

**METAL-TECH LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**As of December 31, 2010**

**METAL-TECH LTD.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2010**

**U.S. DOLLARS IN THOUSANDS**

**INDEX**

	<u>Page</u>
<b>Independent Auditors' Report</b>	<b>2</b>
<b>Consolidated Statements of Financial Position</b>	<b>3 - 4</b>
<b>Consolidated Statements of Comprehensive Income</b>	<b>5</b>
<b>Consolidated Statements of Changes in Equity (Deficit)</b>	<b>6</b>
<b>Consolidated Statements of Cash Flows</b>	<b>7</b>
<b>Notes to Consolidated Financial Statements</b>	<b>8 - 51</b>

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**INDEPENDENT AUDITORS' REPORT****To the Shareholders of****METAL-TECH LTD.**

We have audited the accompanying consolidated financial statements of Metal-Tech Ltd. ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statements of financial position as of December 31, 2010 and 2009 and the consolidated statements of comprehensive income, consolidated statements of changes in equity (deficit) and consolidated statements of cash flows for each of the two years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2010 and 2009, and of its financial performance and cash flows for each of the two years then ended, in accordance with International Financial Reporting Standards.

**Emphasis of Matter**

Without qualifying our opinion, we draw attention to the matters described in Notes 1(b) and (c) to the financial statements, regarding the suspension of a foreign subsidiary's operations and the impact of losses incurred by the Group in 2010 and 2009. Company management believes that funds generated from the Group's operations and its present funding resources will be sufficient to enable the Group to continue as a going concern and meet its obligations for at least one year from the end of the reporting period.

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

U.S. dollars in thousands

	<u>Note</u>	<u>December 31,</u>	
		<u>2010</u>	<u>2009</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	2,243	5,879
Restricted cash	5	5,104	3,992
Available for sale investments	6	-	86
Trade receivables	7	11,076	9,752
Other accounts receivable	8	1,201	1,067
Inventories	9	21,131	26,544
		<u>40,755</u>	<u>47,320</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	11	<u>9,739</u>	<u>26,232</u>
<u>Total assets</u>		<u><u>50,494</u></u>	<u><u>73,552</u></u>

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

U.S. dollars in thousands

	Note	December 31,	
		2010	2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank credit	12	3,762	5,915
Short-term loans and current maturities	13	17,636	13,218
Loan related to suspended plant	14	6,787	6,956
Trade payables		8,620	5,562
Other trade payables related to suspended plant		3,334	2,780
Income taxes payable		5,319	6,981
Other accounts payable	15	4,507	4,385
		<u>49,965</u>	<u>45,797</u>
NON-CURRENT LIABILITIES:			
Long-term loans	16	487	1,863
Employee benefit obligations	17	506	305
Other liabilities	20(d)	468	-
Provision for losses in excess of investment in investee	10	69	-
		<u>1,530</u>	<u>2,168</u>
<u>Total liabilities</u>		<u>51,495</u>	<u>47,965</u>
EQUITY (deficit):			
Equity attributable to the equity holders of the Company:	21		
Issued capital		2,399	2,399
Share premium		23,892	23,892
Other capital reserves		878	714
Accumulated deficit		(22,249)	(1,418)
		<u>4,920</u>	<u>25,587</u>
Non- controlling interests		<u>(5,921)</u>	<u>-</u>
<u>Total equity (deficit)</u>		<u>(1,001)</u>	<u>25,587</u>
<u>Total liabilities and equity</u>		<u>50,494</u>	<u>73,552</u>

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

June 27, 2011  
 Date of approval of the  
 financial statements

Ariel Rosenberg  
 CEO and Chairman of the  
 Board Of Directors

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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

	Note	Year ended December 31,	
		2010	2009
Revenues	25a,b	45,878	36,742
Cost of sales before write-down of inventories	24a	45,471	(*44,572)
Gross profit (loss) before write-down of inventories		407	(7,830)
Write-down of inventories	24a	-	1,497
Gross profit (loss)		407	(9,327)
Operating expenses:			
Research and development expenses ,net	24b	778	655
Selling and marketing expenses	24c	3,119	(*1,822)
General and administrative expenses	24d	3,856	4,562
		7,753	7,039
Operating loss before expenses related to suspended production plant		(7,346)	(16,366)
Expenses of suspended production plant	24e	19,308	2,227
Operating loss		(26,654)	(18,593)
Finance costs	24f	(2,257)	(2,455)
Finance income	24f	157	426
Other income (expense), net		3	(16)
Company's share of loss of company accounted for at equity	10	(202)	-
Loss before tax		(28,953)	(20,638)
Income tax benefit	18	2,201	165
Loss for the year		(26,752)	(20,473)
<u>Total comprehensive loss</u>		(26,752)	(20,473)
Loss attributable to:			
Equity holders of the Company		(20,831)	(17,469)
Non- controlling interests		(5,921)	(3,004)
		(26,752)	(20,473)
Total comprehensive loss attributable to:			
Equity holders of the Company		(20,831)	(17,469)
Non- controlling interests		(5,921)	(3,004)
		(26,752)	(20,473)
Basic and diluted loss per share attributable to Ordinary equity holders of the Company		(0.54)	(0.46)
Weighted average number of shares used in computing basic and diluted net loss per share attributable to Ordinary equity holders of the Company		38,376,923	38,376,923

\*) Reclassified – see Note 3(z)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)**

U.S. dollars in thousands

	Attributable to equity holders of the Company				Non-controlling interests	Total equity (deficit)
	Share capital	Share premium	Other capital reserves	Accumulated deficit		
<b>Balance as of January 1, 2010</b>	2,399	23,892	714	(1,418)	25,587	25,587
Total comprehensive loss	-	-	-	(20,831)	(20,831)	(26,752)
Share based payment	-	-	164	-	164	164
<b>Balance as of December 31, 2010</b>	<u>2,399</u>	<u>23,892</u>	<u>878</u>	<u>(22,249)</u>	<u>4,920</u>	<u>(1,001)</u>

  

	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital	Share premium	Other capital reserves	Retained earnings (accumulated deficit)		
<b>Balance as of January 1, 2009</b>	2,399	23,892	624	16,051	42,966	45,970
Total comprehensive loss	-	-	-	(17,469)	(17,469)	(20,473)
Share based payment	-	-	90	-	90	90
<b>Balance as of December 31, 2009</b>	<u>2,399</u>	<u>23,892</u>	<u>714</u>	<u>(1,418)</u>	<u>25,587</u>	<u>25,587</u>

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<u>Cash flows from operating activities:</u>		
Loss for the year	(26,752)	(20,473)
<u>Adjustments to reconcile net loss to net cash provided by operating activities:</u>		
Adjustments to the profit or loss items:		
Depreciation	2,693	2,335
Impairment of property, plant and equipment	15,711	2,227
Write-down of inventories	-	1,497
Amortization and impairment of deferred finance costs	-	528
Gain on marketable securities	(13)	(58)
Capital gain from sale of property, plant and equipment	(3)	(73)
Employee benefit obligations	201	64
Accrued interest and foreign exchange differences on short and long-term liabilities, net	1,299	1,183
Share based payments	164	90
Deferred taxes	-	(79)
Company's share of loss of company accounted for at equity	202	-
Income tax benefit	(2,201)	(86)
	<u>18,053</u>	<u>7,628</u>
Changes in operating asset and liability items:		
Decrease (increase) in trade receivables, net	(1,324)	1,401
Decrease (increase) in other accounts receivable	(134)	4,125
Decrease in inventory	5,413	19,861
Increase (decrease) in trade payables	3,685	(9,093)
Increase in related parties, net	(68)	(211)
Increase (decrease) in other accounts payable	1,065	(1,094)
	<u>8,637</u>	<u>14,989</u>
Cash paid and received during the year for:		
Interest received	23	18
Interest paid	(1,101)	(904)
Income tax received	232	834
Income tax paid	(97)	(121)
	<u>(943)</u>	<u>(173)</u>
Net cash provided by (used in) operating activities	<u>(1,005)</u>	<u>1,971</u>
<u>Cash flows from investing activities:</u>		
Purchase of property, plant and equipment	(2,138)	(1,148)
Investment in company accounted for at equity	(133)	-
Participation in the purchase of property, plant and equipment	150	-
Proceeds from sale of property, plant and equipment	7	116
Realization of marketable securities	99	-
Increase in restricted cash	(1,112)	(842)
Net cash used in investing activities	<u>(3,127)</u>	<u>(1,874)</u>
<u>Cash flows from financing activities:</u>		
Dividend paid	-	(180)
Proceeds from short -term loans, net	6,002	185
Repayment of long-term loans	(3,353)	(1,607)
Decrease in short-term bank credit, net	(2,153)	(4,628)
Net cash provided by (used in) financing activities	<u>496</u>	<u>(6,230)</u>
Decrease in cash and cash equivalents	(3,636)	(6,133)
Cash and cash equivalents at the beginning of the year	<u>5,879</u>	<u>12,012</u>
Cash and cash equivalents at the end of the year	<u><u>2,243</u></u>	<u><u>5,879</u></u>
Significant non- cash transactions:		
Purchase of property, plant and equipment on credit	<u>-</u>	<u>73</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 1:- GENERAL**

## a. Company description:

Metal-Tech Ltd., an Israeli corporation located in Ramat-Hovav ("the Company") and its subsidiaries ("the Group") manufacture, process and market high purity and quality Tungsten and Molybdenum oxide and powders. In addition, the Group is engaged in research and development in the fields of metallurgy, recycling and fuel conservation.

## b. During the fourth quarter of 2008, there was a drop in Molybdenum market prices by approximately 70%, and the Company decided to temporarily suspend its production in its Mongolian plant. The employees of the plant were on temporary, partly compensatory leave. In 2009 and 2010, the subsidiary ("Shim-Tech") continued to experience low demand due to the impact of the slowdown in global economic conditions.

The global economic slowdown and the suspension of production in Mongolia had a negative impact on the subsidiary's operating results and cash flows. The subsidiary was unable to repay bank loan installments that matured in 2009 and 2010.

In April 2010, the subsidiary and the bank reached an agreement to reschedule the repayment of the loan installments due in 2009 and 2010. However, the subsidiary didn't succeed in renewing plant production and reaching an agreement with the minority shareholder, and failed to meet the terms of the agreement with the bank.

From the end of 2009 and continuing in 2010, there has been a partial recovery of the market price of Molybdenum. The Group is currently dependent on one main supplier for Molybdenum raw material, which is the minority shareholder in the Company's subsidiary in Mongolia ("EMC") – see Note 2b. In 2010 the Company was in negotiations with EMC to secure suitable terms for resumption of supply of raw materials to the subsidiary and to rearrange its credit line with EMC. The Company also took steps to enable the subsidiary to obtain the funds necessary to finance its operations in the initial stages of production.

On January 6, 2011, Shim-Tech received notification of the intention of EMC to initiate bankruptcy proceedings against Shim-Tech, due to its inability to pay long-term borrowings of \$6,787 payable to Mizrahi Bank, as well as a past due balance amounting to \$2,500 (see Note 14). Mizrahi Bank has demanded of EMC, as the guarantor of the borrowings, to repay the entire balance on behalf of the subsidiary. As a result EMC has submitted the following claims before the court in Erdenet, Mongolia:

1. To institute a bankruptcy case in relation to Shim-Tech
2. To issue a decision to consider Shim-Tech bankrupt and to wind it up

Shim-Tech and the Company have filed a response, claiming that the financial difficulties of Shim-Tech are due to the unilateral actions of EMC against its contractual obligation to supply raw material to Shim-Tech, and as a result Shim-Tech has been unable to renew operations subsequent to recovery of the market price of Molybdenum. Alternatively, the Company has requested that the court order a restructuring of Shim-Tech rather than liquidation.

In May, 2011 the court in Mongolia declared Shim-Tech as insolvent and called for claimant's meeting to take place on 18 July, 2011. Shim-Tech and the Company submitted an appeal against the court's decision, which is currently pending. As a result of the aforementioned legal proceedings, the Company may no longer control Shim-Tech and therefore will cease to consolidate the financial statements of Shim-Tech that include as of the end of the reporting period an excess of liabilities over assets in the approximate amount of \$ 9,500 .

The Company has assessed the recoverable amount of the subsidiary's property, plant and equipment, which assessment takes into consideration the uncertainty of future cash flows due to the above economic and legal situation. Based on the assessment, an impairment loss equal to the carrying amount of the property, plant and equipment in the amount of \$15,711 was recorded in 2010 in the statement of comprehensive income, see Note 11.

As of December 31, 2010, the subsidiary has a deficiency in equity in the amount of \$20,916 and a working capital deficiency in the amount of \$14,816. This factor and the other factors described above, including unilateral actions of EMC against its contractual obligation to supply raw material to Shim-Tech, raise substantial doubt about the subsidiary's ability to continue as a going concern.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands

## NOTE 1:- GENERAL (Cont.)

- c. The global economic slowdown and adverse effect on the pricing and demand of the Group's products have had an impact on the Group's operations. In 2010 and 2009, the Group incurred losses of \$26,752, and \$20,473, respectively and as of December 31, 2010, the Company has a deficiency in equity in the amount of \$1,001. As the Group has not guaranteed the debt of the subsidiary, the Company believes that the working capital deficiency of the subsidiary will not have a material adverse impact on the rest of the Group's liquidity position. Furthermore, Company management believes that funds generated from the Group's operations and its present funding resources and the rescheduling of bank loans (see Note 16) will be sufficient to enable the Group to continue as a going concern and meet its obligations for at least one year from the end of the reporting period.

