

Financial Statements and Management Report 2002/2003  
Norddeutsche Affinerie AG (NA AG)



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# MANAGEMENT REPORT

## TRENDS IN BUSINESS

Fiscal year 2002/2003 of Norddeutsche Affinerie AG was impacted by difficult market conditions in an overall weak environment.

With a growth rate of about 3,5 % in 2003, the global economy grew more strongly than in the previous year. This was primarily attributable to the stable economic trend in South East Asia and a slight economic recovery in Japan and the U.S.A. In NA AG's core market, the EU member states, the economy stagnated. Germany even went into a slight recession at the beginning of the year. More confidence in the German economy was not felt until summer 2003 onwards.

In the fiscal year the Euro increasingly gained in strength against the U.S. dollar. This trend weighed on many industries in the German export business.

### COPPER MARKET

After two years of excess supplies, a shortage of supplies developed on the world copper market in 2003. For the first nine months it is assessed at 389,000 tonnes by the International Copper Study Group (ICSG). In the fiscal year momentum emanated from the demand and the supply sides.

In 2003 global copper demand rose by about 4 % to 15.6 million tonnes. This growth was largely due to the further increasing copper demand in China. In Europe copper demand declined slightly to 4 million tonnes.

The supply of copper cathodes was impacted by a shortage of copper raw materials and further declining copper stocks in the warehouses of the metal exchanges.

As a result of the increasing shortage of raw materials, copper smelters worldwide were compelled to adjust their production schedules.

The copper stocks declined further internationally. In the warehouses of the London Metal Exchange (LME), the Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE) the stocks were reduced in the fiscal year by about 500,000 tonnes to 0.9 million tonnes. The reduction in stocks chiefly took place in the second half of the fiscal year.

China's increasing copper demand resulted in a very high level of premiums in Asia and thus reduced the availability of cathodes in Europe. The cathode premiums rose likewise.

The copper prices did not react strongly to the changed market situation until after the summer. The economic optimism which was increasing all over the world at this time was also a deciding factor in this. The copper prices on the LME rose by the end of the fiscal year to 1,794 US\$/t, after they had stagnated at a level of about 1,600 US\$/t until summer 2003. On average in the fiscal year copper was quoted at 1,653/t US\$/t, some 8 % higher than in the previous year (1,525 US\$/t). Due to the changes in the exchange rate of the Euro to the U.S. dollar, the trend in the copper prices in Euro was just the opposite. The average copper price in the fiscal year amounted to 1,527 €/t, some 8 % lower than in the previous year (1,663 €/t).

## RAW MATERIAL AND PRODUCT MARKETS

The shortage of supplies on the international copper raw material markets deteriorated.

Production closures and cutbacks at mining companies reduced the concentrate quantities available in the market. At the same time the demand from Chinese copper smelters for concentrates increased. Indian competitors were also active buyers. Both countries create significant advantages in competition for themselves on the copper raw material markets by protectionist measures. The treatment and refining charges in the international spot business dropped to an historical low in this environment.

Due to the existing, mainly long-term agreements NA AG was well supplied with concentrates and could maintain its concentrate processing at a high level. For the first time the concentrate throughput rose over the 1 million tonne mark to 1,021,000 tonnes (958,000 tonnes in the previous year).

The shortage of supplies was even more pronounced on the copper scrap markets. Here, adverse economic impacts, restrictive sales behaviour in the trade and continuing distortions in international trade all took effect and as a result supplies declined further. The refining charges reached an absolute low. It became increasingly difficult to ensure sufficient supplies of copper scrap. They could, however, be secured for the copper scrap processing facilities in Hamburg.

Utilisation of the Hamburg tankhouse was good. At 373,000 tonnes a cathode quantity was produced which was roughly at the level of the previous year. By having its own cathode production output NA AG has a considerable advantage over other competitors on the product markets at a time when cathodes are in short supply.

This has shown to be positive for the business unit Copper Products which includes the wire rod production of NA AG in Hamburg and the participation in Deutsche Giessdraht GmbH in Emmerich (DG) as well as the continuous cast shape production in Hamburg.

Production and sales of wire rod were very satisfactory in fiscal year 2002/2003. In the Hamburg works we produced 247,000 tonnes and thus considerably exceeded the previous year's output (204,000 tonnes). In addition to this quantity, the business unit Copper Products also markets DG's wire rod. NA AG's share of DG's output in the fiscal year amounted to 96,000 tonnes (81,000 tonnes in the previous year).

NA AG's increased wire rod sales in the fiscal year were achieved by intensive service-oriented customer focus. In addition, markets outside Western Europe could be opened up.

The competitive situation was improved further by implementing technical measures, including the optimisation of the casting sector and the facilities for increasing the coil weight.

Apart from continuous cast wire rod, wire rod with the brand name TOP ROD – a specialty wire rod with diameters of between 8 and 25 mm – is produced in Hamburg. The output rose by almost 30 % to almost 7,000 tonnes compared with the 5,500 tonnes produced in the previous year.

The second product group of the business unit Copper Products is continuous cast shapes. With the production of billets and cakes for the production of strips, tubes and profiles NA AG performs an important service for the semi-finished product industry. With an output of 193,000 tonnes we produced some 5 % less in the last fiscal year than in the year before. This was mainly due to the weak demand for strip products.

Especially for high-grade materials such as oxygen-free copper, plant utilisation was weak.

However, against the background of the unfavourable outline conditions the production figures achieved are still satisfactory.

### **COST REDUCTION AND PERFORMANCE ENHANCEMENT PROGRAMMES**

NA AG's earnings were weighed down by the weak economic trend in the last few years, by cost increases, such as in the energy sector and by distortions in competition on the international raw material markets.

We responded to the negative trends early on by initiating projects to improve the revenues and cost situation.

Significant improvements had already been identified and implemented with the introduction of value based management (VBM) at NA AG in 2002. The dyNAMic plus project continued in 2003 and targeted further significant improvements at the Hamburg site. It also includes the Group-wide centralisation of service processes at NA. dyNAMic plus has aimed at extensive cost cutting. By mid 2004 the idea identification phase should be completed and most of the measures probably implemented by the end of 2005. The project is divided into five areas of analysis, including the central functions (administration), the service sectors, the raw material procurement and the production side of the business unit Metallurgy, the marketing and production side of the business unit Copper Products as well as maintenance.

NA AG's administration sector is being made leaner as a result of dyNAMic plus. New up-to-date concepts have been worked out for individual organisational units in order to provide the necessary services more specifically and efficiently.

The service sectors are working on extensive cost cutting measures and on the standardisation and centralisation of service processes.

The operating sectors and the raw material procurement and marketing departments of the business units Metallurgy and Copper Products of NA AG are cutting their costs by process optimisation and technical innovation.

Maintenance is of particular significance for NA AG due to the capital intensity of the production facilities. Consequently, the processes within the workshops and the potential for technical improvements of some of the main plants are being examined in a special analysis. At the same time the maintenance concept is under scrutiny as regards how on-site workshops and central workshops work together.

In parallel with the projects to improve results, strategy projects were also started for all the main markets in order to respond to structural market changes and secure the company's future.

## FINANCIAL POSITION AND PROFITABILITY

Total assets totalling 600 million € were almost at the same level as in the previous year. Due to the lower capital expenditure and the sale of holdings in subsidiaries, non-current assets reduced to 45 % of total assets. Current assets rose from 321.8 million € to 332.1 million € with reduced inventories at the balance sheet date as well as higher receivables and loans to subsidiaries.

On account of the net income for the fiscal year totalling 28.2 million €, equity increased to 270.5 million €; 100 % of non-current assets are covered by equity. The equity ratio improved to 45 % (+ 2 %). Provisions and liabilities to banks totalling 94.6 million € and 94.4 million € respectively have hardly changed compared with the previous year. Other liabilities could be slightly reduced.

Overall the balance sheet has a stable and balanced structure.

