

17 September 2008

## **METAL-TECH ANNOUNCES HALF YEAR RESULTS**

Interim Results for the 6 months ended 30 June 2008

Metal-Tech, a leading specialty metal and metal-based chemicals company focusing on converting low-grade raw materials and industrial waste into higher value metal oxides and metal powders, is pleased to announce its results for the six months ended 30 June 2008. Metal-Tech produces Tungsten, Molybdenum and other specialty metals used mainly in the steel alloy and cutting-tools industries.

### Financial Highlights:

- Revenues from existing operations increased 31% to US\$85.2m (H1 2007: US\$65.1m).
- Operating Profit US\$7.2m (H1 2007: US\$9.5), mainly reflecting cost escalation, cost over-runs in Mongolia and US\$ exchange rate impact
- Profit After Tax US\$3.8m (H1 2007: US\$8.3)
- Earnings per share US\$0.10 (H1 2007: US\$0.21)
- Strong focus on cash management
- Inventory decreased by US\$11.9m
- Cash & Cash equivalents increased US\$3.2m to US\$15.8m during the period

### Operating Highlights

- Strong demand and stable prices
- Substantially new management team in place
- Increasing investment in R&D
- Renewed focus on core skills, technologies and transformational deals
- Progress being made on resolving operation issues in Mongolia

Commenting on the results, Jonathan Ben-Cnaan, Chief Executive Officer of Metal-Tech, said: "We have accomplished a great deal so far in the year, with new management, disciplined direction of our R&D efforts and a renewed focus on our core Molybdenum and Tungsten activities. We have taken action to resolve those issues under the Company's direct control and are taking action to mitigate, where possible, external challenges such as changes in currencies and general cost-inflation in the industry. We have made significant strides in our pursuit of new business opportunities, with several potentially transformational projects in process. While these generally take some time to come to fruition, we are encouraged by the high quality of the opportunities that are available to us. Overall, we expect that these actions will begin to impact positively on the Company's results in the future."

---

-Ends-  
Enquiries:

Metal-Tech Ltd.

Ariel (Aik) Rosenberg, Chairman +972 544 215454

Jonathan Ben-Cnaan, Chief Executive Officer +972 544 232399

Panmure Gordon

Edward Farmer, Stuart Gledhill +44 20 7459 3600

Corfin Communications

Harry Chathli, William Cullum +44 20 7977 0020

---

## Interim Results

Metal-Tech continued to experience strong demand for Molybdenum and Tungsten, and price stability in the first half of the year which contributed to record revenues of US\$85.2m (H1 2007: US\$65.1m). The record revenue did not translate into high profits due to cost escalation of labor and consumables and challenges at the Company's Mongolian plant, which resulted in cost overruns. A 13% decline of the US dollar, from December 31 2007, against the Israeli Shekel, significantly increased the Company's cost of sales, operating and finance expenses. The decline in the US dollar has recently reversed somewhat, alleviating some of the effect experienced in the first half of the year. The Company has begun evaluating possible hedging strategies to mitigate the effect of future fluctuations in the currencies in which it conducts business.

Metal-Tech's Mongolian plant continued to experience operational challenges during the first half of 2008. This impacted the quantity produced, relative to the plant's designed capacity, and negatively impacted quality. Progress has been made on resolving these issues.

The Mongolian plant has experienced significant cost inflation driven by increases in labour, raw materials and energy. The Company expects that increased operational leverage and improved quality in the fourth quarter of 2008 will provide some counter-balance to these cost pressures.

While R&D expense was in line with the first half of 2007 the Company intends to increase its investment in this area in subsequent periods as part of its focused drive to develop, and leverage, additional proprietary technologies and know-how. In line with the Company's decision to base its future development on proprietary technology and knowhow, R&D is being directed to support new business development initiatives, with an emphasis on high return opportunities. In this regard, the Company is evaluating the potential for the establishment of a spent catalyst processing plant; additionally it is currently running a pilot plant for a new multi-element hydrometallurgy process that it has developed. As previously announced, the Company, in partnership with Compania Electro Metalurgica S.A., has been selected by Corporación Nacional del Cobre del Chile ("Codelco"), as one of five finalists in an international bid process, to participate in its Technological Development For Slag Processing project.

