Scana
SCANA INDUSTRIER ASA

Interim report for 1st half and 2nd quarter of 2010

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.

Continued weak market – but with signs of improvement

- *Significantly better order inflow in the first half of the year compared to the same period in 2009.*
- *Decline in turnover and profit due to:*
  - *Less optimal product mix with lower refinement ratio and reduced prices*
  - *Weaker Euro*
- *A gradual improvement in product mix and increased order inflow are expected to impact the result from the fourth quarter of 2010.*

	Quarter					YTD		All year
NOK millions	Q2 10	Q2 09	Q1 10	Q4 09	Q3 09	2010	2009	2009
Operating revenue	448	618	430	491	457	878	1,319	1,995
EBITDA	6	82	17	40	52	23	171	191
Operating profit EBIT	(11)	67	1	22	38	(10)	141	127
Operating margin %	-2%	11%	0%	4%	8%	-1%	11%	6%
Profit before tax before temp. change in value of currencies	(8)	50	2	24	32	(6)	114	41
Profit before tax	(18)	71	7	27	83	(11)	215	188
Order inflow	414	200	434	284	284	848	553	1,121
Order reserve	836	1,304	843	856	1,075	836	1,304	856

Operating revenue totalled NOK 878 million in the first half of 2010, compared with NOK 1,319 for the same period last year. The operating profit was minus NOK 10 million, compared with NOK 141 million in the first half of 2009.

Operating revenue totalled NOK 448 million for the second quarter, compared with NOK 618 million for the same period last year. The operating profit was minus NOK 11 million. Operating revenue and profits are impacted by a less optimal product mix with lower refinement ratio and reduced prices, as well as a weaker Euro. Cost reductions implemented, significantly limit the negative consequences and the results at the end of the quarter have been positive. The product mix is expected to be gradually improved during the second half of the year and the group expects continued improvement in order inflow. This is expected to affect the results toward the end of 2010 and in 2011.

In the Steel business area, the steel & machinery segment shows improved demand, though at reduced prices. This segment also gives a significantly lower refinement ratio for Scana than the marine and energy segments. The demand in the energy and marine market segments is still weak, but improvements are expected within the energy segment during the second half of the year. In the first half of 2010 Scana has strengthened its position significantly towards world leading customers within the marine segment. The effects thereof will be seen once the market turns.

Access to new orders in the Marine business area is still limited; the business area is however delivering good results due to solid order reserves and extensive cost reductions. There is a good level of activity in service and after sales services and increased tendering activity for "new sales".

The Oil & Gas business area is still characterised by few major projects. Scana expects an increase in order inflow in the second half of the year which will in turn increase profitability from the end of the year. Activities linked to sales, offers and negotiations are taking somewhat longer than expected and has impacted the operating profit.

Net financial items total minus NOK 7 million in the second quarter as a result of a temporary changes in value linked to currency contracts.

Net order inflow was NOK 414 million in the second quarter. The tendering activity is higher in all of Scana's market segments compared with the same period last year.

The closing price for shares in Scana was NOK 7.90 at the end of the second quarter, up from NOK 7.83 at the end of the fourth quarter. This gives a market value for the group of NOK 1.3 billion. In the second quarter, 3.1 million shares out of a total of 167 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 totalled NOK 278 million in the second quarter. The operating profit was minus NOK 14 million, which corresponds to an operating margin of -5%. The profit is impacted by a higher proportion of orders in the steel & machinery segment. These have significantly lower refinement ratios and a low margin, but are performed on short contracts in anticipation of an increase in activity in the marine and energy segments.

The price of raw materials has increased in the second quarter without it being possible to reflect this in the prices to our customers. This impacts the profitability of our Steel companies. A gradually improved product mix, increased refinement ratio and improved prices are expected to increase profitability from the fourth quarter.

The steel companies' cost-saving measures and ongoing work to streamline processes serves to position Scana for growth and increased profitability once the customers in the energy and marine segments increase their activity.

The business area's net order inflow was NOK 285 million for the second quarter, up from NOK 255 million in the first quarter. The order reserve totals NOK 453 million.