## NOTE 2:- INVESTMENTS IN SUBSIDIARIES

	Country of incorporation	December 31	
		2010	2009
		%	
Uzmetal Technology Ltd. (a)	Uzbekistan	-	-
Shim Technology Ltd. (b)	Mongolia	70	70
Metek Metal-Tech SA (c)	Switzerland	100	100
Metal- Tech CZ (c)	Czech	100	100
Elecmetal Tech JV Limitada (d)	Chile	50	-
Metal-Tech Recycling Ltd (e)	Israel	100	-
Jar Ltd. – Inactive	Russia (Birubijan autonomous region)	100	100
Soltek Ltd. – Inactive	Israel	100	100

- a. Uzmetal Technology Ltd. ("Uzmetal"):

The Company had a 50% equity investment in Uzmetal, which was established in 2000 to construct a plant for the production of Molybdenum in Uzbekistan. Due to a governmental decree issued in 2006 and subsequent court proceedings, Uzmetal lost its sole supply of materials, was forced to cease its operations and a court ordered liquidation process was initiated. The Company wrote off its entire investment in Uzmetal in prior years.

The Company does not have any further obligations or liabilities relating to Uzmetal.

On January 26, 2010, the Company filed a Request for Arbitration against the Republic of Uzbekistan related to Uzbekistan's unlawful treatment of the Company's 50 percent investment in Uzmetal. The Request for Arbitration, filed with the International Centre for Settlement of Investment Disputes (ICSID) based in Washington, D.C., asserts Uzbekistan's breach of the Israel-Uzbekistan Bilateral Investment Treaty, as well as violations of various standards of treatment under international law and Uzbek legislation, by denying Uzmetal necessary inputs of Molybdenum concentrate thereby forcing Uzmetal to become idle and later together with its state owned companies forced the joint venture into bankruptcy and eventual liquidation and denying the Company its exclusive worldwide distribution rights, on the basis of which the Company is seeking damages.

The financial statements do not include any income in respect of the said claim.

- b. Shim Technology Co. Ltd. ("Shim-Tech"):

In September 2003, the Company together with Erdenet Co. Ltd. ("Erdenet" or "EMC"), a Mongolian mining company, established Shim-Tech. The equity interest in Shim-Tech is as follows: the Company-70% and Erdenet -30%. In May 2004, the Company entered into an agreement with Shim-Tech under which the Company undertook to obtain financing and manage the procurement, planning, construction and supply of peripheral equipment in a project for the construction of a Molybdenum production plant in Mongolia, for a total amount of \$ 23,850. The project was to be financed as follows: (i) 30%- equity invested by the shareholders; (ii) 34%-Company credit; (iii) 36%- long-term loan from United Bank Mizrahi Ltd., an Israeli bank, secured by the Israeli Foreign Trade Risks Insurance Corporation Ltd. ("IFTRIC") for 7 years. Erdenet signed a guarantee in favor of the Israeli bank in respect of any amounts that have been secured by IFTRIC to an amount of \$ 10,000.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 2:- INVESTMENTS IN SUBSIDIARIES (Cont.)**

## b. Shim Technology Co. Ltd . ("Shim-Tech") (Cont.):

This guarantee was recorded at its fair value as a deferred finance cost which is amortized on a straight-line basis over the term of the loan. Due to the uncertainty regarding the possible exercise of said guarantee, the Company recorded an impairment loss in 2009 for the remaining amount of \$ 528 thousand. The expense was recorded in financial expenses.

The construction of the first production line of the plant was completed in 2006. The construction of the second production line of the plant has not yet been completed as of December 31, 2010. Erdenet had undertaken to supply, for 22 years starting in 2004, its Molybdenum concentrates in a quantity containing not less than 1,800 tons of Molybdenum per year solely to Shim-Tech and Shim-Tech was obligated to sell all of its production of Molybdenum to the Company. The purchases from Erdenet were determined by market price.

Additionally, the parties had agreed on a penalty/reward mechanism regarding the quantities of concentrate that will be supplied by Erdenet on an annual basis. The Company and Erdenet were involved in discussions regarding charges and credits related to this mechanism for 2007 and 2008, including the arranging of the credit line that Erdenet extended to Shim-Tech as a supplier (as stated in Note 1(b)). In the opinion of the Company's management, it is not expected that the final outcome of these discussions will have a material negative effect on its financial statements.

During 2008 the Company invested in Shim Tech additional equity in the amount of \$2,784 with no corresponding investment by Erdenet or dilution of Erdenet's interest. Accordingly, the Company recorded a loss in the amount of \$835.

In 2010 and 2009, due to the suspension of production (see Note 1 (b)) Shim Tech was unable to repay loan payments in the principal amount of \$1,233 and \$1,034 and interest in the amount of \$255 and \$243, respectively. As a result, in 2010 and 2009, the Company was charged an amount of \$174 and \$128, respectively for the portion of the loan not covered by IFTRIC.

In April 2010, a rescheduling arrangement was reached between Shim Tech and the bank with respect to the repayment of the loan installments due in 2009 and 2010. Shim-Tech paid an amount of \$250 under this arrangement, but due to the inability to renew production, Shim-Tech failed to meet the rest of the arrangement terms. As a result of the non-repayment of the loan as of December 31, 2010, the remaining balance of the loan in the amount of \$2,679 is presented in current liabilities, see Note 14.

## c. Metek Metal-Tech SA. ("MTSA"):

Metek Metal-Tech SA, a Swiss corporation, was established and commenced operations in November 2004. MTSA is engaged in managing the Group's sales and marketing activities of Molybdenum manufactured products outside of Israel.

During 2006, MTSA established a subsidiary in the Czech Republic. The equity interest was as follows: MTSA - 80%, minority shareholder - 20% (Czech company). The Czech subsidiary was engaged in operating a pilot of a spent catalyst recycling plant. In 2009, the Company decided to cease operations of this pilot plant. The equipment in the plant was transferred to the Company's plant in Israel. The Company has determined that no provision for impairment loss is required.

In 2009, MTSA purchased the equity interest from the minority shareholder for consideration of \$ 175 and become the sole shareholder of Metal –Tech CZ.

The payment exceeded the carrying value of the purchased non- controlling interest, and accordingly, the Company recorded in 2009 a loss in the amount of \$ 62 which was charged to other expenses in the statement of comprehensive income.

## d. Elecmetal-Tech JV. Limitada:

In March 2010, the Company entered into a joint venture (JV) with a company incorporated under the laws of the Republic of Chile (the partner) and established Elecmetal-Tech JV. Limitada ("EMT") a registered company in Chile. The equity interest in EMT is equally owned (50%) by the Company and the partner. EMT is engaged in developing technology for slag processing, see Note 10.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 2:- INVESTMENTS IN SUBSIDIARIES (Cont.)**

- e. Metal-Tech Recycling Ltd:

In January 2010 the Company established Metal-Tech Recycling Ltd (MTR) an Israeli corporation. MTR had no activity in 2010.

**NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES**

- a. Basis of presentation of the financial statements:

1. Measurement basis:

The Company's financial statements have been prepared on a cost basis, except for the following:

Deferred taxes;  
Employee benefit obligations;  
Provisions;

2. Basis of preparation of the financial statements:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These Standards comprise:

- a) International Financial Reporting Standards (IFRS).  
b) International Accounting Standards (IAS).  
c) Interpretations issued by the IFRIC and by the SIC.

3. Consistent accounting policies:

The accounting policies adopted in the financial statements have been applied consistently for all periods presented, except when otherwise indicated.

4. Changes in accounting policies in view of the adoption of new standards:

IFRS 3 (Revised) - Business Combinations and IAS 27 (Amended) - Consolidated and Separate Financial Statements:

According to the new Standards:

- The definition of a business was expanded such that it also includes activities and assets that are not conducted as a business as long as it is capable of being operated as a business.
- For each business combination, an acquirer can choose to measure non-controlling interests, and consequently the goodwill, either at full fair value or at the proportionate share of the fair value of the net identifiable assets of the acquire on the acquisition date.
- Contingent consideration in a business combination is measured at fair value and changes in the fair value of the contingent consideration, which do not represent adjustments to provisional amounts in the measurement period, are not recognized as goodwill adjustments. If the contingent consideration is classified as a derivative within the scope of IAS 39, it will be measured at fair value with changes in fair value recognized in profit or loss.
- Direct acquisition costs attributed to a business combination are recognized in profit or loss as incurred rather than as part of the acquisition cost.
- Subsequent recognition of a deferred tax asset for acquired temporary differences which did not meet the recognition criteria at acquisition date is recorded in profit or loss and not as an adjustment to goodwill.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- a. Basis of presentation of the financial statements: (Cont.)
- A subsidiary's losses, even if resulting in a capital deficiency in the subsidiary, will be allocated between the parent company and non-controlling interests, even if the non-controlling interests have not guaranteed or have no contractual obligation for supporting the subsidiary or of investing further amounts.
  - A transaction, whether sale or purchase, with non-controlling interests is accounted for as an equity transaction. Accordingly, the acquisition of non-controlling interests by the Group is recognized as an increase or decrease in equity capital reserve for transactions with non-controlling interests and is calculated as the difference between the consideration paid by the Group and the proportionate amount of the non-controlling interests acquired and derecognized on the acquisition date. Upon the disposal of an interest in a subsidiary that does not result in a loss of control, an increase or decrease is recognized in equity capital reserve for transactions with non-controlling interests for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary which has been added to the equity attributable to the equity holders of the Company (as for non-controlling interests share of other comprehensive income, the Company reattribute's the cumulative amounts recognized in other comprehensive income between the equity holders of the Company and the non-controlling interests).
  - Identifiable assets and liabilities on the acquisition date are classified and designated on the basis of the contractual terms, economic conditions and other pertinent conditions as they exist at the acquisition date, except for classifications of leases and insurance contracts.
  - In a business combination achieved in stages, the acquirer remeasures its previously held equity interest in the acquire at its acquisition date fair value and recognizes the resulting gain or loss, if any, including reclassification of amounts included in other comprehensive income. Upon the loss of control of a subsidiary, any retained interest is revalued to fair value with the resulting difference included in the gain or loss from the sale and this fair value represents the cost basis for the purpose of subsequent accounting.
  - Cash flows from transactions with non-controlling interests (with no change in control status) are classified in the statement of cash flows as financing activities (and are no longer classified as investing activities).

The Standards have been adopted prospectively from January 1, 2010.

IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations:

- a) According to the amendment to IFRS 5, when the parent decides to sell part of its interest in a subsidiary so that after the sale the parent retains a non-controlling interest, such as rights conferring significant influence, all the assets and liabilities attributed to the subsidiary are classified as held for sale and the relevant provisions of IFRS 5 are applicable, including presentation as discontinued operations.
- b) Another amendment specifies the disclosures required in respect of non-current assets (or disposal groups) that are classified as held for sale or discontinued operations. Pursuant to the amendment, only the disclosures required in IFRS 5 are provided. Disclosures in other IFRSs apply to such assets only if they require specific disclosures in respect of those non-current assets or disposal groups.

The Standards have been adopted prospectively from January 1, 2010.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- a. Basis of presentation of the financial statements: (Cont.)

IAS 39 - Financial Instruments: Recognition and Measurement:

- a) The amendment to IAS 39 clarifies that an entity may designate a portion of the change in fair value or the fluctuation in cash flows of a financial instrument as a hedged item. The amendment is applied as from January 1, 2010 with retrospective application of comparative data, but hedging relationships cannot be redesignated.
- b) Also according to the amendment to IAS 39, only forward contracts signed between a buyer and a seller regarding the sale or purchase of an entity in the context of a future business combination are not within the scope of IAS 39 provided the forward contract period does not exceed the normal period required for obtaining any required approvals to complete the transaction.

The amendment has been applied prospectively starting from January 1, 2010 to all unexpired contracts.

5. Early adoption of IFRSs:

IFRS 3 (Revised) - Business Combinations:

The Group has early adopted amendments to IFRS 3 (Revised) in these financial statements, as follows:

- a) Measurement of non-controlling interests:

The amendment limited the circumstances in which it is possible to choose the measurement of non-controlling interests based on their fair value on the date of acquisition or at their proportionate share in the recognized amounts of the acquiree's identifiable net assets. According to the amendment, this possibility is only available for components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation (usually shares). In contrast, for other components of non-controlling interests (such as options that represent equity instruments of the acquiree) no such choice is available, and they are measured at fair value on the acquisition date, unless another measurement basis is required by IFRS such as IFRS 2. The amendment has been applied (retrospectively) from the date of original adoption of IFRS 3 (Revised).

- b) Transition provisions for accounting for contingent consideration in a business combination that occurred prior to the adoption of IFRS 3 (Revised):

According to the amendment, the amendments to IFRS 7, IAS 32 and IAS 39 which prescribe that contingent consideration in a business combination is within the scope of these Standards, do not apply to contingent consideration in respect of a business combination whose acquisition date preceded the date of adoption of IFRS 3 (Revised). The amendment has been applied retrospectively.

