ScanArc Group

3rd quarter report 2008

This condensed interim financial report is prepared in accordance with the International Accounting Standard 34 (IAS 34) 'Interim financial reporting'. The condensed interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

Highlights

The following summarises the highlights for the 3rd quarter of 2008 :

- Increased activity in ScanArc Plasma Technologies AB (SPT AB).
- Technical improvements reducing cost per ton zinc oxide produced at Eras Metal AS (Eras).
- Strong fall in zinc metal prices has a negative impact on the Groups revenues and results.
- Goodwill impaired by NOK 90.5 mill as a consequence of the uncertainty created by present market conditions.

Report for the 3rd quarter of 2008

Key financial figures

(In NOK 1000)	3rd quarter 2008	3rd quarter 2007	YTD 2008	YTD 2007	Whole year 2007
Operating Revenue	19 424	12 444	59 563	64 254	87 080
EBITDA	-8 396	-5 370	-29 222	-3 227	-16 440
Depreciation	2 640	2 451	7 877	7 262	9 825
Impairment	97 235	-	98 237	-	-
EBIT	-108 271	-7 821	-135 336	-10 489	-26 265
Cash and cash equivalents			408 790	421 748	419 202
Equity ratio			88 %		90 %

The Groups consolidated operating revenue is NOK 19.4 mill in the 3rd quarter of 2008 compared to NOK 12.4 mill in 2007. The increase is mainly caused by high activity in SPT AB. Revenues from the PyroArc delivery to the German company Environ Plasma are recognised with NOK 3.6 mill in the 3rd quarter and total NOK 8.9 mill in 2008.

The insurance settlement from the production stop in 2007 is finalised and Eras has received a total compensation of NOK 6.8 mill (NOK 5.4 mill recognised in 2007). NOK 1.3 mill is recognised as revenues and NOK 0.1 mill recognised as reduced cost in the 3rd quarter of 2008.

Third quarter EBITDA amounted to - NOK 8.4 mill compared to – NOK 5.4 mill in 2007. The increased loss is mainly explained by weakening of the zinc metal prise in the period.

The authorities have completed the investigation of Eras Metal after the accidental effluent into the Høyanger fjord in 2006. The result of the investigation was a NOK 0.3 mill fine. The company has accepted the fine and it is expensed in third quarter of 2008.

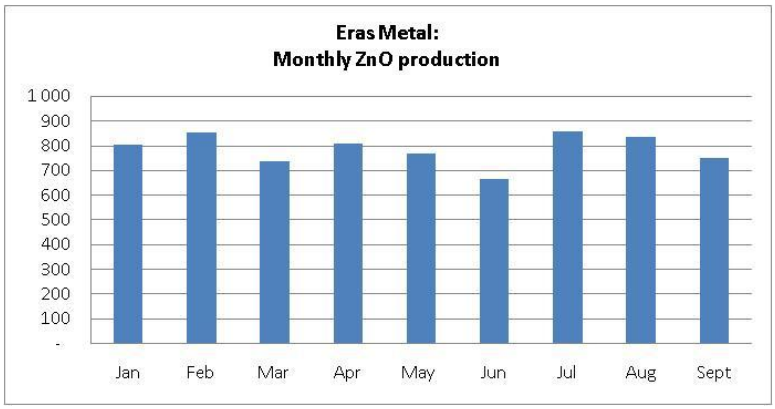
EBIT for the period amounted to – NOK 108.2 mill compared to – NOK 7.8 mill the 3rd quarter of 2007. The increased loss is mainly explained by write off and impairment by fixed and intangible assets.

As previously reported replacements of nonperforming equipment related the Eras upgrade investment must be written off for accounting purposes. The write off of NOK 6.7 mill is expensed in the third quarter of 2008.

ScanArc acquired SPT AB prior to the IPO in 2007. The transaction was made with a consideration of 15% of the shares in ScanArc, and no cash was paid. In the purchase price allocation NOK 90.5 mill of goodwill was allocated to the Management and Development segment. The goodwill is related to the future investments. As a result of the global financial market problems and related fall in metal prices the uncertainty related to future investments has increased. The board therefore deems it prudent to impair the goodwill.

