

# 1<sup>st</sup> Quarter Report 2010

**Simtronics ASA**

## Simtronics ASA

Report for the first quarter 2010

- Signs of recovery
- Cost reductions taking effect
- Attractive order backlog maintained
- High financial cost in Quarter

Simtronics experienced reduced sales and weaker performance in the first quarter of 2010 compared to the same quarter last year. The first quarter results do however represent an improvement from the previous quarter. Simtronics showed signs of recovery in the first months of 2010.

Operating income in the first quarter of 2010 was NOK 70.3 million. This is a 9 per cent decline from last year's first quarter, but an 11 per cent increase over the previous quarter. Operating expenses were NOK 70.6 million, an 8 per cent reduction from last year. EBITDA for the first quarter came in at NOK -0.3 million, compared to NOK -6.8 million last year (EBITDA for the first quarter 2009 included non-recurring costs of NOK 7.2 million).

Simtronics posted earnings before taxes of NOK -9.1 million in the first quarter (2009: NOK -13.1 million) and a net loss of NOK -6.1 million (2009: NOK -8.9 million). The finance cost in Q1 2010 is high compared to Q1 2009, due to unrealized agio effects and imputed interest cost on the convertible loan.

Simtronics is still experiencing a challenging market with reduced volumes, margin pressure and project postponements. The cost reduction programme initiated in the fourth quarter of 2009 is well underway and the measures taken in the first quarter will represent a 10 per cent reduction in operating costs for 2010 as a whole.

The Detection business area, which had its best year ever in 2009, is still experiencing a positive development. The division posted an EBITDA margin of 4.2 per cent in the first quarter. The business area is clearly benefiting from Simtronics' position as the technology leader in sophisticated fire and gas detection. In the first quarter, Simtronics obtained approval for the use of its point infrared gas detector in the US mining industry, as the only infrared detector of its kind approved for mining

purposes in the United States. Simtronics is actively pursuing this market, which we believe will be a strong reference for other markets around the world.

In the Extinguishing business area, demand is slowly picking up again for extinguishing solutions as well as nitrogen generators. The market for nitrogen generators imploded in 2009 as a result of the crisis in the shipbuilding industry and was the single most important contributor to Simtronics' weak results last year. One indication of a shift towards improved demand is Shell's order for spare parts and maintenance for nitrogen generators aboard 25 of the oil major's vessels. This represents what we consider to be the beginning of a stable service and after sale market. The Extinguishing business area delivered an EBITDA margin of 1.1 per cent in the first quarter, turning into black for the first time in several months.

Simtronics' order backlog remains satisfactory. At the end of the first quarter, the order backlog stood at NOK 184 million, which is slightly above the NOK 181 million backlog at the end of the previous quarter. Order intake in the first three months of 2010 was NOK 75 million, which is 11 million more than the previous quarter. The order backlog establishes some confidence in the months ahead. Also, the prospect pipeline for potential detection and/or extinguishing orders in 2010 remains promising.

Major contracts in the first quarter were:

	<i>Business Area</i>	<i>Time of delivery</i>	<i>Contract value (MNOK)</i>
Undisclosed Middle East customer	Extinguishing	2010	>20.0
Shell	Extinguishing	Q1 2010	6.3
Undisclosed South African customer	Extinguishing	Q2 2010	2.1

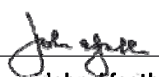
As a result of the weak performance in 2009, Simtronics remains in breach with one of the bank loan covenants. The bank has issued a covenant waiver for 2010.

The Board and Management of Simtronics are monitoring the Group's solidity and liquidity carefully and will take the necessary steps to ensure sufficient working capital if and when this should be needed.

Several market segments seem to be recovering inspite of lower predictability than previously. The

Group's order backlog and prospect pipeline also give grounds for cautious optimism. The cost reduction programme is developing according to plan and will generate a reduction in Simtronics' operating costs in 2010. In total, the outlook for Simtronics' performance has improved since the previous quarter, but the situation does not hold promises of a swift recovery.

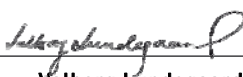
*Oslo, 5 May 2010*



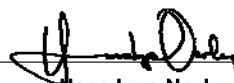
**John Afseth**  
Chairman of the Board



**Tore Amundsen**  
Member of the Board



**Valborg Lundegaard**  
Member of the Board



**Hans Inge Nerby**  
Member of the Board



**Rune Martini**  
President and CEO

**Condensed Consolidated Statement of Comprehensive Income**

SIMTRONICS GROUP (NOK 1.000)	Quarterly		Accumulated 31 Dec 2009	Notes
	Q1-10	Q1-09		
Operating income	70,265	77,054	288,475	
Operating expenses	-70,600	-76,643	-292,609	
EBITDA before restructuring charges	-336	411	-4,134	
Non-recurring expenses and restructuring charges	0	-7,200	-12,566	1)
EBITDA after restructuring charges	-336	-6,789	-16,700	
Depreciations excess values	-1,275	-1,372	-5,389	2)
Depreciations ordinary items	-1,443	-1,362	-8,277	
EBIT	-3,054	-9,523	-30,366	
Net financial items	-6,049	-3,606	-12,991	
EBT	-9,103	-13,129	-43,357	
Income tax	2,986	4,234	1,488	
<b>Net profit (loss)</b>	<b>-6,118</b>	<b>-8,894</b>	<b>-41,869</b>	
<i>Other comprehensive income</i>				
Foreign exchange translation differences	-3,302	-12,180	-19,746	
<b>Total comprehensive income</b>	<b>-9,420</b>	<b>-21,074</b>	<b>-61,616</b>	
<i>Profit(loss) attributable to</i>				
Minority interest	153	274	2,685	
Shareholders of the parent company	-6,271	-9,169	-44,553	
	-6,118	-8,894	-41,868	
<i>Total comprehensive income attributable to</i>				
Minority interest	-714	-3,042	-3,525	
Shareholders of the parent company	-8,706	-18,032	-58,090	
	-9,420	-21,074	-61,616	