- c) Amendment to IAS 1:

The Group has early adopted the amendment to IAS 1 commencing with these financial statements. According to the amendment, the changes between the opening and the closing balances of each component of other comprehensive income may be presented in the statement of changes in equity or in the notes accompanying the annual financial statements. The Group has elected to present said changes in the statement of changes in equity. The amendment has been applied retrospectively to comparative data.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## b. Significant estimates and assumptions:

The preparation of the financial statements requires management to make estimates and assumptions that have an effect on the application of the accounting policies and on the reported amounts of assets, liabilities, revenues and expenses. These estimates and underlying assumptions are reviewed regularly. Changes in accounting estimates are reported in the period of the change in estimate.

The key assumptions made in the financial statements concerning uncertainties at the end of the reporting period and the critical estimates computed by the Group that may result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

## Impairment of non-financial assets:

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Changes in the estimated future cash flows as well as the discount rate could impact the determination of the recoverable amount, see Note 11 for further details.

## Inventories:

Inventories are measured at the lower of cost or net realizable value. The Company periodically evaluates the condition and age of inventories and their estimated realizable value. The Company records appropriate provisions for write-downs, which are subject to changes based on current market conditions, see Note 9 for further details.

## c. Consolidated financial statements:

Due to the first-time adoption of IFRS 3 (Revised) and IAS 27 (2008), the Group has changed its accounting policy for business combinations and transactions with non-controlling interests. For more information, see a above.

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity. The effect of potential voting rights that are exercisable at the end of the reporting period is considered when assessing whether an entity has control. The consolidation of the financial statements commences on the date on which control is obtained and ends when such control ceases.

Significant intergroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Non-controlling interests of subsidiaries represent the non-controlling shareholders' share of the total comprehensive income (loss) of the subsidiaries and fair value of the net assets upon the acquisition of the subsidiaries. The non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## c. Consolidated financial statements: (Cont.)

Commencing from January 1, 2010, the acquisition of non-controlling interests by the Group is recorded as an increase in equity (capital reserve from transactions with non-controlling interests and calculated as the difference between the consideration paid by the Group and the proportionate amount of non-controlling interests acquired and derecognized at the date of acquisition (when non-controlling interests also include a share of other comprehensive income, the Company reattributes the cumulative amounts recognized in other comprehensive income between the equity holders of the Company and the non-controlling interests). When this difference is negative, a decrease in equity (capital reserve from transactions with non-controlling interests) is recognized for the amount of this difference. Upon the disposal of a subsidiary that does not result in a loss of control, an increase or a decrease in equity (capital reserve from transactions with non-controlling interests) is recognized for the amount of the difference between the consideration received by the Group and the carrying amount of the non-controlling interests in the subsidiary which has been added to the Company's equity, taking into account also the disposal of a portion of any goodwill in the subsidiary and any translation differences from foreign operations which have been recognized in other comprehensive income, based on the relative decrease in the interests in the subsidiary. Until December 31, 2009, additional goodwill was recognized in respect of the acquisition of non-controlling interests and the effect of the sale of non-controlling interests was recorded in profit or loss.

Commencing from January 1, 2010, losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position. Until December 31, 2009, such losses were entirely attributed to the equity holders of the Company unless the non-controlling interests were obligated and able to make additional investments. Losses accrued through December 31, 2009, were not reallocated between the equity holders of the Company and the non-controlling interests.

The financial statements of the Company and of the subsidiaries are prepared as of the same dates and periods. The consolidated financial statements are prepared using uniform accounting policies by all companies in the Group.

## d. Functional and reporting currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the statement of comprehensive income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

## e. Cash and cash equivalents:

Cash equivalents are considered as highly liquid investments, including unrestricted short-term bank deposits with an original maturity of three months or less from the date of acquisition or with a maturity of more than three months, but which are redeemable on demand without penalty and which form part of the Group's cash management.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## f. Restricted cash:

Restricted cash is primarily invested in certificates of deposit, which mature within one year and serve as collateral for short- term and long- term loans.

## g. Allowance for doubtful accounts:

The allowance for doubtful accounts is determined in respect of specific debts whose collection, in the opinion of the Company's management, is doubtful.

## h. Financial instruments:

## Financial assets:

Financial assets within the scope of IAS 39 are initially recognized at fair value plus directly attributable transaction costs, except for investments at fair value through profit or loss in respect of which transaction costs are recorded in profit or loss.

After initial recognition, the accounting treatment of investments in financial assets is based on their classification into one of the following categories:

- loans and receivables;
- available-for-sale financial assets.

## 1. Loans and receivables:

The Group has loans and receivables that are financial assets (non-derivative) with fixed or determinable payments that are not quoted in an active market. After initial recognition, loans are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term receivables (such as trade and other receivables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the systematic amortization process. As for recognition of interest income, see s below.

## 2. Available-for-sale financial assets:

The Group has available-for-sale financial assets that are financial assets (non-derivative) that are designated as available-for-sale or are not classified in any other category. After initial recognition, available-for-sale financial assets are measured at fair value. Gains or losses from fair value adjustments, except for exchange differences that relate to monetary debt instruments that are recognized as finance income or expense in profit or loss, are recognized directly in equity as other comprehensive income (loss) in the reserve for available-for-sale financial assets. When the investment is disposed of or in case of impairment, the other comprehensive income (loss) is recognized in profit or loss.

## 3. Fair value:

The fair value of investments that are actively traded in organized financial markets is determined by reference to market prices at the end of the reporting period. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow or other valuation models.

## 4. Offsetting financial instruments:

Financial assets and financial liabilities are offset and the net amount is presented in the statement of financial position if there is a legally enforceable right to set off the recognized amounts and there is an intention either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## h. Financial instruments: (Cont.)

Financial liabilities:

Financial liabilities measured at amortized cost:

Loans and borrowings are initially recognized at fair value less directly attributable transaction costs (such as loan raising costs). After initial recognition, loans, including debentures, are measured based on their terms at amortized cost using the effective interest method taking into account directly attributable transaction costs. Short-term borrowings (such as trade and other payables) are measured based on their terms, normally at face value. Gains and losses are recognized in profit or loss when the financial liability is derecognized as well as through the systematic amortization process.

Derecognition of financial instruments:

Financial assets:

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or the Company has transferred its contractual rights to receive cash flows from the financial asset or assumes an obligation to pay the cash flows in full without material delay to a third party and has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A transaction involving factoring of accounts receivable and / or credit card vouchers is derecognized when the abovementioned conditions are met.

Financial liabilities:

A financial liability is derecognized when it is extinguished, that is when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor (the Group):

- discharges the liability by paying in cash, other financial assets, goods or services; or
- is legally released from the liability.

Impairment of financial assets:

The Group assesses at the end of each reporting period whether there is any objective evidence of impairment of a financial asset or group of financial assets as follows.

## 1. Financial assets carried at amortized cost:

There is objective evidence of impairment of debt instruments and loans and receivables carried at amortized cost as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. The amount of the loss recorded in profit or loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). If the financial asset has a variable interest rate, the discount rate is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account (see allowance for doubtful accounts above). In a subsequent period, the amount of the impairment loss is reversed if the recovery of the asset can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## h. Financial instrument: (Cont.)

## 2. Available-for-sale financial assets:

For equity instruments classified as available-for-sale financial assets, the objective evidence includes a significant or prolonged decline in the fair value of the asset below its cost and calculation of changes in the technological, market, economic or legal environment in which the issuer of the instrument operates. The calculation of a significant or prolonged impairment depends on the circumstances at the end of each reporting period. The calculation considers historical volatility in fair value and the existence of a decline in fair value of 20% or more or whether the duration of the decline in fair value is six months or more. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less any previous impairment losses) and the fair value is reclassified from equity and recognized as an impairment loss in profit or loss. In subsequent periods, reversal of impairment loss is not recognized in profit or loss but recognized as other comprehensive income.

For debt instruments classified as available-for-sale financial assets, objective evidence of impairment may arise as a result of one or more events that have a negative impact on the estimated future cash flows of the asset since the recognition of the asset. Evidence of impairment may include indications that the debtor is experiencing financial difficulties, including liquidity difficulty and default in interest or principal payments. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost (less principal payments, amortization using the effective interest method and previous impairment losses) and the fair value is reclassified from equity and recognized as an impairment loss in profit or loss. In a subsequent period, the amount of the impairment loss is reversed if the increase in fair value can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal, up to the amount of any previous impairment, is recorded in profit or loss.

## i. Derivative instruments:

Derivative instruments are recognized as either assets or liabilities in the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

For derivative instruments that are designated and qualify as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or a liability or an identified portion thereof that is attributable to a particular risk), the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current earnings during the period of the change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk associated with a forecasted transaction), the effective portion of the gain or loss on the derivative instrument is recognized directly in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion is recognized in the statement of comprehensive income.

The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in current earnings during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is formally designated and documented at its inception. This documentation identifies the risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective in offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the reporting period for which they were designated.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## j. Inventories:

Inventories are measured at the lower of cost or net realizable value. Net realizable value is the estimated selling price less any further costs expected to be incurred to complete and make the sale. Cost is determined as follows:

Raw materials – at cost of purchase using the "first-in, first-out" method.

Work-in-progress and finished goods - Raw materials as above; labor and overhead - an average based on normal operating capacity.

## k. Investments in associates:

Associates are companies in which the Company has significant influence over the financial and operating policies without having control.

The investment in an associate is accounted for using the equity method. Under the equity method, the investment in the associate is presented in the statement of financial position at cost plus changes in the Company's share of net assets including other comprehensive income of the associate. The equity method is applied until the loss of significant influence or classification as an asset held-for-sale.

The Company evaluates the need to record an impairment of the carrying amount of the investment, see o below.

The Company's share of the operating results of the associate presented in the statement of comprehensive income as " Company's share of loss of company accounted for at equity" and other comprehensive income (loss) of the associate attributable to the Company is presented in other comprehensive income in the relevant item in equity. Profits and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

Losses of an associate in amounts which exceed its equity are recognized by the Company to the extent of its investment in the associate plus any losses that the Company may incur as a result of a guarantee or other financial support provided in respect of the associate.

The financial statements of the Company and of associate are prepared as of the same dates and periods. The accounting policies applied in the preparation of the financial statements of associates conform with the policies applied in the preparation of the financial statements of the Company.

## l. Property and equipment:

Property and equipment are stated at cost with the addition of direct acquisition costs, less accumulated depreciation and impairment losses and net of investment grants. Investment grants are recorded at the time the Company is entitled to such grants. The cost of additions and substantial improvements to property, plant and equipment is capitalized. The cost of maintenance and repairs of property, plant and equipment is charged to expenses when they do not extend the life of the asset or do not significantly increase its capacity to generate revenue. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	<u>%</u>
Buildings	2.5 – 6.5
Machinery and equipment	10 – 20
Computers and peripheral equipment	20 – 33
Office furniture and equipment	6 – 20
Motor vehicles	15 – 20

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## l. Property and equipment: (Cont.)

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognized.

The asset's residual values, useful lives and methods are reviewed and adjusted if appropriate, at each financial year end.

As for testing the impairment of property and equipment, see o below.

## m. Intangible assets:

Separately acquired intangible assets are measured on initial recognition at cost with the addition of costs directly attributable to the acquisition. Intangible assets acquired in a business combination are included at the fair value at the acquisition date. After initial recognition, intangible assets are carried at their cost less any accumulated amortization and any accumulated impairment losses. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in the statement of comprehensive income when incurred.

According to management's assessment, intangible assets have a finite useful life. The assets are amortized over their useful life using the straight-line method and reviewed for impairment whenever there is an indication that the asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as prospective changes in accounting estimates. The amortization charge on intangible assets with finite useful lives is recognized in the statement of comprehensive income.

Research and development expenses:

Research expenses are recognized in the statement of comprehensive income when incurred. An intangible asset arising from a development project or from the development of an internal project is recognized if the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale; the Company's intention to complete the intangible asset and use or sell it; the Company's ability to use or sell the intangible asset; how the intangible asset will generate future economic benefits; the availability of adequate technical, financial and other resources to complete the intangible asset; and the Company's ability to measure reliably the expenditure attributable to the intangible asset during its development.

## n. Borrowing costs:

Borrowing costs directly attributable to the acquisition and construction of property and equipment that necessarily takes a substantial period of time to get ready for its intended use are capitalized as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## o. Impairment of non-financial assets:

The Company evaluates the need to record an impairment of the carrying amount of non-financial assets whenever events or changes in circumstances indicate that the carrying amount is not recoverable. If the carrying amount of non-financial assets exceeds their recoverable amount, the assets are reduced to their recoverable amount. The recoverable amount is the higher of asset's fair value less costs to sell and its value in use. In measuring value in use, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (less depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The impairment loss of an asset presented at cost is carried to the statement of comprehensive income. A reversal of that impairment loss is also recognized in the statement of comprehensive income.

The following criteria are applied in assessing impairment of associates:

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates. The Company determines at the end of each reporting period whether there is objective evidence that the carrying amount of the investment in the associate is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate. If there is objective evidence, as above, the amount of the loss is calculated as the difference between the recoverable amount of the investment in the associate and its carrying amount. The recoverable amount is the higher of value in use and fair value less costs to sell based on the estimated net cash flows to be generated by the associate. Impairment loss, as above, is not allocated specifically to goodwill that forms part of the investment and, accordingly, any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases. The loss, or its reversal, is recognized in profit or loss in the line item, "Company's share of earnings (losses) of company accounted for at equity".

