

26 September 2011

**Metal-Tech Ltd.**  
("Metal-Tech" or "the Company")

Results for the six months ended 30 June 2011

Metal-Tech, the producer and recycler of speciality metals such as Tungsten and Molybdenum, announces results for the six months ended 30 June 2011.

**Financial Summary:**

- Revenue increased 40% to US\$29.9m (H1 2010: US\$21.3m), reflecting increased prices of Tungsten
- Gross profit increased to US\$3.9m in (H1 2010: US\$0.3m loss), due to tight cost control measures and an increase in Tungsten prices
- Net Profit of US\$2.5m (H1 2010: US\$5.4m loss)
- Income incurred by deconsolidation of a subsidiary that ceased being consolidated, Shim-Technology Co. Ltd. ("Shim-Tech"), the Company's Mongolian subsidiary, of US\$3.5m (H1 2010: US\$1.4 loss) presented in discontinued operations
- Operating expenses as a percentage of revenue reduced to 13% (H1 2010: 16%)
- Bank debt was US\$20.7m at 30 June 2011 (31 December 2010: US\$21.9m after neutralisation of US\$6.7m loan of non consolidated subsidiary)
- Cash, cash deposits and restricted cash balance at 30 June 2011 were US\$6.4m (31 December 2010: US\$7.3m). The restricted cash at 30 June 2011 was US\$5.6m (31 December 2010: US\$5.1m)
- Positive cash flow from operating activities US\$1.5m (31 December 2010: negative US\$1.0m)

**Operational Summary:**

- Average selling Tungsten prices increased 64% compared with the same period last year
- On 31 March 2011, a four-month industrial pilot phase for the validation of the Company's novel molybdenum extraction technology was completed satisfactorily under the supervision of a major publicly-traded international Chilean copper/molybdenum company. Negotiations regarding the implementation of the project have started, however it is currently difficult to assess if or when and what type of project will be implemented and any associated financial outcome to the Company
- Tightly managed costs and cash flow to improve efficiency while maintaining strong focus on R&D in strategic areas

- The Company’s arbitration case against the Republic of Uzbekistan is ongoing, alleging that the country’s treatment of Metal-Tech’s 50% investment in Uzmetal Technology is unlawful

Commenting on the results, Aik Rosenberg, Executive Chairman and CEO of the Company, said: “We are pleased to report a period of continued progress in the first half of 2011. Strong demand for Tungsten led to sales of the metal at higher prices compared with the same period last year. The Company also remained committed to tightly managing its costs and finance whilst driving the business forward by increasing its recycling and production activities.”

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## **Operating Review**

Metal-Tech is pleased to report strong revenue growth and an improved operational performance in the first half of 2011. Revenue increased by 40% to US\$29.9m (H1 2010: US\$21.3m), reflecting increased sales prices. Tungsten prices were up 64% compared with the same period last year.

Metal-Tech achieved a gross profit of US\$3.9m in H1 2011 compared with a gross loss of US\$0.3m the first half of 2010, due to tight cost control measures and higher Tungsten prices.

As previously stated, the Company has taken steps to increase its recycling and production capacity in Israel by preparing and submitting an investment program to the Israel Ministry of Trade and Industry as well as seeking other international opportunities for co-production. The Israel Ministry of Trade has now approved the Company's investment program of US\$10 million, which provides a grant of 24% from the investment. While a proportion of the investment has been made from Metal-Tech's available cash resources including operating cash flow, further finance will be required to complete the program. Such funding would assist Metal-Tech's plans to increase its production capacity.

## **Focus on R&D**

Investment in R&D continued in the first half of 2011 to be directed to the validation of the Company's novel molybdenum extraction technology and is expected to yield attractive returns in the short to medium term.

As stated previously, the Company made a breakthrough on 31 March 2011 when the four-month industrial pilot phase for the validation of the novel molybdenum extraction technology was completed under the supervision of a major publicly-traded international Chilean copper\molybdenum company. The process and equipment were proven to operate continuously at high efficiency and with low operating expense, and produced high quality molybdenum and rhenium from low grade molybdenum concentrate.