The Group has a strong cash and equity position. As of 30 September 2008 cash and cash equivalents were NOK 408.8 mill compared to NOK 421.8 mill as of 30 September 2007. The equity ratio was 88% at period-end compared to 90% as of 31 December 2007.

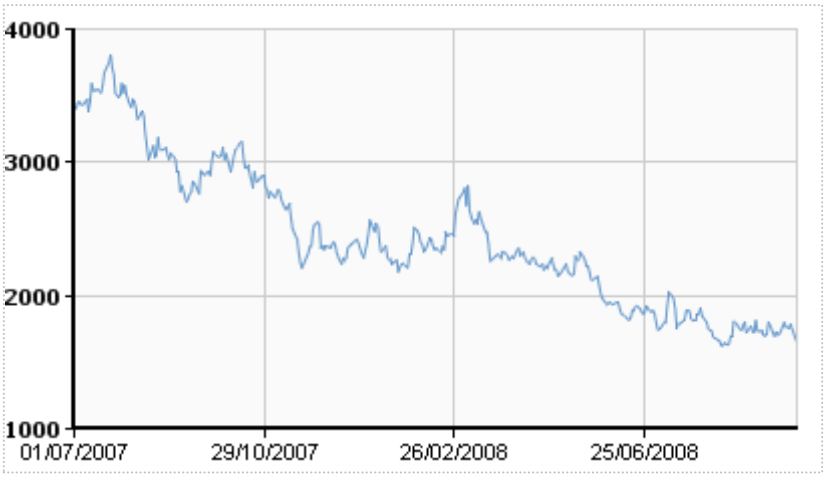
Operations
Eras monthly production of zinc oxide (ZnO ton) in 2008:



Eras has established a process improvement program designed to increase production and reduce costs per ton ZnO produced. In the last quarter the technical standard of the plant has improved. The improvements have resulted in lower cost per ton ZnO produced. However the plant has experienced clogging problems in the cooling system mainly caused by nonperforming equipment in pre-treatment and variations in salt content in the input material.

SPT AB has invested in increasing the capacity of the PyroArc pilot in Hofors. After a fast ramp-up, the plant is now able to treat approx 600kg/h of used rechargeable batteries up from 300kg/h, recovering cobalt and nickel from the batteries.

Market



Zinc metal has during the third quarter of 2008 been traded at prices between 2023 USD/ton and 1627 USD/ton down from 2700-3820 USD/ton for the same period last year.

The zinc metal market has continued to weaken after the end of the 3rd quarter, moving down below break even levels for most zinc mines and metal producers. In October the zinc metal price has been traded below 1100 USD/t.

Outlook
The improvement program at ERAS continues with a step by step debottlenecking of the plant. A dedicated team from SPT AB is working to solve the clogging problems and optimise the total process. This work is expected to result in increased availability and further reduction of production costs. However the investment program, increasing capacity and replacing non-performing parts, will have to be completed in order to be able to achieve the full potential of the process. Full capacity scheduled to be reached by the end of Q2 2009.

With the investment in Høyanger ScanArc's goal is to become the low cost producer in the EAFD recycling industry. At current market conditions the plant will continue to operate with losses.

The PyroArc delivery to Environ Plasma is progressing according to plan. Delivery and commissioning are expected in Q4 2008.

The Group is closely monitoring the market, and unsustainable metal prices and financial market conditions may result in delaying further investments.

