

Interim report 4th quarter 2010 and preliminary annual accounts

Scana Industrier ASA is a Nordic industrial group providing products and system solutions to three market segments: marine, energy and steel & machinery. Scana also provides service and laboratory services, in addition to maintenance and repairs for customers in the marine market and oil & gas.

Scana's technology, unique expertise in engineering materials and extensive production experience form the basis of our competitive power. Our aim is to be the preferred supplier for leading companies within our market segments. The majority of Scana's customers are in Europe, the USA and South East Asia.

Scana Industrier ASA has companies in Norway, Sweden, China, USA, Poland, Singapore, Brazil and South Korea, as well as associated companies in a number of countries. The group's head office is in Stavanger.

Positive order inflow

- Revenues of NOK 1 756 million and an operating loss of NOK 62 million for 2010
- Revenues of NOK 481 million and an operating loss of NOK 28 million for the fourth quarter
- Non-recurring costs of NOK 17 million were charged against the fourth quarter operating profit, and the result of ordinary operations was a loss of NOK 11 million
- Highest order inflow since the second quarter of 2008
- A higher order inflow and gradual improvement in the product range is expected to have a positive effect on earnings in 2011
- The Board proposes that no dividend be distributed for 2010 to the General Meeting

NOK million	Quarter					Year to date	
	Q4 10	Q4 09	Q3 10	Q2 10	Q1 10	2010	2009
Operating revenue	481	491	397	448	430	1 756	2 267
EBITDA	(5)	40	(6)	6	17	13	263
Operating profit EBIT	(28)	22	(23)	(11)	1	(62)	201
Operating margin %	-6 %	4 %	-6 %	-2 %	0 %	-4 %	9 %
Profit before tax before temp. change in value of currencies	(63)	31	(18)	(8)	2	(87)	178
Profit before tax	(61)	27	(16)	(18)	7	(88)	325
Order inflow	571	284	363	414	434	1 782	1 121
Order reserve	913	856	821	836	843	913	856

Operating revenue totaled NOK 481 million in the fourth quarter, compared with NOK 491 million for the same period in 2009. The operating result was a loss of NOK 28 million, compared with a profit of NOK 22 million in 2009. Non-recurring costs of NOK 17 million relating primarily to the Steel business area were charged against the operating profit. Result of ordinary operations was a loss of NOK 11 million for the quarter. Order inflow in the fourth quarter totaled NOK 571 million, which is the highest inflow since the second quarter of 2008.

Operating revenues totaled NOK 1 756 million for 2010, compared with NOK 2 267 million for 2009. The operating result, including extraordinary charges in the fourth quarter, was a loss of NOK 62 million, which corresponds to an operating margin of -4%.

In the Steel business area, the steel and machinery segment shows satisfactory demand, but still relatively low prices. This segment represents significantly less added value for

Scana than the marine and energy segment. Demand in the marine segment is still weak, but Scana has strengthened its position in relation to world-leading customers and expects this to have an impact when the market turns. Scana won new contracts in the fourth quarter for the delivery of special steel to the oil industry. The energy market is otherwise marked by price pressure. The product range is improving gradually and the order inflow is increasing. This is expected to have a positive effect on earnings throughout 2011.

In the Marine business area, Scana entered into important contracts in the fourth quarter for the delivery of gears, propeller equipment and remote control systems. The business area had a lower level of activity compared with 2009, but is reporting good results as a result of cost adaptations. There is a good level of activity in the service and after sales segment, but a continuing reduced level of activity and hard competition in new sales.

The Oil and Gas business area is affected by the fact that Scana has had few large projects. Activities linked to sales, offers and negotiations have taken longer than expected. Large projects were won in the fourth quarter and decisions will be made for additional projects in the first quarter of 2011. The results here will be important with respect to future developments in this business area.

Net financial items were NOK -33 million in the fourth quarter.

Net order inflow was NOK 571 million in the quarter. This is the highest order inflow since the second quarter of 2008. There is higher offer activity in all of Scana's market segments compared with the corresponding periods in 2008 and 2009.

The closing price for shares in Scana was NOK 7.06 at the end of the fourth quarter, up from NOK 6.50 at the end of the third quarter. This gives a market value for the group of NOK 1.2 billion. In the fourth quarter, 7.0 million shares out of a total of 167.6 million outstanding shares were traded. Scana's holding of own shares is 113,010. Scana has a Market Maker agreement in order to increase the liquidity of its shares and ensure listing on the Oslo Børs Match list.