This success may lead to the implementation of this technology by the Chilean company as well as others. However, although the parties are currently in negotiations regarding the implementation of the project, the Company does not have any information on when and what type of project will be implemented, and the financial impact of this development which may include an element of required funding by the Company.

## **Update on Mongolian Operations**

As stated on 28 June 2011, the Company was informed that the court in Erdenet has declared Shim-Tech, the Company's Mongolian subsidiary, bankrupt and ordered relevant authorities to freeze its accounts and seize its assets. As a result, the Company is no longer in control of Shim-Tech and therefore ceased to consolidate the financial statements of Shim-Tech. As previously stated, Metal-Tech is taking all necessary

actions in Mongolia to attain a fair and just result for the Company, including the submission of its claims as creditor of Shim-Tech.

### **Update on Uzbekistan Action**

As announced in January 2010, Metal-Tech filed a Request for Arbitration against the Republic of Uzbekistan, alleging that the country's treatment of Metal-Tech's 50% investment in UzMetal-Technology, a joint venture to produce high-quality molybdenum products, is unlawful. The Request for Arbitration, filed with the International Centre for Settlement of Investment Disputes (ICSID) based in Washington, D.C., alleged 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.

The current position is that an Arbitral Tribunal, comprising a nominee of the Republic of Uzbekistan, a nominee of the Company and an independent but mutually agreed nominee as the Chair, has been appointed. To date, both parties have filed their respective submissions before the Tribunal, including the Company's statement of claim. The parties have completed their respective documents and the Company submitted its final rejoinder, all in accordance with the procedural calendar. The Tribunal has already held sessions in which, *inter alia*, the agenda for the proceedings was presented and the process is expected to take up to 18 months to complete.

### **Financial Review**

#### ***Income statement***

Revenues for the six months ending 30 June 2011 were US\$29.9m, an increase from US\$21.3m in H1 2010. Profit attributed to equity holders was US\$2.7m, down from a loss of US\$5.4m in H1 2010. Net profit includes income incurred by discontinued operation of Shim-Technology Co. Ltd. (Shim-Tech), the Company's Mongolian subsidiary US\$3.5m (H1 2010: US\$1.4 loss).

Gross profit increased to US\$3.9m in (H1 2010: US\$0.3m loss) due to tight cost control measures and an increase in Tungsten prices.

Throughout the first half the Company continued to reduce operating expenses across all business functions. The Company maintained its focus on cash generation including the reduction of inventory levels. Inventory decreased by US\$3.7m from US\$21.1m at 31 December 2010.

General and Administrative expenses increased to US\$2.1m in the first half of 2011 compared with US\$1.7m in equivalent period in 2010. This increase was the result of several factors, including increased investment in new business development activity. The increase in this expenses (in NIS Currency) was due to decrease of dollar average rate and also due to increase in Legal expenses related to Uzbekistan arbitration.

#### ***Balance sheet statement***

The Company reduced its debt levels with a reduction of bank debt from US\$21.9m at 31 December 2011 to US\$20.7m at 30 June 2011. Inventory decreased by \$3.7m from \$21.1m at 31 December 2010.

At 30 June 2011, the cash, cash equivalents and restricted cash balance of the Company was US\$6.4m compared to US\$7.3m at 31 December 2010 and US\$8.2m at 30 June 2010. The Company believes this is sufficient to meet Metal-Tech's current financing costs and expected operating expenses. The Company will continue to prudently manage its affairs in order to maintain sufficient operating cash flow.

The Group has a positive working capital position at 30 June 2011 compared to working capital deficiency at 31 December 2010.

### **Outlook**

Metal-Tech has entered the second half with continued solid demand for Tungsten and expects revenues for FY 2011 to be higher than in 2010. Global macro-economic conditions continue to impact the Tungsten industry, with demand outstripping supply and a high price which is expected to remain at the same level, resulting in increased revenues for the Company.