Following a strategic review Metal-Tech has made the decision to diversify the geographic focus of its current business development efforts to include the Americas. The Company has also decided to exit non-core businesses in which it had previously been active, namely metal trading and mine development. Collectively, these changes are intended to reduce the risks to which the Company is exposed while sharpening its focus.

## Financials

Revenues for the six months ending 30 June 2008 were US\$85.2m, up from US\$65.1m during the same period of 2007, an increase of 31%. Net profit was US\$3.8m, down from US\$8.3m, a decrease of 55%. Gross profit was US\$12.3m, 14.4% of sales, vs. US\$13.1m and 20% respectively.

During the period, cash and cash equivalents increased US\$3.2m to US\$15.8m. Overall, working capital has remained at approximately the same level compared to 31 Dec. 2007. Inventory decreased by US\$11.9m from US\$69.5 at 31 December 2007 reflecting an effort to reduce existing inventory

levels. Receivables increased from US\$10.5m to US\$22.4m, partially due to high sales towards the end of the quarter. The Company deems the existing working capital invested in the business to be higher than necessary and expects to reduce this level over the coming periods, freeing up cash for other purposes.

General and Administrative expenses increased from \$2.5m in the six month period ended 30 June 2007 to \$3.7 in the six month period ended 30 June 2008. This increase was the result of several factors, including increased investment in new business development activity, new management, cost inflation and the weak US Dollar.

### Outlook

The Company expects to continue making operational improvements over the coming periods, which are intended to increase capacity and improve the quality of its products. The Company is investing in its future by recruiting seasoned managers with international experience, increasing R&D expenditure, and increasing business development activity areas in which it believes it can leverage its proprietary technologies and know-how.

---

**CONSOLIDATED STATEMENTS OF OPERATIONS**

U.S. dollars in thousands (except shares and per share amounts)

	Unaudited six months, ended 30 June,		Audited 12 months ended 31 December,
	2008	2007	2007
Revenues	85,151	65,079	136,713
Cost of revenues	72,833	52,028	116,971
Gross profit	12,318	13,051	19,742
Research and development expenses, net	851	721	1,991
Selling and marketing expenses	535	370	775
General and administrative expenses	3,749	2,462	4,661
Total operating expenses	5,135	3,553	7,427
Operating income	7,183	9,498	12,315
Financial expenses, net	2,617	256	2,294
Other income (expense), net	(79)	(13)	219
Share of income (losses) of joint ventures including impairment loss	499	(203)	(6,891)
Profit before tax	4,986	9,026	3,349
Income tax expenses	1,211	742	4,084
Profit (loss) for the period	3,775	8,284	(735)
Attributable to:			
Equity holders of the Company	2,669	7,923	(2,008)
Minority interest	1,106	361	1,273
	3,775	8,284	(735)
Basic and diluted earnings (loss) per share attributable to Ordinary equity holders of the Company Basic and diluted earnings per share	0.1	0.21	(0.02)
Weighted average number of shares used in computing basic and diluted net earnings (loss) per share attributable to Ordinary equity holders of the Company	38,376,923	38,376,923	38,376,923

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	<u>Note</u>	<b>Unaudited 30 June,</b>		<b>Audited 31 December,</b>
		<u>2008</u>	<u>2007</u>	<u>2007</u>
<b>ASSETS</b>				
<b>CURRENT ASSETS:</b>				
Cash and cash equivalents		9,177	19,008	5,939
Restricted cash		6,561	-	6,561
Available for sale marketable securities		82	1,569	95
Trade receivables		22,373	19,635	10,543
Other accounts receivable		4,502	3,748	9,973
Inventories		57,644	56,789	69,527
Total current assets		<u>100,339</u>	<u>100,749</u>	<u>102,638</u>
<b>NON-CURRENT ASSETS</b>				
Investment in joint ventures	3	4,842	10,803	4,183
Deferred finance costs		453	755	528
Deferred taxes		375	2,622	415
Long term deposits			13	
Property, plant and equipment, net		28,170	23,694	26,022
Total non-current assets		<u>33,840</u>	<u>37,887</u>	<u>31,148</u>
<b>TOTAL ASSETS</b>		<u><u>134,179</u></u>	<u><u>138,636</u></u>	<u><u>133,786</u></u>