Despite difficult market conditions and the economic trend, earnings before taxes (EBT) were satisfactory, amounting to 33.9 million € (48.8 million € in the previous year). Earnings before interest, taxes, depreciation and amortisation (EBITDA) at 71 million € (85.7 million € in the previous year) were also at a high level. In addition to the lower gross profit (- 6.4 million €) the decline in earnings is due to higher personnel expenses (+ 7.2 million €) on account of higher social contributions and expenditures for old-age pensions. Due to a lower tax rate of 17 % (36 % in the previous year) net earnings after taxes amount to 28.2 million €, which is 3.3 million € less than in the previous year. The return on capital employed (ROCE) amounts to 10.6 % (16 % in the previous year).

## CAPITAL EXPENDITURE

In the fiscal year NA AG adapted its investing activities to earnings. Capital expenditure on intangible assets and property, plant and equipment amounted to about 16 million €. Major investment projects were:

- The continuation of steps to optimise our precious metal processing in Hamburg
- Various measures from the dyNAMic project to increase enterprise value with the emphasis on primary copper production in Hamburg
- Improvements in environmental protection in the secondary smelter in Hamburg

Capital expenditure in the business unit Metallurgy amounted to about 14 million € whilst just over one million € was invested in the business unit Copper Products.

In financial assets we have adjusted the portfolio further under strategic aspects. With effect from 1 October 2002 Mitsui & Co. Ltd. (Mitsui), Tokyo, acquired 80 % of the shareholding in Spiess-Urania Chemicals GmbH, Hamburg, of which NA AG was formerly the majority shareholder. The remaining 20 % will be transferred to Mitsui with effect from 1 October 2004.

Due to the exclusion of minority shareholders (squeeze-out) at HK, we acquired the shares of the other shareholders by agreeing to pay reasonable monetary compensation.

# HUMAN RESOURCES

The unfavourable business trend and the measures to reduce costs and enhance performance have resulted in an increase in the challenges for personnel work.

On 30 September 2003 NA AG had 2,048 employees. Thus, the workforce is almost unchanged compared with the previous year (2,053).

On average over the fiscal year 100 employees of NA AG took part in the early retirement scheme of the chemical industry.

Greater importance was attached to the training and further education of our employees in view of the increased demands arising from our environment. In August 2003 43 young persons started their apprenticeships at NA AG in one of the 15 available trades and professions. With a total of 146 apprentices which is about 7 % of the workforce, NA AG offers one of the most extensive apprenticeship programmes in the chemical industry in North Germany. We have intensified the vocational training in the sector of systematic personnel development. The numerous training schemes were well used by the employees.

Our employees have considerable potential as regards ideas and make a decisive contribution to the continuous increase in productivity and profitability by making suggestions for improvements. We received a total of 1,151 suggestions in the last fiscal year, 15 % more than in the previous year. Of this potential 505 suggestions were realised by the end of the fiscal year. They resulted in calculable savings of about 780,000 €.

The remuneration system for NA employees is performance and success oriented. The performance of the individual is put in relation with the performance of the team and department or production sector. This increases teamwork and motivation.

Based on the ongoing restructuring of the NA Group, the existing company pension scheme at NA AG was closed for new recruits effective 29 September 2003. We are currently investigating whether a new scheme can be started and how such a scheme can be arranged.

Further improvements were made in accident prevention and occupational safety. The accident frequency dropped to eight notifiable accidents per one million hours worked and thus to the lowest level to date. Accident frequency declined by 33 % compared with the previous year.

# RESEARCH AND DEVELOPMENT

The Research & Development (R&D) sector at NA AG works above all on the improvement of production processes as well as on the market-driven development of copper products. The R&D sector has a staff of 25 including 40 % engineers and technicians. The R&D work is oriented to increasing productivity, improving quality, saving resources and the environmental compatibility of the production processes.

In the fiscal year expenditure on R&D amounted to 3.6 million €, a similar level to that in the previous year.

In detail, the productivity of the primary smelter was increased by modifications made to the off-gas system. The basis for reduced quantities of wastewater was also provided by improved process chemical analysis. A further project was the development of a measuring system to monitor the melt level in the furnaces which should be used in the production plant this year and enables improved process control. In addition, productivity in the TOP ROD could be increased due to measures taken.

In addition to process optimisation the R&D work is focused on the further development of existing copper products and increasing the product range. NA AG works closely together with its customers here.

In fiscal year 2002/2003 the range of oxygen-free copper was increased by a new high-grade alloy.

A further project in copper processing is thin strip casting, for which the first development stage was successfully completed at the beginning of 2003.

The development of a CIS solar cell (Cu = copper, In = indium, Se = selenium) was also successfully completed in the first development stage on a laboratory scale. The light efficiency of the flexible solar cells exceeds 10 % and thus even earlier expectations.

Both projects of the future were brought to a temporary conclusion. The next steps should be continued together with strategic partners. For some times we have been holding discussions with potential project partners.

# ENVIRONMENT AND ENERGY

## ENVIRONMENTAL PROTECTION

As a copper producer NA AG has achieved a leading position worldwide due to the continuous high volume of capital expenditure on environmental protection and wants to enhance this further.

Technical improvements and accompanying organisational measures help to achieve this target.

At the end of 2002 an environmental protection project was started in the secondary smelter (RWN), through which a significant reduction in total dust emissions from fugitive sources should be achieved. One focal point is the enclosing of the furnace facilities. In addition, further technical measures to reduce fugitive emissions have also been planned for implementation by the end of 2004.

In the primary smelter (RWO) a training programme has been held once again for the employees in order to use the technical possibilities to reduce emissions optimally. The training programmes will be continued.

In their entirety the measures taken resulted in a further improvement in ambient air quality in the vicinity of the works.

In June 2003 NA AG was welcomed by the Hamburg Environmental Senator as a new member of the EnvironmentPartnership. This is an initiative of Hamburg industry and the Authorities for Environmental and Health Affairs and has set itself the target of Sustainable Development. The Hamburg environmental balance should be improved further with this partnership and at the same time industry's own responsibility increased. Apart from a clear commitment to Sustainable Development, a prerequisite for membership is, for example, a validated environmental management system. The Hamburg Senate rewards the special environmental achievements of the partnership members by giving them a 30 % reduction in environmental licensing fees.

New developments in environmental legislation are pursued and NA AG's policy in environmental protection adapted to them.

Currently an important topic is emissions trading which refers to CO<sub>2</sub> gases. From 2005 onwards NA AG will participate in emissions trading initially only with its own power generator in Hamburg. Under the assumed conditions NA AG could act as a seller of emission certificates. Final clarity on whether NA AG can act as a buyer or seller of certificates will not be available until after the German Government has published the national allocation plan, which will stipulate how emission allowances should be distributed.

## ENERGY

The fiscal year featured significant changes in Germany's energy scenario. The electricity market which is particularly important for NA AG was subject to political impacts. The price advantages arising from the liberalisation of the market in 1999 were eaten up again by special state levies such as energy tax, combined heat and power (CHP) and, above all, by the Renewable Energy Sources Act. In addition, the structural changes which have meanwhile impacted the energy markets have caused prices to rise.

The production of copper is an energy-intensive process. Although NA AG uses energy extremely effectively and as well as permanently working on improving energy efficiency, it is severely impacted by the Renewable Energy Sources Act. Even though our application for exemption under the hardship clause was accepted and NA AG therefore avoided costs for twelve months in the amount of about 2 million €, the hardship clause in the present form is quite insufficient.

By changing the electricity supplier and by concluding a new supply agreement we could limit the cost increases for the procurement of electricity.

The announced liberalisation on the gas market has as yet not materialised. We are carefully observing the developments in this sector in order that we can respond to changes quickly and appropriately.

The successes achieved as part of our energy saving project eNergiA will also enable savings to be made in future. Despite the capacity expansion the natural gas consumption in the last fiscal year has almost remained the same.