The Company continues to maintain tight control of cash and cost, whilst driving the business forward by increasing its recycling and production activities.

**CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	<u>Unaudited</u>		<u>Audited</u>
	<u>June 30,</u>		<u>December 31,</u>
	<u>2011</u>	<u>2010</u>	<u>2010</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	790	4,655	2,243
Restricted cash	5,631	3,493	5,104
Trade receivables	11,281	10,110	11,076
Other accounts receivable	1,462	3,475	1,201
Inventories	17,441	22,398	21,131
	<u>36,605</u>	<u>44,131</u>	<u>40,755</u>
NON-CURRENT ASSETS:			
Property, plant and equipment	<u>10,194</u>	<u>25,795</u>	<u>9,739</u>
<u>Total assets</u>	<u><u>46,799</u></u>	<u><u>69,926</u></u>	<u><u>50,494</u></u>

**CONSOLIDATED BALANCE SHEETS**

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

	<u>Unaudited</u>		<u>Audited</u>
	<u>June 30,</u>		<u>December 31,</u>
	<u>2011</u>	<u>2010</u>	<u>2010</u>
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank credit	4,354	3,609	3,762
Short-term loans and current maturities	15,973	11,203	17,636
Loan related to suspended plant	-	6,757	6,787
Trade payables	7,128	8,359	8,620
Other trade payables related to suspended plant	-	2,972	3,334
Income taxes payable	5,529	6,700	5,319
Other accounts payable	4,674	4,561	4,507
	<u>37,658</u>	<u>44,161</u>	<u>49,965</u>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term loans	414	5,081	487
Employee benefit obligations	387	453	506
Other liabilities	436	-	468
Provision for losses in excess of investment in investee	69	-	69
	<u>1,306</u>	<u>5,534</u>	<u>1,530</u>
<u>Total liabilities</u>	<u>38,964</u>	<u>49,695</u>	<u>51,495</u>
<b>EQUITY:</b>			
Equity attributable to the equity holders of the Company:			
Issued capital	2,399	2,399	2,399
Share premium	23,892	23,892	23,892
Other reserves	1,066	758	878
Accumulated deficit	(19,522)	(6,818)	(22,249)
	<u>7,835</u>	<u>20,231</u>	<u>4,920</u>
Non- controlling interests	-	-	(5,921)
<u>Total equity (deficit)</u>	<u>7,835</u>	<u>20,231</u>	<u>(1,001)</u>
<u>Total liabilities and equity</u>	<u>46,799</u>	<u>69,926</u>	<u>50,494</u>

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

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

	Unaudited		Audited
	Six months ended June 30, 2011	2010	Year ended December 31, 2010
Revenues	29,900	21,317	45,878
Cost of sales	26,035	(* 21,623)	45,471
Gross profit (loss)	3,865	(306)	407
Research and development expenses ,net	473	415	778
Selling and marketing expenses	1,238	(* 1,332)	3,119
General and administrative expenses	2,078	1,632	3,798
Total operating expenses	3,789	3,379	7,695
Operating profit (loss)	76	(3,685)	(7,288)
Finance costs	(1,260)	(766)	(1,962)
Finance income	197	471	157
Other income (expense), net	20	(6)	3
Company's share of loss of company accounted for at equity	-	-	(202)
Loss before tax	(967)	(3,986)	(9,292)
Income tax benefit (expense)	(4)	-	2,201
loss from continuing operations	(971)	(3,986)	(7,091)
Income (loss) from discontinued operations, net	3,564	(1,414)	(19,661)
Total comprehensive income (loss)	2,593	(5,400)	(26,752)
Total comprehensive income (loss) attributable to:			
Equity holders of the Company	2,727	(5,400)	(20,831)
Minority interests	(134)	-	(5,921)
	2,593	(5,400)	(26,752)
Basic and diluted loss per share attributable to Ordinary equity holders of the Company from continuing operation	(0.03)	(0.10)	(0.18)
Basic and diluted loss per share attributable to Ordinary equity holders of the Company from discontinuing operation	0.1	(0.04)	(0.36)
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	38,376,923