## p. Taxes on income:

Taxes on income in the statement of comprehensive income comprise current and deferred taxes. The tax results in respect of current or deferred taxes are carried to the statement of comprehensive income except to the extent that the tax arises from items which are recognized directly in equity. In such cases, the tax effect is also carried to the relevant item in equity.

## 1. Income taxes:

The current tax liability is measured using the tax rates and tax laws that have been enacted or substantively enacted by the statement of financial position date as well as adjustments required in connection with the tax liability in respect of previous years.

## 2. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes, except in a limited number of exceptions. Deferred taxes are carried directly to equity if the tax relates to items that are taken to equity.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## p. Taxes on income: (Cont.)

Deferred tax balances are measured at the tax rates that are expected to apply to the period when the taxes are taken to the statement of comprehensive income or to equity, based on tax laws that have been enacted or substantively enacted by the balance sheet date. The amount for deferred taxes in the statement of comprehensive income represents the changes in said balances during the reported period, excluding changes attributable to items carried directly to equity.

Taxes that would apply in the event of the sale of investments in investees have not been taken into account in computing the deferred taxes, as long as the sale of the investments in investees is not expected in the foreseeable future. Also, deferred taxes that would apply in the event of distribution of earnings by investees as dividends have not been taken into account in computing the deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Company's policy not to initiate distribution of dividends that triggers an additional tax liability.

Deferred tax assets and deferred tax liabilities are presented in the statement of financial position as non-current assets and long-term liabilities, respectively. Deferred taxes are offset if there is a legally enforceable right to set off a current tax asset against a current tax liability and the deferred taxes relate to the same taxpayer and the same taxation authority.

## q. Employee benefits liability:

## 1. Short-term employee benefits:

Short-term employee benefits include salaries, paid annual leave, paid sick leave, recreation and social security contributions and are recognized as expenses as the services are rendered. A liability in respect of a cash bonus or a profit-sharing plan is recognized when the Group has a legal or constructive obligation to make such payment as a result of past service rendered by an employee and a reliable estimate of the amount can be made.

## 2. Post-employment benefits:

The Company operates a defined benefit plan for severance pay pursuant to Israel's Severance Pay Law. Under the law, Israel resident employees are entitled to receive severance pay upon involuntary termination of employment, or upon retirement, which is calculated based on the most recent monthly salary at the time of termination, multiplied by the number of years of employment.

The Company funds its liability for severance pay by monthly payments to pension funds and insurance companies ("plan assets"). The plan assets include profits accumulated up to the balance sheet date. The plan assets may be withdrawn only in accordance with Israel's Severance Pay Law or labor agreements.

The cost of providing severance pay is determined using the projected unit credit method. Actuarial gains and losses are recognized immediately in the statement of comprehensive income in the period in which they occur.

The liability recognized in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- r. Share-based payment transactions:

Employees (including senior executives) of the Company receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity - settled transactions with employees is measured by reference to the fair value on the date of grant. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in Note 22.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

- s. Revenue recognition:

Sale of goods

The Group generates revenues mainly from the sale of Tungsten and Molybdenum oxide and powders. The Group does not grant a right of return to its customers.

Revenues from Tungsten and Molybdenum oxide and powders sales are recognized when the significant risks and benefits of ownership are transferred to the buyer, it is probable that the economic benefits associated with the transaction will flow to the Group, and the amount of revenues can be measured reliably.

Interest income

Interest income is recognized as interest accrues (using the effective interest method). Interest income is included in finance income in the statement of comprehensive income.

- t. Interest in a joint venture:

The Group has interests in joint ventures which are jointly controlled entities. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control, and a jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venture has an interest. The Group accounts for its interest in the joint venture using the equity method. The financial statements of the joint venture are prepared for the same reporting year as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When the Group contributes or sells assets to the joint venture, any portion of gain or loss from the transaction is recognized based on the substance of the transaction. When the Group purchases assets from the joint venture, the Group does not recognize its share in the profits of the joint venture from the transaction until it resells the assets to an independent party.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

## u. Government grants:

Government grants are recognized where there is reasonable assurance that the grant will be received and the Company will comply with the attached conditions. Where the grants relate to assets such as fixed assets, they are presented as a deduction from the carrying amount of the asset.

Government grants from the Office of the Chief Scientist in Israel for funding research and development activities that include a liability to pay royalties to the State depending on future sales from development are recognized upon receipt as a liability if an outflow of economic benefits from the research activity is probable and will lead to sales entitling the State to royalties. Amounts paid as royalties are recognized as settlement of liability. When no such economic benefits are probable, the receipts from the grant are deducted from research and development costs in the statement of comprehensive income. In such event, the royalty liability is accounted for as a contingent liability pursuant to IAS 37 until the date on which the liability is recognized once all the above conditions are met.

## v. Basic and diluted earnings (loss) per share:

Basic earnings per share have been computed using the weighted average number of Ordinary shares outstanding during the period. Diluted earnings or loss per share are computed based on the weighted average number of Ordinary shares outstanding during each period, plus the effect of potential Ordinary shares considered outstanding during the period, except if the effect of such potential Ordinary shares is anti-dilutive.

## w. Presentation of statement of comprehensive income:

The Company has elected to present a single statement of comprehensive income which includes both the items of the statement of income and the items of other comprehensive income.

## x. Exchange rates and linkage basis:

- Assets and liabilities in or linked to foreign currencies are included in the financial statements according to the representative exchange rate as published by the Bank of Israel at balance sheet date.
- Assets and liabilities linked to the Israeli Consumer Price Index (CPI) are included in the financial statements according to the relevant index for each asset or liability.

Data regarding exchange rate of Euro and New Israeli Shekels (NIS) in relation to the U.S dollar:

<b>As of</b>	<b>Exchange rate of Euro</b>	<b>Exchange rate of NIS</b>
December 31, 2010	0.749	3.549
December 31, 2009	0.694	3.775
December 31, 2008	0.718	3.802
<b>Changes during the year</b>	<b>%</b>	<b>%</b>
2010	7.9	(6.0)
2009	(3.3)	(0.7)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

y. Standards issued but not yet applied:

IFRS 9 - Financial Instruments:

1. In November 2009, the IASB issued the first part of Phase I of IFRS 9, "Financial Instruments", as part of a project to replace IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 focuses mainly on the classification and measurement of financial assets and it applies to all financial assets within the scope of IAS 39.

According to IFRS 9, upon initial recognition, all the financial assets (including hybrid contracts with financial asset hosts) will be measured at fair value. In subsequent periods, debt instruments can be measured at amortized cost if both of the following conditions are met:

- the asset is held within a business model whose objective is to hold assets in order to collect the contractual cash flows.
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Notwithstanding the aforesaid, upon initial recognition, a company may designate a debt instrument that meets both of the abovementioned conditions to fair value through profit or loss if this designation eliminates or significantly reduces a measurement or recognition inconsistency ("accounting mismatch") that would have otherwise arisen.

Subsequent measurement of all other debt instruments and financial assets will be at fair value.

Financial assets that are equity instruments will be measured in subsequent periods at fair value and the changes will be recognized in the statement of income or in other comprehensive income (loss), in accordance with the election of the accounting policy on an instrument-by-instrument basis (amounts recognized in other comprehensive income will not be later carried to profit or loss). Nevertheless, if the equity instruments are held for trading, they must be measured at fair value through profit or loss. This election is final and irrevocable. When an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. In all other circumstances, reclassification of financial instruments is not permitted.

The Standard will be effective starting January 1, 2013. Earlier application is permitted. Early adoption will be done with a retrospective restatement of comparative figures, subject to the reliefs set out in the Standard.

2. In October 2010, the IASB issued certain amendments to IFRS 9 regarding derecognition and financial liabilities. According to those amendments, the provisions of IAS 39 will continue to apply to derecognition and financial liabilities which are not measured at fair value through profit or loss, namely the classification and measurement provisions of IAS 39 will continue to apply to financial liabilities held for trading and financial liabilities measured at amortized cost.

The adjustments arising from these amendments affect the measurement of a liability at fair value whereby the amount of the adjustment to the liability's fair value - attributed to changes in credit risk - will be carried to other comprehensive income. All other fair value adjustments will be carried to the statement of income. If carrying the fair value adjustment of the liability arising from changes in the credit risk to other comprehensive income creates an accounting mismatch in the income statement, then that adjustment also will be carried to the income statement rather than to other comprehensive income.

Furthermore, according to the amendments, liabilities in respect of certain unquoted equity instrument derivatives can no longer be measured at cost but rather only at fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

- y. Standards issued but not yet applied: (Cont.)

*IFRS 9 - Financial Instruments: (Cont.)*

The amendments will be effective starting January 1, 2013. Earlier application is permitted provided that the Company also adopts the provisions of IFRS 9 regarding the classification and measurement of financial assets (the asset stage). First-time adoption of these amendments will be done retrospectively by restating comparative data, subject to the exemptions provided by the amendments.

The Company estimates that the amendments are not expected to have a material effect on the financial statements.

## IAS 24 - Related Party Disclosures:

The amendment to IAS 24 clarifies the definition of a related party in order to simplify the identification of the relations with a related party and avoid inconsistent adoption of this definition. The amendment will be adopted retrospectively starting from the financial statements for annual periods commencing on January 1, 2011. Early adoption is permitted.

The necessary disclosures will be included in the Company's financial statements.

New IFRS Standards that have been issued but are not yet effective:

In May 2011, the IASB issued four new Standards: IFRS 10, "*Consolidated Financial Statements*", IFRS 11, "*Joint Arrangements*", IFRS 12, "*Disclosure of Interests in Other Entities*" ("the new Standards") and IFRS 13, "*Fair Value Measurement*", and amended two existing Standards, IAS 27R (Revised 2011), "*Separate Financial Statements*", and IAS 28R (Revised 2011), "*Investments in Associates and Joint Ventures*".

The new Standards are to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. However, if the Company chooses earlier application, it must adopt all the new Standards as a package (excluding the disclosure requirements of IFRS 12 which may be adopted separately). The Standards prescribe transition provisions with certain modifications upon initial adoption.

The main provisions of the Standards and their expected effects on the Company are as follows:

*IFRS 10 - Consolidated Financial Statements:*

IFRS 10 supersedes IAS 27 regarding the accounting treatment of consolidated financial statements and includes the accounting treatment for the consolidation of structured entities previously accounted for under SIC 12, "*Consolidation - Special Purpose Entities*".

IFRS 10 does not prescribe changes to the consolidation procedures but rather modifies the definition of control for the purpose of consolidation and introduces a single consolidation model. According to IFRS 10, in order for an investor to control an investee, the investor must have power over the investee and exposure, or rights, to variable returns from the investee. Power is defined as the ability to influence and direct the investee's activities that significantly affect the investor's return.

According to IFRS 10, when assessing the existence of control, potential voting rights should be considered only if they are substantive, as opposed to the provisions of IAS 27 prior to its amendment which required consideration of potential voting rights only if they could be exercised immediately while disregarding management's intentions and financial ability to exercise such rights.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- y. Standards issued but not yet applied: (Cont.)

*IFRS 10 - Consolidated Financial Statements: (Cont.)*

IFRS 10 also prescribes that an investor may have control even if it holds less than a majority of the investee's voting rights (de facto control), as opposed to the provisions of the existing IAS 27 which permits a choice between two consolidation models - the de facto control model and the legal control model.

IFRS 10 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Company is evaluating the possible impact of the adoption of IFRS 10 but is presently unable to assess the effects, if any, on its financial statements.

*IFRS 11 - Joint Arrangements:*

IFRS 11 supersedes IAS 31 regarding the accounting treatment of interests in joint ventures and SIC 13 regarding the interpretation of the accounting treatment of non-monetary contributions by ventures.

IFRS 11 defines joint arrangements as contractual arrangements over which two or more parties have joint control.

IFRS 11 distinguishes between two types of joint arrangements:

- Joint ventures in which the parties that have joint control of the arrangement have rights to the net assets of the arrangement. IFRS 11 requires joint ventures to be accounted for solely by using the equity method, as opposed to the provisions of IAS 31 which allowed the Company to make an accounting policy choice whether to apply proportionate consolidation or the equity method for entities under joint control.
- Joint operations in which the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. IFRS 11 requires the joint operator to recognize a joint operation's assets, liabilities, revenues and expenses in proportion to its relative share of the joint operation as determined in the joint arrangement, similar to the current accounting treatment for proportionate consolidation.

IFRS 11 is to be applied retrospectively in financial statements for annual periods commencing on January 1, 2013, or thereafter.

The Company is evaluating the possible impact of the adoption of IFRS 11 but is presently unable to assess the effects, if any, on its financial statements.

*IAS 28R - Investments in Associates:*

IAS 28R supersedes IAS 28. The principal changes in IAS 28R compared to IAS 28 relate to the application of the equity method of accounting for investments in joint ventures, as a result of the issuance of IFRS 11, and the guidance for transition from proportionate consolidation to the equity method of accounting for these investments.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 3:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

- y. Standards issued but not yet applied: (Cont.)

