

**Financial Statements and
Management Report 2004/05**
Norddeutsche Affinerie AG (NA AG)



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Management Report Norddeutsche Affinerie AG

ECONOMIC OUTLINE CONDITIONS

The business performance of Norddeutsche Affinerie AG (NA AG) received positive impulses in calendar year 2005 from the global economy's 4% growth. The main reasons for the stable global economy were: the continuing vigorous growth in China, the robust economy in the U.S.A. and the very low interest level in the developed countries. The European economy, NA AG's core market, showed disparate trends in 2005. In total, the European growth rate amounted to 1.5%. Only the new EU member states in Central and Eastern Europe showed strong growth averaging 4%.

During fiscal year 2004/05 the copper price rose to heights never seen before. The reason for the increase was the strong growth in copper demand and the resultant low availability of copper cathodes. The rapid growth of the Chinese economy, in particular, provided the momentum for the rising demand. In addition, standstills at various copper smelters and thus loss of production of copper products determined the trend in the copper price. As a result, stocks levels in the warehouses of the metal exchanges reached new lows.

Copper market

The trend on the copper market was characterised by the imbalance between a shortage of physical supplies and the rapidly growing demand from China as well as other strongly expanding threshold countries. According to information from the International Copper Study Group, the global production deficit rose from 413,000 tonnes in 2003 to 867,000 tonnes in 2004.

The copper mines have expanded their capacities worldwide. However, on the next smelter stage this did not occur to the same degree, so that there were production bottlenecks at the smelters. On top of this, many copper smelters carried out their periodic maintenance standstills in the first half of 2005 resulting in significant production losses. The situation was aggravated by strikes. Utilisation of global production capacities for refined copper dropped in this environment from 88% in 2001 to 82% in 2004. In total, 17 million tonnes of copper cathodes were produced in 2005.

The copper stocks in the warehouses of the international metal exchanges declined further and in summer 2005 reached a low of 70,000 tonnes. The processors' cathode stocks were also substantially down.

Only few impulses emanated from the traditionally important copper sales markets of Europe and North America. While, according to the latest statistics in 2005, copper demand in North America fell in 2005 by some 3%, Europe registered a slight decline of 2%. In contrast, demand in the Asian region rose strongly, in particular in China. As a result, the global production deficit for refined copper remained unchanged. Today, the copper market's growth centre is clearly China where economic dynamics support copper demand, and growth of about 9% was achieved in 2005.

This development was a major cause of the substantial rise in the copper prices. From US\$ 3,110/t (settlement) and US\$ 2,979/t (three month price) at the beginning of October 2004, the price rose by mid September 2005 to US\$ 3,978/t (settlement), the highest in the fiscal year. At that time backwardation, i.e. the amount by which the cash value exceeds the three-month value, amounted to US\$ 184.50/t. At US\$ 3,382/t, the average copper price in the fiscal year was 30% up on the previous year.

Raw material and product markets

The international raw material markets showed very different trends.

The market situation for copper concentrates was very positive for NA. The mines' production was maintained at a high level on account of the higher copper prices so that output rose by almost 5% in 2005 compared with 2004. At the same time the scheduled standstills at copper smelters for maintenance accumulated in the first half of 2005 causing the demand for concentrates to decline. As a result the supply of concentrates substantially exceeded the available processing capacities in the smelters. Treatment and refining charges (TC/RCs) for concentrates therefore rose on the spot market at times to historic highs of US\$ 200/t and cents 20/lb for spot business and also improved noticeably for long-term agreements.

NA AG used the market trend as part of its purchasing strategy for copper concentrates. In close collaboration with our suppliers, we could reduce the quantities bought under long-term agreements and thus had the possibility of buying additional tonnages at the advantageous conditions of the spot

market. At the same time we used the good TC/RC level for settlements on future deliveries. In the newly negotiated procurement contracts, it was possible to raise TC/RCs considerably. The continued copper backwardation resulted in additional profit margins. However, the weakening of the U.S. dollar compared with the previous year had an adverse impact on our revenues in Euros.

Due to the very good concentrate supply, the plants in the primary smelter in Hamburg could be fully utilised. The concentrate throughput in the primary smelter totalling 1.09 million tonnes was 7% up on the previous year's throughput (1.02 million tonnes). Improvement measures and the statutory overhaul were scheduled for summer 2006. They have been brought forward to the first quarter of fiscal year 2005/06.

The situation on the European copper scrap market improved temporarily after the initial shortage. However, the shortage returned again in particular at the end of the fourth quarter. Although the high copper price ensured that availability was good, demand was intense, coming from both copper smelters as well as semis fabricators and brass works. Refining charges were too low in relation to the very high copper prices of the fiscal year, but averaged at about the same level as in the previous year. Helped by our strategy of broad market penetration, we could ensure that the smelters in Hamburg and Lünen were fully supplied with copper scrap, which is mainly effected from the spot trade. The supply of other recycling raw materials was in contrast satisfactory throughout. The processing of electric and electronic scrap was significantly enhanced at NA AG.

Production increases were also achieved in the copper tankhouses in Hamburg and Lünen. Total cathode production at NA AG increased in the fiscal year to 557,000 tonnes (522,000 tonnes in the previous year).

In contrast to cathodes, the demand for copper products in Europe showed weakness. European semis fabricators were unable to pass on higher energy prices to their customers, unlike their competitors in the U.S.A. Margins were consequently under pressure with rising competition and weak demand.

Demand from the construction industry and the air conditioning and refrigeration sector did not match expectations. Our customers' more stringent stock management also had an adverse effect which resulted from their increased financing requirements on account of the high copper price. The danger of copper substitution in some applications was also greater. This, however, did not apply for copper as a conductive material for electricity and heat since copper cannot be economically substituted here by other materials. The demand for continuous cast wire rod and shapes from the European capital goods industry, power production and distribution as well as motive power engineering was therefore stable.

We succeeded in holding up very well in the fiscal year in an overall weak market for wire rod. A total of 258,000 tonnes of wire rod was produced at the Hamburg site. This included 7,000 tonnes of oxygen-free Top-Rod which is made for special applications in the electronics industry. While, in particular, demand from the enamelled wire fabrication sector suffered from economic impacts, demand in the

energy cable and telecommunications cable sectors was more stable. We have maintained our market share and even enhanced it in some sectors despite stagnating Central European sales markets and partial relocations of cable manufacture for the automotive industry to Eastern Europe.

At NA AG 237,000 tonnes (257,000 tonnes in the previous year) of shapes were produced, the second highest output in NA's history. Our high-value continuous cast shapes are used not only in the telecommunications industry but also in electrical engineering and the electronics industry and were in great demand. Our export-oriented customers in this sector succeeded in increasing sales due to the weakening Euro against the U.S. dollar. Demand for shapes declined in the construction sector as well as in the refrigeration and air conditioning sectors. Thus, our product group, copper billets, was also affected by the weak copper tube market since, apart from the weak construction industry, sales were affected by the start of the substitution of copper tubes by plastic tubes in some sectors. Demand for new products, such as high-purity copper shapes in special sizes for applications in medical and measurement technology, was stronger in contrast.

Cost reduction and performance enhancement programmes

Numerous projects to enhance performance have been implemented at NA AG in the last few years. All the measures have had an impact and contributed to the positive trend in earnings. We will also continue in future to counter external costs and growing international competition with further steps to increase productivity and enhance performance and develop the strategic orientation further.