# RISK MANAGEMENT

The corporate risks in NA AG are diverse and represent varying risk potential. The most important individual risks are permanently observed and their impact on NA AG systematically analysed. The aim is to recognise risks at an early stage, assess them correctly and take corresponding measures to limit them to a great extent.

Risk management concerns all the corporate sectors. It is part of a planning process that takes in not only sales and production planning but also personnel, investment and finance budgets. These plans and budgets which extend over several years are updated each year and monitored monthly. The strategic plan is examined each year with a view to its implementation and, if necessary, adapted to the changing corporate targets.

We differentiate between risks in core processes – such as procurement, production and sales – and risks in support processes. These cover transactions on the exchanges, finance, environmental protection including occupational safety and health care, human resources and the IT sector.

The risks are categorised by the respective sectors as regards cause, frequency and possible loss potential as well as evaluated to the greatest possible extent qualitatively and – as far as possible – quantitatively.

NA AG has documented the hazards in risk management in a form which is available for inspection.

Risk management in the NA organisation is regarded as a company management task under the direct authority of the Chief Executive Officer.

## MACRO-ECONOMIC RISKS

Risks resulting from the macro-economic trend could arise in particular due to changes in political or economic factors. On the raw material procurement side, due to the wide geographic spread of its suppliers, NA AG is well positioned to minimise political risks in the countries of origin of our copper raw materials. As to sales of our copper products in our core markets, Germany and Western Europe, the general economic trend has an impact on our business. By strengthening the core business of copper, the development and enhancement of close customer relations and a competitive cost position, NA AG is trying – also in a weak economic environment – to counter economically related risks in the trend in earnings. Further incalculable factors could, however, result from new and tightened statutory directives, such as those concerning energy.

## INDUSTRY-SPECIFIC RISKS

Copper is a base material with numerous possible applications in almost all sectors of our modern life. For the foreseeable future we do not see any substitution products that could significantly affect our business. As in the past, however, there will be developments in special segments which could replace copper in certain applications. On the other hand there will be new applications for copper in other sectors. We are expecting copper demand in Europe to increase in the next ten years, which will promote the utilisation of our production plants and the sales of our copper products.

## RISKS FROM BUSINESS ACTIVITIES

### Raw material procurement

The main risk here is a shortfall in raw material supplies. Our supply of copper concentrates, the most important raw material for our copper production sector, is largely secured by long-term supply agreements with major mines. These basic agreements have lifetimes of between five and fourteen years. The treatment and refining charges, which are relevant for our results, are renegotiated in intervals of one to three years and represent a stabilising component for our business due to their long-term character. We procure copper scrap and other recycling materials on the volatile secondary markets.

The production plants for continuous cast wire rod and shapes are kept supplied with the copper cathodes which we produce. In the event of a shortfall in our cathode production, we have the alternative of purchasing cathodes on the market and from the stocks at the metal exchanges.

### Production

Risks are to be found in all factors which could lead to a production standstill or to a loss of production. Some of our core facilities operate without interruption around the clock, others in a six-day week. Maintaining the plants' high availability is an important corporate target. They are continuously monitored by our own specialists and in collaboration with external specialised firms. In the event of disruptions, which could have a major impact, measures are taken in accordance with our alarm and emergency guidelines. Exercises are conducted to ensure the correct reaction in case of an emergency and test alarms. In addition, there is comprehensive fire insurance and cover for business interruption and loss of profits resulting from fire for all the production plants.

### Sales

Here the risks emanate from the customers' side. Sales of our copper products, which depending on turnover form the focal point of our sales activities, are performed directly and indirectly in different industries and are supported by close ties to our customers. By concluding long-term agreements with various major customers we have assured a basic sales level for our main products: continuous cast wire rod and shapes.

Our products are well received by our customers. They exceed all the quality demands for continuous cast wire rod and shapes. Our Quality Management System is certified in accordance with DIN EN ISO 9001:2000.

### Research and development

The close links between development, production, technology and our customers and suppliers form the basis for the further development of our products and production technology. In this way our plants become more efficient and product quality improves further.

Another important sector is the development of new products whereby we are focusing on copper materials. Our customers provide significant stimulus for development work. In all these cases our targets, schedules and development budgets are oriented to the respective projects in order to optimally monitor them and keep risks at a minimum.

## RISKS ARISING FROM FINANCIAL TRANSACTIONS

In its international copper business and the precious metal product sector, NA AG is confronted with risks related to metal trading and foreign exchange transactions. Thus, using various financial instruments, we perform daily hedging to limit the risks arising from metal price fluctuations, foreign exchange and changes in interest rates. We have agreements with banks regarding the utilisation of short-term and long-term credit lines. The funding of replacement investments and capital expenditure on expansions is assured.

A management circle including the Executive Board meets regularly and observes developments on the metal markets, the price situation as well as NA AG's liquidity position by means of differentiated information instruments and set limits.

At present we cannot detect any significant risks in the metal trading sector as well as in our currency and liquidity management.

#### **RISKS OF TRADE ACCOUNTS RECEIVABLE**

Various measures are taken to avoid loss of income from bad debts. The credit rating of our trading partners when business is planned is always checked, assessed and, if necessary, secured by business credit reports from banks and industry. Instruments customary on the market, such as letters of credit, security or bank guarantees are used in daily business. Internal credit limits, credit insurance, non-recourse forfaiting and direct contact with our trading partners complement the various instruments. The contractor risk is limited by stringent internal liability management.

#### **LEGAL RISKS**

There are no pending or threatened legal proceedings, arbitration proceedings, proceedings before the Patent Court or claims for damages, which have a significant impact on the economic situation of NA AG.

As for the rest, NA AG is contesting at law the payment of additional profits of Prymetall GmbH & Co. KG to the Prym group of companies as the sellers of Prymetall GmbH & Co. KG. This dispute has not yet reached a conclusion.

Adequate provisions have been made for potential cost risks.

#### **OTHER RISKS AND IT RISKS**

Environmental protection, occupational safety and health care are important corporate targets. The adherence to laws, directives and requirements is imperative to ensure the continued existence of the company. We achieve these targets by constantly improving environmental protection and occupational safety as well as having health screening performed by the company's own physician. Monitoring is performed by readings taken in internal and external inspections as well as audits. In the IT and communication technology sector we are contractually covered for possible breakdowns in our operative computer systems by the precautions taken by our service data processing centre. Modern firewall technology protects the network from undesirable outside influences. The current software is continually being adapted to fulfil the economic and legal demands placed on it.

#### **OVERALL RISK**

The overall evaluation of NA AG's risk situation reveals that, as a result of the last fiscal year and the implementation of the scheduled projects, there are no risks jeopardising the continued existence of the company. The current annual report shows that NA AG has a sound financial structure and the existing equity level permits targeted growth through capital expenditure.

The Supervisory Board of NA AG has appointed an Audit Committee. In accordance with Section 5.3.2 of the German Corporate Governance Code, this Committee is also concerning itself intensively with matters of risk management.

In compliance with statutory directives, our risk management system was additionally assessed by the auditors. Both the Audit Committee and the auditors determined that the Executive Board had taken the steps required under Section 91 § 2 Commercial Code in a suitable manner and that the management system fulfilled the prerequisites for this.

# OUTLOOK

## OUTLOOK AND DEVELOPMENTS SINCE THE BALANCE SHEET DATE

For the current fiscal year it is generally expected that the economic environment and business trend in Europe and North America will improve. Copper stocks at the international metal exchanges have declined substantially in the last few months. The copper prices have risen significantly. On this basis we are therefore expecting the business climate in the copper industry to improve generally and thus are in agreement with the estimates of market analysts and enterprises in the industry.

NA AG's earnings in the first few months of the new fiscal year are, however, still weighed down by unfavourable market conditions. Scheduled standstills in the primary smelter and at some other plants have also had an impact.