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands (except share data)

	Unaudited 30 June,		Audited 31 December,
	2008	2007	2007
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term bank credit	11,337	14,240	11,381
Short-term loans and current maturities	19,608	6,799	17,130
Trade payables	23,616	35,827	26,044
Related parties	201	366	202
Other accounts payable	13,894	11,916	16,744
Total current liabilities	68,656	69,148	71,501
LONG-TERM LIABILITIES:			
Long-term loans	6,488	3,331	6,436
Deferred tax liabilities	461	401	453
Severance pay liability	213	443	477
Total non-current liabilities	7,162	4,175	7,366
EQUITY:			
Ordinary shares	2,399	2,399	2,399
Share premium	24,269	23,892	24,398
Capital reserve	(296)	(52)	(81)
Capital note		375	
Retained earnings (accumulated deficit)	27,845	36,593	25,176
MINORITY INTEREST	4,144	2,106	3,027
Total Equity	58,361	65,313	54,919
Total Liabilities and Equity	134,179	138,636	133,786

## CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Share capital	Share premium	Capital reserve	Capital note	Retained earnings	Total
Balance at 1 January , 2007 (audited)	2,399	23,892	(136)	-	28,373	54, 528
Cost of share based payment		506				506
Net loss on cash flow hedges			(85)			(85)
Foreign currency translation reserve	-	-	140	-		140
Dividend paid	-	-	-	-	(1,189)	(1,189)
Net loss	-	-	-	-	(2,008)	(2,008)
Balance at 31 December , 2007 (audited)	<u>2,399</u>	<u>24,398</u>	<u>(81)</u>	<u>-</u>	<u>25,176</u>	<u>51,892</u>
Balance as of 1 January, 2007 (audited)	2,399	23,892	(136)	375	29,870	56,400
Foreign currency translation reserve	-	-	83	-	-	83
Option grants to employees	-	-	64	-	-	64
Loss from hedging transactions	-	-	(63)	-	-	(63)
Final Dividend for 2006	-	-	-	-	(1,200)	(1,200)
Net profit	-	-	-	-	7,923	7,923
Balance at 30 June, 2007 (unaudited)	<u>2,399</u>	<u>23,892</u>	<u>(52)</u>	<u>375</u>	<u>36,593</u>	<u>63,207</u>
Balance as of 1 January, 2008 (audited)	2,399	24,398	(81)	-	25,176	51,892
Cost of share based payment		(129)				(129)
Net loss on cash flow hedges			(215)			(215)
Net profit					2,669	2,669
Balance at 30 June, 2008 (unaudited)	<u>2,399</u>	<u>24,269</u>	<u>(296)</u>	<u>-</u>	<u>27,845</u>	<u>54,217</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	Unaudited six months ended 30 June,		Audited 12 months ended 31 December,
	2008	2007	2007
<u>Cash flows from operating activities:</u>			
Profit (loss) for the year	3,775	8,274	(735)
Adjustments required to reconcile net income to net cash provided by (used in) operating activities (a)	719	(3,427)	(9,211)
Net cash flow provided by (used in) operating activities	4,494	4,847	(9,946)
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(3,609)	(3,773)	(7,193)
Proceeds from sale of property, plant and equipment	70	39	54
Long-term deposits, net		(13)	
Investment in joint ventures		(1,634)	(1,420)
Decrease (increase) in restricted cash		1,898	(4,663)
Deconsolidation of a subsidiary (d)			
Investment in marketable securities, net		(736)	747
Net cash used in investing activities	(3,539)	(4,219)	(12,475)
<u>Cash flows from financing activities:</u>			
Dividend paid		-	(249)
Proceeds from short and long-term loans	3,159	6,153	19,457
Repayment of short and long-term loans	(832)	(7,446)	(7,662)
Decrease (increase) in short-term bank credit, net	(44)	3,918	1,059
Net cash provided by financing activities	2,283	2,625	12,605
Increase (decrease) in cash and cash equivalents	3,238	3,253	(9,816)
Cash and cash equivalents at the beginning of the year	5,939	15,755	15,755
Cash and cash equivalents at the end of the period	9,177	19,008	5,939