As regards production costs, the price explosion on the German energy markets also poses an increasing threat for NA AG since we are unable to pass on the increase in energy costs to our customers.

Together with industrial associations and other German industrial enterprises, we are therefore campaigning in public and on a political level against the trend in the energy prices in Germany.

On the operating side we are working relentlessly on further measures to reduce energy consumption and increase energy efficiency. As the most important step towards reducing energy costs, we are planning with partners to erect a 100 MW power plant at our Hamburg site. The power plant should provide the Hamburg works with electricity from fiscal year 2008/09 onwards at a price that is considerably less than today's price on the energy exchange.

Strategically NA AG is concentrating on further growth in the production and processing of copper. In all operative fields, we are pursuing the target of technological leadership and will participate more strongly in the raw material and product markets as a high-performing customer-oriented service provider.

There are limits to potential growth on the copper raw material and product markets in Germany and other European countries, even if copper demand increases in Europe to 4.3 million tonnes by 2010. We will therefore pursue steps to make our business more international with a view to regions with strong growth.

Copper production in Hamburg will be gradually expanded. The processes and procedures in the processing of copper concentrates are being continually developed further. In doing so, NA AG is aiming at expanding the capacities of the existing smelter and refining operations as has been repeatedly and economically very successfully performed in the past. At the same time, we are looking into international growth opportunities as a result of cooperations or integration with international partners.

NA stands for excellence in recycling and will strengthen this position further, also on an international level. NA's high technological standard, combined with its leading position in environmental protection, opens the door to these raw material markets of the future.

One of the regions for NA's international growth is China. We intend to build a copper smelter with integrated power plant and a rod plant in the Shandong Province together with Chinese private investors. To bring the preliminary discussions started in May 2005 for a joint venture into a concrete phase, NA signed a letter of intent (LOI) with the Chinese partners in December 2005. The essential aspects of the project should be clarified during the forthcoming discussions in 2006. These include the financial side, the smelter's long-term supply with copper concentrates as well as the inclusion of a power plant in the copper project.

In the markets for continuous cast copper wire rod and shapes, NA will primarily concentrate on consolidating and enhancing its current market position in Europe. There are very good starting points, particularly in the logistics and metal-related service sectors. NA is also striving to make its business more

international in these product sectors on account of its extensive know how. There are very good opportunities for this also outside Asia.

Financial position and profitability

NA Venture GmbH, Hamburg, was amalgamated with Norddeutsche Affinerie AG effective 1 June 2005, and CIS Solartechnik GmbH, Hamburg, likewise amalgamated effective 1 July 2005. The impact on the financial position and profitability was insignificant.

Year-on-year total assets grew by € 69 million to € 831 million. Property, plant and equipment, including intangible assets, decreased by € 10 million due to lower investing activities. The financial assets amount to € 71 million down from € 80 million in the previous year, due to the aforementioned amalgamations and impairment losses at subsidiaries. At the same time, current assets rose to € 566 million (€ 478 million in the previous year). This was primarily due to increased metal prices, higher inventories and lower sales of receivables which resulted in a noticeable rise in inventories and receivables held.

The rise in equity by a total of € 28 million to € 330 million was, apart from the conversion of convertible bonds, attributable to allocations to revenue reserves in the amount of € 19 million. The equity ratio thus remains unchanged at 40%. In the previous year, non-current assets are fully covered by equity.

Bank loans and overdrafts amounted to € 91 million as at 30 September 2005, down from € 129 in the previous year, since the company's strong operating cash flow had enabled borrowings to be repaid.

With the good operating performance and friendly market conditions, the result from ordinary activities (EBT) rose by € 33 million to € 75 million. Earnings before interest and taxes (EBIT) at € 80 million just as earnings before interest, taxes, depreciation and amortisation (EBITDA) at € 124 million were clearly up on the previous year. Various factors had an impact here.

The gross profit rose by € 47 million to € 343 million. At the same time, personnel expenses increased from € 143 million in the previous year to € 146 million. In contrast, depreciation and amortisation on intangible assets and property, plant and equipment was € 6 million down to € 36 million. Higher expenditures for external services, as well as allocations to provisions for deferred maintenance and general repairs resulted in a rise in other operating expenses to € 78 million (€ 58 million in the previous year). Due to impairment losses on the carrying amount of Prymetall GmbH & Co. KG, the result from investments is shown in the amount of € - 3 million (€ - 6 million in the previous year). The redemption of borrowings in the course of the fiscal year caused the net interest expense to reduce by € 2 million to € - 5 million. After including income taxes in the amount of € 30 million (€ 13 million in the previous year), earnings before taxes were generated in the amount of € 45 million. The calculated tax rate is therefore 40% (31% in the previous year).

For fiscal year 2004/05 the return on capital employed (ROCE) amounts to 17.6% (12.4% in the previous year).

Capital expenditure

In the fiscal year Norddeutsche Affinerie AG invested € 26 million in intangible assets and property, plant and equipment (€ 16 million in the previous year). Most of this was expenditure on technical plants and machines. The main projects were:

- a material preparation plant at the Lünen site
- capital expenditure on measures to save energy within the framework of our energy saving project eNergieA
- expenditure on improvement measures under the dyNAmic plus project
- the completed modernisation of the precious metal processing facilities in Hamburg

HUMAN RESOURCES

The number of employees at NA AG at the end of the fiscal year totalling 2,424 was almost unchanged compared with the previous year (2,456). Of this total, 1,976 were employed in Hamburg (2,000 in the previous year) and 448 in Lünen (456 in the previous year).

In order to stay internationally competitive in future, NA AG invests long-term in the vocational training of its employees. On 30 September 2005 a total of 180 young people were in apprenticeships at NA AG, i.e. 7.4% of the workforce. In the new apprenticeship year, we have again offered apprenticeships in sixteen trades and professions and enabled 63 girls and boys to start their training after completing their schooling. We have increased the vocational training of our employees: vacant senior positions could therefore be filled first and foremost with qualified employees from within our own ranks.

NA AG has had a company suggestion scheme for some time because the staff's wealth of ideas is our potential in our quest to enhance productivity and cost-effectiveness. We have again received numerous suggestions as part of a special project to generate ideas.

Performance and success-oriented remuneration components, such as those introduced at NA AG in fiscal year 2000/01 are elementary parts of our payroll system. This system creates high performance incentives and increases staff motivation. We attribute great importance to encouraging our employees to acquire NA shares and promote this with corresponding means.

Our measures to increase occupational safety and reduce accidents were successful. There were considerably less accidents at NA AG in Hamburg last fiscal year. With 6.1 notifiable accidents per one million hours worked, we achieved an historical low which is significantly less than the average of the Employers' Liability Insurance Association of the chemical industry. Accidents were reduced in Lünen as well, but not as yet to the same extent as in Hamburg. We will therefore intensify our efforts to achieve a further reduction in the number of accidents.

RESEARCH & DEVELOPMENT (R&D)

The Research and Development (R&D) sector concentrated on the improvement of process sequences and process technology and worked on the new and further development of copper products. From the organisational viewpoint, it is situated in Hamburg. 27 employees belong to this sector.