Steel

Operating revenue amounted to NOK 337 million in the fourth quarter and NOK 1 140 million for 2010. This is an increase of 20.5% and a reduction of 15.8% compared with the corresponding periods in 2009 and confirms that the level of activity has improved significantly in the fourth quarter. The operating result for the fourth quarter was a loss of NOK 16 million, which corresponds to an operating margin of -5%. A charge of NOK 13 million was made against the operating profit due to a change in the rules for pension provisions in Norway, write-down of accounts receivable and restructuring in China, as well as a production stoppage in Sweden. The operating result is thus a loss of NOK 40 million for 2010, which corresponds to an operating margin of -4%. Ordinary operations show a loss for the year due to strongly reduced prices in several market segments and an unfavorable product range. Significant cost-saving measures implemented in the steel companies have lessened the decline in the operating profit. Ordinary operations broke even in the fourth quarter due to a higher level of activity and somewhat improved product range.

Scana won a number of important contracts in the fourth quarter in the marine and energy market segments. This applies both to highly alloyed materials for challenging oil wells and mooring system deliveries to the oil industry.

Continued improvement in the product range and a higher refinement ratio will impact earnings throughout 2011.

The steel companies' cost-saving measures and on-going work to streamline processes serves to position Scana for growth and positive results once the customers in the marine segments increase their activity again.

The business area's net order inflow was NOK 350 million in the fourth quarter. The order reserve totals NOK 473 million.

Marine

Operating revenue totaled NOK 109 million in the fourth quarter. Operating revenue was NOK 503 million for 2010, which is a decline from NOK 784 million in 2009. This represents a decline of 35.8%. Operating profit for the fourth quarter was NOK 9 million, which corresponds to an operating margin of 8%. The operating profit was NOK 57 million for 2010, which gives an operating margin of 11%. The high operating margin is attributed to cost reductions and a positive contribution by the activity in the service and after-sales market.

In the fourth quarter Scana entered into important contracts for the delivery of gears and propeller equipment for anchor handling vessels being built in Norway and Brazil.

Cost-reduction measures that are and will be implemented are strengthening Scana's competitive position.

Few new contracts for vessels on a global basis since 2008 has reduced Scana's level of activity in the marine segment, and the workforce and cost level must be adapted continuously to the changing level of activity.

The order inflow was NOK 141 million in the fourth quarter against NOK 100 million in the same period in 2009. The order reserve is NOK 290 million

Oil and Gas

The operating revenue was NOK 61 million for the fourth quarter and NOK 175 million for the full year 2010, up from NOK 155 million in 2009, which is an increase of 12.6%. The operating result for the fourth quarter was a loss of NOK 14 million, which is the same level as for 2009. For 2010 the operating result was a loss of NOK 45 million, compared with a loss of NOK 14 million in 2009. The poor results are attributed to a continued low level of activity, and the fact that Scana still does not have any large projects related to the FPSO market. New orders in the subsea area will have an impact on earnings from the middle of 2011.

Scana was awarded large contracts in the fourth quarter for forged and machined risers and tension leg materials for the Gulf of Mexico and Brazil. The contracts awarded show that Scana is competitive with regard to deliveries like this, which also gives us good opportunities for the future. The oil blowout in the Gulf of Mexico is still resulting in lower activity for Scana's Houston business. In the long term, however, regime changes are expected that can serve to strengthen Scana's opportunities in the area.

Profit performance in oil & gas has not been satisfactory. This is attributed mainly to a low level of activity for Scana Offshore Vestby. Throughout 2010 Scana has chosen to maintain its critical competence in this business and invested a great deal of work in order to position the business for new contracts. Early in 2011 this work resulted in a breakthrough in Brazil, one of the world's most important oil and gas markets. The order in Brazil represents an important increase in activity and utilisation of the competence of Vestby, in addition to important positioning for the entire group in Brazil. As reported in connection with the presentation of the results for the third quarter of 2010, Scana is working on several measures to ensure the profitability of this business area. In addition to new contracts, this also entails measures for repositioning Scana Offshore Vestby and finding the right partner for the business, so that the company can be developed and assets can be safeguarded. Our goal is to clarify the main features of this by the presentation of the final annual accounts for 2010.

The order inflow was NOK 138 million for the business area in the fourth quarter, while the order reserve is NOK 209 million. In addition, NOK 350 million in Brazil, signed in 2011.

Accounts

This interim report has been prepared in accordance with the standard for interim financial reporting, IAS 34, and IFRS. The group classifies agio items as financial items. Similar accounting principles are applied in the quarterly report and annual accounts.