\*) Reclassified – see note 3

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands

	Attributable to equity holders of the Company				Total	Non controlling interest	Total equity
	Share capital	Share premium	Other reserves	Accumulated deficit			
	<b>Unaudited</b>						
<b>Balance as of January 1, 2011 (Unaudited)</b>	2,399	23,892	878	(22,249)	4,920	(5,921)	(1,001)
Total comprehensive loss	-	-	-	2,727	2,727	(134)	2,593
Deconsolidation of company that ceased being consolidated	-	-	-	-	-	6,055	6,055
Share based payment	-	-	188	-	188	-	188
<b>Balance as of June 30, 2011</b>	<u>2,399</u>	<u>23,892</u>	<u>1,066</u>	<u>(19,552)</u>	<u>7,835</u>	<u>-</u>	<u>7,835</u>
	Attributable to equity holders of the Company						
	Share capital	Share premium	Other reserves	Accumulated deficit	Total	Non controlling interest	Total equity
	<b>Unaudited</b>						
<b>Balance as of January 1, 2010 (Unaudited)</b>	2,399	23,892	714	(1,418)	25,587	-	25,587
Total comprehensive loss	-	-	-	(5,400)	(5,400)	-	(5,400)
Share based payment	-	-	44	-	44	-	44
<b>Balance as of June 30, 2010</b>	<u>2,399</u>	<u>23,892</u>	<u>758</u>	<u>(6,818)</u>	<u>20,231</u>	<u>-</u>	<u>20,231</u>
	Attributable to equity holders of the Company						
	Share capital	Share premium	Other reserves	Retained earnings	Total	Non controlling interest	Total equity
	<b>Audited</b>						
<b>Balance as of January 1, 2010 (Audited)</b>	2,399	23,892	714	(1,418)	25,587	-	25,587
Total comprehensive loss	-	-	-	(20,831)	(20,831)	(5,921)	(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>(5,921)</u>	<u>(1,001)</u>

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

U.S. dollars in thousands

	<b>Unaudited</b>		<b>Audited</b>
	<b>Six months ended June 30,</b>		<b>Year ended</b>
	<b>2011</b>	<b>2010</b>	<b>December 31,</b>
			<b>2010</b>
<u>Cash flows from operating activities:</u>			
Net income (loss)	2,593	(5,400)	(26,752)
<u>Adjustments to reconcile net loss to net cash provided by operating activities:</u>			
Adjustments to the profit or loss items:			
Depreciation	558	515	1,099
Income (loss) from discontinued operations, net	(3,564)	1,414	19,661
Gain on marketable securities	-	(14)	(13)
Capital gain from sale of property, plant and equipment	-	3	(4)
Employee benefit obligations	(119)	148	201
Accrued interest and foreign exchange differences on short and long-term liabilities, net	529	26	1,078
Cost of share based payments	188	44	164
Company's share of loss of company accounted for at equity	-	-	202
Income tax expenses (benefit)	4	-	(2,201)
	<u>(2,404)</u>	<u>2,136</u>	<u>20,187</u>
Changes in operating asset and liability items:			
Increase in trade receivables, net	(205)	(358)	(1,324)
Decrease in other accounts receivable	(261)	(1,540)	(475)
Decrease in inventory	3,690	4,141	4,696
Increase (decrease) in trade payables	(1,415)	2,692	3,132
Increase in related parties, net	-	(25)	(68)
Increase (decrease) in other accounts payable	(43)	(395)	1,022
	<u>1,766</u>	<u>4,515</u>	<u>6,983</u>
Cash paid and received during the year for:			
Interest received	15	-	23
Interest paid	(380)	(319)	(1,101)
Income tax received	-	-	232
Income tax paid	(7)	(3)	(97)
	<u>(372)</u>	<u>(322)</u>	<u>(943)</u>
Net cash provided by (used in) continuing operating activities	<u>1,583</u>	<u>929</u>	<u>(525)</u>
Net cash used in discontinuing operating activities	<u>(97)</u>	<u>(225)</u>	<u>(481)</u>
Net cash provided by (used in) operating activities	<u>1,486</u>	<u>704</u>	<u>(1,006)</u>

