ScanArc Group

2nd quarter and 1st half report 2009

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 2008.

Report for the 2nd quarter and 1st half of 2009

Highlights

The following summarises the highlights for the first half of 2009:

- EBITDA loss for the first half NOK -20 mill due to low market prices for zinc metal and production stop at Eras Metal AS (Eras).
- Low production at Eras due to Høyanger 2 investment and higher than permitted mercury emission to air.
- Eras received new operational permit from SFT and production resumed.
- Ramp-up to new capacity progressing, reaching 40 000 Mt EAFD/year run pace.
- Zinc metal prices showing positive development.
- ScanArc working on feasibility studies to implement expansions for the PyroArc and ArcFume processes.

Key financial information

Key Financial Figures				
(In NOK 1000)	2nd quarter 2009	2nd quarter 2008	1st half 2009	1st half 2008
Operating revenue	17 630	24 498	29 831	40 139
EBITDA 1)	-10 394	-11 327	-19 957	-20 826
Marketable securities			158 230	-
Cash and cash equivalents			181 676	422 016
Net cash generated from operating activities			-20 417	747
Equity ratio			90 %	89 %

The Group first half operating revenues were NOK 29.8 mill (NOK 40.1), while second quarter was NOK 17.6 mill (NOK 24.5 mill). The increased revenues in ScanArc Plasma Technologies (SPT AB) were offset by reduced revenues from Eras due to production stop. Revenues from the PyroArc delivery to Environ Plasma AG are recognised with NOK 10.3 mill (NOK 5.1 mill) in the first half of 2009.

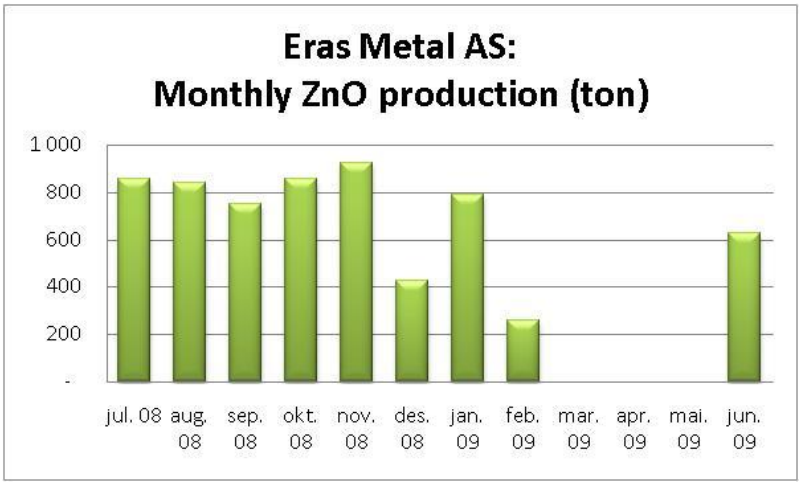
First half EBITDA was NOK -20 mill (NOK -20.8 mill), while second quarter was NOK -10.4 mill (NOK -11.3) as reduced revenues from Eras were offset by cost reductions.

The Group has a strong cash and equity position. Marketable securities and cash were NOK 340 mill as of 30.06.2009 (NOK 422 mill). Of the NOK 55 mill Høyanger 2 investment NOK 38 mill is paid as of 30.06.2009.

The equity ratio was 90% at period-end compared to 89% as of 30.06.2008. Net cash generated from operating activities was NOK -20.4 mill in the first half of 2009 compared to NOK 1 mill in the corresponding period in 2008. The difference is mainly explained by the payments received from the PyroArc delivery in the first half of 2008.

Operations

Eras monthly production of zinc oxide (ZnO)



The production was resumed in mid June showing promising results. The total production in the first half was however low due production stop due to the Høyanger 2 investment and higher than permitted mercury emission to air.

Eras stopped the production in mid February 2009 as instructed by SFT due to higher mercury emissions than permitted in 2008. SFT has filed a report with the police authorities. Eras has received a new operational permit from SFT, and all emissions to air and water are now below permitted levels.

The pilot plant in Hofors has been operating at full capacity in the first half, mainly with recycling of batteries in the PyroArc pilot.