NA AG's aim is to strengthen its position as a service provider in the raw material and recycling markets. R&D supports the production sectors in the expansion of the concentrate processing facilities and the extraction of additional by-products.

In the recycling sector we are concerned with process-related preparation of recycling materials and the optimisation of metallurgical reactions and process control in the KRS, the central recycling facility.

The development of flexible solar cells (CIS) based on the use of copper (Cu), indium (In) and selenium (Se), which was started at NA AG, is meanwhile very advanced. It was possible in the fiscal year to increase the efficiency rate once again in the laboratory process. It is now more than 11%. Their suitability for industrial scale applications could also be confirmed.

The market for solar cells has grown considerably, not only in Germany but also throughout the world. We have therefore set up a joint venture with our partner Cordes & Graefe KG in 2005 in order to press on with the customer-oriented development into a mature product. We are working together on the pilot plant installation in order to be able to launch CIS solar modules on the market by the end of 2007.

ENVIRONMENTAL PROTECTION

Long-term environmental protection is one of the main corporate targets at NA AG and is constantly being improved. Since 1980 NA AG has invested some € 250 million in Hamburg for the prevention of pollution to the air, soil and water. Although we are already leaders in environmental protection, we will enhance this position still further.

With one of the biggest environmental protection projects of recent years, NA AG succeeded in reducing dust emissions in the Hamburg secondary smelter by 70%. The secondary smelter's processes operate in parallel with the concentrate processing facilities. It processes metal-bearing intermediates from our own copper production as well as bought secondary materials from other smelters and recycling materials. The secondary smelter produces crude copper, lead bullion and precious metal-bearing intermediates, which are refined into silver, gold and platinum group metals.

With the exception of some sub-sectors, the secondary smelter was modernised from both the environmental and technical aspects in 1991. These remaining sub-sectors caused fugitive emissions that had an impact on the ambient air quality in NA AG's vicinity. This has now been solved by enclosing the smelter plant and erecting a hall over the intermediates' storage area. The measures taken at the end of 2004 have been effective: the TA Luft (German Clean Air Code) readings are meanwhile significantly less than the permitted limit values.

RISK MANAGEMENT

The entrepreneurial activities of NA AG's business naturally involve varying degrees of risks and their probability. The development of the relevant risks is continuously monitored. In doing so, both current and future risks are observed. The focal points in this process are the early detection, evaluation, prevention and control of risks.

The risks are categorised by the respective sectors as regards cause, frequency and possible loss potential in collaboration with risk management and evaluated qualitatively to the greatest possible extent and – as far as possible – quantitatively. Adjustments and additions are made regularly, as required. There have been no significant changes in the risks affecting NA AG compared with the previous year.

NA AG and its active subsidiaries have documented the hazards in risk management in a form that can be audited. The development of major risks at the Group companies is monitored centrally as part of integrated risk management. We pursue a prudent risk policy. We only enter new risks after thorough evaluation. Risk management in the NA organisation is regarded as a company management task under the direct authority of the Executive Board.

Risk categories

The inclusion of all corporate sectors forms the basis of NA AG's well-functioning risk management. Risks are classed according to their significance as risks in core processes – procurement, production and sales – and risks in support processes.

Risks in core processes

Raw material procurement

It is imperative, to ensure NA AG's successful operation, that it has a constant supply of suitable raw materials. In particular, the supply of copper concentrates, the most important raw material for our copper production sector, has been mainly secured by long-term supply agreements. By sourcing concentrates from a number of different mines, NA AG safeguards itself from shortages in supplies resulting from possible delivery problems arising at individual suppliers. 80 to 90% of treatment and refining charges are agreed over a number of years, so that short-term price surcharges in the concentrate market only have a limited impact on NA's earnings.

We procure other raw materials, such as copper scrap and other recycling materials, on the secondary markets. We steadily reduce our dependence on the volatile copper scrap market by expanding our processing possibilities and increasing the input of complex recycling materials.

The production plants for the production of continuous cast wire rod and shapes are primarily supplied with copper cathodes from the tankhouses in Hamburg and Lünen. Additional cathodes are procured from the market, as required.

Production

A major corporate target in the production sector is to maintain our plants' high utilisation and availability. The ability to implement this goal successfully while at the same time enhancing the plants' performance reflects the good interplay between NA AG's production sectors and the service sectors.

Extensive control plans for the use of warning alarms and for averting dangers exist in order to counter negative impacts from possible problems with production processes. Employees are trained in mock emergency drills and test alarms. Comprehensive fire insurance and cover for business interruption and loss of profits resulting from fire for all the production plants limit potential contingency risks.

Sales

The marketing of NA AG's products is characterised by long-term supply relationships. Close contact with our customers enables us to identify trends in the sales markets and future requirements for our products in good time and include them in our planning. Our products' consistently high quality as well as our reliability in delivery have contributed to the high level of acceptance our products enjoy and have singled us out from other producers.

Risks in support processes

Risks from financing activities

Our business includes risks resulting from the trend in exchange rates as well as metal and foreign exchange dealings. NA AG faces risks each day from metal price fluctuations, foreign exchange and interest rate changes by hedging with various financial instruments. Incoming and outgoing metal quantities from basic transactions are charged up against each other each day and remaining positions likewise squared each day by exchange transactions. In doing so, market opportunities are used that arise as a result of maturity incongruences. Spot and forward contracts are used to hedge metal and foreign currency risks. Future income in foreign currencies is mainly hedged by futures and options. Shifts in exchange rates, in particular the ratio of the

Euro to the U.S. dollar, can however only be hedged for a limited period. The liquidity supply is secured by existing short-term and long-term credit lines with our banks. Fluctuations in the cash flow trend can be compensated.

An autonomous executive committee, on which the Executive Board is represented, examines trends on the metal and foreign currency markets regularly and promptly as well as NA AG's price and liquidity position. Possible initial margin calls due to exchange transactions are accounted for. We have detailed the open nominal volume of our derivative financial contracts and the fair value of all open contracts in the notes to the financial statements under Section 10. At the end of December 2005, 80% of the U.S. dollar receipts for fiscal year 2005/06 had already been hedged.

We work together with only first-class partners in metal trading and forward exchange transactions. Significant risks in the metal trading sector or in the foreign exchange and liquidity position cannot be identified at present.

Risks in receivables

The trend in business receivables is examined daily. In addition to instruments customary on the market, such as letters of credit and guarantees, we use in particular trade credit insurance to avoid potential loss of income from bad debts. Receivables are also sold without recourse as part of factoring agreements.

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 financial situation of NA AG. Adequate provisions have been made for legal risks.

Other risks

We achieve continuous improvement in environmental protection at the various sites and ensure that laws, requirements and directives are maintained by targeted capital expenditure and constant process optimisation. Occupational safety and health protection are attributed great importance and have reached a high standard.

In the IT and communication technology sectors, we are covered for possible breakdowns in our operating systems by precautions taken by our data processing centre. The current software is continually adapted in good time to fulfil business and legal demands.

Future risks

The trend in energy prices represents a significant risk in Germany. The current EEX price level represents a considerable potential burden. We are actively countering this development. The preparations for the erection of a substitute fuel power plant at a subsidiary of NA AG are already well underway. In addition, we have also taken extensive measures to reduce our consumption of external electricity.