The raw material markets are only recovering slowly. The treatment and refining charges for copper concentrates and other raw materials have still not improved in the first few months of the new fiscal year. We expect, however, supplies to improve in the course of the year.

In the copper scrap sector the burdens arising from the structural changes on the markets will continue. However, a further significant rise in the copper price could still ease the situation on the copper scrap market.

In October 2003 a regular inspection of the waste heat boiler was due in the Hamburg primary smelter sector which processes copper concentrates. Consequently, the primary smelter's anode output was reduced with the result that the tankhouse capacity was not fully utilised. The Hamburg cathode output in the first quarter 2003/2004 which totalled about 75,000 tonnes is therefore about 19,000 tonnes less than the output in the first quarter of fiscal year 2002/2003. We have, however, used the standstill to perform work to optimise the plants. This work will enable us to increase the concentrate throughput further.

Demand for NA AG's copper products, wire rod and shapes, has picked up in the first few months of the new fiscal year. We expect production to increase in both sectors compared with fiscal year 2002/2003.

Our production of sulphuric acid will again be at a high level in the current fiscal year.

The programmes to cut costs and enhance performance are being intensively pursued and are making a contribution to improving the trend in earnings.

The amalgamation of the wholly-owned subsidiary Hüttenwerke Kayser AG (HK AG) in NA AG also serves this purpose. The Supervisory Boards of NA AG and HK AG have approved the amalgamation in their meetings in December 2003. The approval of HK's Annual General Meeting is expected in January 2004. The amalgamation of HK AG in NA AG is planned as economically retroactive to 1 October 2003.

NA AG uses growth opportunities strategically and will continue to launch on to foreign markets which was initiated with the cooperation with the Chinese copper producer, Yunnan Copper.

# PROFIT AND LOSS ACCOUNT

for the period 1 October 2002 to 30 September 2003

in thousand €	Notes	2002/2003	2001/2002
<b>Revenues</b>	12	<b>1,666,856</b>	1,696,296
Variations in inventories of finished goods and work in progress		<b>(21,438)</b>	(5,358)
Own work capitalised		<b>2,550</b>	1,944
Other operating income	13	<b>22,891</b>	25,920
Cost of raw materials and supplies	14	<b>(1,439,631)</b>	(1,481,199)
<b>Gross profit</b>		<b>231,228</b>	237,603
Personnel expenses	15	<b>(116,075)</b>	(108,830)
Depreciation	16	<b>(32,280)</b>	(32,136)
Other operating expenses	17	<b>(49,751)</b>	(52,226)
Income from investments	18	<b>5,631</b>	9,196
Net interest	19	<b>(4,879)</b>	(4,799)
<b>Result of ordinary activities</b>		<b>33,874</b>	48,808
Taxes on income	20	<b>(5,704)</b>	(17,351)
<b>Profit for the fiscal year</b>		<b>28,170</b>	31,457
Allocations to revenue reserves		<b>(10,000)</b>	(10,200)
<b>Net earnings</b>		<b>18,170</b>	21,257

# BALANCE SHEET (HGB)

as at 30 September 2003

<b>Assets</b> in thousand €	Notes	30.09.2003	30.09.2002
<b>Non-current assets</b>	1		
Intangible assets		7,133	8,178
Property, plant and equipment		140,163	156,561
Financial assets			
Interest in affiliated companies		118,348	122,378
Investments		2,375	2
Other loans		1	1
		120,724	122,381
		268,020	287,120
<b>Current assets</b>			
Inventories	2	189,471	204,444
Receivables and other assets	3		
Trade accounts receivable		93,515	70,180
Receivables from affiliates		30,519	24,421
Receivables from other Group companies		1,401	926
Other assets		9,356	16,579
		134,791	112,106
Short-term security investments	4	1,167	1,506
Liquid assets	5	6,696	3,712
		332,125	321,768
Prepaid expenses		39	58
<b>Total assets</b>		<b>600,184</b>	<b>608,946</b>

<b>Equity and liabilities</b> in thousand €	Notes	30.09.2003	30.09.2002
<b>Equity</b>	6		
Subscribed capital (conditional capital 36,993 thousand €)		<b>84,593</b>	83,720
Additional paid-in capital		<b>26,778</b>	26,724
Revenue reserves		<b>140,996</b>	130,996
Retained earnings		<b>18,170</b>	21,257
		<b>270,537</b>	262,697
<b>Special reserves with an equity portion</b>	7	<b>0</b>	597
<b>Provisions</b>	8		
Provisions for pensions		<b>25,808</b>	24,588
Other provisions		<b>68,814</b>	71,268
		<b>94,622</b>	95,856
<b>Liabilities</b>	9		
Convertible bonds		<b>1,993</b>	2,895
Bank loans and overdrafts		<b>94,429</b>	95,594
Trade accounts payable		<b>99,716</b>	104,211
Payables to affiliates		<b>8,796</b>	12,349
Other liabilities		<b>30,088</b>	34,744
		<b>235,022</b>	249,793
<b>Deferred items</b>		<b>3</b>	3
<b>Total equity and liabilities</b>		<b>600,184</b>	608,946

# CHANGES IN FIXED ASSETS OF NA AG

as at 30 September 2003

in thousand €	Acquisition or construction cost 01.10.2002	Additions	Disposals
<b>Intangible assets</b>			
Licenses, trademarks, patents, licenses and similar rights and licenses to such rights	12,454	1,560	422
Payments on account	4,333	1	0
	16,787	1,561	422
<b>Tangible assets</b>			
Land and buildings	231,559	2,751	362
Technical equipment and machiners	539,541	6,949	5,776
Other equipment, factory and office equipment	41,045	1,436	1,963
Payments on account and assets under construction	7,727	2,869	152
	819,872	14,005	8,253
<b>Financial assets</b>			
Interest in affiliated companies	124,402	7,854	9,511
Investments	2	0	0
Other loans	1	0	0
	124,405	7,854	9,511
<b>Total fixed assets</b>	<b>961,064</b>	<b>23,420</b>	<b>18,186</b>

Transfers	Write-ups	Write-downs 30.09.2003	Carrying amount 30.09.2003	Carrying amount 30.09.2002	Depreciation and write-downs in current fiscal year
4,321	0	10,793	<b>7,120</b>	3,845	2,472
(4,321)	0	0	<b>13</b>	4,333	0
0	0	10,793	<b>7,133</b>	8,178	2,472
662	0	208,411	<b>26,199</b>	25,255	2,386
3,463	0	440,716	<b>103,461</b>	118,288	25,227
8	0	36,334	<b>4,192</b>	5,290	2,195
(4,133)	0	0	<b>6,311</b>	7,728	0
0	0	685,461	<b>140,163</b>	156,561	29,808
(2,373)	0	2,024	<b>118,348</b>	122,378	0
2,373	0	0	<b>2,375</b>	2	0
0	0	0	<b>1</b>	1	0
0	0	2,024	<b>120,724</b>	122,381	0
0	0	698,278	<b>268,020</b>	287,120	32,280

# NOTES TO THE FINANCIAL STATEMENTS

## GENERAL REMARKS

The financial statements of Norddeutsche Affinerie AG were prepared in accordance with the accounting requirements of the German Commercial Code (HGB). In order to improve the clarity of presentation, some items have been combined in the balance sheets and the profit and loss account and detailed separately in the notes to the financial statements.

## ACCOUNTING AND VALUATION PRINCIPLES

### Fixed assets

Intangible assets are stated at cost and depreciated on schedule.

Tangible fixed assets are valued at acquisition cost or construction cost. The construction cost of self-constructed assets includes directly allocable costs and related overhead costs. Movable fixed assets are depreciated using the declining-balance method with a scheduled transition to the straight-line method in accordance with the tax regulations. Exceptions from this are the concentrate processing plants where capacity expansions were performed in 2000 which are depreciated using the straight-line method. Low-value items are fully depreciated in the year of acquisition. Impairment charges are made if the item should be included at a lower value.