Marine

Operating revenue totalled NOK 140 million in the second quarter. The operating profit was NOK 23 million, which corresponds to an operating margin of 16%. The reduction in operating revenue is due to the gradual decline in activity as a result of completion of projects and lower activities in the Marine segment globally. The high operating margin is due to good order reserve and significant cost reductions as well as the activity in the service and after-sales market contributing positively.

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

The order inflow was NOK 83 million in the second quarter, and the order reserve totalled NOK 272 million. The order inflow is helping to maintain a satisfactory level of activity in 2010.

Oil & Gas

Operating revenue was NOK 45 million in the second quarter operating profit was minus NOK 9 million. This is due to continued low activity in service and maintenance, and because Scana had few major projects in the quarter. In addition, activity in sales, offers and negotiations have been subject to revised schedules. Scana has recorded costs in the P&L relating to in development-, sales- and tendering activities.

In the short term the oil blowout in the Gulf of Mexico has resulted in lower activity for Scana's Houston business. However, in the long term the incident is expected to bring about changes in the regime which will serve to strengthen Scana's opportunities in the area. The group has initiated measures to increase the activity in the region from the end of 2010.

The order inflow was NOK 46 million for the business area in the second quarter, while the order reserve is NOK 111 million. Scana's activity within maintenance and modifications to the North Sea has increased somewhat throughout the second quarter. In addition, Scana has entered into contracts for production of marine risers and couplings which confirms the company's strong competitive position in the area. This development is expected to continue in the second half of the year.

Accounts

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

Financial performance

The group's total turnover was NOK 448 in the second quarter. The decline from the same period in 2009 is explained by lower activity, less optimal product mix and a weaker Euro. The operating profit was minus NOK 11 million. Net financial items totalled minus NOK 7 million, compared with NOK 4 million in the second quarter of 2009. Temporary changes in value linked to currency contracts represent a loss of NOK 9 million in the second quarter. Scana hedges all major contracts in foreign currency. The change in value must be entered directly in the profit and loss account against finance in accordance with IFRS, but cannot be realised and has no effect on liquidity.

A weaker Euro has a negative impact on Scana's turnover and operating profit. The operating profit for the second quarter of 2010 is impacted by minus 12 mill kr compared to the Euro level in the corresponding period in 2009.

The estimated tax for the second quarter is minus NOK 5 million, which is 30% of the profit before tax. Scana has used a tax loss carry forward in Norway to reduce the tax payable.

Financial instruments are valued at fair value. Changes in value that satisfy requirements for hedge accounting are recorded against the total result. In the second quarter, such instruments had a rise in value of NOK 2 million. Hedging of net investments and translation differences from foreign subsidiaries has changed the profit before tax by NOK -2 million and NOK 24 million respectively.

The earnings per share was NOK -0.08 for the second quarter 2010.

Cash flow

Net cash flow from operational activities amounted to NOK 55 million in the second quarter. The reduction in working capital accounts for NOK 37 million of this amount.

Activated costs and investments in fixed assets totalled NOK 21 million. Net cash flow from funding activities was NOK -1 million, of which dividends amounted to NOK 57 million. In the period, NOK 80 million was drawn in long-term and short-term debt. Additionally long-term and short-term debt totalling NOK 25 million was repaid.

Net cash flow in the second quarter was accordingly NOK 33 million. The group's cash and cash equivalents totalled NOK 175 million at the end of the second 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 0.6. The total balance at the end of the second quarter 2010 was NOK 1,984 million; a reduction of NOK 85 million from the same period in 2009. The group's net interest-bearing debt was NOK 344 million. Book equity of NOK 832 million corresponds to NOK 4.97 per share and an equity ratio of 42%.

Outlook

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

The energy market segment is expected to show positive development for Scana during the rest of 2010 and in 2011. The same applies to the steel and machinery segment. The marine segment is expected to remain weak in 2010 and 2011.

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 characterised by price pressure and low refinement ratio for Scana. Scana is only entering into short-term contracts when prices are low, both because prices are expected to increase and because Scana wants flexibility to meet the increased activity in the Energy segment during second half of 2010. This production gives high refinement ratio. Demand in the Marine segment is expected to remain low in 2010 and 2011. In the first half of 2010 Scana has focused on strengthening its position by world leading customers. Increased levels of completed projects and more complete project responsibility on Scana's side are expected to have an effect for customers and Scana once the market turns.