The long-term trend in the U.S. dollar, which is not controllable with conventional hedging transactions, has a significant impact on NA AG's earnings.

This can be either positive with a stronger U.S. dollar or negative if the U.S. dollar weakens.

Economic developments have an influence on sales of copper products and the trend in the copper price, not only in Germany but also at an international level. In the long-term trend in global copper demand, we see an opportunity for the sales situation to improve fundamentally since constant growth is expected. We do not regard substitution tendencies as threatening which are triggered off by high copper prices.

Overall risk

The evaluation of current and future risk-relevant factors has shown that there are no risks endangering NA AG's continued existence. Our still very sound balance sheet structure and high equity ratio safeguard NA AG from possible economic burdens. The good level of liquidity generated by high cash flow and existing useable credit lines secures ordinary business operations and enables capital expenditure on both internal and external growth.

The Audit Committee formed from NA AG's Supervisory Board has also concerned itself intensively with matters of risk management in accordance with Section 5.3.2 of the German Corporate Governance Code.

The auditors have assessed the risk management system in accordance with statutory directives. Both the Audit Committee and the auditors have ascertained that the Executive Board has taken the measures required under Section 91 para. 2 Companies Act in an appropriate manner and that the management system fulfils the prerequisites for this.

OUTLOOK

After high global growth of 4.3% in 2005 the economic trend in 2006 will slow down slightly. Although the U.S.A. remains a growth centre of the global economy, it will not be able to continue its current dynamics. Europe and Asia are likewise drivers of the global upswing.

The uptrend in Europe will accelerate in 2006. Asia will continue its function as the pacemaker. The strong demand for copper and copper products will also continue. This applies to the markets in North America and, above all, in Asia. With an overall improved economic climate in the European core markets, particularly in Germany, the demand for copper is also expected to rise. The reason for this increased demand is higher investment activity. At the same time the firmer U.S. dollar against the Euro will assist exports overseas. The copper price could inhibit sales in the commodity sector if it stays at its current level. It would promote copper substitution in the tube and roofing sectors.

Copper cathodes are generally still expected to be in short supply in 2006, as reflected in the continued high annual premiums for copper cathodes in the amount of US\$ 105/t.

NA AG assumes that the situation on the copper concentrate market will remain good, both as regards the availability of supplies and treatment and refining charges. In contrast, the shortage on the copper scrap market should stay unchanged. The market for other recycling materials, in particular electronic scrap, will improve further due to the new legislation being enforced in 2006 (the waste electric and electronic equipment directive - WEEE).

The market trend for NA's main products (wire rod, shapes and pre-rolled strip) is still positive and will continue in the vein of the previous year or in some sectors has even improved.

On 31 January 2006, NA made use of the possibility of a capital increase of almost 10% to ensure financial flexibility in the realisation of important projects of the future. This measure has strengthened NA's equity basis and liquidity position long-term.

NA AG will also make every endeavour in future to improve its cost position and productivity further. An important step towards this was the forward scheduling of the production stoppage in the concentrate smelter for general repairs and maintenance, which will have a very positive impact on overall performance in the fiscal year as a whole.

Altogether NA AG expects business performance for fiscal year 2005/06 to be good and follow the positive trend of the fiscal year 2004/05.

Income statement

for the period 1 October 2004 to 30 September 2005 (HGB – German Commercial Code)

in € thousand

	Notes	2004/05	2003/04
Revenues	11	2,798,199	2,266,563
<i>Changes in inventories of finished goods and work in process</i>		23,463	35,994
<i>Own work capitalised</i>		2,973	1,641
<i>Other operating income</i>	12	25,896	27,120
<i>Cost of materials</i>	13	(2,507,594)	(2,035,120)
Gross profit		342,937	296,198
<i>Personnel expenses</i>	14	(146,100)	(142,598)
<i>Depreciation and amortisation</i>	15	(35,549)	(41,445)
<i>Other operating expenses</i>	16	(78,114)	(57,601)
<i>Result from investments</i>	17	(3,176)	(5,925)
<i>Net interest expense</i>	18	(5,227)	(6,998)
Result from ordinary activities		74,771	41,631
<i>Income taxes</i>	19	(29,724)	(12,981)
Net income for the year		45,047	28,650
<i>Net income brought forward from the previous year</i>		10,779	18,170
<i>Allocations to revenue reserves</i>		(18,672)	(14,325)
Unappropriated earnings		37,154	32,495

Balance sheet

as at 30 September 2005 (HGB – German Commercial Code)

in € thousand

	Notes	30.09.2005	30.09.2004
Assets			
<i>Intangible assets</i>		9,403	12,175
<i>Property, plant and equipment</i>		183,913	191,576
<i>Interests in affiliated companies</i>		69,197	76,317
<i>Loans to affiliated companies</i>		465	465
<i>Investments</i>		1,143	2,875
<i>Other loans</i>		300	329
<i>Financial assets</i>		71,105	79,986
Fixed assets	1	264,421	283,737
<i>Inventories</i>	2	311,041	281,379
<i>Trade accounts receivable</i>		159,691	111,376
<i>Receivables from affiliated companies</i>		41,693	44,029
<i>Receivables from enterprises in which investments are held</i>		10,309	8,980
<i>Other assets</i>		18,423	17,466
<i>Receivables and other assets</i>	3	230,116	181,851
<i>Short-term security investments</i>	4	200	967
<i>Cash and cash equivalents</i>	5	25,094	13,810
Current assets		566,451	478,007
Prepaid expenses		220	797
Total assets		831,092	762,541

	Notes	30.09.2005	30.09.2004
Equity and liabilities			
<i>Subscribed capital</i>		86,562	85,528
<i>Conditional capital € 41,500 thousand</i>			
<i>Additional paid-in capital</i>		32,704	29,086
<i>Revenue reserves</i>		173,993	155,321
<i>Unappropriated earnings</i>		37,154	32,495
Equity	6	330,413	302,430
<i>Provisions for pensions</i>		45,114	45,897
<i>Other provisions</i>		96,498	100,526
Provisions	7	141,612	146,423
<i>Convertible bonds</i>		0	1,037
<i>Bank loans and overdrafts</i>		91,488	129,376
<i>Trade accounts payable</i>		204,051	111,667
<i>Payables to affiliated companies</i>		4,739	8,339
<i>Sundry liabilities</i>		58,788	63,269
Liabilities	8	359,066	313,688
Deferred income		1	0
Total equity and liabilities		831,092	762,541

Changes in fixed assets

as at 30 September 2005 <i>in € thousand</i>	Acquisition or construction cost 01.10.2004	Additions from amalgamations	Additions	Disposals
I. Intangible assets				
1. Licenses, industrial property rights and similar rights and assets, and licenses to such rights and assets	22,559	0	614	1,677
2. Goodwill	7,172	0	0	0
3. Payments on account	0	0	1	0
	29,731	0	615	1,677
II. Property, plant and equipment				
1. Land and buildings	291,429	0	4,728	3,038
2. Technical equipment and machinery	689,859	0	13,538	31,109
3. Other equipment, factory and office equipment	49,337	0	2,417	2,058
4. Payments on account and assets under construction	4,362	0	4,816	278
	1,034,987	0	25,499	36,483
III. Financial assets				
1. Interests in affiliated companies	88,341	1,051	1,105	1,076
2. Loans to affiliated companies	465	0	0	0
3. Investments	3,361	628	25	2,385
4. Loans to enterprises in which investments are held	625	0	0	0
5. Other loans	329	0	10	39
	93,121	1,679	1,140	3,500
Total fixed assets	1,157,839	1,679	27,254	41,660

