STANDARD &POOR'S Maalot

November 11, 2009

Standard & Poor's Maalot
12 Abba Hillel Silver St.
Ramat-Gan, 52506
Tel:972-3-7539700
Fax:972-37539710
www.maalot.co.il

Scope Metals Group Ltd.

Primary Credit Analyst:
Elad Jelasko, Tel-Aviv (972) 3-753-9728; elad_jelasko@standardandpoors.com

Secondary Credit Analyst:
Paulina Grabowiec, London (44) 207-176-7051; paulina_grabowiec@standardandpoors.com

Table Of Contents

Major Rating Factors

Rationale

Outlook

Business Description

Business Risk Profile: Strong, Due To Local Position, Though Offset By Volatile Profits And High Inventory Levels

Financial Risk Profile: Cyclical Cash Flow And Significant Debt

Financial Statistics/Adjustments

The McGraw-Hill Companies

Scope Metals Group Ltd.

Credit Rating (Series 3,4,6)
ilA-/Negative

Major Rating Factors

Strengths

- Israel's largest metal distributor.
- Proactive response to severe metal market downturn.
- Flexible operating model, which releases working capital during the down cycle.

Weaknesses

- Vulnerable operations outside Israel.
- Volatile profits, cash flow, and working capital.
- Insufficient liquidity and only intermediate financial position.

Rationale

The rating on Israel-based metal distributer Scope Metals Group Ltd. reflects the company's position as the largest domestic metal distributor, its flexible operating model which supports working capital inflow during the down cycle, and its proactive response to a severe metal market downturn. These strengths are partly offset by: the company's vulnerable operations outside Israel; its volatile profits, cash flow and working capital; and its intermediate financial profile, with current financial ratios that do not comply with the current rating level.

Key business and profitability developments

The global metal industry has been through a serious downturn over the past 12 months, with metal prices falling sharply from their peak in mid-2008 as the global economy entered recession. Standard & Poor's Rating Services holds the view that the metal industry—and particularly the steel industry, which is heavily affected by the construction and auto industries—will remain under pressure in 2009, despite the first signs of recovery. Price and demand volatility have had a significant impact on Scope's operating performance, and these may remain major factors in the coming quarters. The downturn may be mitigated by Scope's leading position in a niche market and the lagged correlation between local and global prices.

In the first half of 2009, Scope reported EBITDA of NIS9 million, due mainly to windfall and volume losses caused by the industry downturn. The company's overseas operations (exports and subsidiaries) continue to lose money. At this stage, there is limited certainty as to when the company will see a turnaround and return to past profitability, as demand is soft and expected to grow only moderately in the coming quarters. We view Scope's objective of stabilizing its overseas operations as a challenge.

We regard Scope's strategy of decreasing its inventory levels as a positive step, allowing the company to decrease its debt burden. As the economy entered the recession, the company, in our opinion, has been less

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

flexible in adjusting its high levels of inventory to market demand, while its European peers have taken a much more active approach. We acknowledge that a different product mix and the existence of local steel mills force its European and North Americans peers to be far more flexible. However, the company's decision to avoid inventory dumping while increasing flexibility, may have been a beneficial move for the company as prices have since partially recovered. Such a 'sit-and-wait' strategy could be defined as more aggressive.

Key cash flow and capital-structure developments

In the first half of 2009 the company reported positive working capital inflow of NIS131 million which offset its poor performance and negative FFO, following a positive inflow of NIS128 million in the last quarter of 2008. With no further expansion programs, the company utilized the cash flow inflow to decrease its debt burden by NIS130 million in the first six months of 2009, to NIS640 million. The company's capital structure has changed slightly, with a move toward long-term bank loans (65%), paying its bond maturities in full and selectively refinancing bank loans.

In the first half of 2009 the company decreased its inventory by NIS108 million to NIS735 million (about 46% of the company's assets) as of June 30, 2009. Being the company's main asset emphasizes its importance as a main source of company liquidity, particularly in light of an expected moderate economic recovery. Unlike its peers, who run down inventory to match the cyclical fall in demand, Scope does not regard its decrease in inventory as a temporary measure.