Few new contracts results in a reduced level of activity for Scana's Marine segment. Scana has strengthened its sales and marketing work, and is increasing its presence in emerging markets. In recent years, the focus on service and after sales is leading to increased turnover and having positive effects on the result. Scana expects this development to continue. Scana will also strengthen production management and optimise production in the Marine business.

Scana has developed several advanced products and systems in the Oil & Gas area in recent years that have created interest among leading international players. Multi-disciplinary training, extensive expertise within materials technology and the capability for in-house production of special components mean substantial future potential. The order inflow is expected to increase considerably in 2010 as a result of the group's increased focus on risers and subsea components in the world's most active oil and gas markets. The founding of Scana Subsea simplifies the customers' business processes for specialised equipment, and provides Scana with considerable business opportunities on a global basis. Scana expects an increase in order inflow in the second half of 2010 compared to the first half. A gradual upturn is expected in the FPSO market through to 2013. Scana is dependent on larger projects to achieve satisfactory results in this business area.

Scana has implemented extensive measures to adapt its capacity and consumption of resources to a lower demand and reduced prices. In addition Scana has also freed up working capital and introduced a strict control of its operational and investment resources. The measures enable the group to ensure a good level of liquidity and a healthy balance sheet. The market conditions combined with the summer closing of steel companies for periodic maintenance, is expected to result in a negative operating result for third quarter. A positive result is expected thereafter.

In addition to focusing on the best possible daily operations, Scana is also working on strategic measures to strengthen the group's size and position. This work will continue in 2010. Acquiring 9.9 percent of the shares in TTS Group ASA in early July, is a part of this initiative. Other business opportunities will be discussed with TTS Group.

Board of directors in Scana Industrier ASA
16 July 2010

Declaration from the Board of Directors and General Manager

Today the Board of Directors and General Manager reviewed and approved the half-year report and summarised consolidated half-year accounts for Scana Industrier ASA as at 30 June 2010 and the first half-year of 2010 with consolidated comparison figures as at 30 June 2009 and for the first half of 2009.

The half-year report is prepared in accordance with IFRS (included in IAS 34 Interim reporting) as approved by the EU and the supplementary requirements in the Norwegian Securities Trading Act.

It is the Board's and General Manager's firmest belief that the half-year accounts for 2010 are prepared in accordance with the applicable accounting standards and information within the accounts provides an accurate picture of the group's equity interest, debt and financial position, and profits in their entirety as at 30 June 2010 and 30 June 2009.

It is the Board's and General Manager's firmest belief that the half-year report provides an accurate overview of important events for the accounting period concerned and their influence on the half-year accounts.

It is the Board's and General Manager's firmest belief that the description also provides an accurate picture of important risks and uncertainties that the business faces in the next accounting period, as well as a description of affiliates' material transactions.