Transfers	Depreciation, amortisation and write-downs 30.09.2005	Carrying amount 30.09.2005	Carrying amount 30.09.2004	Depreciation, amortisation and write-downs in the current fiscal year
0	18,310	3,186	5,481	2,906
0	956	6,216	6,694	478
0	0	1	0	0
0	19,266	9,403	12,175	3,384
382	237,297	56,204	54,701	3,574
3,275	558,250	117,313	127,639	26,574
24	44,543	5,177	4,874	2,017
(3,681)	0	5,219	4,362	0
0	840,090	183,913	191,576	32,165
0	20,224	69,197	76,317	8,200
0	0	465	465	0
0	486	1,143	2,875	0
0	625	0	0	0
0	0	300	329	0
0	21,335	71,105	79,986	8,200
0	880,691	264,421	283,737	43,749

Notes

AMENDMENT TO THE FINANCIAL STATEMENTS 2004/05

The financial statements as at 30 September 2005 have been amended as the result of a resolution passed by the Executive Board, with the approval of the Supervisory Board, each dated 31 January 2006. The changes relate to the reduction of allocations to other revenue reserves by € 3,340,919 to € 18,671,701 and a corresponding increase in the unappropriated earnings to € 37,154,319.

The changes have been made as a result of a resolution passed by the Executive Board, with the approval of the Supervisory Board, on 31 January 2006 to increase the company's subscribed capital on the basis of the authorisation (authorised unissued capital) given at the

Annual General Meeting on 31 March 2005 by up to € 8,552,752.64 by the issuance of up to 3,340,919 new no-par-value shares for a cash contribution. The new shares were placed by Dresdner Bank AG, Dresdner Kleinwort Wasserstein, on 31 January 2006 as part of so-called accelerated bookbuilding. The new no-par-value shares are fully entitled to participate in the profit for fiscal year 2004/05.

GENERAL REMARKS

The financial statements of Norddeutsche Affinerie AG have been 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 sheet and the income statement and disclosed separately in the notes to the financial statements.

As a result of the amalgamation agreement dated 30 June 2005, NA Venture GmbH, Hamburg, as the transferring company, was amalgamated with Norddeutsche Affinerie AG, Hamburg, as the absorbing company, with effect from 1 June 2005. The amalgamation was effected in accordance with the book value method.

In addition, as a result of the amalgamation agreement dated 25 July 2005, CIS Solartechnik GmbH, Hamburg, which was directly held due to the amalgamation of NA-Venture GmbH, was amalgamated with Norddeutsche Affinerie AG, as the absorbing company, with effect from 1 July 2005. The amalgamation was likewise effected in accordance with the book value method.

The comparability of the financial statements is only insignificantly affected by this. The amalgamations were entered in the commercial register on 25 July 2005 and 19 September 2005 respectively.

ACCOUNTING POLICIES

Fixed assets

Intangible assets are stated at cost and depreciated systematically.

Property, plant and equipment are valued at acquisition or construction cost. The construction cost of self-constructed assets includes directly allocable costs and a share of overheads. Moveable fixed assets are depreciated using the declining balance method with a scheduled transition to the straight-line method in accordance with the German tax regulations. Exceptions from this are the capacity expansions to the concentrate processing plants at the site in Hamburg as well as the Kayser Recycling System in Lünen, which are depreciated using the straight-line method. Low-value items are fully depreciated in the year of acquisition. Impairment losses are recorded if the item should be recognised at a lower value.

The financial assets are stated at the lower of cost or value to be attributed.

Current assets

Inventories are stated at the lower of acquisition or production cost and market value as of the balance sheet date. 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.

Emission allowances allocated at no charge are stated at a pro memoria value. The fair value of rights not used for calendar year 2005 amounts to € 69 thousand.

Receivables and other assets are recognised at cost. Risks in the receivables are reflected by adequate allowances. Receivables in foreign currencies are valued at the historical exchange rate or at the offer rate in effect at the balance sheet date, and hedged receivables at the rate of the hedge transaction.

Security investments 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 recognised in accordance with actuarial principles at the present values, applying interest rates of 3.5% and 6%.

Pension and welfare funds include allocations as permitted by the German tax regulations. Provisions as determined in accordance with the regulations of Section 6a of the German Income Tax Act have been made to cover the unfunded portion of the company's pension obligations. To calculate the unfunded portion, the securities held in the funds' assets are recognised at current market value and leased property is valued applying the capitalised earnings procedure.

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 used in later years, the expenditures that will probably be incurred are accumulated pro rata.

Liabilities

All liabilities are stated at their settlement 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, and hedged liabilities at the rate of the hedge transaction.

Valuation units

Separate valuation units are set up for the individual metals in order to value fulfilled physical transactions, on which the price is not yet established, and open hedged transactions and hedging instruments. For the first time, in this connection, the forward price as of the balance sheet date was used for the valuation of the hedged transactions and hedging instruments. This resulted in a 0.3% increase in revenues and a 1.7% increase in the cost of materials, as well as a corresponding increase in trade accounts receivable and payable. On the basis of a review of the overall portfolios, unrealised gains are then offset against unrealised losses, regardless of the period of their future realisation. Provisions are recognised on the liabilities side of the balance sheet for losses remaining after such set-off, but remaining (unrealised) gains are not recognised.

NOTES TO THE BALANCE SHEET AND INCOME STATEMENT

1. Fixed assets

In addition to rights of use acquired for a consideration, intangible assets include goodwill resulting from the amalgamation with Hüttenwerke Kayser AG effected in the previous year. Intangible assets are amortised systematically. The goodwill is amortised straight line over its probable useful life of 15 years.

Capital expenditure on intangible assets and property, plant and equipment totalled € 26.1 million. This mainly related to measures to save energy from the “eNergiA” project, to enhance performance from the “dyNAMic plus” project, the modernisation of the precious metal refining facilities, a material preparation plant at the site in Lünen and measures to reduce fugitive emissions in the secondary smelter sector that were subsidised by the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety to the extent of € 1.5 million. This subsidy was deducted pro rata in the amount of € 485 thousand from the acquisition or construction cost of the subsidised assets in the period under review.

A breakdown of the shareholdings accounted for under financial assets is given on page 29 of these Notes. Additions to interests in affiliated companies and investments represent, in particular, deferred acquisition costs for Prymetall GmbH & Co. KG, Stolberg, and CIS Solartechnik GmbH & Co. KG, Bremerhaven, which were received directly by Norddeutsche Affinerie AG after the amalgamation processes. The disposals include the sale of the remaining 20% holding in Spiess-Urania GmbH, Hamburg, and the amalgamated NA-Venture GmbH. In the course of the amalgamation with NA-Venture GmbH, there was a further addition in the form of an investment in CIS Solartechnik GmbH, which was then amalgamated with Norddeutsche Affinerie AG.