As debt has decreased only moderately compared to its peers and financial results are poor, Scope's cover ratios are weak: debt-to-EBITDA in 2008 was 7.6x and we expect this to be even higher in 2009. Though we expect an improvement in 2010 as the economy recovers, we still view Scope's ability to return to debt-to-EBITDA of about 4.5x as a challenge, which will require, in our view, a recovery in market conditions, ongoing working capital release and other steps by management.

Liquidity

According to S&P Maalot's methodology, Scope's liquidity is insufficient, given large maturities of about NIS304 million in the next 12 months, while sources, at this stage, are not fully secured by cash or committed credit facilities. As of June 30, 2009, the company had cash in hand of about NIS245 million. However we believe some of the cash is earmarked to finance current operations and cannot be defined as free surplus.

We view the company's ability to generate positive cash flow as uncertain, which may lead to some dependency on refinancing and/or inventory destocking in the next 12 months (both of which are in line with company strategy). The company maintains available uncommitted facilities. The inventory, Scope's largest asset, is not pledged and may support refinancing efforts, if needed. The company's ability to pay its maturities due in H2/2009 through refinancing of long-term loans or further working inventory inflow, could have positive implications on its liquidity position.

At this stage we don't view the existence of a rating trigger of 'ilBBB-' in one of the bond series as a liquidity issue.

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

Outlook

The negative outlook reflects our view that the rating may be lowered within the next few months if currently weak demand levels continue, or if the company is unsuccessful in further reducing working capital to provide cash flow and liquidity for debt repayment, while maintaining cover ratios commensurate with the rating.

Over the medium term, we believe that Scope will continue to try and expand its overseas business to take advantage of its current platform and to gain critical mass. In our view, Scope's business position overseas is vulnerable and expanding it could further weaken the group's overall business and financial position.

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

Business Description

Scope imports and markets metals, mainly stainless steel and aluminum, in Israel. The company has a very strong business position in Israel. The local business is run from a mega-warehouse in Bnei-Ayish, supported by a fleet of trucks. In addition, Scope operates in other regions in the world through distribution centers in East Europe, the East coast of the U.S. and a warehouse in China.

Scope went public in 1992, and is controlled by Mr. Shmuel Shilo (36%) and a private equity fund, FIMI (30.4%).

Business Risk Profile: Strong, Due To Local Position, Though Offset By Volatile Profits And High Inventory Levels

The major supports for Scope's strong business risk profile are:

- The local industry, which is much more stable than the industry in Europe and the U.S., as the small number of players results in a less intensive competitive environment.
- Its higher than European-industry-average operating margins. Scope reported a consolidated margin of about 12.5% in 2007, compared with 10.4% for Klöckner (BB/Negative). Over time the margins are expected to decrease, following the introduction of less profitable products and an increase in the overseas operations' contribution to Scope's consolidated operating profit.
- The vital link that metal distributors, such as Scope, provide between producers and generally smaller end-users, who have limited capacity to maintain high inventory levels and for whom direct access to metal producers is usually uneconomical. Scope also provides some value-added processing services.
- A broad customer base of about 4,000 customers in Israel covering a wide range of industries (with some dependency on the Israeli aircraft industry). The company offers product range of some 80,000 items, with stainless steel and aluminum dominant, and including steel, plastics and titanium. The company has very limited exposure to the construction market, which is highly competitive.
- Fair diversification of suppliers (250-300 suppliers), with the biggest supplier accounting for only 6% of volumes purchased.

These supports are partially offset by:

- The industry's exposure to currency and highly volatile metal prices. However, unlike international trading operations, the Israeli market is strongly influenced by an imperfect correlation between global metal prices and the local metal market.
- High inventory levels, compared to its peers. These high inventories could expose Scope to a negative windfall on standard products when prices drop quickly, and to significant working capital needs.
- The vulnerable business position, with no critical mass, of its overseas operations. (Albeit, the company does not rely on cash flow from activities outside of Israel to serve its debt maturities).