In preparation for the next growth phase the Group continues to strengthen the organisation, and has during Q2 hired Charles Geenen as new COO.

ScanArc ASA purchased Øren Invest AS's minority shareholding of 21 503 shares in Eras, equal to 11.25% of the outstanding shares, increasing ScanArc's ownership from 88.75% to 100% of the shares in Eras. The purchase price for the shares was NOK 400 000.

Market

Zinc metal has during the first half of 2009 been traded at prices between 1058 -1685 USD/ton

compared to 1824-2824 USD/ton in the corresponding period of 2008. The positive trend in the zinc metal price has continued in the third quarter of 2009.

European steel production is still working at reduced capacity, but production is now increasing. Eras has covered its needs for EAFD in 2009, and has signed new contracts for EAFD with new customers.

Outlook

The production increase at the Eras plant has progressed reaching 40 000 Mt EAFD/year run pace. The planned ramp up from 40 000-50 000 Mt EAFD/year run pace is expected to be realised before the year end. With the recent positive development in the zinc metal price continuing and the current production performance, Eras will be cash positive during the second half of 2009.

ScanArc is actively searching for new investment possibilities in the EAFD market, including the previously presented plans in Calais. Furthermore ScanArc is working together with Grenor AS in order to evaluate the possibility to exploit an existing operational permit in Orkdal for the PyroArc process. Grenor AS is owned by Nordenfjelske Dampskipselskap AS, Trønder Energi AS and Entro AS.

A full scale test of the ScanArc's low radioactive waste treatment process has been conducted successfully in Hofors. The next step is to move the plant to Vattenfall's nuclear plant in Forsmark Sweden.

The PyroArc delivery to the German company, Environ Plasma AG, is in the start up phase, but delayed.

Risks

ScanArc's activity is exposed to several risk factors, of which the most significant are:

- The positive zinc metal price trend may discontinue.
- Weakening of the USD per NOK exchange rate.
- Production disruptions in Eras.
- Cost overruns on external deliveries.

A negative development in one or more of these factors will have a negative impact on ScanArc's financial results going forward.

Responsibility statement

We confirm, to the best of our knowledge that the condensed set of financial statements for the period 1 January to 30 June 2009 has been prepared in accordance with IAS 34 – Interim Financial Reporting, and gives a true and fair view of the Group's assets, liabilities, financial position and profit or loss as a whole. We also confirm, to the best of our knowledge, that the interim management report includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year, and major related parties transactions.

Høyanger, 25 August 2009

Leo Jacobs Chairman	Elna Berner Board member	Johan Svensson Board member
Kari Stenersen Board member	Finn Berg Jacobsen Board member	Christian Landaas CEO

Condensed consolidated accounts

Consolidated income statement (In NOK 1000)	Note	2nd quarter 2009	2nd quarter 2008	1st half 2009	1st half 2008	FY 2008
Operating revenue		17 630	24 498	29 831	40 139	84 517
Total Revenue		**17 630**	**24 498**	**29 831**	**40 139**	**84 517**
Change in inventories of finished goods		1 807	4 568	-1 063	2 136	1 927
Raw materials and consumables used		3 908	11 306	10 814	17 617	43 653
Salary and personnel costs		9 423	8 899	18 258	16 929	32 377
Other operating expenses		12 886	11 052	21 779	24 283	48 383
EBITDA 1)		**-10 394**	**-11 327**	**-19 957**	**-20 826**	**-41 822**
Depreciation		2 757	2 622	5 503	5 238	10 378
Amortisation		-	701	-	1 002	98 202
EBIT 2)		**-13 151**	**-14 650**	**-25 460**	**-27 066**	**-150 402**
Financial income		2 843	6 194	6 549	12 216	28 032
Financial costs		1 129	658	1 860	1 594	4 998
Profit before income tax		**-11 437**	**-9 114**	**-20 771**	**-16 444**	**-127 367**
Income tax expense		1 620	2 517	4 219	4 534	10 144
Profit for the period		**-9 817**	**-6 597**	**-16 552**	**-11 910**	**-117 224**
Attributable to:						
Equity holders of the company		-9 177	-5 647	-15 093	-10 177	-113 169
Minority interest		-641	-950	-1 459	-1 733	-4 054
Earnings per share for profit attributable to the equity holders of the company (expressed in NOK per share)		-0,28	-0,17	-0,47	-0,31	-3,49

1) EBITDA is defined as Earnings Before Interest, Tax, Depreciation and Amortisation.
2) EBIT is defined as Earnings Before Interest and Tax.