2. Inventories

<i>in € thousand</i>	30.09.2005	30.09.2004
<i>Raw materials and supplies</i>	128,534	122,182
<i>Work in process</i>	139,013	114,514
<i>Finished goods, merchandise</i>	43,494	44,442
<i>Payments on account on inventories</i>	0	241
	311,041	281,379

The rise in inventories by € 29.7 million was due, in particular, to higher precious metal prices and inventories in the intermediates.

The difference between the market value as of the balance sheet date and our valuation amounts to € 266.3 million.

3. Receivables and other assets

<i>in € thousand</i>	Maturing in		Total	
	less than 1 year	more than 1 year	30.09.2005	30.09.2004
<i>Trade accounts receivable</i>	159,691	-	159,691	111,376
<i>Receivables from affiliated companies</i>	40,734	959	41,693	44,029
<i>Receivables from enterprises in which investments are held</i>	10,309	-	10,309	8,980
<i>Other assets</i>	18,175	248	18,423	17,466
	228,909	1,207	230,116	181,851

The increase in trade accounts receivable results from higher metal prices and a lower share of the sale of receivables without recourse in the amount of € 24.9 million (€ 34.8 million in the previous year) as part of a factoring agreement. Receivables from affiliated companies are primarily receivables from our subsidiary Prymetall GmbH & Co. KG, receivables from enterprises in which investments are held represent receivables

from Schwermetall Halbzeugwerk GmbH. & Co. KG. Other assets mainly include claims for turnover and corporation tax refunds.

Most of the outstanding trade accounts receivable had been settled by the time the balance sheet was prepared.

4. Short-term security investments

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

5. Cash and cash equivalents

Cash and cash equivalents include current accounts and time 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, 404,200 new bearer shares of NA AG with an arithmetical value of € 1,034,752 were issued in exchange for convertible bonds during the last fiscal year. As a result, the subscribed capital now amounts to € 86,562,304 and is divided into 33,813,400 bearer shares of no par value. The premium of € 8.95 per share from the capital increase totalling € 3,617,590 was allocated to additional paid-in capital.

It was resolved at the Annual General Meeting on 31 March 2005 that new authorised unissued capital should be created. Accordingly the Executive Board is authorised, subject to the approval of the Supervisory Board, to increase the subscribed capital by 30 March 2010 by up to € 42,763,776 by issuing new shares once or in several instalments for a cash contribution or a contribution in kind.

At the same time it was resolved at the Annual General Meeting that Conditional Capital II would be adjusted. It now amounts to € 41,500,000 and will be used to grant rights to the holders of warrants and/or convertible bonds that can be issued by 30 March 2010.

An amount of € 18.7 million has been allocated from net income for the year to revenue reserves. The legal reserve of 10% of the subscribed capital is included in the revenue reserves in the amount of € 6,391 thousand. The remaining amount is covered by the share premium included in additional paid-in capital.

It was resolved at the Annual General Meeting on 31 March 2005 that the amount of € 10,779,020 from the previous year's unappropriated earnings should be carried forward.

The Executive Board has resolved, with the approval of the Supervisory Board, to increase the company's subscribed capital on the basis of the authorisation (authorised unissued capital) given at the Annual General Meeting on 31 March 2005 by up to € 8,552,752.64 by the issuance of up to 3,340,919 new no-par-value shares for a cash contribution. The new shares were placed by Dresdner Bank AG, Dresdner Kleinwort Wasserstein, on 31 January 2006 as part of so-called accelerated book-building. The new no-par-value shares are fully entitled to participate in the profit for fiscal year 2004/05. As a result, the allocations to other revenue reserves have been reduced by € 3,340,919 and the unappropriated earnings increased by this amount.

7. Provisions

<i>in € thousand</i>	30.09.2005	30.09.2004
<i>Provisions for pensions</i>	45,114	45,897
<i>Provisions for taxation</i>	2,000	1,000
<i>Other provisions</i>	94,498	99,526
– <i>Personnel sector</i>	35,581	36,498
– <i>Maintenance and major repairs</i>	30,712	14,856
– <i>Environmental protection</i>	11,701	11,761
– <i>Other</i>	16,504	36,411
	141,612	146,423

The pension obligations are computed based on Prof. Dr. Klaus Heubeck's 2005G mortality tables, applying discounting rates of 3.5% and 6% for the obligations resulting from amalgamations.

Higher provisions for deferred maintenance and major repairs are mainly due to the boiler overhaul in the primary smelter which has been rescheduled to an earlier date. The amounts accounted for pro rata in previous years were recovered as a result of the shorter interval between repairs. Other provisions include, in particular, lower impending losses compared with the last year.

In total, provisions of € 72.1 million (€ 77.6 million in the previous year) as of the balance sheet date were of a long-term character.

8. Liabilities

<i>in € thousand</i>	Maturing in		Total	
	less than 1 year	1 to 5 years	30.09.2005	30.09.2004
<i>Convertible bonds</i>	-	-	-	1,037
<i>Bank loans and overdrafts</i>	5,060	86,428	91,488	129,376
<i>Advance payments received on orders</i>	737	-	737	594
<i>Trade accounts payable</i>	204,051	-	204,051	111,667
<i>Payables to affiliated companies</i>	4,739	-	4,739	8,339
<i>Payables to enterprises in which investments are held</i>	1,961	-	1,961	1,237
<i>Other liabilities</i>	56,090	-	56,090	61,438
– of which taxes			36,824	40,415
– of which social security contributions			7,160	8,361
	272,638	86,428	359,066	313,688

The convertible bonds acquired by senior staff in the NA Group as part of a stock option plan were redeemed on maturity of the last tranche.

Bank loans and overdrafts were reduced by € 37.9 million to € 91.5 million.

Trade accounts payable increased primarily on account of higher metal prices. Advance payments include fees from tolling agreements still in progress.

Other liabilities include trade tax and import-VAT, amounts paid to the employers' liability insurance association and health insurance companies as well as liabilities due to the workforce.

9. Contingent liabilities and other financial commitments

<i>in € thousand</i>	30.09.2005	30.09.2004
<i>Contingent liabilities under discounted bills</i>	424	180
<i>Capital commitments</i>	10,743	10,671
<i>Commitments under tolling agreements</i>	7,959	6,683
<i>Other contingencies (p.a.)</i>	4,171	3,583
<i>Other contingent liabilities (bond)</i>	1,000	1,000

Other contingencies include a long-term agreement beginning as of 1 January 2007 with a duration of 20 years in the amount of € 8.7 million p.a.

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

10. Derivatives

We employ derivatives in the form of future contracts, options and interest hedging to hedge the risks in the operational business, which arise from fluctuations in non-ferrous metal prices, foreign exchange rates and

interest rates. These agreements, which are monitored as part of a risk management system, are concluded exclusively with reputable brokers and banks.

<i>in € million</i>	Nominal amount	Fair value
	30.09.2005	30.09.2005
<i>Non-ferrous metal future contracts</i>		
<i>Maturity of up to 1 year</i>	466.6	1.0
<i>Maturity of 1 to 5 years</i>	360.2	6.6
	826.8	7.6
<i>Foreign currency forward contracts</i>		
<i>Maturity of up to 1 year</i>	175.6	0.0
<i>Maturity of 1 to 5 years</i>	285.9	0.0
	461.5	0.0
<i>Options</i>		
<i>Foreign currency options</i>	79.8	0.8
<i>Interest derivatives</i>	25.8	(0.3)

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

The notional amount of the derivative financial instruments is the sum of all purchase and sales contracts. The market value is based on the measurement of all contracts at the prices on the measurement date, and indicates the impact of the settlement of all derivatives on income without taking into account the underlying transactions.