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

- A remaining degree of dependency on its controlling shareholder, Mr. Shmuel Shilo, despite an expanded managerial structure and the recent appointment of Mr. Gil Hever as CEO, replacing Mr. Shilo. One bond series requires Mr. Shilo to serve as company chairman.

Financial Risk Profile: Cyclical Cash Flow And Significant Debt

The major strengths of Scope's intermediate financial risk profile are:

- A relatively flexible operating model that enables working capital to be reduced during industry downturn. This model creates an organic source of liquidity, thereby providing some counter-cyclicality.
- The company's debt structure, which is based on long-term debt only, while working capital is not pledged. We believe re-financing long-term maturities against the working capital facility creates, in Scope's case, another layer of support.
- The company's low appetite for acquisitions. Scope's past acquisitions were relatively small and the company currently has no intention of expanding its geographic presence, other than further developing its overseas operations.

These strengths are mitigated by:

- Volatile FFO and operating cash flow, particularly so outside of Israel, due to fluctuations in volumes, prices, and working capital. During upswings, high profits do not feed through into high operating cash flows, as these are offset by increases in working capital, especially as inventories rise during periods of strong prices and demand.
- The company's long-term strategy of expanding its operations outside Israel, to bring their contribution to 50% of revenues (In 2008 domestic operations, excluding exports, contributed 72% of revenues). This strategy, based only on organic growth, will require working capital needs.
- We view Scope's current debt level—NIS713 million as of June 30, 2009—as high with material maturities in the years 2010-2011 (about NIS180 million each year). In the first six months of 2009, the company refinanced about NIS72 million of 2009's maturities. Although this debt finances inventory (a more tangible asset than goodwill that Scope could have acquired through acquisitions), it is still a challenge to liquidate this asset quickly in the local market to service debt, and the company must still maintain significant cash surpluses.
- The company's financial objectives, set in the annual budget, which are less concrete due to the lack of a public, measurable, long-term policy regarding financial ratios, such as cover ratios or leverage.

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

Financial Statistics / Adjustments

Scope switched to reporting according to International Financial Reporting Standards (IFRS), from the Israeli Generally Accepted Accounting Principles (GAAP), from Jan. 1, 2008.

Table 1

Reconciliation Of Scope Metals Group Reported Amounts With S&P Maalot's Adjusted Amounts (Mil. NIS)

Scope Metals Group Ltd. Reported amounts	-- Fiscal year ended Dec. 31, 2008 --					
(Mil. NIS)	Debt	Shareholders' equity	Operating income (before D&A)	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	**925.8**	**613.4**	**64.0**	**138.9**	**138.9**	**41.4**
S&P Maalot adjustments						
Operating leases	5.5		0.5	0.2	0.2	0.2
Accrued interest not included in reported debt	24.4	--	--	--	--	--
Postretirement benefit obligations	0.8	(0.8)	1.8	(3.4)	(3.4)	--
Surplus cash & near term investments	(128.2)	--	--	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	--
Non-operating income (expense)	--	--	--	--	--	--
Working-capital cash flow changes	--	--	--	--	(127.8)	--
FX, monetary, and inflation restatement adjustments	--	--	--		(15.4)	--
Other [(1)]	--	--	42.6	--	--	--
Total adjustments	(97.6)	(0.8)	44.9	(3.3)	(146.4)	0.2

S&P Maalot adjustments amounts						
	Debt	Equity	EBITDA	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	828.2	612.6	108.8	135.6	(7.5)	41.5

(1) Adjustment to an inventory provision, which includes one-time affect on the company's results. The affect on the FFO was adjusted automatically.

