayment at 31.12.2010 and accrues an interest of 12% p.a.

7) Non-current liabilities

Other non interest bearing loans as per 30 September of NOK 4,4M is related to loans from Innovasjon Norge. Other non-current liabilities mainly relate to deferred tax liabilities of NOK 10,1M.

8) Voluntary cash offer

In July Autronica Fire and Security AS notified Simtronics ASA of its non-binding intention to make a voluntary cash offer for all issued shares of Simtronics ASA not already held by Autronica Fire and Security AS.

The Offer, if made, will be at an offer price of NOK 2.05 per share to be settled in cash. Any formal Offer is conditional and was expected to be made in mid August. However, Autronica Fire and Security AS, has been furnished with all the information requested, but has still not concluded if an offer will be made.

Autronica Fire and Security AS is Simtronics' largest shareholder, holding 18,878,305 shares, comprising approximately 27.2% of issued shares.

SIMTRONICS group

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