*IFRS 12 - Disclosure of Interests in Other Entities:*

IFRS 12 prescribes disclosure requirements for the Company's investees, including subsidiaries, joint arrangements, associates and structured entities. IFRS 12 expands the disclosure requirements to include the judgments and assumptions used by management in determining the existence of control, joint control or significant influence over investees, and in determining the type of joint arrangement. IFRS 12 also provides disclosure requirements for material investees.

The required disclosures will be included in the Company's financial statements upon initial adoption of IFRS 12.

*IFRS 13 - Fair Value Measurement:*

IFRS 13 establishes guidance for the measurement of fair value, to the extent that such measurement is required according to IFRS. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. IFRS 13 also specifies the characteristics of market participants and determines that fair value is based on the assumptions that would have been used by market participants. According to IFRS 13, fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market.

IFRS 13 requires an entity to maximize the use of relevant observable inputs and minimize the use of unobservable inputs. IFRS 13 also includes a fair value hierarchy based on the inputs used to determine fair value as follows:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 - unobservable inputs (valuation techniques that do not make use of observable inputs).

IFRS 13 also prescribes certain specific disclosure requirements.

The new disclosures, and the measurement of assets and liabilities pursuant to IFRS 13, are to be applied prospectively for periods commencing after the Standard's effective date, in financial statements for annual periods commencing on January 1, 2013 or thereafter. Earlier application is permitted. The new disclosures will not be required for comparative data.

The appropriate disclosures will be included in the Company's financial statements upon initial adoption of IFRS 13.

The Company is evaluating the possible impact of the adoption of IFRS 13 but is presently unable to assess the effects, if any, on its financial statements.

- z. Reclassification:

The Company determined that certain expenditures relating to transportation and shipping should be classified as selling and marketing expenses and not cost of sales in order to better reflect the nature of the expenditures. Accordingly, comparative data in 2009 amounting to \$592 have been reclassified.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 4:- CASH AND CASH EQUIVALENTS

	Annual interest rate *)	December 31,	
		2010	2009
Cash in banks		2,038	2,139
Short-term deposits	0.2	205	3,740
		2,243	5,879

\*) As of December 31, 2010.

## NOTE 5:- RESTRICTED CASH

	December 31,	
	2010	2009
In U.S. dollars	5,104	3,992

The balance as of December 2010 is pledged in order to secure a long-term bank loan, see Note 16.

## NOTE 6:- AVAILABLE FOR SALE INVESTMENTS

	December 31,	
	2010	2009
Marketable securities	-	86

In 2010 the Company sold all of the securities and recorded a gain in the amount of \$13 in the statement of comprehensive income.

## NOTE 7:- TRADE RECEIVABLES

	December 31,	
	2010	2009
Foreign	11,270	9,794
Domestic – Israel	343	495
	11,613	10,289
Less - allowance for doubtful accounts	537	537
	11,076	9,752

The movement in the allowance for doubtful accounts:

At January 1, 2009	691
Charge for the year	308
Derecognition of bad debts	(462)
At December 31, 2010	537
Charge for the year	21
Derecognition of bad debts	(21)
At December 31, 2010	537

The aging analysis of trade receivables is as follows \*):

	Total	Neither past due nor impaired	Past due but not impaired				
			< 30 days	30 – 60 days	60 – 90 day	90 – 120 day	>120 days
December 31, 2010	11,076	10,259	439	126	252	-	-
December 31, 2009	9,752	7,881	266	211	485	392	517

\*) The weighted average credit period is 137 days (2009- 77 days).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

U.S. dollars in thousands

**NOTE 8:- OTHER ACCOUNTS RECEIVABLE**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Government authorities (principally VAT)	552	414
Prepaid expenses	40	345
Advances to suppliers	201	-
Accrued income	279	-
Employees	63	34
Other	66	274
	<u>1,201</u>	<u>1,067</u>

**NOTE 9:- INVENTORIES**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Raw materials	10,698	12,191
Work in progress	1,778	4,500
Finished goods	8,655	9,853
	<u>21,131</u>	<u>26,544</u>

In 2009 due to declines in market prices of its principal products (see Note 1(c)), the Group recorded write-downs of inventories in the amount of \$ 1,497. In 2010, a write-down of inventories in the amount of \$717 was recorded, related to suspended production plant, see Note 24 (e).

As for charges, see Note 20.

**NOTE 10:- PROVISION FOR LOSSES IN EXCESS OF INVESTMENT IN INVESTEE****Composition:**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Original investment	133	-
Company's share of losses	(202)	-
Provision for losses in excess of investment in investee	<u>(69)</u>	<u>-</u>

In 2008, the Company entered into an agreement with a partner. The parties agreed to engage in developing a technology (the joint project). According to the agreement, the Company will develop the technology and the partner will participate in its expenses.

In 2008 and 2009 the Company was engaged in developing the technology. All expenses and the partner's participations were recorded in research and development expenses. Through December 31, 2009 the Company recorded expenses in the amount of \$780 (2008- \$341) and participations in the amount of \$443 were recognized in 2009 as a credit to research and development expenses, see Note 24 (b).

In March 2010, the Company and the partner established Elecmetal-Tech JV. Limitada ("EMT") a registered company under the laws of the Republic of Chile. The equity interest in EMT is equally owned by the Company and the partner.

EMT's equity is 300 million Chilean Pesos (\$266) which was contributed equally by both shareholders. Four directors, two appointed by each shareholder, will jointly manage EMT. All decisions shall be taken by majority vote.

The Company included its investment in EMT, a jointly controlled venture, by the equity method. EMT does not have significant assets and liabilities as of December 31, 2010.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## U.S. dollars in thousands

## NOTE 11:- PROPERTY, PLANT AND EQUIPMENT

Composed as follows:

	Land and buildings	Machinery and equipment	Computers and peripheral equipment	Office furniture and equipment	Motor vehicles	Total
Cost:						
Balance as of January 1, 2010	5,708	36,843	633	852	598	44,634
Additions during the year	44	1,979	29	13	-	2,065
Disposals during the year	-	-	-	-	(40)	(40)
Participation (7)	-	(150)	-	-	-	(150)
Balance as of December 31, 2010	5,752	38,672	662	865	558	46,509
Accumulated depreciation :						
Balance as of January 1, 2010	2,271	12,921	455	299	229	16,175
Additions during the year	202	2,244	107	75	65	2,693
Disposals during the year	-	-	-	-	(36)	(36)
Balance as of December 31, 2010	2,473	15,165	562	374	258	18,832
Depreciated cost at December 31, 2010	3,279	23,507	100	491	300	27,677
Less- impairment loss (4)	(593)	(16,875)	(22)	(269)	(179)	(17,938)
	2,686	6,632	78	222	121	9,739
Cost:						
Balance as of January 1, 2009	5,657	35,819	630	852	569	43,527
Additions during the year	51	1,027	14	4	125	1,221
Disposals during the year	-	(3)	(11)	(4)	(96)	(114)
Balance as of December 31, 2009	5,708	36,843	633	852	598	44,634
Accumulated depreciation :						
Balance as of January 1, 2009	2,071	11,045	343	232	220	13,911
Additions during the year	200	1,878	123	67	67	2,335
Disposals during the year	-	(2)	(11)	-	(58)	(71)
Balance as of December 31, 2009	2,271	12,921	455	299	229	16,175
Depreciated cost at December 31, 2009	3,437	23,922	178	553	369	28,459
Less- impairment loss (4)	-	(2,227)	-	-	-	(2,227)
	3,437	21,695	178	553	369	26,232

- (1) As of December 31, 2010 and 2009, investment grants received amounted to \$5,151 and related accumulated depreciation amounted to \$4,579 and \$4,448, respectively.
- (2) Rights in real estate in Israel:  
The Company's plant in Israel is located on land leased from the Israel Land Administration. The leases are for periods ending in 2042. The Company prepaid the lease payments, which are being amortized over the term of the lease.
- (3) Plant under construction as of December 31, 2010 amounted to \$1,547 and is included primarily in machinery and equipment.
- (4) Due to the suspension of production in the Mongolian subsidiary and the Mongolian court decision to declare Shim- Tech as insolvent, the recoverable amount of the subsidiary's property, plant and equipment was assessed. Due to the uncertainty regarding the renewal of operations in Mongolia and the Company's ability to realize any future cash flows from the plant due to the legal status of the subsidiary, the Company recorded an impairment loss equal to the balance of the carrying amount of \$15,711 (2009-\$2,227), (see Note 1 (b)).
- (5) Due to the operating loss in 2010, the recoverable amount of the property, plant and equipment in the plant in Israel was estimated. The Company has determined that no provision for impairment loss is required. The recoverable amount was determined based on value in use. The calculation of value in use considered management's estimates of future cash flows, based on budget, which cash flows were discounted at a pre-tax rate of 15.9%.
- (6) As for charges, see Note 20.
- (7) As for participation, see Note 20 (g).

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 12:- SHORT-TERM BANK CREDIT**

	Annual interest rate *)	December 31,	
	%	2010	2009
U.S. dollars	3.85	114	2,581
NIS	Prime+3 up to 5.5	3,626	3,324
Euro	Libor+2.25	15	10
Swiss Frank	-	7	-
		<u>3,762</u>	<u>5,915</u>

\*) As of December 31, 2010 the Prime rate is- 3.5%, the Euro-Libor rate is- 1.48%.

(1) As for an agreement with the banks in 2010, regarding a conversion of short-term facilities to a long- term loan during 2010, see Note 16.

(2) As for collateral, see Note 20.

**NOTE 13:- SHORT-TERM LOANS AND CURRENT MATURITIES OF LONG-TERM LOANS**

	Annual interest rate *)	December 31,	
	%	2010	2009
In U.S. dollars	Libor+2.25-4.25	9,660	9,569
In NIS	Prime+1.5	339	239
In Euro	Libor+2.25-2.4	1,749	483
Current maturities of long-term loans		<u>5,888</u>	<u>2,927</u>
		<u>17,636</u>	<u>13,218</u>

\*) As of December 31, 2010 the Prime rate is- 3.5%, the Euro-Libor rate is- 1.48%, the USD Libor rate is- 0.8%.

(1) As for collateral, see Note 20.

(2) As for an agreement with the banks in 2010, regarding a conversion of short-term facilities to a long- term loan, and the extension of the Company's credit line, in respect of which financial covenants and guarantees were established, see Note 16.

**NOTE 14:- LOAN RELATED TO SUSPENDED PLANT**

a. Composed as follows:

	Annual interest rate *)	December 31,	
	%	2010	2009
Loan from bank in U.S. dollars	4.5-6.1	<u>6,787</u>	<u>6,956</u>

\*) As of December 31, 2010.

A loan from bank to Shim-Tech in connection with the construction of the plant in Mongolia. The borrowing is in the form of promissory notes for a period of seven and a half years to finance the acquisition of equipment. United Bank Mizrahi Ltd. financed 85% of the promissory notes and the remaining 15% was financed by the Company. The borrowings are secured by the Israeli Foreign Trade Risks Insurance Corporation Ltd ("IFTRIC") for 80% of the facility. In addition, EMC signed a guarantee in favor of United Bank Mizrahi Ltd. for all the facilities granted; see Note 2(b). In 2009, due to the suspension of production in Mongolia, see Note 1 (b), Shim- Tech was unable to repay loan payment in the principal amount of \$1,034 and interest in the amount of \$243.

In November 2009, the bank approached IFTRIC to recover the loan. IFTRIC can take legal action against Shim-Tech including placing Shim-Tech in receivership.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 14:- LOAN RELATED TO SUSPENDED PLANT (Cont.)**

In April 2010, Shim-Tech reached an agreement with the bank and IFTRIC to reschedule the repayment of the loan installments originally due in 2009 and 2010 as follows:

- (i) Shim-Tech will pay \$250 to the bank by April 20, 2010. The Company provided Shim-Tech with a loan to pay this amount.
- (ii) An amount of \$1,260 is to be paid by Shim-Tech to the bank in six equal monthly installments commencing from June 15, 2010.
- (iii) The three quarterly installments due in May, August and November 2010, in the total amount of \$1,337 are to be paid in January, February and May 2011.
- (iv) The loan installments due in 2011 and thereafter are to be paid as originally scheduled. However, if Shim-Tech complies with all of its payment obligations, the bank will consider the possibility of deferral of certain payments, which is to be negotiated in the future.

Shim- Tech paid \$250 in 2010, but failed to meet the other terms of the arrangement with the bank, due to Shim- Tech's inability to renew production in 2010.

As of December 31, 2010 under this agreement, due to the suspension of production in Mongolia (see Note 1 (b)) Shim-Tech was unable to repay loan payments in the principal amounts of \$2,267 and interest in the amount of \$498. As a result, the Company was charged in 2010 an amount of \$174 (2009- \$128) for the portion of the loan not covered by IFTRIC.

As of December 31, 2010, as a result of the arrears on the loan, in addition to the current maturities in the amount of \$4,108 the long- term portion of the loan in the amount of \$2,679 is presented in current liabilities.