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

Table 2

Scope Metals Group -- Peer Comparison

	Scope Metals Group Ltd.	Kloeckner & Co. S.E.	Russel Metals Inc.
Rating as of October 22, 2009	ilA-/Negative	BB/Negative	BB+/Negative
	Israel	**Germany**	**Canada**
Currency (Mil.)	**NIS(₪)**	**USD($)**	**USD($)**
		--Fiscal year ended Dec. 31, 2008--	
Revenues	1,328.8	9,411	2,734
EBITDA	108.7	516	317
Net income from cont. oper.	(19.0)	555	186
Funds from operations (FFO)	(7.5)	404	219
Cash flow from operations	135.6	257	56
Capital expenditure	41.5	114	22
Free operating cash flow	94.1	143	33
Discretionary cash flow	84.1	87	(60)
Debt	828.2	1,516	274
Equity	612.6	1,451	791
Adjusted ratios			
EBITDA/revenues (%)	8.2	5.5	11.6
EBIT interest coverage (x)	1.5	3.8	19.6
EBITDA interest coverage (x)	1.8	4.6	20.8
Return on capital (%)	6.2	14.6	27.2
FFO/debt (%)	(1.1)	26.6	12.1
Debt/EBITDA (x)	7.6	2.9	0.9
Total debt/debt plus equity (%)	57.5	51.1	25.7

Table 3

Scope Metals Group -- Financial Summary

	--Fiscal year ended Dec. 31, 2008--		
	2008	**2007**	**2006**
Rating History	ilA-/Negative	ilA/Stable	ilA+/Stable
(Mil. NIS)			
Revenues	1,328.8	1,284.6	1,042.0
EBITDA	108.7	177.0	189.2
Net income from cont. oper.	(19.0)	53.9	95.6
Funds from operations (FFO)	(7.5)	83.3	105.9
Cash flow from operations	135.6	(280.0)	(104.6)
Capital expenditure	41.5	77.0	38.3
Free operating cash flow	94.1	(357.0)	(142.9)
Discretionary cash flow	84.1	(382.0)	(142.9)
Debt	828.2	886.7	487.3
Equity	612.6	639.8	575.7
Adjusted ratios			
EBITDA/revenues (%)	8.2	13.8	18.2
EBIT interest coverage (x)	1.5	3.1	4.5
EBITDA interest coverage (x)	1.8	3.4	4.7
Return on capital (%)	6.2	13.0	18.8
FFO/debt (%)	(1.1)	9.3	21.7
Debt/EBITDA (x)	7.6	5.0	2.6
Total debt/debt plus equity (%)	57.5	58.1	45.8

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.

Ratings Details (As of November 5, 2009)	
Credit Rating (Series 3,4,6)	**ilA-/Negative**
Ratings History	
27-Aug-2009	ilA-/Negative
16-Jul-2007	ilA/Stable
01-Sep-1997	ilA+/Stable

Debt Maturities

As Of December. 31, 2008:

2009:	NIS308 mil.
2010:	NIS177 mil.
2011:	NIS180 mil.
2012:	NIS81 mil.
Thereafter:	NIS64 mil.

Standard & Poor's Maalot ratings are based on information received from the Company and from other sources that Standard & Poor's Maalot believes to be reliable. Standard & Poor's Maalot does not audit the information it receives nor does it verify the correctness or completeness of such information.

It is hereby clarified that Standard & Poor's Maalot rating does not reflect risks relating to and/or arising from breaches, through intent or oversight, of any of the obligations included in the bond documents and/or the incorrectness or inaccuracy of any of the representations contained in the documents relating to the bond offering that is the subject of this rating, Standard & Poor's Maalot report or the facts that form the basis for the opinions expressed to Standard & Poor's Maalot as a condition for the giving of the rating, fraudulent or dishonest acts of commission or omission, or any other act that contravenes the law.

The ratings could be revised as a result of changes to the information received or for other reasons. The rating should not be perceived as expressing any opinion concerning the price of the securities on the primary or secondary market. The rating should not be perceived as expressing any opinion concerning the advisability of buying, selling or holding any security.

© Standard & Poor's Maalot reserves all rights. This summary is not to be copied, photographed, distributed or used for any commercial purpose without Standard & Poor's Maalot consent, except to provide a copy of the whole report (with an acknowledgement of its source) to potential investors in the bonds that are the subject of this rating report for the purpose of their reaching a decision concerning the acquisition of the aforesaid bonds.

S&P Maalot. All rights reserved. No reprint or dissemination without S&P Maalot's permission. See Terms of Use/Disclaimer on the last page.