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

## CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Unaudited		Audited
	Six months, ended June 30,		Year ended December 31,
	2011	2010	2010
<u>Cash flows from investing activities:</u>			
Purchase of property, plant and equipment	(1,013)	(880)	(2,138)
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	7
Proceeds from of investments in previously consolidated subsidiaries (a)	-	-	-
Realization of marketable securities	-	100	99
Increase in restricted cash	(527)	(10)	(1,112)
Net cash used in investing activities	(1,540)	(783)	(3,127)
<u>Cash flows from financing activities:</u>			
Proceeds (repayment) from short -term loans, net	(615)	(2,659)	6,002
Repayment of long-term loans	(1,376)	(1,759)	(3,352)
Proceeds of long-term loans	-	5,507	-
Increase (decrease) in short-term bank credit, net	592	(2,234)	(2,153)
Net cash used in financing activities	(1,399)	(1,145)	497
Decrease in cash and cash equivalents	(1,453)	(1,224)	(3,636)
Cash and cash equivalents at the beginning of the year	2,243	5,879	5,879
Cash and cash equivalents at the end of the period	790	4,655	2,243

	Unaudited		Audited
	Six months, ended June 30,		Year ended December 31,
	2011	2010	2010
a. <u>Proceeds from investments in previously consolidated subsidiaries:</u>			
Working capital (excluding cash and cash equivalents)	10,692	-	-
Non-current liabilities	(597)	-	-
Non-controlling interests	(6,055)	-	-
Gain from previously consolidated subsidiaries	(4,040)	-	-
	-	-	-

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands

### NOTE 1 - GENERAL:

The interim financial statement as of 30 June 2011 and for the six month period then ended (hereafter – the interim statements) were prepared in condensed form in accordance with IAS 34 – “Interim Financial Reporting”.

The accounting policies applied in preparation of the interim financial statements are consistent with those used in the 2010 annual financial statements but have not been audited or reviewed by the auditors. Nevertheless, the interim statements do not include all the information and explanations required for annual financial statements, and should be read in conjunction with the 2010 annual financial statements.

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

### NOTE 2 – REVENUES BY GEOGRAPHICAL SECTOR

Revenues classified by geographical destinations based on the customer location:

	<u>Unaudited</u>		<u>Audited</u>
	<u>Six month, ended June 30,</u>		<u>Year ended</u>
	<u>2011</u>	<u>2010</u>	<u>December 31,</u>
			<u>2010</u>
United States	10,561	10,472	21,017
Europe	11,589	5,722	12,382
South Africa	4,700	3,963	9,932
India	1,806	-	-
Japan	729	108	338
Israel	137	890	1,552
Others	378	162	657
	<u>29,900</u>	<u>21,317</u>	<u>45,878</u>

### NOTE 3 – 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 for the six month period ended June 2010 amounting to \$696 (thousand) has been reclassified.

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**U.S. dollars in thousands**

### **NOTE 4 – INVESTMENTS IN PREVIOUSLY CONSOLIDATED SUBSIDIARIES:**

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

As stated on 28 June 2011, the Company was informed that the court in Erdenet (Mongolia) has declared Shim-Tech bankrupt and ordered to freeze its accounts and seize its assets. As a result the Company no longer controls Shim-Tech and therefore ceased to consolidate the financial statements of Shim-Tech. Metal-Tech is taking all necessary actions in Mongolia to attain a fair and just result for the Company, including the submission of its claims as creditor of Shim-Tech.

As a result of the deconsolidation of Shim-Tech, the Company recorded an income of \$3,564 (1H 2010: loss of \$ 1,414) (figures in thousands). This is presented in the accounts on a net basis as income (loss) from discontinued operations.