- c. The long-term loan is repayable in the following years subsequent to the reporting period date according to the original repayment schedule:

	<u>2010</u>	<u>2009</u>
First year- current maturities	4,108	2,633
Second year	1,302	1,644
Third year	897	1,302
Fourth year	480	897
Fifth year and thereafter	-	480
	<u>2,679</u>	<u>4,323</u>
	<u>6,787</u>	<u>6,956</u>

**NOTE 15:- OTHER ACCOUNTS PAYABLE**

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Employees and payroll accruals	1,094	962
Dividend payable	29	29
Accrued liabilities	2,577	2,874
Deferred revenue	367	327
Related parties	13	38
Other	427	155
	<u>4,507</u>	<u>4,385</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 16:- LONG-TERM LOANS

a. Composed as follows:

	Annual interest rate *)	December 31,	
	%	2010	2009
Loans from banks:			
NIS	Prime+1.5	90	101
U.S. dollar (1)	Libor+2.5-3.3	5,871	4,275
		<u>5,961</u>	<u>4,376</u>
Less - current maturities		<u>5,888</u>	<u>2,927</u>
		73	1,449
Other long-term loans:			
NIS - unlinked (2)		414	414
		<u>487</u>	<u>1,863</u>

\*) As of December 31, 2010 the Prime rate is -3.5%, the USD- Libor rate is- 0.8%.

- (1) In April 2009, the Company reached an agreement with three banks (A, B and C), whereby it would convert short-term credit into a loan in the amount of \$4,000 that will be paid in 24 equal monthly installments (\$1,333 from each bank).

As collateral for this loan, the Swiss subsidiary, Metal Tech SA (MTSA), provided a bank guarantee for the amount of the loan that will be reduced as the loan is repaid.

As of December 31, 2010, the remaining balance of the loans and the guarantee is \$ 777 and \$ 1,010, respectively.

In December 2009, the Company reached another agreement with bank A whereby it would convert short-term bank credit and short-term loans into long-term loans in the amount of \$6,000. An amount of \$1,500 was converted in December 2009, the loan will be repaid in 18 equal monthly installments. An amount of \$4,500 was converted in January 2010, the loan will be repaid in July, 2011. MTSA provided the bank guarantee in the amount of \$1,000.

Subsequent to the end of the reporting period, the Company reached an agreement with bank A regarding rescheduling the repayments of this loan. Pursuant to this agreement, in May 2011 the Company paid \$400 as a partial repayment of the loan. In addition, the Company will pay \$1,000 in July 2011 using restricted cash that serves as collateral for the loan, an amount of \$720 will be paid in 12 monthly installments starting August 2011, and the remaining principal balance of \$2,380 will not be repayable for one year from July 2011.

In February 2010, the Company made a commitment that any trade receivables will not be factored without bank B approval. The bank increased the Company's credit line in exchange for a guarantee in the amount of \$1,600 provided by MTSA.

In July 2010, the Company reached an agreement with bank C regarding financial covenants in order to increase the credit line:

1. The ratio of trade receivables and inventory in relation to total short-term bank credit will not fall below 1.5.
  2. Limitations as to declaration of dividends.
  3. Limitations on selling and charges of the subsidiaries assets.
  4. There will be no change in holdings of subsidiaries without prior approval of the banks.
- MTSA provided bank C a bank guarantee in the amount of \$1,300.

As of December 31, 2010 the Company is meeting all the financial covenants.

- (2) Capital notes due to the Company's shareholders bear no interest and have no maturity date. There is no material difference between the carrying amounts of these notes and their fair value.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 16:- LONG-TERM LOANS (Cont.)

- b. The long-term loans from banks are repayable in the following years subsequent to the reporting period date according to the original repayment schedule:

	<u>2010</u>	<u>2009</u>
First year - current maturities	5,888	2,927
Second year	<u>73</u>	<u>1,449</u>
	<u>5,961</u>	<u>4,376</u>

- c. As for collateral, see Note 20.

## NOTE 17:- EMPLOYEE BENEFIT OBLIGATIONS

- a. Post-employment benefits:

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to Section 14 to the Severance Pay Law, as specified below. The Company's liability is accounted for as a post-employment benefit. The computation of the Company's employee benefit liability is made in accordance with employment contracts based on the employee's salary and employment term which establish the entitlement to receive the compensation.

The post-employment employee benefits are normally funded by contributions to defined benefit plans or as defined contribution plans as detailed below.

- b. Defined contribution plans:

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions represent defined contribution plans.

	<u>Year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Expenses in respect of defined contribution plans	<u>261</u>	<u>284</u>

- c. Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

1. Amounts recognized in the consolidated statement of comprehensive income in respect of the defined benefit plan are as follows:

	<u>Year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cost of current services	132	109
Interest	33	22
Expected return on plan assets	(14)	(9)
Net actuarial loss recognized during the year	<u>113</u>	<u>54</u>
Total expense included in the consolidated statement of comprehensive income	<u>264</u>	<u>176</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 17:- EMPLOYEE BENEFITS OBLIGATIONS (Cont.)

2.	The plan (assets) liabilities, net:	<b>December 31,</b>	
		<b>2010</b>	<b>2009</b>
	Defined benefit obligation	1,038	643
	Fair value of plan assets	(532)	(338)
	Total liabilities, net	<u>506</u>	<u>305</u>
3.	The amount included in the statement of financial position in respect of the defined benefit plan for severance pay is as follows:	<b>December 31,</b>	
		<b>2010</b>	<b>2009</b>
	Net liability as of January 1,	305	241
	Expense recognized in the consolidated statement of comprehensive income	264	176
	Contribution paid	(92)	(116)
	Exchange differences	29	4
	Net liability as of December 31,	<u>506</u>	<u>305</u>
4.	The actuarial assumptions used are as follows:	<b>2010</b>	<b>2009</b>
		<b>%</b>	<b>%</b>
	Discount rate	2.25	2.56
	Expected rate of return on funds	2.40	2.44
	Future salary increase	3	3
	Inflation	2.82	2.59
	Rate of employee turnover, disability early retirement	see 5	see 5
5.	The rates of employee turnover are 13%, 8% and 5% withdrawal rates until attaining age of 40, 50 and retirement age, respectively.		

## NOTE 18:- INCOME TAX

## a. Israeli income tax:

## 1. Income Tax (Inflationary Adjustments) Law, 1985:

According to the law, until 2007, the results for tax purposes were adjusted for the changes in the Israeli CPI.

In February 2008, the "Knesset" (Israeli parliament) passed an amendment to the Income Tax (Inflationary Adjustments) Law, 1985, which limits the scope of the law starting 2008 and thereafter. Since 2008, the results for tax purposes are measured in nominal values, excluding certain adjustments for changes in the Israeli CPI carried out in the period up to December 31, 2007. Adjustments relating to capital gains such as for sale of property (betterment) and securities continue to apply until disposal. Since 2008, the amendment to the law includes, among others, the cancellation of the inflationary additions and deductions and the additional deduction for depreciation.

As explained in Note 3(d), the financial statements of the Company are measured in U.S. dollars. The difference between the annual change in the Israeli CPI and in the NIS/dollar exchange rate causes a further difference between taxable income and the net income shown in the financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 18:- INCOME TAX (Cont.)**

## a. Israeli income tax: (Cont.)

## 2. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the Law"):

On April 1, 2005, an amendment to the Law came into effect (the "Amendment") and has significantly changed the provisions of the Law (the "Old Law"). Generally, investment programs of the Company that have already obtained approval for an Approved Enterprise by the Israeli Investment Center will continue to be subject to the Old Law's provisions.

Regarding the "alternative benefits" track, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Law so that companies no longer require Investment Center approval in order to qualify for tax benefits. Such an enterprise is a "Beneficiary Enterprise," rather than the previous terminology of Approved Enterprise. The period of tax benefits for a new Beneficiary Enterprise commences in the "Year of Commencement." This year is the later of: (1) the year in which taxable income is first generated by the Company, or (2) the Year of Election.

If a company requested the "alternative benefits" track for an Approved Enterprise under the Law, it is precluded from filing a Year of Election notice for a Beneficiary Enterprise for three years after the year in which the Approved Enterprise was activated (the "Cooling Period"). The Company has elected the status of a Beneficiary Enterprise under the Amendment for its fourth plan.

According to the Old Law, the Company is entitled to investment grants (at percentages mentioned below of investment cost) and also to a tax benefit, which grants the Company a tax exemption for a period of two years and a reduced tax rate of 10%-25% (depending on the level of foreign investments in the Company) for a period of five years. According to the Amendment, the Company is entitled to tax benefits, which grants the Company a tax exemption for a period of ten years. Pursuant thereto, the income of the Company derived from the following "Approved Enterprise" and "Beneficiary Enterprise" programs will be eligible for these benefits for periods stated below:

1. Benefit period for the first program commenced in 1989 and expired in 2002. The investment grants received for this program were 38% of investment cost.
2. Benefit period for the second program commenced in 1994 and has expired in 2007. The investment grants received for this program were 36% of investment cost.
3. Benefit period for the third program commenced in 1999 and is to expire in 2012. The investment grants received for this program were 24% of investment cost.
4. Benefit period for the fourth program commenced in 2006 and is to expire in 2017. This plan is tax exempt for a period of ten years.

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published there under and the letters of approval for the specific investments in "Approved Enterprises" and "Beneficiary Enterprise". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest.

As of December 31, 2010, management believes that the Company is meeting all of the aforementioned conditions.

The period of tax benefits, detailed above, is subject to limits of the earlier of 12 years from the commencement of production or the year of election, or 14 years from receiving the approval, whichever is earlier.

Since the Company is operating under more than one program and since part of its taxable income is not entitled to tax benefits under the abovementioned law and is taxed at the regular tax rate, its effective tax rate is the result of a weighted combination of the various applicable tax rates.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 18:- INCOME TAX (Cont.)

## a. Israeli income tax: (Cont.)

By virtue of this law, the Company is entitled to claim accelerated depreciation on equipment used by the "Approved Enterprise" during five tax years.

If tax-exempt profits are distributed to shareholders they would be taxed at the corporate tax rate applicable to such profits as if the Company had not elected the alternative system of benefits, currently 25% for an "Approved Enterprise" and for "Beneficiary Enterprise".

Income from sources other than the "Approved Enterprise" or "Beneficiary Enterprise" during the benefit period will be subject to tax at the regular rate prevailing at that time.

The Company's retained earnings as of December 31, 2010; an amount of \$4,918 is tax-exempt and attributable to its Approved Enterprise programs. If such tax-exempt income is distributed in a manner other than upon complete liquidation of the Company, it would be taxed at the reduced corporate tax rate applicable to such profits (currently 25%) and an income tax liability of up to \$1,230 would be incurred as of December 31, 2010.

In addition, as a result of the amendment, tax-exempt income attributed to the Beneficiary Enterprise, will subject the Company to taxes upon any distribution manner including complete liquidation. As of December 31, 2010, the Company had \$3,320 of tax-exempt income attributed to its Beneficiary Enterprise plan. In case of distribution or complete liquidation of the Company, it would be taxed at the reduced corporate tax rate of 25% and an income tax liability of up to \$ 830 would be incurred as of December 31, 2010.

3. *Amendments to the Law for the Encouragement of Capital Investments, 1959:*

In December 2010, the "Knesset" (Israeli Parliament) passed the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011, which prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). The amendment became effective as of January 1, 2011. According to the amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income. The Company will be able to opt to apply (the waiver is non-recourse) the amendment and from then on it will be subject to the amended tax rates that are: 2011 and 2011 - 15% (in development area A - 10%), 2013 and 2014 - 12.5% (in development area A - 7%) and in 2015 and thereafter - 12% (in development area A - 6%).

The Company in Israel has examined the effect of adoption of the Amendment on its financial statements, and as of the date of the publication of the financial statements, the Company estimates that it will not apply the Amendment. The Company's estimation has no effect on the financial statements since the Company has no deferred- tax balances as of December 31, 2010.

## 4. The Company is an "industrial company" under the Law for the Encouragement of Industry (Taxation), 1969 and as such is entitled to certain tax benefits, including a deduction of the purchase or certain intangible property rights at the rate of 12.5% per year beginning with the first year the Company used such intangible property rights and the deduction of its public offering expenses over three years.

## b. Corporate tax structure:

The rate of the Israeli corporate tax is as follows: 2009 - 26%, 2010 - 25%. Tax at a reduced rate of 25% applies on capital gains arising after January 1, 2003, instead of the regular tax rate. In July 2009, the "Knesset" (Israeli Parliament) passed the Law for Economic Efficiency (Amended Legislation for Implementing the Economic Plan for 2009 and 2010), 2009, which prescribes, among others, an additional gradual reduction in the rates of the Israeli corporate tax and real capital gains tax starting 2011 to the following tax rates: 2011 - 24%, 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20%, 2016 and thereafter - 18%.

The effect of the abovementioned change on the financial statements is immaterial.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 18:- INCOME TAX (Cont.)