Options, for which a premium was paid, are stated at the fair value to be attributed, in the amount of € 0.8 million under other assets in the balance sheet.

The non-ferrous metal transactions to hedge the metal prices as well as the forward exchange contracts connected with these are included in the measurement of the valuation units per metal. These financial instruments therefore affect the measurement of trade accounts payable and receivable as well as inventories.

11. Revenues

<i>in € thousand</i>	2004/05	2003/04
By product groups		
<i>Copper cathodes</i>	420,617	293,736
<i>Continuous cast wire rod</i>	1,032,608	893,054
<i>Continuous cast shapes</i>	614,644	578,303
<i>Precious metals</i>	616,284	414,079
<i>Chemicals</i>	30,185	28,263
<i>Other</i>	83,861	59,128
	2,798,199	2,266,563

In the year under review, 62% of the revenues were achieved in the domestic market, 24% in member states of the European Union, 8% in non-EU European markets, 4% in North America and the remaining 2% in other non-European countries.

The revenues from wire rod and shapes also include revenues for so-called “Wandelkathoden” (copper on account), which are delivered in the requested sizes after receipt of the customer’s specification.

Of the 23% increase in revenues, 82% is due to higher metal prices, 10% to increased unit sales of metals and 8% to other changes.

12. Other operating income

<i>in € thousand</i>	2004/05	2003/04
<i>Release of provisions</i>	2,954	1,854
<i>Adjusting amounts for the utilisation of provisions</i>	6,377	5,717
<i>Gains on disposal of property, plant and equipment and financial assets</i>	69	2,746
<i>Cost reimbursements and services for third parties</i>	15,246	14,713
<i>Compensation and damages</i>	389	1,149
<i>Other amounts</i>	861	941
	25,896	27,120

Of the aforementioned amounts, € 3.2 million (€ 4.8 million in the previous year) relate to earlier periods, mainly caused by the release of provisions.

13. Cost of materials

<i>in € thousand</i>	2004/05	2003/04
<i>Raw materials, supplies and merchandise</i>	2,415,549	1,949,514
<i>Cost of purchased services</i>	92,045	85,606
	2,507,594	2,035,120

Cost of materials increased due to the higher revenues.
The cost of materials ratio increased from 88.4% to 88.9% on account of higher metal prices.

14. Personnel expenses and human resources

<i>in € thousand</i>	2004/05	2003/04
<i>Wages and salaries</i>	118,531	112,454
<i>Social security, pension and other benefit expenses</i>	27,569	30,144
– of which for pensions	4,284	7,095
	146,100	142,598

Personnel expenses rose mainly due to the increase in the tariff wage-scale and allocations to provisions for profit-sharing bonuses, which were shown last year under other operating expenses.

The average number of employees during the year was as follows:

	2004/05	2003/04
<i>Blue collar</i>	1,536	1,591
<i>White collar</i>	724	738
<i>Apprentices/trainees</i>	150	147
	2,410	2,476

15. Depreciation

Depreciation and amortisation on intangible assets and property, plant and equipment declined by € 5.9 million to € 35.5 million due to the lower capital expenditure in

the last few fiscal years. Impairment losses of € 523 thousand were recognised in the fiscal year.

16. Other operating expenses

This item includes administration and marketing expenses, fees, insurance, rents and leases as well as allocations to provisions.

In addition, other taxes of € 701 thousand (€ 681 thousand in the previous year) are reported under this heading.

The rise in other operating expenses was caused by higher expenditures for external services as well as allocations to provisions for deferred maintenance, repairing damage and general repairs.

Expenses in other accounting periods in the amount of € 1.8 million include primarily losses from the disposal of fixed assets.

17. Result from investments

<i>in € thousand</i>	2004/05	2003/04
<i>Income from profit and loss transfer agreements</i>	1	-
<i>Income from investments</i>	5,023	4,075
– of which from affiliated companies	5,023	3,743
<i>Write-downs on financial assets</i>	(8,200)	(10,000)
	(3,176)	(5,925)

The result from investments is negative due to impairment losses on the carrying amount of Prymetall GmbH & Co. KG, Stolberg.

18. Net interest expense

<i>in thousand €</i>	2004/05	2003/04
<i>Income from loans reported under financial assets</i>	21	25
– of which from affiliated companies	12	11
<i>Other interest and similar income</i>	4,634	4,125
– of which from affiliated companies	1,476	1,385
	4,655	4,150
<i>Interest and similar expenses</i>	(9,882)	(11,148)
– of which to affiliated companies	210	254
	(5,227)	(6,998)

Net interest expense includes the interest component of the allocation to the pension provisions in the amount of € 2 million (€ 1.9 million in the previous year).

19. Income taxes

Income taxes amount to € 29.7 million. This results in a tax rate of 39.8%.

20. Impact of tax measures

Earnings before taxes increased by approximately € 1.2 million due to the claiming of additional depreciation permitted for tax purposes in previous years. The future income tax burden will amount to about 40%.

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

The statutory declaration required under Section 161 German 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.

Information on the Executive Board and the Supervisory Board

Total remuneration

The total remuneration of the Executive Board for fiscal year 2004/05 amounted to € 2,857,460, and included a fixed component of € 1,248,993, a performance-related component of € 1,363,625 and a long-term incentive component of € 244,842. In addition, the proportionate fair value of the options acquired by the Executive Board as part of the new incentive programme amounted to € 125,579.

Former members of the Executive Board and their surviving dependants received a total of € 981,312, while € 10,723,840 has been provided for their pension claims.

The remuneration of the Supervisory Board in fiscal year 2004/05 amounted to € 367,000.

Shareholdings

Members of the Supervisory Board hold 8,916 shares and members of the Executive Board 29,551 shares in Norddeutsche Affinerie AG.

Directors' dealings

The members of the Executive Board, Dr Werner Marnette, Dr Michael Landau and Dr Bernd Langner, the former member of the Executive Board, Dr Toralf Haag, and the Supervisory Board member, Günter Kroll, have informed the company that they transacted notifiable business by the conversion and sale of shares in conjunction with Norddeutsche Affinerie AG's stock option plan during the period from 4 April 2005 to 22 April 2005 as well as afterwards, i.e. they acquired a total of 61,010 shares in the company during the fiscal year, of which 44,800 shares were sold during the conversion period. The company has reported this to the Federal Authority for Financial Services Supervision (BAFin) and has published this information.

Proposed appropriation of net earnings

<i>Net income for the year of Norddeutsche Affinerie Aktiengesellschaft</i>	45,047,000.00 €
<i>Brought forward from the previous year</i>	10,779,020.00 €
	55,826,020.00 €
<i>Allocations to other revenue reserves</i>	18,671,701.00 €
Unappropriated earnings	37,154,319.00 €

It will be recommended at the Annual General Meeting that the unappropriated earnings of Norddeutsche Affinerie AG in the amount of € 37,154,319 be used to pay a dividend of € 1 per share (= € 37,154,319).