5. November 2008
Board of directors
ScanArc ASA

Condensed consolidated accounts

Consolidated income statement

(In NOK 1000)	Note	3rd quarter 2008	3rd quarter 2007	YTD 2008	YTD 2007	Whole year 2007
Operating Revenue		**19 424**	**12 444**	**59 563**	**64 254**	**87 080**
Change in inventories of finished goods		818	-5 855	2 954	-4 132	1 650
Raw materials and consumables used		9 798	11 910	27 415	32 843	38 408
Salaries and Employee benefits expenses		7 026	5 267	23 955	15 574	23 761
Other operating expenses		10 177	6 492	34 460	23 196	39 701
EBITDA		**-8 396**	**-5 370**	**-29 222**	**-3 227**	**-16 440**
Depreciation		2 640	2 451	7 877	7 262	9 825
Impairment		97 235	-	98 237	-	-
EBIT		**-108 271**	**-7 821**	**-135 336**	**-10 489**	**-26 265**
Net finance		6 090	4 497	16 712	4 776	9 062
Earnings before income tax		**-102 181**	**-3 324**	**-118 624**	**-5 713**	**-17 203**
Income tax expense		3 246	870	7 780	1 469	4 955
Profit/loss for the period		**-98 934**	**-2 454**	**-110 844**	**-4 244**	**-12 248**
Attributable to:						
Equity holders of the company		-97 527	-1 794	-107 704	-3 243	-10 075
Minority interest		-1 407	-660	-3 140	-1 001	-2 172
Earnings per share for profit attributable to the equity holders of the company (expressed in NOK per share)		**-3,01**	**-0,06**	**-3,32**	**-0,11**	**-0,37**

Consolidated balance sheet

(In NOK 1000)	Note	30.09.2008	31.12.2007
ASSETS			
Non-current assets			
Deferred income tax assets		23 078	15 431
Other intangible assets		14 452	105 907
Property, plant and equipment		104 941	110 836
Total non-current assets		**142 470**	**232 174**
Current assets			
Inventories		772	3 590
Trade and other receivables		16 749	26 987
Cash and cash equivalents		408 791	419 202
Total current assets		**426 311**	**449 779**
Total assets		**568 781**	**681 952**
EQUITY			
Capital and reserves attributable to equity holders of the company			
Share capital	3	16 224	16 224
Share premium		615 145	615 145
Retained earnings		-129 052	-20 964
Minority interest		-2 614	**523**
Total equity		**499 703**	**610 928**
LIABILITIES			
Non-current liabilities			
Borrowings		-	-
Retirement benefit obligations		64	64
Deferred tax liability		6 546	6 907
Other non-current liabilities		22 043	21 778
Total non-current liabilities		**28 653**	**28 749**
Current liabilities			
Borrowings		7 288	5 565
Trade and other payables		33 137	36 710
Total current liabilities		**40 425**	**42 275**
Total liabilities		**69 078**	**71 024**
Total equity and liabilities		**568 781**	**681 952**

Consolidated cash flow statement

(In NOK 1000)	YTD 2008	YTD 2007	Whole year 2007
Cash flows generated from operating activities			
Earnings before income tax	-118 624	-5 713	-17 202
Depreciation and write downs	106 114	7 262	9 825
Changes in inventories, accounts receivables, accounts payable and other accruals	9 483	-2 887	9 805
Net financial items	-16 712	-4 776	-9 062
Net cash flows generated from operating activities	**-19 738**	**-6 114**	**-6 634**
Cash flows generated from investing activities			
Purchase of property, plant and equipment	-9 373	-6 406	-9 260
Cash from purchased subsidiary	-	1 219	1 219
Purchase of shares from municipality of Høyanger	-	-17 500	-17 500
Net financial items	16 712	4 776	9 062
Net cash flows generated from investing activities	**7 339**	**-17 911**	**-16 479**
Cash flows generated from financing activities			
Change in long term debt	265	-51 140	-51 780
Change in short term debt	1 723	-437	-3 055
Proceeds from issue share capital	-	496 292	496 092
Net cash flows generated from financing activities	**1 988**	**444 715**	**441 257**
Net change in cash and cash equivalents	**-10 412**	**420 690**	**418 144**
Cash and cash equivalents at start of period	419 202	1 058	1 058
Cash and cash equivalents at end of period	**408 790**	**421 748**	**419 202**

Consolidated change in equity

(In NOK 1000)	YTD 2008	YTD 2007	Whole year 2007
Equity at the start of the period	**610 928**	**17 522**	**17 522**
Result for the period	-110 844	-4 244	-12 248
Net capital increase	-	623 390	623 390
Purchase minority	-	-17 500	-17 500
Conversion differences	-380	176	120
Other equity changes	-	-290	-356
Equity at the end of the period	**499 704**	**619 054**	**610 928**

Selected notes to the condensed interim financial information

Note 1 Basis of preparation/ accounting policies

This unaudited condensed interim financial information has been prepared in accordance with IAS 34, 'Interim financial reporting'. The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007. The condensed interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

Note 2 Segment information

Segment information is presented in respect of the Group's business areas. The primary format, business areas, is based on the Group's management and internal structure. The group is organised into the following main business areas:

- Management

Management segment includes beside management; Finance, Risk Management, Market and Entrepreneur with project management and purchasing related to new projects.