- c. Non-Israeli subsidiaries are taxed according to the applicable laws in their countries of residence. In Mongolia, the current applicable tax rates are graduated at the rate of 10% (2009: 10%) up to taxable income of MNT 3,000 million (\$ 2,367) and 25% (2009: 25%) for taxable income in excess of MNT 3,000 million (\$2,367). In Switzerland, the Company entered into a special tax program according to which its effective tax rate for the income derived from foreign sources will be 9.6%.
- d. Tax assessments:  
Final tax assessments:  
The Company received final tax assessments through 2005. The subsidiary, Shim-Tech, received final tax assessments through 2005. The subsidiary, MTSA, received final tax assessments through 2008.
- e. Carry-forward losses for tax purposes and other temporary differences:  
Carry-forward operating tax losses of the Company total approximately \$30,424 as of December 31, 2010. Carry-forward capital losses total approximately \$7,623 as of that date.  
Carry-forward operating tax losses of the subsidiaries total approximately \$18,656 as of December 31, 2010.  
Deferred tax assets relating to the carry-forward operating losses of approximately \$8,823 and to other temporary differences of approximately \$1,616 were not recognized because it is not probable they can be utilized.  
As of December 31, 2010, deferred tax liabilities associated with investments in investees which have not been recognized amounted to \$4,525, as their reversal in the foreseeable future is not probable.
- f. Significant components of the Company's deferred tax assets (liabilities) are as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Deferred tax liabilities</b>		
Property, plant and equipment	-	(951)
Unrealized intercompany profits	-	(12)
	-	(963)
<b>Deferred tax assets</b>		
Carry-forward tax losses	-	733
Other	-	230
	-	963
Total deferred tax liabilities, net	-	-

- g. Income tax benefit (expense) consists of the following:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Current	(3)	-
Adjustment in respect of current income tax of previous years	2,204	86
Deferred	-	79
	2,201	165

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 18:- INCOME TAX (Cont.)

- h. The difference between income taxes computed at statutory tax rate of the Company and income tax expense in the consolidated statement of comprehensive income is explained as follows:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Loss before tax	(28,953)	(20,638)
Tax calculated at statutory tax rate 25% (2009- 26%)	(7,238)	(5,366)
Increase (decrease) due to:		
Different income tax rates of other countries	46	230
Temporary differences for which deferred taxes were not recorded	7,813	3,738
Non-deductible expenses	114	147
Differences in measurement basis (local currency for tax purposes and dollars for financial reporting purposes)	(786)	1,172
Adjustment in respect of current income tax of previous years	(2,204)	(86)
Other	54	-
Income tax benefit	(2,201)	(165)
Effective tax rate	-	-

## NOTE 19:- RELATED PARTIES

- a. Transactions with related parties:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Employee benefits and fees:		
Shareholders (1)	396	303
Former CEO, director and shareholder (2)	-	144
Former CEO and director (3)	-	(25)
Deputy CEO and director (4)	389	394
Directors not employed by the Company	69	60
Other key management personnel	141	167
	995	1,043

- b. Compensation of related parties and key management personnel:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Short-term employee benefits	800	993
Post-employment benefits	195	122
Share-based payments	-	(72)
Total compensation	995	1,043
c. Rent expense	38	40

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 19:- RELATED PARTIES (Cont.)**

d. Balances with related parties:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Other accounts receivable (5)	26	-
Other accounts payable (5)	13	38
Dividend payable (6)	29	29
Long- term loans (7)	414	414

- (1) In accordance with the employment agreement with the Chairman of the Board of Directors who is a shareholder, he is entitled to a bonus equal to 5% of the annual increase in the net profit of the Group subject to a maximum bonus cap of £450 thousand (equal to three times his gross basic salary). There was no bonus in 2010 and 2009.
- (2) In March 2008 the Company's CEO resigned his positions as CEO and a director. As part of the severance agreement, the Company recorded an expense of \$144 in 2009.
- (3) In April 2008 the Company entered into an agreement with a new CEO. In March 2009 the CEO resigned his position and was entitled to a termination benefit which was recorded in 2008. In 2009 the Company reversed an expense in respect of the option granted to the former CEO in 2008 that had not vested at the date of his resignation see Note 22.
- (4) In April 2010, the Company entered into an agreement with a new deputy CEO and director, whereby he is entitled to annual compensation of \$307 (including wage differentials for 2009), as well as an annual bonus equal to six monthly salaries based on the Company's performance indicators. However, no bonus will be paid if the profit indicator is not met. For the year 2010, the deputy CEO will be entitled to an additional bonus at the discretion of the Board of Directors up to a maximum of 5% of the net profit for the year 2010. No bonus was awarded in 2010.
- (5) Amounts owed to shareholders on a current account basis, and bear no interest.
- (6) See Note 21 (b).
- (7) See Note 16(a) (2).
- (8) After the end of the reporting period the principal shareholder provided a bank guarantee in the amount of \$350, see Note 16 (a) (1).

**NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES**

a. In accordance with the provisions of the Law for the Encouragement of Capital Investments, 1959, the Company and its subsidiaries in Israel received grants from the State of Israel in respect of investments in their plants (see Note 11). The conditions in the letters of approval extending the grants from the State of Israel primarily include the requirements that the investments be made according to the approved plan and that at least 30% of the investments be financed by outstanding share capital. Non-fulfillment of these conditions would require the refund of the grants linked to the Consumer Price Index in Israel from the date of receipt plus interest. To guarantee fulfillment of the conditions for receiving the grants, the Company and its subsidiaries have recorded floating charges on all of their assets in favor of the State of Israel. In the opinion of management, as of December 31, 2010, the Company and its subsidiaries are meeting the required conditions.

b. Charges:

As collateral for the Company's liabilities, fixed charges have been placed on motor vehicles and inventory.

Certain bank loans are collateralized by fixed charge on the Company's share capital and goodwill and a floating charge (a continuing charge on the Company's present and future assets but permitting the Company to dispose of such assets in the ordinary course of business) on all of the assets of the Company and its subsidiaries.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

## c. Royalty commitments:

Royalties to the Office of the Chief Scientist ("OCS"):

Under the research and development agreement of the Company with the OCS and pursuant to applicable laws, the Company is required to pay royalties at the rate of 3% of sales of products developed with funds provided by the OCS, up to an amount equal to 100% of the OCS research and development grants received, linked to the U.S. dollar plus interest on the outstanding amount received based on the 12-month LIBOR rate at the date of grants received. The Company is obligated to repay the Israeli Government for the grants received only to the extent that there are sales of the funded products.

The Company did not accrue any royalties for each of the two years in the period ended December 31, 2010 as no revenues were recorded.

As of December 31, 2010, the Company had a contingent obligation to pay royalties in the amount of approximately \$ 1,268. This obligation will be recorded when payment becomes probable. In 2009 the Company received grants in the amount of \$234 for a project in slag processing. The Company recorded the received amount as a liability as it didn't receive the final approval from OCS regarding the financing of this project. After the end of the reporting period the Company received the approval from OCS.

## d. MTSA is committed to pay marketing and operating commissions to certain advisors at a rate of 0.7% and 3% of the gross amount of purchases of the Mongolian subsidiary from its main supplier of Molybdenum raw material, which is the minority shareholder of the Mongolian subsidiary.

In 2010 an agreement was signed with one of the advisors for services provided during the period from 2003 through December 31, 2009. According to the agreement the Company will pay the advisor an amount of \$730, of which \$135 was paid and the rest of the amount will be paid in 96 monthly installments. The liability was recorded at its present value in the total amount of \$530 (\$468 was classified as non-current liabilities). The resulting expense in 2010 (in excess of the accrual recorded in prior years) was recorded in selling and marketing expenses in the amount of \$306.

## e. Open purchase orders and capital commitments:

As of December 31, 2010, commitments for the purchase of property and equipment and inventory total approximately \$376.

## f. During the course of 2007 three separate legal actions were filed in the Beer Sheva District Court, all three similar in their content, yet for different financial amounts. All three have been filed claiming illnesses caused by the exposure to contaminants in the air and water caused by the factories in the Ramat Hovav Industrial Park, and all filed against the Ramat Hovav Local Council and the State of Israel, The first action, filed by 9 plaintiffs, is for \$12,961, including special damages, loss of future earnings, refund of legal fees and punitive damages. The second action, filed by 19 plaintiffs, is for \$15,216. The third action, filed by 54 plaintiffs, is in the amount of \$40,011. The Ramat Hovav Local Council in turn named certain factories including Metal-Tech as a third party to these actions. On October 30, 2008, the Company filed a writ of defense as third parties defendant named by the Ramat Hovav Council, and on February 1, 2009, as a third party defendant named by the State of Israel. It is the opinion of the Company's legal counsel that these lawsuits will continue for many years until a final verdict will be given.

In view of the above and owing to various reasons including the fact that the claims are convoluted and based on arguments of ecological damage and given the large number of parties involved (and the difficulty to estimate the distribution of responsibilities among them, if any), the exposure of substantially all of the plaintiffs to other risk factors, the factual, scientific and legal issues that need to be decided, the difficulty in determining and proving the existence/non existence of a causal relation and the absence of an accurate amount of the damage, at this stage, the Company and its legal counsel are unable to assess whether the plaintiffs' position regarding the issue of the claims' specific causal relation will eventually be accepted. Accordingly, no provision was included in respect of these claims in the financial statements.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 20:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)**

- g. In April 2010 the Company signed an MOU with a foreign company (the partner).

The parties agreed to erect a semi-industrial pilot plant at the Company's premises for running continuous testing with the partner's molybdenum concentrate in order to verify the design, operational and environmental parameters for the successful implementation of the project on a larger scale based on the Company's IP.

The parties agreed that the budget for the construction and operation of the pilot plant will be \$1,300, of which \$800 is a capital investment and related expenditure (phase 1) and \$500 is an operational expenditure (phase 2). The capital expenditure will be borne by both parties in equal shares (the partner up to \$400) and the operational expenditure will be borne by the partner.

The total expenditures incurred were \$1,200, of which \$500 was recorded in property and equipment and an additional \$700 was recorded under research and development expenses. The Company received \$400 from the partner, of which \$250 was credited to research and development expenses and \$150 was credited to property and equipment.

In December 2010 the Company started phase 2 of the pilot and recorded income from participations in the amount of \$125 under research and development expenses, see Note 24(b).

**NOTE 21:- EQUITY**

- a. The share capital is composed as follows:

	<u>Authorized</u>	<u>Issued and outstanding</u>
	<u>December 31, 2010 and 2009</u>	
Ordinary shares of NIS 0.2 par value each	<u>100,000,000</u>	<u>38,376,923</u>

The Company's shares are traded on the London Stock Exchange Alternative Investment Market ("AIM"), under the symbol "MTT".

- b. Dividends:

In accordance with resolutions approved by the shareholders in meetings held in May 2007 the Company declared dividends in the amount of \$ 1,189, of which \$249 was paid in July 24, 2007. An additional \$731 was paid during 2008 and \$180 was paid during 2009 and the balance of \$ 29 is presented as a liability.

**NOTE 22:- SHARE-BASED PAYMENTS PLANS**

- a. The expense recognized for employee services received during the year is shown in the following table:

	<u>2010</u>	<u>2009</u>
Expenses of share-based payment transactions:		
Cost of goods sold	99	60
General and administrative expenses	65	30
Total	<u>164</u>	<u>90</u>

- b. Description of the Company's Options Plan

1. 2007 Israeli Option Plan

In 2007, the Company adopted the 2007 Israeli Option Plan (the "2007 Plan"), which complies with the Israeli tax reforms. Qualified options are held in trust until the later of 24 months from the date of grant of the options, or the vesting of the options based on a vesting schedule determined by a committee appointed by the Company's Board of Directors. 1,918,846 options were reserved for issuance as of December 31, 2007 under this plan. As of December 31, 2010, 613,301 options remain available for grant under the 2007 Plan and 830,854 options were forfeited (2009- 823,691). Each option under the plan is exercisable into one ordinary share at an exercise price of £1.3. The 2007 Plan expires in June 2017.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 22:- SHARE-BASED PAYMENTS PLANS (Cont.)**

## b. Description of the Company's Options Plan (Cont.)

Two third of the options under the 2007 plan are exercisable over a 24-months period and one third of the options are exercisable over 36- months period, from the date of grant. The fair value of the options granted was £0.748 (\$1.5).

## 2. 2008 Israeli Option Plan- A

On September 17, 2008, the Company's Board of Directors approved a grant of 1,017,500 options to the CEO.

Each option under the plan is exercisable into one Ordinary share at an exercise price of £0.62.

The vesting conditions for 508,750 options (sub plan 1) are time-based and for 508,750 options (sub plan 2) are time based as well as performance based.

Subplan 1- options vest semi-annually over four years from April 14, 2008.

Subplan 2 - options vest semi-annually over four years from April 14, 2008 and are also subject to an earnings per share ("EPS") performance target of an annual increase in EPS of 10% in relation to the Company's EPS as of December 31, 2007 and measured in each vesting date on the basis of the most recent semi- annual or annual published financial results of the Company.

The weighted average fair value of each option granted is £0.13 (\$0.232) (see c below).

The former CEO resigned in 2009 and therefore all 890,313 unvested options were forfeited.

## 3. 2008 Israeli Option Plan – B

On November 20, 2008 the Company's Board of Director approved a grant of 2,500,000 options to the Company's employees, 183,504 options remain available for grant under this plan. Each option under the plan is exercisable into one Ordinary share at an exercise price of 18.5 pence.

The options vest in eight equal semiannual tranches, starting the on first anniversary of the grant date (4.5 years in total) subject to meeting certain market conditions.