Financial performance

The group's total revenue was NOK 481 million in the fourth quarter. The decline of 2.2% from the same period in 2009 is explained by somewhat lower activity and reduced prices, as well as a less optimal product range in the steel companies in comparison with last year. The operating result was a loss of NOK 28 million, which corresponds to an operating margin of -6%. The result from ordinary operations (without extraordinary expenses) was a loss of NOK 11 million, corresponding to an operating margin of -2%.

Net financial items totaled NOK -33 million, compared with NOK 5 million for the fourth quarter of 2009. Temporary changes in value linked to currency contracts represent a gain of NOK 2 million. Scana hedges all major contracts in foreign currency. The change in value must be entered directly in the profit and loss account against financial items in accordance with IFRS, but cannot be realized and has no effect on liquidity.

The estimated tax for 2010 is NOK -16 million. The tax payable for the year is NOK -1 million and the change in deferred tax is NOK -10 million. Scana has tax loss carry forwards in Norwegian companies that are used to reduce the tax payable. The subsidiaries in the USA and Poland are in a taxpaying position.

Financial instruments are valued at fair value. Changes in value that satisfy requirements for hedge accounting are recorded against the total result. Hedging of net investments, currency translation differences and changes in the fair value of hedging instruments have changed the profit after tax by a total of NOK 27 million in the fourth quarter.

The earnings per share were NOK -0.30 for the fourth quarter and NOK -0.41 for 2010.

Cash flow

Net cash flow from operational activities was NOK -10 million in the fourth quarter, which is linked to the increase in working capital as a result of the higher production rate.

NOK 26 million in fixed assets and NOK 45 million in shares sold in other companies have been capitalised.

Net cash flow from financing activities was NOK -45 million. Long-term liabilities were reduced by NOK 34 million during the period. Current liabilities have been reduced by NOK 4 million and other financing activities totaled NOK -7 million.

The net cash flow for the group was NOK -27 million. The group's cash and cash equivalents totaled NOK 101 million at the end of the fourth quarter. In addition, the group has a satisfactory level of unused credit facilities.

Balance sheet and capital position

Scana has a healthy financial position, with a low level of debt. The debt ratio is 0.7. The balance sheet total at the end of the fourth quarter of 2010 was NOK 1 871 million, which is a reduction of NOK 119 million from the same period in 2009. The group's net interest-bearing debt was NOK 416 million. Book equity of NOK 781 million corresponds to NOK 4,7 per share and an equity ratio of 42%.

The Board proposes that no dividend be distributed for 2010 to the General Meeting.

Outlook

Scana's main products are niche oriented, and are leading products within their market segments. After several years of revenue growth and higher margins, this trend was reversed in 2009 due to a significantly weaker international economy.

The products Scana supplies within steel are of very high quality. The activity level in terms of deliveries to steel and machinery customers is high, but is characterised by price pressure which gives a low refinement ratio for Scana. The company is cautious about entering into long-term contracts, because it wants to maintain flexibility in order to take the increased activity with better prices in the energy and marine segments. In the marine market segment throughout 2011 with, however, a gradual increase in deliveries from Scana's steel companies. Scana has used 2010 to strengthen its position with world-leading customers. A higher degree of completion and more complete project responsibility are expected to provide added value for both customers and Scana.

Few new contracts globally have gradually reduced the level of activity in the Marine business area in 2010. Cost adjustments have secured good results. Scana has strengthened its sales and marketing efforts and is increasing its presence in emerging markets. It has also won important contracts in the fourth quarter. Short order horizon will result in greater quarterly variations in revenues and profits than in previous years. The focus on service and after sales has resulted in higher revenues and had a positive effect on earnings. Scana expects this development to continue.

The group has developed several advanced products and systems in the Oil & Gas business area in recent years. Multi-disciplinary training, leading expertise within materials technology and the capability for in-house production of special components translates into future opportunities. The order inflow increased throughout the last part of 2010 as a result of the group's increased focus on marine risers and subsea components in the world's most active oil and gas markets. The formation of Scana Subsea simplifies the customers' business processes for specialised equipment, and provides Scana with considerable business opportunities on a global basis. An upturn is expected in the FPSO market as we approach 2013. Scana is dependent on larger projects in the FPSO market if it is to achieve satisfactory results in this business area. The contracts that are being negotiated in Brazil represent an important start. Additional measures will be implemented to ensure future profitability.