Stavanger, 16 July 2010

Frode Alhaug
Styrets formann

John Arild Ertvaag

Mari Skjærstad

Martha Kold Bakkevig

Bjørn Dahle

Rolf Roverud
Konsernsjef

Scana

Profit and Loss Account - Group

	Quarters					Year to date		Full Year
NOK million	**Q2 10**	**Q2 09**	**Q1 10**	**Q4 09**	**Q3 09**	**2010**	**2009**	**2009**
Total operating revenues	**448**	**618**	**430**	**491**	**457**	**878**	**1 319**	**2 267**
Raw materials and consumables	192	213	178	168	191	370	479	838
Change in stocks and FG and WIP	(1)	27	1	28	0	(0)	69	98
Wages and NI contributions	148	158	148	160	127	297	329	617
Other operating costs	103	138	86	95	86	189	271	452
Depreciation and amortization	17	15	16	18	15	33	30	62
Total operating costs	459	550	429	470	419	889	1 178	2 067
Operating profit / (loss) - EBIT	**(11)**	**67**	**1**	**22**	**38**	**(10)**	**141**	**201**
Financial income	48	28	36	36	66	84	187	289
Financial expense	(55)	(24)	(30)	(31)	(20)	(85)	(114)	(165)
Net financial income / expense (-)	(7)	4	6	5	46	(1)	74	124
Profit / (loss) before taxes ex. effect of derivate	*(8)*	*50*	*2*	*24*	*32*	*(6)*	*114*	*178*
Profit / (loss) before taxes	**(18)**	**71**	**7**	**27**	**83**	**(11)**	**215**	**325**
Taxation	(5)	17	1	5	23	(4)	54	81
Net profit / (loss)	**(12)**	**54**	**5**	**22**	**61**	**(7)**	**161**	**244**
Attributable to:								
Equity holders of the parent	(13)	54	4	26	64	(10)	160	250
Minority interests	1	(0)	2	(4)	(4)	2	1	(6)
Earnings per share	(0,08)	0,32	0,02	0,15	0,38	(0,06)	0,97	1,50
Diluted earnings per share	(0,08)	0,32	0,02	0,15	0,38	(0,06)	0,97	1,49
Other comprehensive income								
Changes in cash flow hegdes	2	4	(5)	5	(4)	(3)	(2)	(0)
Net gain /loss on net investment hegdes	(2)	(7)	(6)	(6)	3	(8)	32	29
Exchange difference on translations of foreign operations	24	(2)	13	(8)	(25)	34	(40)	(73)
Other comprehensive income	24	(5)	1	(8)	(26)	23	(10)	(45)
Total comprehensive income	**12**	**49**	**6**	**14**	**34**	**16**	**151**	**199**
Key Figures:								
EBITDA	6	82	17	40	52	23	171	263
EBITDA margin - %	1 %	13 %	4 %	8 %	11 %	3 %	13 %	12 %
EBIT margin - %	-2 %	11 %	0 %	4 %	8 %	-1 %	11 %	9 %
Net profit margin - %	-3 %	9 %	1 %	4 %	13 %	-1 %	12 %	11 %
Order intake	414	200	434	284	284	848	553	1 121
Order reserve	836	1 304	843	856	1 075	836	1 304	856

Balance Sheet - Group

NOK million	30.06.10	31.03.10	31.12.09	30.09.09	30.06.09	31.03.09	31.12.08
Intangible fixed assets	155	155	150	152	158	128	132
Deferred tax	3	4	3	2	6	4	39
Tangible fixed assets	743	725	722	718	691	671	696
Financial fixed assets	26	25	25	13	13	13	12
Total fixed assets	**927**	**910**	**900**	**886**	**869**	**817**	**879**
Inventory	372	379	381	405	410	426	483
Trade debtors	504	487	560	550	617	699	740
Derivates	6	10	11	25	4	7	7
Cash and cash equivalents	175	140	140	123	169	177	139
Total current assets	**1 057**	**1 015**	**1 090**	**1 103**	**1 200**	**1 310**	**1 369**
Total assets	**1 984**	**1 925**	**1 990**	**1 990**	**2 069**	**2 127**	**2 248**
Paid-in capital	328	326	326	331	323	326	326
Other equity	472	520	515	490	460	456	355
Minority interests	33	34	32	39	43	43	42
Total shareholders' equity	**832**	**880**	**873**	**860**	**826**	**825**	**723**
Interest bearing loans and borrowings	381	322	370	412	425	449	499
Derivates	0	0	0	1	3	8	48
Other non-current liabilities	102	114	113	103	87	64	71
Total non-current liabilities	**484**	**436**	**483**	**515**	**515**	**521**	**618**
Interest bearing loans and borrowings	138	129	126	85	99	92	112
Derivates	21	24	21	35	55	81	112
Other current liabilities	509	456	488	493	575	607	683
Total current liabilities	**668**	**609**	**634**	**614**	**729**	**781**	**907**
Total liabilities and shareholders' equity	**1 984**	**1 925**	**1 990**	**1 990**	**2 069**	**2 127**	**2 248**

Key Figures:

Equity ratio	42 %	46 %	44 %	43 %	40 %	39 %	32 %
Gross debt	519	451	496	497	523	541	611
Net debt	344	311	356	374	354	364	472
Gearing (gross debt divided by shareholders' equity)	0,6	0,5	0,6	0,6	0,6	0,7	0,8
Equity ratio ex. Derivate	43 %	47 %	44 %	44 %	43 %	43 %	40 %