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Unaudited 30 June,		Audited 31 December,
	2008	2007	2007
(a) <u>Adjustments required to reconcile net income to net cash provided by (used in) operating activities:</u>			
Income and expenses not involving cash flows:			
Depreciation	1,304	906	1,756
Amortization of deferred finance costs	152	75	151
Share of (income) losses of joint ventures including impairment	(564)	241	6,891
Unrealized gains		(210)	-
Severance pay liability	(264)	21	55
Accrued interest and foreign exchange differences on short and long-term liabilities, net	203	97	(118)
Capital losses (gains) on sales of fixed assets	87	(12)	
Cost of share based payments	(129)	64	506
Securities revaluation	13	(27)	
Deferred taxes	48	(191)	2,068
Other	11		(31)
	<u>861</u>	<u>964</u>	<u>11,278</u>
Changes in operating assets and liabilities:			
Decrease in related parties, net		(637)	(801)
Decrease (increase) in trade receivables, net	(11,830)	(6,315)	2,777
Decrease (increase) in other accounts receivable	5,299	(2,784)	(8,858)
Decrease (increase) in inventory	11,883	(15,787)	(28,525)
Increase (decrease) in trade payables	(6,380)	21,205	11,422
Increase (decrease) in other accounts payable	886	(73)	3,496
	<u>(142)</u>	<u>(4,391)</u>	<u>(20,489)</u>
	<u>719</u>	<u>(3,427)</u>	<u>(9,211)</u>

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 - GENERAL:

The interim financial statement as of 30 June 2008 and for the six month period then ended (hereafter – the interim statements) were prepared in condensed form in accordance with IAS 34 – “Interim Financial Reporting”.

The accounting policies applied in preparation of the interim financial statements are consistent with those used in the 2007 annual financial statements but have not been audited by the auditors. Nevertheless, the interim statements do not include all the information and explanations required for annual financial statements, and should be read in conjunction with the 2007 annual financial statements.

Costs incurred unevenly during the year are brought forward or deferred, for interim reporting purposes if, and only if, such costs may be brought forward or deferred in the annual reporting.

Taxes on income for the interim statements are included based on the best estimate of the anticipated average annual tax expense for the entire year; changes in said estimate, as well as changes in the amount of the tax saving to be utilized in the following years, are included as an expense for the current period.

### NOTE 2 – REVENUES BY GEOGRAPHICAL SECTOR

Revenues classified by geographical destinations based on the customer location:

	<b>Unaudited six months, Ended 30 June,</b>		<b>Audited 12 months ended 31 December,</b>
	<b>2008</b>	<b>2007</b>	<b>2007</b>
	<b>USD'000</b>	<b>USD'000</b>	<b>USD'000</b>
United States	18,548	14,234	32,595
China	2,432	11,386	13,700
Japan	15,937	3,547	10,434
Korea	18,986	21,233	42,089
Europe	20,961	9,615	29,388
Israel	274	901	937
Others	8,013	4,163	7,570
	<u>85,151</u>	<u>65,079</u>	<u>136,713</u>

**NOTE 3 – Investment in joint ventures:**

The Company has a 50% interest in Uzmetal, and at 30 June, 2008 had a 49% interest in BIT Metals

**Uzmetal –**

Uzmetal was consolidated in the financial statements of operation until June 30, 2006. For the period commencing July 1, 2006 and ending June 30, 2007, Uzmetal, a jointly controlled entity, was accounted for in the consolidated financial statements using the equity method.

	<b>Audited 12 months ended 31 December, 2007 USD'000</b>
Share of attributable net assets	5,032
Carrying amount of loans	4,390
Unrealized gains	(2,617)
	<u>6,776</u>

**BIT Metals –**

On August 1, 2008, the company sold its investment in an associated company BIT Metals, to a third party for consideration. As a result, BIT Metals repaid its obligations to the Company, in the amount of \$3,000,000, in addition to accrued interest. The final sale price will be determined based on the audited financial statements of BIT Metals for the period ending December 31, 2008.

	<b>Unaudited six months, Ended 30 June, 2008 USD'000</b>	<b>Audited 12 months ended 31 December, 2007 USD'000</b>
Carrying amount of the investment	<u>4,842</u>	<u>4,027</u>