Scana has implemented extensive measures to adapt its capacity and consumption of resources to lower demand and reduced prices. In addition, Scana has also freed up working capital and introduced a strict priority of its operational and investment resources.

In addition to focusing on optimum daily operations, Scana is also working on strategic measures to strengthen the group's size and creation of value. Scana is actively seeking to dispose of assets that are not considered to be part of the core activity. This is in order to increase our financial scope and our focus on the value-adding portion of our business.

Stavanger, 23 February 2011

Profit and Loss Account - Group

NOK million	Quarters					Full Year	
	Q4 10	Q4 09	Q3 10	Q2 10	Q1 10	2010	2009
Total operating revenues	481	491	397	448	430	1 756	2 267
Raw materials and consumables	199	168	189	192	178	757	838
Change in stocks and FG and WIP	(5)	28	(10)	(1)	1	(16)	98
Wages and NI contributions	175	160	130	148	148	601	617
Other operating costs	117	95	95	103	86	401	452
Depreciation and amortization	23	18	18	17	16	75	62
Total operating costs	509	470	421	459	429	1 818	2 067
Operating profit / (loss) - EBIT	(28)	22	(23)	(11)	1	(62)	201
Financial income	22	35	33	58	34	147	309
Financial expense	(55)	(30)	(26)	(64)	(28)	(173)	(185)
Net financial income / expense (-)	(33)	5	8	(7)	6	(26)	124
<i>Profit / (loss) before taxes ex. effect of derivate</i>	<i>(63)</i>	<i>31</i>	<i>(18)</i>	<i>(8)</i>	<i>2</i>	<i>(87)</i>	<i>178</i>
Profit / (loss) before taxes	(61)	27	(16)	(18)	7	(88)	325
Taxation	(9)	5	(3)	(5)	1	(16)	81
Net profit / (loss)	(52)	22	(12)	(12)	5	(72)	244
Attributable to:							
Equity holders of the parent	(51)	26	(8)	(13)	4	(68)	250
Minority interests	(2)	(4)	(4)	1	2	(3)	(7)
Earnings per share	(0,30)	0,15	(0,05)	(0,08)	0,02	(0,41)	1,50
Diluted earnings per share	(0,30)	0,15	(0,05)	(0,08)	0,02	(0,41)	1,49
Other comprehensive income							
Changes in cash flow hedges	20	5	(0)	2	(5)	17	(0)
Net gain /loss on net investment hedges	5	(6)	(9)	(2)	(6)	(12)	29
Exchange difference on translations of foreign operations	2	(8)	(11)	24	10	25	(73)
Other comprehensive income	27	(8)	(21)	24	(2)	30	(45)
Total comprehensive income	(25)	14	(33)	12	4	(42)	199
Key Figures:							
EBITDA	(5)	40	(6)	6	17	13	263
EBITDA margin - %	-1 %	8 %	-1 %	1 %	4 %	1 %	12 %
EBIT margin - %	-6 %	4 %	-6 %	-2 %	0 %	-4 %	9 %
Net profit margin - %	-11 %	4 %	-3 %	-3 %	1 %	-4 %	11 %
Order intake	571	284	363	414	434	1 782	1 121
Order reserve	913	856	821	836	843	913	856

Balance Sheet - Group

NOK million	31.12.10	30.09.10	30.06.10	31.03.10	31.12.09	30.09.09	31.12.08
Intangible fixed assets	148	150	155	155	150	152	132
Deferred tax	4	4	3	4	3	2	39
Tangible fixed assets	761	755	743	725	722	718	696
Financial fixed assets	19	85	26	25	25	13	12
Total fixed assets	932	994	927	910	900	886	879
Inventory	389	379	372	379	381	405	483
Trade debtors	416	441	503	486	560	550	739
Derivates	27	3	6	10	11	25	8
Cash and cash equivalents	101	128	175	140	140	123	139
Assets hold for sale	6	0	0	0	0	0	0
Total current assets	939	951	1 056	1 015	1 090	1 103	1 369
Total assets	1 871	1 945	1 983	1 925	1 990	1 989	2 248
Paid-in capital	331	331	328	326	326	324	326
Other equity	423	445	472	520	515	498	355
Minority interests	27	29	33	34	32	39	42
Total shareholders' equity	781	804	832	880	873	860	723
Interest bearing loans and borrowings	398	412	381	321	370	412	498
Derivates	0	0	0	0	0	1	48
Other non-current liabilities	96	100	102	114	113	102	71
Total non-current liabilities	494	512	483	435	483	515	617
Interest bearing loans and borrowings	119	130	139	131	126	86	116
Derivates	9	17	21	25	21	35	114
Other current liabilities	467	481	508	454	487	493	678
Total current liabilities	595	628	667	609	634	614	908
Total liabilities and shareholders' equity	1 871	1 945	1 983	1 925	1 990	1 989	2 248
Key Figures:							
Equity ratio	42 %	41 %	42 %	46 %	44 %	43 %	32 %
Gross debt	517	542	520	452	496	498	614
Net debt	416	414	344	312	357	375	475
Gearing (gross debt divided by shareholders' equity)	0,7	0,7	0,6	0,5	0,6	0,6	0,8
Equity ratio ex. Derivate	41 %	42 %	43 %	47 %	44 %	44 %	40 %