The financial assets are stated at the lower of cost or market value.

### Current assets

Inventories are stated at the lower of acquisition/construction cost or market value as of the balance sheet date. The metal inventories are accounted for using the „Lifo“ method. As far as necessary, write-downs are made for a decline in value on an individual basis. The principle of loss-free valuation is applied.

Receivables and other assets are accounted for at cost. Doubtful receivables are accounted for using an allowance account. Receivables in foreign currencies are valued at the historical exchange rate or at the offer rate in effect at the balance sheet date, hedged receivables at the rate of the hedge transaction.

Securities are stated at cost less write-downs to the current market value, if necessary.

Bank balances in foreign currencies are valued at the offer rate at the balance sheet date.

### Provisions

Provisions for direct pension obligations are stated at the present values with an interest rate of 3.5 % to 6 % in accordance with actuarial requirements.

Pension and welfare funds are funded in accordance with tax regulations. Provisions have been made to cover the unfunded portion of the company's pension obligations, as determined in accordance with the regulations of Section 6a of the German Income Tax Code. To calculate the unfunded portion, the securities held in the funds' assets are valued at the carrying amount and leased property valued based on capitalised earnings.

Other provisions cover all foreseeable risks and uncertain obligations, including pending contracts. They are accounted for at the amounts expected to be required for settlement. For provisions, which are expected to be incurred in later years, the probably incurred expenditures are accumulated pro rata.

## Liabilities

All liabilities are stated at their repayment value. Liabilities in foreign currencies are translated at the rate in effect when they were booked or the bid rate as of the balance sheet date, hedged liabilities at the rate of the hedge transaction.

The valuation of transactions, which are still subject to metal price risks as of the balance sheet date, was undertaken on a „per metal“ basis. As part of portfolio examinations, unrealised gains were set off against unrealised losses regardless of the period of their future realisation. A loss remaining after set-off is recorded as a liability under provisions, a gain is not taken into account.

## NOTES TO THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

### 1. Non-current assets

Intangible assets include rights of use acquired for a fee which are depreciated on schedule. Additions are the result of the migration of our SAP software to the System R3.

Capital expenditure on fixed assets totalled 14 million €. Major projects in the fiscal year were the continuation of the project to optimise precious metal processing and various projects to increase value from the dyNAMic project.

A breakdown of the shareholdings accounted for under financial assets is given on page 26 of these Notes. Additions to financial assets of NA AG cover the acquisition of the outstanding shares in Hüttenwerke Kayser AG, Lünen, which we acquired after the squeeze out of minority shareholders and the increase in our interest in Spiess-Urania Chemicals GmbH, Hamburg, by 40 % to 100 %. We then sold 80 % of the interest in Spiess-Urania Chemicals GmbH, Hamburg, to Mitsui & Co. Ltd., Tokyo.

### 2. Inventories

in thousand €	30.09.2003	30.09.2002
Raw materials and supplies	83,546	77,080
Unfinished goods	80,159	83,558
Finished goods, merchandise	25,766	43,806
	<b>189,471</b>	<b>204,444</b>

Inventories could be reduced by 15 million €, in particular, due to the reduction of stocks of finished goods.

The difference between the market value as of the balance sheet date and our valuation amounts to 25 million €.

### 3. Receivables and other assets

in thousand €	Maturing in		Total	Total
	less than 1 year	more than 1 year	30.09.2003	30.09.2002
Trade receivables from third parties	93,515	–	93,515	70,180
Receivables from affiliated companies	30,519	–	30,519	24,421
Receivables from enterprises in which participations are held	1,401	–	1,401	926
Other assets	8,792	564	9,356	16,579
	<b>134,227</b>	<b>564</b>	<b>134,791</b>	<b>112,106</b>

## NOTES TO THE FINANCIAL STATEMENTS

The increase in receivables and other assets resulted from increased trade receivables from major customers and from the precious metal business. Higher loans to our subsidiaries Hüttenwerke Kayser AG and Prymetall GmbH & Co. KG have led to an increase in receivables from affiliated companies. The decline in other assets is attributable to the settlement of a claim from the sale of an investment which was included in the balance sheet of the previous year.

At the time the balance sheet was prepared, the outstanding trade receivables had almost all been settled.

### 4. Short-term security investments

Our short-term security investments are pledged to secure claims from one of our pension funds.

A write-up of 15 thousand € was required to measure the securities at their initial value.

### 5. Liquid assets

Liquid assets include current and fixed bank deposits as well as cash in hand, deposits at the Bundesbank and cheques.

### 6. Equity

Within the framework of the stock option plan for the Executive Board and senior staff, 341,000 new bearer shares of NA AG calculated at 872,960 € have been issued in exchange for convertible bonds in the last fiscal year. As a result the subscribed capital amounts to 84,592,640 € and is divided into 33,044,000 bearer shares. The premium from the capital increase amounting to 0.16 € per share, 54,560 € in total, was allocated to additional paid-in capital.

The conditional capital now amounts to 36,992,704 € and consists of Conditional Capital I in the amount of 1,992,704 € and Conditional Capital II in the amount of 35,000,000 € which is used to grant rights to the holders of warrants and/or convertible bonds that could or can be issued by 11 June 2003 or 31 March 2005.

There is still an authorised capital of 40,000,000 €. The Executive Board subject to the approval of the Supervisory Board is authorised to increase the subscribed capital until 31 March 2005 by issuing new shares at once or in several instalments for a cash contribution or contribution in kind.

10 million € were allocated from net earnings to the revenue reserves. The statutory reserves of 10 % of the subscribed capital are included in the revenue reserves in the amount of 6,391 thousand €. The remaining amount is covered by the share premium contained in additional paid-in capital.

At the Annual General Meeting on 26 March 2003 it was resolved that the previous year's net profit in the amount of 21,256,950 € should be paid out in full to the shareholders.

### 7. Special reserves with an equity portion

The last instalment of special reserves with an equity portion formed in accordance with Section 52 § 16 of the German Income Tax Code with respect to the requirement to reverse impairments were released.

## 8. Provisions

in thousand €	30.09.2003	30.09.2002
<b>Provisions for pensions</b>	<b>25,808</b>	24,588
<b>Other provisions</b>		
Personnel sector	29,367	30,128
Maintenance and general repairs	14,157	13,590
Environmental protection	220	220
Other	25,070	27,330
	<b>68,814</b>	71,268
	<b>94,622</b>	95,856

The pension obligations are computed based on the new biometric tables and with discount rates of 3.5 % and 6 %. The security portfolio for the pension funds was valued at market values instead of carrying amounts as in the previous year. As a result the provisions for the unfunded portion were reduced by 3.2 million €.

In total, the provisions as of the balance sheet date in the amount of 44.9 million € (previous year 43.2 million €) were of a long-term character.

## 9. Liabilities

in thousand €	Maturing in			Total	Total
	less than 1 year	1 to 5 years	more than 5 years	30.09.2003	30.09.2002
Convertible bonds	945	1,048	–	<b>1,993</b>	2,895
Liabilities to banks	5,626	88,343	460	<b>94,429</b>	95,594
Advance payments received on orders	1,630	–	–	<b>1,630</b>	1,433
Trade accounts payable	99,716	–	–	<b>99,716</b>	104,211
Liabilities due to affiliated companies	8,796	–	–	<b>8,796</b>	12,349
Liabilities due to enterprises in which participation are held	347	–	–	<b>347</b>	330
Other liabilities	28,111	–	–	<b>28,111</b>	32,981
<i>of which taxes paid</i>				<b>13,211</b>	18,224
<i>of which as part of social contributions</i>				<b>5,416</b>	4,816
	<b>145,171</b>	<b>89,391</b>	<b>460</b>	<b>235,022</b>	249,793

The convertible bonds with a face value of 1,993 thousand € are divided into 3,892 bearer bonds with a face value of 512 € each and with interest payable of 5.2 % p.a. and 4.6 % p.a. They have been acquired by senior staff of the NA Group as part of a stock option plan.

