



A.B.N. 71 002 802 646

30th January 2009.

### **Market Update**

The Directors of HydroMet wish to advise the following market update.

We have received Development Approval for our secondary lead smelter to be built at our Newcastle operating facility. The smelter has a capacity of 18,000 tonnes per annum of lead and requires the equivalent of 36,000 tonnes of used lead acid batteries per year. The approval comes after successful assessment of our Environmental Impact Statement along with additional key information submitted to both NSW Department of Environment and Climate Change and Department of Planning in March 2008.

Approval of the smelter represents a significant and exciting achievement recognising Hydromet's unrivalled reputation and established experience in the recycling of waste metals and industrial residues in Australia. This valuable approval will enable us to finalise equipment and supplier decisions relating the construction of the smelter along with the funding structure to be adopted for the project. Currently Hydromet's lead products are sold as feed to secondary smelters around the world at a discount to the lead price. The discount of up to 35% is a significant value and is a compelling argument in support for the smelter project where full value of lead products can be realised along with a premiums for Lead alloys in the longer term.

Hydromet along with all metal producers has been adversely affected by the global commodity and financial crises of the past 6 months where the lead price has fallen by more than 50%. We suffered a significant inventory valuation loss on stock held at 30<sup>th</sup> June 2008 subsequently sold in the months to December during this decline and the selling price for lead products extracted from the battery recycling project fell dramatically. To a lesser extent the Selenium price for product generated at our Newcastle plant was also affected although our Gold and Tellurium sales prices remained strong. Although hedging of our lead sales has been beneficial in mitigating the lead price slide, operating costs remained unchanged. The devaluation of the AUD over the same period provided an offset for some of the commodity price decline however the overall unfavourable market conditions resulted in an after tax loss for the half year to December in the order of \$2.75 to \$3.1 Million (subject to audit review). Based on current market conditions and other assumptions made in our forecast we believe that the results January to June will be a significant improvement on the December half year. The Board will inform the market of any material changes to our expectations.

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On a further positive note and after concerted effort in 2008 we signed a significant supply agreement on January 15<sup>th</sup> with a German based customer to purchase all our spare capacity for lead products in 2009 with a further option for 2010. The important supply agreement will facilitate increased scrap battery purchases, lead product output and reduced unit costs for the Unanderra based plant. Total forecast output for the next twelve months will require 20,000 to 25,000 tonnes of scrap batteries containing approximately 11,000 to 14,000 of lead and will provide a solid platform for the ultimate transition to the lead smelter in 2010.

The Board anticipates continuing difficult business conditions through 2009 however is confident that metal prices will stabilise and begin to recover during the year ahead. We remain focused and vigilant in our management of cash reserves and have strategies in place to ensure we weather the conditions and remain capable of responding to emerging opportunities over the months and year ahead. At the same time we will continue to plan the lead smelter and determine appropriate timing for the important addition to our battery recycling project.



Gregory W Wrightson  
Managing Director.