Cash Flow Statement - Group

NOK million	Quarters		Year to date	
	Q4 10	Q4 09	2010	2009
Pre-tax income	(61)	27	(88)	325
Tax paid	2	(5)	1	(53)
Currency exchange differences and gain/loss on sale of fixed assets and non cash element	10	16	(9)	(114)
Depreciation and amortisation	23	18	75	62
Net interest costs	9	7	19	19
Change in net working capital	7	2	132	88
Net cash flow from operating activities	(10)	65	129	329
Proceeds from sale of property, plant and equipment	1	1	8	3
Proceeds from sale of shares	45	0	45	0
Purchase of property, plant and equipment	(25)	(36)	(84)	(142)
Investments in business	8	(3)	(44)	(45)
Net cash flow from investing activities	28	(38)	(76)	(184)
Proceeds from long-term borrowings	0	50	109	50
Repayment of long-term borrowings	(34)	(67)	(125)	(91)
Net increase/(decrease) in short-term borrowings	(4)	15	(11)	(10)
Paid in capital	0	0	2	0
Net paid interests	(7)	(7)	(17)	(22)
Paid dividend	0	0	(56)	(50)
Net cash flow from financing activities	(45)	(9)	(98)	(123)
Net cash flow	(27)	18	(44)	22
Cash and cash equivalents at beginning of period	128	123	140	139
Net foreign exchange difference	1	(1)	6	(21)
Cash and cash equivalents at end of period	101	140	101	140

Statement of change in shareholders equity - Group

	Issued capital	Own shares	Other paid-in capital	Retained earnings	Currency translation reserves	Reserves for change in value	Total	Minority interest	Total equity
Equity at 31 December 2008	209	-4	121	309	53	-7	681	42	723
Total comprehensive income this period				250	-44	0	206	-7	199
Share option			4				4		4
Allocation of own shares (a part of dividend)		4	-8	5			1		1
Dividend				-50			-50	-3	-53
Equity at 31 December 2009	209	0	117	514	9	-7	841	32	873

	Issued capital	Own shares	Other paid-in capital	Retained earnings	Currency translation reserves	Reserves for change in value	Total	Minority interest	Total equity
Equity at 31 December 2009	209	0	117	514	9	-7	841	32	873
Total comprehensive income this period				-69	13	17	-39	-3	-42
Share option			3				3		3
Minority interest acquisitions							0	-2	-2
Paid in capital	0		2				2		2
Dividend				-54			-54		-54
Equity at 31 December 2010	210	0	122	391	22	10	754	27	781

Business Areas

NOK million	Quarters					Year to date	
	Q4 10	Q4 09	Q3 10	Q2 10	Q1 10	2010	2009
Steel:							
Turnover	337	279	250	278	275	1140	1354
Operating profit / (loss)	-16	5	-16	-14	6	-40	140
Operating margin	-5 %	2 %	-6 %	-5 %	2 %	-4 %	10 %
Order intake	292	155	233	285	255	1 065	713
Order reserve	413	440	444	453	427	413	440
Marine:							
Turnover	109	172	122	140	132	503	784
Operating profit / (loss)	9	34	13	23	12	57	107
Operating margin	9 %	20 %	10 %	16 %	9 %	11 %	14 %
Order intake	141	95	103	83	80	407	290
Order reserve	290	388	268	272	319	290	388
Oil & Gas:							
Turnover	61	48	39	45	31	175	156
Operating profit / (loss)	-14	-9	-11	-9	-11	-45	-14
Operating margin	-23 %	-18 %	-29 %	-19 %	-35 %	-25 %	-9 %
Order intake	138	34	27	46	99	310	118
Order reserve	209	28	109	111	97	209	28