Consolidated balance sheet (In NOK 1000)	Note	30.06.2009	30.06.2008	31.12.2008
ASSETS				
Non-current assets				
Deferred income tax assets		29 228	19 788	25 398
Intangible assets		13 511	105 081	15 172
Property, plant and equipment		128 896	110 757	108 363
Total non-current assets		**171 636**	**235 626**	**148 934**
Current assets				
Inventories		3 008	1 893	1 958
Trade and other receivables		16 189	11 373	21 594
Marketable securities		158 230	-	-
Cash and cash equivalents		181 676	422 016	391 661
Total current assets		**359 102**	**435 282**	**415 213**
Total assets		**530 738**	**670 908**	**564 146**
EQUITY				
Capital and reserves attributable to equity holders of the company				
Share capital	3	16 224	16 224	16 224
Share premium fund		542 370	615 145	542 370
Retained earnings		-83 005	-31 736	-59 828
Minority interest		-	-1 209	-3 530
Total equity		**475 589**	**598 424**	**495 236**
LIABILITIES				
Non-current liabilities				
Retirement benefit obligations		75	64	75
Deferred tax liability		6 418	6 666	6 670
Other non-current liabilities		20 016	22 310	22 894
Total non-current liabilities		**26 509**	**29 040**	**29 639**
Current liabilities				
Borrowings		-	2 472	5 818
Trade and other payables		28 638	40 972	33 454
Total current liabilities		**28 638**	**43 444**	**39 272**
Total liabilities		**55 147**	**72 484**	**68 910**
Total equity and liabilities		**530 738**	**670 908**	**564 146**

Consolidated cash flow statement			
(In NOK 1000)	1st half 2009	1st half 2008	FY 2008
Cash flows from operating activities			
Profit before income tax	-20 771	-16 444	-127 367
Depreciation, amortizations and write downs	5 503	6 240	108 580
Changes in inventories, accounts receivables, accounts payable and other accruals	-460	21 573	5 121
Net financial income	-4 689	-10 622	-23 035
Net cash generated from operating activities	**-20 417**	**747**	**-36 701**
Cash flows from investing activities			
Purchase of property, plant and equipment	-26 959	-6 160	-15 889
Purchase of marketable securities	-158 230	-	
Net financial income	4 689	10 622	23 035
Net cash used in investing activities	**-180 500**	**4 462**	**7 146**
Cash flows from financing activities			
Net change in non-current liabilities	-2 878	531	1 116
Net change in current liabilities	-5 818	-3 093	253
Net cash used in financing activities	**-8 696**	**-2 562**	**1 369**
Net changes in cash and cash equivalents	**-209 613**	**2 647**	**-28 186**
Net currency translation effect	-372	168	644
Cash, cash equivalents and bank overdraft at the beginning of the year	391 661	419 202	419 202
Cash, cash equivalents and bank overdraft at the end of the year	**181 676**	**422 016**	**391 661**

Statement of Comprehensive income			
(In NOK 1000)	1st half 2009	1st half 2008	FY 2008
Profit for the period	-16 552	-11 910	-117 224
Other comprehensive income			
Currency translation differences	-2 695	-594	1 532
Other comprehensive income for the period net of tax	-	-	-
Total comprehensive income for the period	**-19 247**	**-12 504**	**-115 692**
Profit attributable to:			
Equity holders of the company	-17 788	-10 771	-111 638
Minority interest	-1 459	-1 733	-4 054

Consolidated change in equity			
(In NOK 1000)	YTD 2009	YTD 2008	FY 2008
Equity at the start of the period	**495 236**	**610 928**	**610 928**
Total comprehensive income for the period	-19 247	-12 504	-115 692
Purchase of minority	-400	-	-
Equity at the end of the period	**475 589**	**598 424**	**495 236**