- Production of zinc oxide

Consists of Eras Metal

- Technology services

Consists of ScanArc Plasma Technologies AB with R&D, operation of a pilot plant and basic engineering

Business areas 3rd quarter	Management		Production of zinc oxide		Technology services		Eliminations		ScanArc Group	
	3rd quarter		3rd quarter		3rd quarter		3rd quarter		3rd quarter	
(In NOK 1000)	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Operating Revenue	**911**	**179**	**10 062**	**6 932**	**10 357**	**6 335**	**-1 906**	**-1 002**	**19 424**	**12 444**
Change in inventories of finished goods	-	-	818	-5 855	-	-	-	-	818	-5 855
Raw materials and consumables used	-	-	4 608	9 798	5 190	2 112	-	-	9 798	11 910
Salaries and Employee benefits expenses	1 426	576	2 924	2 593	2 676	2 098	-	-	7 026	5 267
Other operating expenses	2 170	785	7 982	5 824	1 845	669	-1 820	-786	10 177	6 492
EBITDA	**-2 685**	**-1 182**	**-6 270**	**-5 428**	**646**	**1 456**	**-86**	**-216**	**-8 396**	**-5 370**
Depreciation	-	-	2 100	1 929	540	82	-	-	2 640	2 451
Impairment	90 500	-	6 735	-	-	-	-	-	97 235	-
EBIT	**-93 185**	**-1 182**	**-15 105**	**-7 357**	**106**	**1 374**	**-86**	**-216**	**-108 271**	**-7 821**
Net finance									6 090	4 497
Earnings before income tax									**-102 181**	**-3 324**

Business areas YTD	Management		Production of zinc oxide		Technology services		Eliminations		ScanArc Group	
	YTD		YTD		YTD		YTD		YTD	
(In NOK 1000)	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Operating Revenue	**2 797**	**284**	**31 192**	**45 696**	**31 290**	**20 193**	**-5 716**	**-1 919**	**59 563**	**64 254**
Change in inventories of finished goods	-	-	2 954	-4 132	-	-	-	-	2 954	-4 132
Raw materials and consumables used	-	-	13 996	26 654	13 419	6 689	-	-500	27 415	32 843
Salaries and Employee benefits expenses	4 444	576	9 182	7 963	10 329	7 202	-	-167	23 955	15 574
Other operating expenses	10 514	2 039	22 754	17 896	6 570	4 047	-5 378	-786	34 460	23 196
EBITDA	**-12 161**	**-2 331**	**-17 694**	**-2 685**	**971**	**2 255**	**-338**	**-466**	**-29 222**	**-3 227**
Depreciation	-	-	6 303	5 694	1 574	248	-	-	7 877	7 262
Impairment	90 500	-	7 737	-	-	-	-	-	98 237	-
EBIT	**-102 661**	**-2 331**	**-31 734**	**-8 379**	**-603**	**2 007**	**-338**	**-466**	**-135 336**	**-10 489**
Net finance									16 712	4 776
Earnings before income tax									**-118 624**	**-5 713**

Note 3 Shareholders

The 10 largest shareholders in ScanArc ASA as of 30.09.2008:

Number of shares	Percent of capital	Shareholder
5 031 000	15,51 %	ALYLA AS
2 790 500	8,60 %	INTEL INVEST AS
2 728 000	8,41 %	ATILA HOLDING SA
2 621 000	8,08 %	HVIDSTEN INVEST AS
2 060 000	6,35 %	ORKLA ASA
1 347 864	4,15 %	BANK OF NEW YORK, BRUSSELS BRANCH
1 285 930	3,96 %	BANK OF NEW YORK, BRUSSELS BRANCH
1 268 939	3,91 %	SKANDINAVISKA ENSKILDA BANKEN
1 223 200	3,77 %	JPMORGAN CHASE BANK
1 020 000	3,14 %	FABEL SERVICES AS