The changes in liabilities to banks and trade accounts payable compared with the previous year are insignificant. The advance payments received include fees from tolling business still in progress.

The decline in liabilities due to affiliated companies resulted from the sale of Spiess-Urania Chemicals GmbH. Other liabilities include lower tax burdens.

## NOTES TO THE FINANCIAL STATEMENTS

### 10. Contingent liabilities and other commitments

in thousand €	30.09.2003	30.09.2002
Contingent liabilities under bills	7,127	7,678
Commitments for capital projects	12,746	16,239
Commitments under tolling agreements	14,375	15,327
Other contingencies	3,797	3,024

Commitments under tolling agreements refer to the value of the metal extracted during the tolling process which has to be returned. These liabilities are accounted for by corresponding recourse claims.

### 11. Derivative financial instruments

To hedge the risks in the operational business which arise from fluctuations in non-ferrous metal prices, foreign exchange rates and interest rates, we employ derivative financial instruments in the Group in the form of future contracts, options and interest hedging. These agreements, which are monitored as part of a risk management system, are made with reputable brokers and banks.

The non-ferrous metals future contracts and foreign currency forward contracts primarily concern copper and the U.S. dollar.

### 12. Revenues

in thousand €	2002/03	2001/02
<b>By product groups</b>		
Copper cathodes	289,703	319,500
Continuous cast wire rod	600,533	545,387
Continuous cast shapes	303,181	332,810
Precious metals	413,957	455,059
Chemicals	18,328	9,859
Other	41,154	33,681
	<b>1,666,856</b>	<b>1,696,296</b>

In the year under review 72 % of the revenues were achieved in the domestic market, 22 % in members of the European Union, 3 % in non-EU European markets and the remaining 3 % in non-European countries.

The revenues from continuous cast wire rod and shapes also include revenues for so-called „Wandelkathoden“ (copper on account) which are delivered in the requested sizes in accordance with the customer's specification.

The decline in revenues of 1.7 % is mainly due to lower metal prices. Additional revenues from increased unit sales were compensated by them.

### 13. Other operating income

in thousand €	2002/03	2001/02
Reversal of special items with an equity portion	597	597
Other operating income	22,294	25,323
	<b>22,891</b>	<b>25,920</b>

This total includes gains from the disposal of fixed and financial assets, from the release of provisions, from write-ups as well as gains relating to prior periods and recharges of costs to third parties. In addition, adjusting amounts for the utilisation of provisions for which the primary cost is charged to the respective item of expense are included here.

The decline in other operating income by 3 million € was the result, in particular, of lower indemnities.

### 14. Cost of raw materials and supplies

in thousand €	2002/03	2001/02
Raw materials, supplies and purchased goods	1,376,484	1,416,230
Cost of purchased services	63,147	64,969
	<b>1,439,631</b>	<b>1,481,199</b>

The cost of raw materials and supplies has reduced due to lower revenues. Taking into account the changes in inventories, the ratio of the cost of raw materials and supplies has stayed almost constant at 87.5 %.

### 15. Personnel expenses and human resources

in thousand €	2002/03	2001/02
Wages and salaries	90,918	89,881
Social security and special benefit expenses	25,157	18,949
<i>of which expenditure for pensions</i>	5,763	1,533
	<b>116,075</b>	<b>108,830</b>

Wages and salaries rose by the general wage-scale increase whilst the number of employees remained almost unchanged. Under social security and special benefit expenses the social insurance rates and the contributions to the Employers Liability Insurance Association increased. The rise in expenditure for pensions was largely due to allocations to our welfare funds, the contributions to which were again tax-deductible.

The average number of employees during the year was:

	2002/03	2001/02
Blue collar	1,284	1,296
White collar	637	628
Apprentices/trainees	123	116
	<b>2,044</b>	<b>2,040</b>

## NOTES TO THE FINANCIAL STATEMENTS

### 16. Depreciation

In the year under review there were no major investment projects with the result that depreciation remained at the level of the previous year. Impairment losses were made in the amount of 2.2 million €.

### 17. Other operating expenses

This item includes administration and marketing costs, fees, insurance, rents and leases as well as allocations to provisions. In addition, other taxes in the sum of 560 thousand € (545 thousand € in the previous year) are shown.

### 18. Income from investments

in thousand €	2002/03	2001/02
Income from agreements to transfer profits	1	1
Income from shareholdings	5,630	9,195
<i>of which from affiliated companies</i>	4,605	9,195
	5,631	9,196

### 19. Net interest

in thousand €	2002/03	2001/02
Interest and similar income	3,935	3,697
<i>of which from affiliated companies</i>	664	362
	3,935	3,697
Interest and similar expenses	8,814	8,496
<i>of which to affiliated companies</i>	363	514
	4,879	4,799

The net interest includes the interest component of pension costs in the amount of 0.8 million € (1.1 million € in the previous year).

### 20. Income taxes

The income taxes amount to 5.7 million €. The lower tax rate of 17 % is attributable to the inclusion of the tax-deductible negative results of Prymetall GmbH & Co. KG.

### 21. Impact of tax measures

Earnings before taxes increased by approx. 1.8 million € through the utilisation of additional depreciation permitted for tax purposes in previous years under consideration of the reversal of special reserves with an equity portion. The future tax rate will amount to about 40 %.

## OTHER INFORMATION

### Declaration of Conformity with the German Corporate Governance Code in accordance with Section 161 Companies Act

The statutory declaration required under Section 161 Companies Act has been submitted by the Executive Board and the Supervisory Board and has been made accessible to the shareholders at the company's website.

### Compensation of the Executive Board and the Supervisory Board

The compensation of the Executive Board for fiscal year 2002/2003 totalled 1,412,268 € and included a fixed component in the amount of 1,146,591 € as well as a long-term incentive component in the amount of 265,677 €. No performance-related component was paid. Former members of the Executive Board and their survivors received a total of 924,270 €, 10,862,516 € have been accrued for their pension claims.

In fiscal year 2002/2003 the compensation of the Supervisory Board amounted to 181,864 €.

Members of the Supervisory Board hold 7,581 shares, members of the Executive Board 7,891 shares in Norddeutsche Affinerie AG. In addition, the members of the Executive Board have acquired convertible bonds with a face value of 276,480 € which can be exchanged on maturity in accordance with the bond conditions into shares of Norddeutsche Affinerie AG.

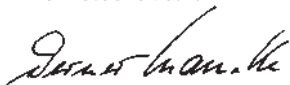
### Proposed appropriation of earnings

Net profit of Norddeutsche Affinerie AG	28,170,000.00 €
Allocations to other revenue reserves	10,000,000.00 €
<b>Net earnings</b>	<b>18,170,000.00 €</b>


It will be proposed to the Annual General Meeting that the net earnings of Norddeutsche Affinerie AG in the amount of € 18,170,000 are carried forward.