In order to determine the number of options which should actually vest at the end of every 6 months (the "Vesting Date"), the amount of options which are scheduled to vest on each Vesting Date, together with options which were carried forward from the previous Vesting Date, if at all, will be multiplied by two percentage factors, which will be determined based on meeting two criteria, as follows:

1. First, the percentage of options which will vest on each Vesting Date will depend on Total Shareholder Return (share price appreciation plus dividends ("TSR") as follows:
  - (a) 100% if TSR is 20% or more on an annualized basis from the date of grant;
  - (b) 50% if TSR is at least 10% on an annualized basis from the date of grant;
  - (c) 0% if TSR is less than 10% on an annualized basis from the date of grant;
 and pro rata on a straight line basis if TSR is between 50% and 100%.
2. The amount of vested options calculated pursuant to the TSR criteria will then be multiplied by a further percentage factor, which depends on Earning per Share Growth ("EPSG"), as follows:
  - (a) 100% if EPSG is 10% or more on an annualized basis from the date of grant;
  - (b) 50% if EPSG is at least 5% on an annualized basis from the date of grant;
  - (c) 0% if EPSG is less than 5% on an annualized basis from the date of grant;
 and pro rata on a straight line basis if EPSG is between 50% and 100%.

TSR and EPSG will be measured semi-annually. Share price will be defined as the average closing price for all trading days in the last month of the half year.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 22:- SHARE-BASED PAYMENTS PLANS (Cont.)

## b. Description of the Company's Options Plan (Cont.)

Each measurement will apply to all previous vesting periods, on a cumulative basis. In other words, options not vested on a certain Vesting Date as a result of the above calculations, shall be carried forward to the following scheduled Vesting Date and added to the scheduled number of options due on such following Vesting Date. The number of such added options together with the number of such scheduled Options shall form the basis for the above calculations at the following Vesting Date and so forth through the last Vesting Date.

The weighted average fair value of options granted is £0.06 (\$0.09).

The options will expire after 10 years from vesting commence date.

As of December 31, 2010 1,710,824 (2009- 1,431,240) options were forfeited.

## 4. 2010 Israeli option plan

In November, 2010 the Company's Board of Directors approved a grant of 4,100,000 options to the Company's employees, 954,939 options remain available for grant under this plan. Each option under the plan is exercisable into one Ordinary share at an exercise price of 14 pence.

15% of the options vested on the date of grant and the remaining 85% of the options will be vested in four equal semiannual installments of 21.25% each, commencing upon six months elapsing from the date of grant, in January 2, 2011.

The weighted average fair value of options granted is £0.11 (\$0.17).

The option plan is effective as of the day it was adopted by the Board (November 23, 2010) and shall terminate at the end of 10 years from such day of adoption.

## c. The following table lists the inputs to the models used for the three plans for the years ended December 31, 2010 and 2009:

	Option plan			
	2010	2008		2007
		A	B	
Dividend yield (%)	-	1.1	-	1.29
Expected volatility (%)	90	44.7-48.4	45.5-75.8	34.3-62.2
Risk-free interest rate (%)	3.7	4.7-4.5	1.8-5.2	4.5-5.8
Post vest cancellation rate (%)	-	-	9.8	6.5
Suboptimal factor	2.5	2.8	1.2	2.8
Weighed average share price (€)	0.14	0.38	0.185	1.48
Model used	Binomial	Binomial	Monte-Carlo	Binomial

In 2009 option plan and 2007 option plan the assumptions used are based on historical data of the Company and comparable companies as the Company's shares were publicly traded less than five years. In 2010 option plan, the assumptions are based on the historical data of the Company. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The options granted are equity-settled plans and the fair value is measured at the grant date.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 22:- SHARE-BASED PAYMENTS PLANS (Cont.)**

- d. The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the years:

	2010		2009	
	No.	WAEP	No.	WAEP
Outstanding as of January 1	1,505,298	0.59	3,854,350	0.45
Granted during the year	3,145,061	0.14	-	-
Forfeited during the year	(339,605)	0.20	(2,349,052)	0.36
Outstanding as of December 31	<u>4,310,754</u>	<u>0.29</u>	<u>1,505,298</u>	<u>0.59</u>
Exercisable as of December 31	<u>1,084,637</u>		<u>455,757</u>	

The weighted average remaining contractual life for the share options outstanding as of December 31, 2010 is 9.2 years (2009- 8.1 years).

The weighted average fair value of options granted during 2010 was £ 0.11 (\$0.17).

- e. The options granted to employees under those plans were offered to employees who are not "controlling shareholders" as the term is defined in the Income Tax Ordinance in Israel, through a trustee, based on Section 102 of the Income Tax Ordinance.

**NOTE 23:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES**

- a. The Group's principal financial liabilities, other than derivatives, are comprised of bank credit, bank loans and trade payables. The main purpose of these financial instruments is to raise financing for the Group's operations. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations.

The Group also enters into derivative transactions, primarily forward currency and options contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

It is, and has been throughout 2010 and 2009, the Group's policy that no trading in derivatives shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Company's management reviews and agrees on policies for managing each of these risks which are summarized below.

Interest rate risk:

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's debt obligations with floating interest rates. As of December 31, 2010, approximately 24% (2009- 25%) of the Group's borrowings is at a fixed rate of interest. Due to the fact that the Group's long-term borrowings bear a fixed rate of interest, no major exposure exists. The following is sensitivity to a reasonably possible change in interest rates with all other variables held constant: an increase/decrease of 1% in the interest rate will result in decrease/increase in profit of the Company of approximately \$278 (2009-\$ 159).

Foreign currency risk:

As of December 31, 2010, approximately 24% (2009-34%) of the Group's financial assets and 30% (2009-29%) of the Group's financial liabilities were on currencies other than the functional currency of the relevant entity (mainly EURO). As such, changes in foreign exchange rates should have a limited impact on the Group's financial performance. The Group has not presented a sensitivity analysis to a reasonably possible change due to immateriality.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 23:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

The Group also has transactional currency exposures. Such exposure arises from sales or purchases by an operating unit in currencies other than the Company's functional currency. Approximately 32% (2009- 25%) of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 80% (2009- 74%) of costs are denominated in the unit's functional currency. See (d) for further details on derivative financial instruments.

Credit risk:

The Group trades mostly with recognized, creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in Note 7. There are no significant concentrations of credit risk within the Group.

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, short term deposits, short-term and long-term restricted cash and trade receivables.

Cash and cash equivalents are invested in U.S. dollars and in NIS in major banks in Israel and abroad. Management believes that the financial institutions that hold the Company's investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

Liquidity risk:

The Group monitors its risk to a shortage of funds. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans.

## b. Concentration of liquidity risk:

The table below presents the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

December 31, 2010:

	<u>Less than one year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>&gt; 5 years</u>	Total
Short-term bank credit	3,762	-	-	-	-	3,762
Loans from banks	11,748	-	-	-	-	11,748
Trade payables (1)	11,954	-	-	-	-	11,954
Other accounts payable	4,445	-	-	-	-	4,445
Long- term loans (1) (2)	12,675	73	-	-	414	13,162
Other long- term liability	77	77	77	77	287	595
	<u>44,661</u>	<u>150</u>	<u>77</u>	<u>77</u>	<u>701</u>	<u>45,666</u>

December 31, 2009:

	<u>Less than one year</u>	<u>1 to 2 years</u>	<u>2 to 3 years</u>	<u>3 to 4 years</u>	<u>&gt; 5 years</u>	Total
Short-term bank credit	5,915	-	-	-	-	5,915
Loans from banks	10,291	-	-	-	-	10,291
Trade payables (1)	8,342	-	-	-	-	8,342
Other accounts payable	4,385	-	-	-	-	4,385
Long- term loans (1) (2)	10,529	1,463	-	-	414	12,406
	<u>39,462</u>	<u>1,463</u>	<u>-</u>	<u>-</u>	<u>414</u>	<u>41,339</u>

(1) Includes balances relating to suspended plant, see Note 1 (b).

(2) Regarding reclassification of long-term loan payments to banks in current liabilities and agreements reached with banks in 2010, see Notes 14 and 16 (a) (1).

Regarding agreements reached with banks subsequent to the end of the reporting period date, see Note 16.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 23:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

## c. Fair value of financial instruments:

The carrying amounts of cash and cash equivalents, short-term restricted cash, trade receivables, other accounts receivable, short-term bank credit, short term loans, trade payables and other accounts payable approximate their fair value due to the short-term maturity of such instruments.

The fair value of available for sale marketable securities was determined by reference to quoted bid prices at the close of business on the balance sheet date.

The carrying amounts of the Group's short-term loans approximate their fair value as the interest rates are variable.

The fair value of long- term loan received with fixed interest in the carrying amount of \$6,787 based on the computation of the present value of cash flows using interest rate currently available for loan with similar terms is \$6,616 (2009- \$ 6,956, \$ 6,305, respectively).

## d. Derivative financial instruments:

To hedge against the risk of changes in the value of cash flows resulting from forecasted transactions of foreign currency receipts related to sales during the year, the Company has instituted a foreign currency cash flow hedging program. The Company hedges portions of its forecasted receipts denominated in Euros with forward contracts or with put and call options. These forward contracts and options are designated as cash flow hedges. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness. As of December 31, 2010 since the derivative instruments do not qualify as hedging instruments, changes in their fair value are recognized in profit or loss.

As of December 31, 2010, the Company has the following out standing in derivatives:

Six forward contracts, each for the exchange of € 500 thousand into dollars at rates of \$ 1.197- \$ 1.305, which expire in the middle of each month during the period from January 7, 2011 to April 7, 2011. The fair value of the forward contracts is a liability in the amount of \$251, which in is included in other accounts payable.

The Company recorded a gain of \$ 102 and \$ 142 during the years ended December 31, 2010 and 2009, respectively, related to the forward exchange contracts and options.

## e. Financial asset and liabilities measured at fair value through profit and loss:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Derivative financial instruments:		
Other accounts receivable	-	209
Other accounts payable	251	-

The financial instruments presented in the balance sheet at fair value are grouped into classes with similar characteristics using the following fair value hierarchy which is determined based on the source of input used in measuring fair value:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data (valuation techniques which use inputs that are not based on observable market data).

Financial assets measured at fair value at level 2.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 23:- FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont.)

## f. Capital management:

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions.

## NOTE 24:- SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## a. Cost of sales before write-down of inventories:

	Year ended December 31,	
	2010	2009
Materials	38,885	36,268
Salaries and related benefits	2,908	3,103
Depreciation	1,099	2,335
Maintenance and repairs	785	731
Electricity, water and gas	971	1,097
Packaging, transportation and shipping	246	(*355)
Other	577	683
	<u>45,471</u>	<u>44,572</u>
Write -down of inventories	<u>-</u>	<u>1,497</u>

\*) Reclassified, see Note 3(z).

## b. Research and development expenses, net (1):

Salaries and related benefits	902	740
Subcontractors	122	99
Supplies and materials	237	175
Other	360	90
	<u>1,621</u>	<u>1,104</u>
Less – research and development grants and participations	<u>(843)</u>	<u>(449)</u>
(1) See Notes 10 and 20(g).	<u>778</u>	<u>655</u>

## c. Selling and marketing expenses:

Transportation and shipping	1,553	(*592)
Salaries and related benefits	648	621
Commissions	417	501
Travel	25	21
Other	476	87
	<u>3,119</u>	<u>1,822</u>

\*) Reclassified, see Note 3(z).

## d. General and administrative expenses:

Salaries and related benefits	2,275	2,439
Professional fees	760	924
Communications	211	276
Travel	279	223
Doubtful accounts	-	308
Other	331	392
	<u>3,856</u>	<u>4,562</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

## NOTE 24:- SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Cont.)

- e. Expenses of suspended production plant:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Depreciation	1,595	-
Write-down of inventories	717	-
Impairment of property, plant and equipment	15,711	2,227
Salaries and related benefits	487	-
Others	798	-
	<u>19,308</u>	<u>2,227</u>

- f. Finance costs and finance income:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Finance costs:		
Interest in respect of loans	(928)	(1,057)
Bank commissions and other expenses	(229)	(301)
Foreign exchange differences	(1,100)	(569)
Amortization and impairment of deferred finance costs	-	(528)
	<u>(2,257)</u>	<u>(2,455)</u>
Finance income:		
Interest in respect of deposits and others	55	89
Foreign exchange differences	-	195
Gain from derivative	102	142
	<u>157</u>	<u>426</u>

## NOTE 25:- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS

The Group manages its business on a basis of one reportable segment.

- a. Revenues classified by geographical destinations based on the customer location:

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
United States	21,017	13,851
Europe	12,382	10,514
South Africa	9,932	5,359
Israel	1,552	768
Japan	338	1,493
Others	657	862
China	-	2,861
Korea	-	1,034
	<u>45,878</u>	<u>36,742</u>

- b. Information about sales to major customers (as a percentage of total revenues):

	<b>Year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Customer A	<u>20%</u>	<u>12%</u>
Customer B	<u>10%</u>	<u>8%</u>

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****U.S. dollars in thousands****NOTE 25:- REVENUES BY GEOGRAPHIC AREAS AND MAJOR CUSTOMERS (Cont.)**

- c. The Company's long-lived assets by geographic area are as follows:

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Israel	9,709	8,879
Mongolia *)	-	17,306
Czech Republic	30	46
Switzerland	-	1
	<u>9,739</u>	<u>26,232</u>

\*) See Note 1 (b).

**NOTE 26:- SUBSEQUENT EVENTS**

- a. On May 2011, the court in Mongolia declared Shim- Tech as insolvent, see Note 1 (b).
- b. On June 2011, the Company reached an agreement with a bank regarding rescheduling the repayment of a long term loan due in July 2011, see Note 16.

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