Cash Flow Statement - Group

	Quarters		Year to date		Full Year
NOK million	Q2 10	Q2 09	2010	2009	2009
Operating profit / (loss) - EBIT	(11)	67	(10)	141	201
Tax paid	6	(7)	0	(19)	(53)
Currency exchange differences and gain/loss on sale of fixed assets	6	(16)	8	18	(52)
Depreciation and amortisation	17	15	33	30	62
Change in net working capital	37	74	86	58	141
Net cash flow from operating activities	**55**	**133**	**116**	**228**	**300**
Proceeds from sale of property, plant and equipment	3	0	4	1	3
Purchase of property, plant and equipment	(22)	(24)	(35)	(52)	(142)
Investments in business	(2)	(44)	(2)	(44)	(45)
Net cash flow from investing activities	**(21)**	**(68)**	**(33)**	**(95)**	**(184)**
Proceeds from long-term borrowings	76	0	76	0	30
Repayment of long-term borrowings	(25)	(26)	(81)	(29)	(74)
Net increase/(decrease) in short-term borrowings	5	5	7	(11)	(8)
Paid dividend	(57)	(50)	(57)	(50)	(50)
Net cash flow from financing activities	**(1)**	**(72)**	**(54)**	**(90)**	**(103)**
Net cash flow	**33**	**(7)**	**30**	**43**	**12**
Cash and cash equivalents at beginning of period	140	177	140	139	139
Net foreign exchange difference	3	(1)	6	(12)	(12)
Cash and cash equivalents at end of period	**175**	**169**	**175**	**169**	**140**

Statement of change in shareholders equity - Group

NOK million	Issued Capital	Own shares	Other paid-in capital	Retained earnings	Currency translation reserves	Reserves for change in value	Total equity ex. minority interests	Minority interest	Total equity
Equity at 31 December 2008	209	-4	121	309	53	-7	681	42	723
Total comprehensive income this period				160	-8	-2	150	1	151
Share option			1				1		1
Allocation of own sharres (a part of dividend)		4	-8	5			1		1
Dividend				-50			-50		-50
Equity at 30 June 2009	**209**	**0**	**114**	**424**	**45**	**-9**	**783**	**43**	**826**

	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 sharres (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				-10	26	-3	13	2	16
Share option			2				2		2
Minority interest acquisitions							0	-2	-2
Dividend				-57			-57		-57
Equity at 30 June 2010	**209**	**0**	**119**	**447**	**35**	**-11**	**800**	**33**	**832**

Business Areas

	Quarters					Year to date		Full Year
NOK million	Q2 10	Q2 09	Q1 10	Q4 09	Q3 09	2010	2009	2009
Steel:								
Turnover	**278**	**364**	**275**	**279**	**254**	**553**	**821**	**1354**
Operating profit / (loss)	-14	56	6	5	14	-8	120	140
Operating margin	**-5 %**	**15 %**	**2 %**	**2 %**	**6 %**	**-2 %**	**15 %**	**10 %**
Order intake	285	108	255	155	189	539	369	713
Order reserve	453	668	427	440	560	453	668	440
Marine:								
Turnover	**140**	**220**	**132**	**172**	**177**	**272**	**435**	**784**
Operating profit / (loss)	23	21	12	34	32	35	41	107
Operating margin	**16 %**	**9 %**	**9 %**	**20 %**	**18 %**	**13 %**	**9 %**	**14 %**
Order intake	83	67	80	95	68	163	128	290
Order reserve	272	596	319	388	480	272	596	388
Oil & Gas:								
Turnover	**45**	**41**	**31**	**48**	**29**	**76**	**79**	**156**
Operating profit / (loss)	-9	0	-11	-9	-1	-20	-4	-14
Operating margin	**-19 %**	**0 %**	**-35 %**	**-18 %**	**-5 %**	**-26 %**	**-4 %**	**-9 %**
Order intake	46	25	99	34	28	145	57	118
Order reserve	111	40	97	28	35	111	40	28