**Condensed Consolidated Statement of Financial Position**

SIMTRONICS GROUP (NOK 1.000)	31 March 2010	31 March 2009	31 Dec. 2009	Notes
Intangible fixed assets	163,331	173,601	166,132	1), 4)
Tangible fixed assets	10,982	9,995	11,762	
Financial fixed assets (including NOK 20M/30M in 2009, in restricted cash)	24,351	33,633	33,829	3)
Total non current assets	198,664	217,229	211,723	
Inventories	52,096	63,542	60,946	
Accounts receivable	59,605	81,940	59,949	
Accrued revenue - net	24,249	26,861	17,175	
Other receivables	13,286	8,131	10,339	
Cash and cash equivalents	6,823	7,826	10,498	3)
Total current assets	156,059	188,300	158,907	
<b>Total assets</b>	<b>354,723</b>	<b>405,529</b>	<b>370,630</b>	
Paid in capital	81,922	102,572	81,922	
Retained earnings	-3,411	19,734	4,949	
Minority interests	24,624	30,531	25,338	
Total equity	103,134	152,837	112,209	
Convertible loan	64,235	0	64,235	6)
Bank loans and other loans	39,771	4,675	4,265	5)
Other long term liabilities	13,406	16,048	13,107	4), 7)
Total non current liabilities	53,177	20,723	17,372	
Bank loans and other loans	0	71,340	41,627	5)
Bank overdraft	55,676	70,367	47,523	5)
Accounts payables	34,445	42,585	41,672	
Other short term liabilities	44,056	47,678	45,991	
Total current liabilities	134,177	231,969	176,813	
<b>Total equity and liabilities</b>	<b>354,723</b>	<b>405,529</b>	<b>370,630</b>	

**Condensed Consolidated Statement of Cash Flows****SIMTRONICS GROUP***(NOK 1.000)*

	Quarterly		Accumulated
	Q1-10	Q1-09	31 Dec 2009
Cash flow from operating activities	-15,531	-18,997	6,056
Cash flow from investing activities	419	-241	-26,374
Cash flow from financing activities	1,437	18,841	22,591
Net change in cash and cash equivalents	-13,675	-397	2,273
Cash and cash equivalents at the beginning of period *)	40,498	38,224	38,224
Cash and cash equivalents at the end of period *)	26,823	37,826	40,498

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

**Consolidated Statement of Changes in Equity****SIMTRONICS GROUP***(NOK 1.000)*

	Quarterly		Accumulated
	Q1-10	Q1-09	31 Dec 2009
Equity at the beginning of period (majority)	86,871	126,827	126,827
Share option expense	346	161	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	-6,271	-9,169	-44,555
Other comprehensive income, majority share	-2,435	-8,863	-13,536
Equity at the end of period (majority)	78,510	122,306	86,871
Minority interests at the beginning of period	25,338	33,573	33,573
Minority interests share from acquisitions and dividends	0	0	-4,709
Minority share of net income for the period	153	274	2,685
Other comprehensive income, minority share	-867	-3,316	-6,211
Minority interest at the end of period	24,624	30,531	25,338
Equity at the end of period (total)	103,134	152,837	112,209

	Quarterly		Accumulated
Key Figures	Q1-10	Q1-09	31 Dec 2009
Earnings per share (NOK)			
EPS basic	-0.09	0.01	-0.65
EPS diluted	-0.09	0.01	-0.65

**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) Settlement of contingent and deferred acquisition costs from acquisitions in 2008 and 2007

Other long term liabilities as per 31 December 2008 included contingent and deferred payments of NOK 6M and NOK 4M respectively, related to the acquisition of Water Mist Engineering AS. Further, the other long term liabilities included NOK 20M in contingent payment/"earn-out" related to the acquisition of ETech Process AS. These items were included in acquisition cost as per 31 December 2008.

These remaining acquisition-related compensations were settled in the first quarter of 2009. For the settlement of the Water Mist Engineering transaction, NOK 10M were settled through the issuance of 3,731,343 shares in Simtronics ASA. The share issue was completed on 18 March 2009. For the settlement of the ETech Process transaction, the conditional payment was fixed to NOK 6.7M, of which NOK 3,350K was settled through an issuance of 674,044 shares in Simtronics ASA completed on 18 March 2009. The remaining NOK 3.35M was settled through a cash payment in July 2009. In total these transactions have increased paid-in capital with net NOK 13,350K in 2009.

Goodwill has been adjusted accordingly as a consequence of these changes in acquisition costs in the period.

#### 5) Loan covenants

Simtronics group has loan agreements with DnB NOR for 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. 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 34,4M were reclassified from current liabilities to non-current liabilities.

In 2009 Simtronics ASA was granted a convertible loan from the company's largest share holder, UTC/Autronica Fire & Security AS. Simtronics ASA has received a confirmation from UTC/Autronica Fire & Security that they do not consider Simtronics ASA to be in breach with any covenants, in the convertible loan agreement.

#### 6) 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 64.2M. 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 5.

#### 7) Non-current liabilities

Non-current loans as per 31 March of NOK 4.2M is related to loans from Innovasjon Norge. Other non-current liabilities mainly relate to deferred tax liabilities of NOK 11.3M and pension obligations of NOK 1.6M.

## **SIMTRONICS** group

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