Hamburg, 23 December 2003

The Executive Board



Dr Werner Marnette



Dr Michael Landau



Dr Toralf Haag



Dr Bernd Langner

# SHAREHOLDINGS OF NORDDEUTSCHE AFFINERIE AG

as at 30 September 2003

Company name and seat	% of capital held by NA Group	Currency	Subscribed capital in 1.000	Held directly by	Stake in %
1. Norddeutsche Affinerie AG, Hamburg		€	84,593		
2. Hüttenwerke Kayser AG, Lünen	100	€	23,400	1	100
3. Prymetall GmbH, Stolberg	100	€	30	1	100
4. Prymetall GmbH & Co. KG, Stolberg	100	€	12,800	1	100
5. Gesellschaft für Metallanlagen GmbH, Hamburg	100	€	3,900	1 2	67 33
6. CABLO Metall-Recycling & Handel GmbH, Hamburg	100	€	767	1	100
7. Peute Baustoff GmbH, Hamburg	100	€	52	1	100
8. Retorte Ulrich Scharrer GmbH, Röthenbach	100	€	2,045	1	100
9. Berliner Kupfer-Raffinerie GmbH, Hamburg	100	€	2,557	1 2	67 33
10. NA Venture GmbH, Hamburg	100	€	25	1	100
11. Hüttenbau-Gesellschaft Peute mbH, Hamburg	100	€	26	1	100
12. Spiess-Urania Chemicals GmbH, Hamburg	20	€	8,667	1	20
13. CIS Solartechnik GmbH, Hamburg	45	€	45	10	45
14. Schwermetall Halbzeugwerk GmbH, Stolberg	50	€	52	4	50
15. Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg	50	€	12,500	4	50
16. Deutsche Giessdraht GmbH, Emmerich	60	€	6,200	5	60
17. Hüttenwerk Kayser GmbH, Lünen	100	€	26	2	100
18. E.R.N. Elektro-Recycling NORD GmbH, Hamburg	70	€	512	2	70
19. C.M.R. International N.V., Antwerp	50	€	1,000	2	50
20. JoSeCo GmbH, Kirchheim/Schwaben	33	€	225	8	33
21. Hungurania Kft., Budapest	20	HUF	3,000	12	100
22. J.M. Lauff GmbH, Cologne	20	€	256	12	100
23. Dr. Spiess Chemische Fabrik GmbH, Kleinkarlbach	20	€	512	12	100
24. Spiess-Urania Pflanzenschutz GmbH, Ochsenfurt	20	€	200	12	100
25. EGC Eisenbahn- u. Gleisbau-Consulting GmbH, Berlin	10	€	31	12	50

A complete list of shareholdings is on file at the commercial register of the Hamburg courts under number B 1775.

# AUDITORS' REPORT

We have audited the financial statements, together with the bookkeeping system and the management report, of Norddeutsche Affinerie AG, Hamburg, for the fiscal year from 1 October 2002 to 30 September 2003. The maintenance of the books and records and the preparation of the financial statements and management report in accordance with German commercial law are the responsibility of the Company's management. Our responsibility is to express an opinion on the annual financial statements, together with the bookkeeping system and management report, based on our audit.

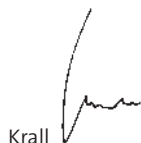
We conducted our audit of the financial statements in accordance with § 317 HGB („Handelsgesetzbuch“: „German Commercial Code“) and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the financial statements in accordance with German principles of proper accounting and in the management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Company and evaluations of possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the books and records, the annual financial statements and management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statements and the management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, the annual financial statements give a true and fair view of the net assets, financial position and results of operations of the company in accordance with German principles of proper accounting. On the whole, the management report provides a suitable understanding of the Company's position and suitably presents the risks of future development.

Hamburg, 23 December 2003

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft



Krall  
Wirtschaftsprüfer

  
Ditting  
Wirtschaftsprüfer

# SUPERVISORY BOARD'S REPORT

Dear Shareholders,

In fiscal year 2002/2003 the Supervisory Board's activities continued to be characterised by a constant dialogue with the Executive Board. In view of the difficult economic environment the Supervisory Board supported the measures and course taken by NA. We wish to compliment the Executive Board as well as all the employees on their decisive and foresighted actions.

During the year the Supervisory Board performed the duties that are incumbent upon it by law and under the Articles of Association. The Executive Board and Supervisory Board worked closely together. The Supervisory Board regularly advised and constantly monitored the Executive Board in its management of the Company. The Supervisory Board was included in all decisions of fundamental importance.

The Executive Board kept the Supervisory Board informed at regular intervals, promptly and extensively, on all relevant questions regarding company policy and strategic development. In addition, it advised about the course of business, the Group's situation including the risk situation as well as risk management. Deviations in the course of business from the prepared plans and targets were explained, discussed and reasons given.

The Executive Board agreed upon the Company's strategic orientation with the Supervisory Board and at regular intervals discussed the progress in implementing the strategy. After being given detailed reports by the Executive Board, all the significant business transactions were debated in detail at the Supervisory Board meetings and by the respective responsible committees. Documents requiring decisions to be taken, in particular the financial statements, the consolidated financial statements and the auditor's report, were sent to the members of the Supervisory Board in good time before the meetings. The Supervisory Board gave its approval to important business requiring approval, in some cases after consulting with the preparatory committees.

Apart from at the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular contact with the Executive Board and was kept constantly informed about the current trend in business and significant business issues.

In fiscal year 2002/2003 one constituent and four regular Supervisory Board meetings were held as well as one extraordinary meeting.

## **Work on the Committees**

In addition to the Committee required by law in accordance with Section 27 § 3 Codetermination Law, a Preparatory Committee, a Personnel Committee and an Audit Committee were formed. The Committees each have equal representation with representatives of the shareholders and the employees. With the exception of the Audit Committee the Chairman of the Supervisory Board is also the Chairman of the Committees. The Personnel Committee convened twice in the year under review, the Audit Committee three times. The Audit Committee is, in particular, concerned with questions regarding accounting standards and risk management. This Committee just as the Personnel Committee has already held two meetings in the current fiscal year.

After each meeting the respective Chairmen of the Committees reported to the Supervisory Board on the Committees' work.

The Supervisory Board has no former members of the Company's Executive Board in its membership.

## **Focal points of the Supervisory Board consultations**

The regular consultations in the meetings covered the developments on the metal and exchange markets as well as the raw material and product markets. The resultant impacts on the business performance of the Company as well as of its individual segments including the subsidiaries were discussed. The Supervisory Board was particularly concerned with enhancing performance and increasing enterprise value in the Group and the recommendations of the German Corporate Governance Code. At an extraordinary meeting the Supervisory Board addressed the trend in earnings of the Group and measures to increase earnings. After detailed consultation the Supervisory Board approved the amalgamation of Hüttenwerke Kayser AG and Norddeutsche Affinerie AG.

## Corporate Governance

In accordance with the proposal made by the Supervisory Board and the Executive Board it was resolved at the Annual General Meeting on 26 March 2003 to reorganise the compensation of the Supervisory Board in compliance with the recommendations of the German Corporate Governance Code.

The Supervisory Board has consulted about the structure of the remuneration system for the Executive Board and will review this at regular intervals. The Supervisory Board has decided to examine the efficiency of its actions once a year.

On 29 January 2004 the Executive Board and Supervisory Board again issued a Declaration of Conformity in accordance with Section 161 Companies Act to the effect that the recommendations of the Government Commission on the German Corporate Governance Code published on 26 November 2002 (in the version of 7 November 2002) were applied with three well-founded exceptions and the recommendations published on 4 July 2003 (in the version of 21 May 2003) are being and will also in future be applied with three well-founded exceptions.

## Annual Audit

The financial statements for Company issued by the Executive Board in accordance with the German Commercial Code and the consolidated financial statements issued for the first time in accordance with the International Financial Reporting Standards (IFRS) for the fiscal year from 1 October 2002 to 30 September 2003 as well as the management report for the Company and for the Group have been audited by KPMG Deutsche Treuhand-Gesellschaft AG, Wirtschaftsprüfungsgesellschaft, Berlin and Frankfurt a.M., in accordance with the resolution passed at NA's Annual General Meeting held on 26 March 2003 and the subsequent order placed by the Supervisory Board. The auditor has issued an unqualified report. All the members of the Supervisory Board received copies of the financial statements and the audit reports. They were discussed in detail at the Balance Sheet Meeting on 29 January 2004. During this meeting the auditor reported on the main results of the audit and was available to give the Supervisory Board further information. The Supervisory Board agreed with the results of the audit carried out by the auditors on the basis of its own examination of the financial statements, the consolidated financial statements, the combined management report and the recommendation for the appropriation of the net earnings. It approved and thereby adopted the financial statements and the consolidated financial statements. The Supervisory Board concurred with the Executive Board's recommendation for the appropriation of the net earnings.