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 2008. The condensed interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

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	Management		Production of zinc oxide		Technology services		Eliminations		ScanArc Group	
	2nd quarter		2nd quarter		2nd quarter		2nd quarter		2nd quarter	
(In NOK 1000)	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Operating Revenue	**553**	**975**	**5 932**	**12 757**	**12 823**	**12 580**	**-1 678**	**-1 814**	**17 630**	**24 498**
Change in inventories of finished goods	-	-	2 064	4 568	-257	-	-	-	1 807	4 568
Raw materials and consumables used	-	-	946	4 814	3 024	6 492	-61	-	3 908	11 306
Salaries and Employee benefits expenses	1 879	1 593	2 950	2 989	4 594	4 316	-	-	9 423	8 899
Other operating expenses	2 972	4 259	5 007	6 946	6 484	1 537	-1 576	-1 690	12 886	11 052
EBITDA	**-4 298**	**-4 877**	**-5 035**	**-6 560**	**-1 022**	**234**	**-41**	**-124**	**-10 394**	**-11 327**
Depreciation	76	-	2 141	2 102	539	520	-	-	2 757	2 622
Amortisation	-	-	-	701	-	-	-	-	-	701
EBIT	**-4 374**	**-4 877**	**-7 176**	**-9 363**	**-1 561**	**-285**	**-41**	**-124**	**-13 151**	**-14 650**
Finance income									2 843	6 194
Finance costs									1 129	658
Earnings before income tax									**-11 437**	**-9 114**

Business areas	Management		Production of zinc		Technology services		Eliminations		ScanArc Group	
	YTD		YTD		YTD		YTD		YTD	
(In NOK 1000)	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
Operating Revenue	**1 118**	**1 886**	**6 118**	**21 130**	**25 824**	**20 933**	**-3 229**	**-3 810**	**29 831**	**40 139**
Change in inventories of finished goods	-	-	-609	2 136	-454	-	-	-	-1 063	2 136
Raw materials and consumables used	-	-	2 960	9 388	7 976	8 229	-122	-	10 814	17 617
Salaries and Employee benefits expenses	4 202	3 018	5 717	6 258	8 339	7 653	-	-	18 258	16 929
Other operating expenses	5 561	8 344	8 920	14 772	10 324	4 725	-3 026	-3 558	21 779	24 283
EBITDA	**-8 645**	**-9 476**	**-10 870**	**-11 424**	**-361**	**326**	**-81**	**-252**	**-19 957**	**-20 826**
Depreciation	153	-	4 281	4 203	1 069	1 034	-	-	5 503	5 238
Amortisation	-	-	-	1 002	-	-	-	-	-	1 002
EBIT	**-8 798**	**-9 476**	**-15 151**	**-16 629**	**-1 430**	**-708**	**-81**	**-252**	**-25 460**	**-27 066**
Finance income									6 549	12 216
Finance costs									1 860	1 594
Earnings before income tax									**-20 771**	**-16 444**

Note 3 Shareholders

The 20 largest shareholders in ScanArc ASA as of 30.06.2009:

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
2 060 000	6,35 %	ORKLA ASA
2 039 388	6,29 %	JPMORGAN CHASE BANK
1 311 700	4,04 %	MORGAN STANLEY & CO INC. NEW YORK
1 276 132	3,93 %	BANK OF NEW YORK MELLON SA/NV
1 208 839	3,73 %	SKANDINAVISKA ENSKILDA BANKEN
1 131 592	3,49 %	HVIDSTEN INVEST AS
1 020 000	3,14 %	FABEL SERVICES AS
850 000	2,62 %	SUNDT AS
824 900	2,54 %	NYKREDIT BANK A/S
775 950	2,39 %	HOLBERG NORDEN
772 550	2,38 %	HOLBERG NORGE
771 000	2,38 %	JPMORGAN CHASE BANK
737 705	2,27 %	BGL SA
672 291	2,07 %	SVENSKA HANDELSBANKEN STOCKHOLM
637 500	1,96 %	RBC DEXIA INVESTOR SERVICES BANK
480 000	1,48 %	CANICA AS
394 000	1,21 %	HAVFONN AS