## Appointment of the Supervisory Board

Effective on conclusion of the Annual General Meeting on 26 March 2003 Messrs Joachim Bruhn, Meinhard Carstensen and Egon Schäfer retired from the Supervisory Board. As of that date Mr Rainer Grohe was newly elected to the Board as a shareholders' representative and Messrs Rolf Schwertz and Helmut Wirtz were newly elected as employees' representatives. Mr Ulf Gänger was elected as a member of the Supervisory Board as a further shareholders' representative with effect from 1 June 2003. At the constituent meeting on 26 March 2003 the Supervisory Board reelected Dr Ing. Ernst J. Wortberg as its Chairman and Mr Hans-Jürgen Grundmann as its Deputy Chairman. At the same meeting the Committees were newly formed and the members elected. Mr Ulf Gänger was elected Chairman of the Audit Committee. Our thanks go to the gentlemen who have retired for the services they rendered to the good of the Company.

The Supervisory Board thanks the Executive Board, all the employees as well as the employees' representatives for their responsible and dedicated work and achievements.

Hamburg, 29 January 2004



THE SUPERVISORY BOARD

Dr Ing. Ernst J. Wortberg  
Chairman

# SUPERVISORY AND EXECUTIVE BOARDS

## SUPERVISORY BOARD

**Dr Ing. Ernst J. Wortberg**, Lübeck

Chairman

Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck

- Deutscher Eisenhandel AG, Berlin  
Chairman of the Supervisory Board

**Hans-Jürgen Grundmann**, Seevetal\*

Deputy Chairman

Shop mechanic

Chairman of the Works' Council of Norddeutsche Affinerie AG

**Joachim Bruhn**, Hamburg\*

Coppersmith

(until 26 March 2003)

**Meinhard Carstensen**, Hamburg

Retired member of the Executive Board and former member of the Supervisory Board of Dresdner Bank AG, Frankfurt a. M.

(until 26 March 2003)

**Gottlieb Förster**, Itzstedt\*

Union Secretary of the Industrial Union:

Mining, Chemistry, Energy, Hanover

- Deutsche Shell GmbH, Hamburg  
Member of the Supervisory Board
- Shell Deutschland Holding GmbH, Hamburg  
Member of the Supervisory Board
- Gerresheimer Glas AG, Düsseldorf  
Member of the Supervisory Board
- Chemie Pensionsfonds AG, München  
Member of the Supervisory Board

**Dr Peter von Foerster**, Hamburg

Managing Director of Holcim Beteiligungs GmbH (Deutschland), Hamburg

- Holcim (Deutschland) AG, Hamburg  
Chairman of the Supervisory Board
- Hamburger Hafen- und Lagerhaus AG, Hamburg,  
Chairman of the Supervisory Board
- Unilever Deutschland GmbH, Hamburg  
Member of the Supervisory Board
- Hemmoor Zement AG i.L., Hamburg  
Chairman of the Supervisory Board
- Desitin Arzneimittel GmbH, Hamburg  
Member of the Advisory Board
- Max Giese Bau, Kiel  
Chairman of the Advisory Council
- Bernhard Schulte KG, Hamburg  
Member of the Advisory Council

**Ulf Gänger**, Hamburg

Former member of the Executive Board of Hamburgische Landesbank, Hamburg (now HSH Nordbank AG, Hamburg and Kiel) (since 1 June 2003)

- Helm AG, Hamburg  
Chairman of the Supervisory Board
- MobilCom AG, Büdelsdorf  
Member of the Supervisory Board
- NAVIS Schifffahrts- und Speditions-Aktiengesellschaft, Hamburg  
Chairman of the Supervisory Board
- VON ESSEN KG BANKGESELLSCHAFT, Essen,  
Chairman of the Advisory Board
- Peter Cremer Holding GmbH & Co, Hamburg  
Chairman of the Advisory Council
- Gewürzwerk Hermann Laue (GmbH & Co.), Ahrensburg  
Deputy Chairman of the Advisory Council

**Rainer Grohe**, Otterstadt

Executive Director of the Galileo Joint Undertaking, Brussels, Belgium (since 26 March 2003)

- Ball Packaging Europe GmbH, Ratingen  
Chairman of the Supervisory Board
- K+S Aktiengesellschaft, Kassel  
Member of the Supervisory Board

**Prof. Dr Ing. Jürgen Haußelt**, Germersheim

Head of the Institute for Material Research III of the Research Centre Karlsruhe GmbH, Karlsruhe

- Chair for Material Process Technology,  
11th Faculty, Albert-Ludwigs University, Freiburg i. Br.

**Gerd Körner**, Hamburg\*

Commercial employee in the Accounts Department of Norddeutsche Affinerie AG

Member of the Works' Council of Norddeutsche Affinerie AG

**Günter Kroll**, Hamburg\*

Graduate engineer

Head of the Vocational Training Department of Norddeutsche Affinerie AG

**James P. Mooney**, Rocky River, Ohio, USA

Chairman of the Board and Chief Executive Officer der OM Group, Inc., Cleveland, USA

(until 30 November 2002)

**Egon Schäfer**, Sarstedt\*

Retired union secretary of the Industrial Union:

Mining, Chemistry, Energy, Hanover

(until 26 March 2003)

\* = elected by the employees

## SUPERVISORY BOARD

**Rolf Schwertz**, Datteln\*  
Bricklayer and boiler operator  
(since 26 March 2003)

**Prof. Dr Fritz Vahrenholt**, Hamburg  
Chairman of the Executive Board of REpower Systems AG, Hamburg

- SAM Smart Energy AG, Zürich, Schweiz  
President of the Advisory Board
- Denker & Wulf AG, Sehestedt  
Member of the Supervisory Board
- ThyssenKrupp Technologies AG, Essen  
Member of the Supervisory Board
- Hamburger Sport-Verein AG, Hamburg  
Deputy Chairman of the Supervisory Board

**Helmut Wirtz**, Stolberg\*  
Managing Director of the IG Metall, Stolberg  
(since 26 March 2003)

## SUPERVISORY BOARD COMMITTEES

### Conciliation Committee in accordance with Section 27 § 3

#### Codetermination Law

Dr Ernst J. Wortberg (Chairman)  
Hans-Jürgen Grundmann (Deputy Chairman)  
Dr Peter von Foerster  
Gerd Körner

#### Audit Committee

Ulf Gänger (Chairman)  
Gottlieb Förster  
Hans-Jürgen Grundmann  
Dr Ernst J. Wortberg

#### Personnel Committee

Dr Ernst J. Wortberg (Chairman)  
Dr Peter von Foerster  
Hans-Jürgen Grundmann  
Gerd Körner  
Günter Kroll  
Prof. Dr Fritz Vahrenholt

#### Preparatory Committee

Dr Ernst J. Wortberg (Chairman)  
Dr Peter von Foerster  
Hans-Jürgen Grundmann  
Günter Kroll

\* = elected by the employees

## EXECUTIVE BOARD

**Dr Werner Marnette**, Hollenstedt  
Chairman of the Executive Board and Director of Labour Affairs

- Hüttenwerke Kayser AG, Lünen  
Chairman of the Supervisory Board
- Leoni AG, Nuremberg  
Member of the Supervisory Board

**Dr Michael Landau**, Mölln  
Member of the Executive Board

**Dr Toralf A. Haag**, Hamburg  
Member of the Executive Board

**Dr Bernd E. Langner**, Winsen/Luhe  
Member of the Executive Board  
(since 1 January 2003)

- Prymetall GmbH & Co. KG, Stolberg  
Spokesman of the Management Board

If you wish to know more, please contact:

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This information contains forward-looking statements based on current assumptions and forecasts. Various known and unknown risks, uncertainties and other factors could have the impact that the actual future results, financial situation or developments differ from the estimates given here. We assume no liability to update forward-looking statements.