Hamburg, 22 December 2005 / 31 January 2006

Norddeutsche Affinerie AG

Hovestraße 50
20539 Hamburg

The executive board



Dr Werner Marnette



Dr Bernd Drouven



Dr Michael Landau



Dr Bernd Langner

SHAREHOLDINGS AS PER SECTION 285 NO. 11 HGB (GERMAN COMMERCIAL CODE) AS AT 30 SEPTEMBER 2005

Company name and registered office	% of capital held by NA Group	Currency	Subscribed capital in 1,000	Held directly by	Holding in %	Equity in 1,000	Net earnings in 1,000
1 <i>Norddeutsche Affinerie AG</i>		€	86,562				
2 <i>Deutsche Giessdraht GmbH, Emmerich</i>	60	€	6,200	1	60	11,053	3,632
3 <i>Prymetall GmbH, Stolberg</i>	100	€	30	1	100	33	2
4 <i>Prymetall GmbH & Co. KG, Stolberg</i>	100	€	12,800	1	100	14,719	4,611
5 <i>CABLO Metall-Recycling & Handel GmbH, Fehrbellin</i>	100	€	767	1	100	3,765	502
6 <i>RETORTE Ulrich Scharrer GmbH, Röthenbach</i>	100	€	2,045	1	100	3,484	1,207
7 <i>Peute Baustoff GmbH, Hamburg</i>	100	€	52	1	100	863	727
8 <i>EIP Metals Ltd., Smethwick (UK)</i>	100	£	2,130	4	100	543	(1,587)
9 <i>E.R.N. Elektro-Recycling NORD GmbH, Hamburg</i>	70	€	512	1	70	681	163
10 <i>CIS Solartechnik GmbH & Co. KG, Bremerhaven</i>	50	€	800	1	50	4,119	(545)
11 <i>C.M.R. International N.V., Antwerp</i>	50	€	1,000	1	50	1,288	101
12 <i>VisioNA GmbH, Hamburg</i>	50	€	25	1	50	18	(4)
13 <i>Berliner Kupfer-Raffinerie GmbH i.L., Hamburg</i>	100	€	30	1	100	31	0
14 <i>Hüttenbau-Gesellschaft Peute mbH, Hamburg</i>	100	€	26	1	100	87	0
15 <i>Hüttenwerk Kayser Lünen GmbH, Lünen</i>	100	€	26	1	100	27	1
16 <i>PHG Peute Hafen- und Industrie- betriebsgesellschaft mbH, Hamburg</i>	7	€	26	1	7	77	3
17 <i>Schwermetall Halbzeugwerk GmbH, Stolberg</i>	50	€	52	4	50	67	12
18 <i>Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg</i>	50	€	12,500	4	50	23,539	5,098
19 <i>JoSeCo GmbH, Kirchheim/Schwabia</i>	33	€	225	6	33	178	14

Companies 2 and 4 to 8 were fully consolidated as part of the consolidated financial statements.

Companies 10 and 18 were consolidated proportionately.

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 2004 to 30 September 2005. 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 Section 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 represents the risks of future development.

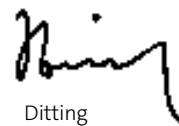
We issue this confirmation based on our dutiful audit of the consolidated financial statements which we completed on 22 December 2005 and our supplementary audit, which was related to the change in the recommendation for the appropriation of the net income in the notes to the financial statements. Reference is made to the reason for the change given by the company in the amended notes and in the amended consolidated management report. The supplementary audit did not lead to any reservations.

Hamburg, 22 December 2005 / 31 January 2006

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Krall
Auditor



Ditting
Auditor

Dear Shareholders,

The company performed well in fiscal year 2004/05. The strategies pursued proved their worth and the strict cost and performance management took effect. The Supervisory Board was again in constant communication with the Executive Board during the last fiscal year and followed and monitored the major business transactions. The Supervisory Board supports the strategic orientation and the business management of the Executive Board. All credit goes to the Executive Board, senior staff and employees in all sectors for their contributions, which have resulted in the excellent operating result.

In the fiscal year the Supervisory Board performed the duties incumbent on it by law and the Articles of Association. The Supervisory Board regularly advised and constantly monitored the Executive Board in the management of the Company. The Executive Board and Supervisory Board work closely together. The Supervisory Board was included in all decisions of fundamental importance for the Company.

The Executive Board informed the Supervisory Board at regular intervals, promptly and in depth, in written and oral reports, about the intended business policy, all the fundamental aspects of corporate planning, including financial, investment and personnel planning, and further strategic development. In addition, the Executive Board advised about the Company's profitability, the course of business, the Group's position including the risk situation as well as about risk management and the performance enhancement programmes.

The Executive Board agreed the Company's strategic orientation with the Supervisory Board and at regular intervals discussed the status in implementing the strategy. The Company's strategy was discussed at length in an extraordinary meeting of the Supervisory Board on 29 June 2005. Deviations in the actual business development from the prepared budgets and reported targets were depicted and explained with reasons given. After receiving detailed reports from the Executive Board, all the important business transactions were debated in depth at the Supervisory Board meetings and by the responsible committees.

Necessary documents for decision-making, in particular the financial statements, 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 consent to important business requiring its approval.

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

In fiscal year 2004/05 four regular Supervisory Board meetings and one extraordinary strategy meeting were held. The Supervisory Board was also kept well-informed between the meetings about projects and plans which were of particular significance for the Company.

Work on the Committees

In addition to the Committee required by law in accordance with Section 27 para. 3 Codetermination Law, the Supervisory Board again formed a Preparatory Committee, a Personnel Committee and an Audit Committee. The Committees each consist equally of representatives of the shareholders and 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 five times in the fiscal year, the Audit Committee three times. The Preparatory Committee did not meet in the year under review. The Personnel Committee focused on the appointment of a new Chief Financial Officer after the resignation of Dr Haag as well as on reviewing the structure and level of remuneration for the whole Executive Board. The Audit Committee was concerned with awarding the audit assignment to the auditors, determining the focal points of the audit and agreeing on fees.

Furthermore, it monitored the auditors' independence. The Audit Committee examined matters regarding the financial statements and the Company's risk management including the tasks of the internal audit. It discussed significant risks with the Executive Board.

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

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 and the individual segments including the subsidiaries were discussed. At each meeting, the Supervisory Board examined the current measures taken to enhance Group performance and increase enterprise value. The strategic orientation of Norddeutsche Affinerie was discussed in detail at an extraordinary Supervisory Board meeting.

Corporate Governance

The Supervisory Board consulted about the structure of the remuneration system for the Executive Board and will review this at regular intervals. The Supervisory Board approved the new virtual incentive plan for the Executive Board and senior staff at the ordinary meeting on 8 December 2004. The Supervisory Board examined the efficacy of its activities at several meetings. In particular, at the meeting on 15 September 2005, the Supervisory Board reviewed the efficacy of its activities and discussed possibilities for improvement.

At its meeting on 15 September 2005 the Supervisory Board examined the question of its independence and ascertained that, in its opinion, it has a sufficient number of independent members.

There are no former members of the Executive Board on the Supervisory Board.

On 25 January 2006 the Executive Board and Supervisory Board again submitted 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 in the version dated 21 May 2003 would be complied with, with the exception of three well-founded deviations, and the recommendations announced by the Government Commission on the German Corporate Governance Code on 20 July 2005 in the version dated 2 June 2005 were and will be applied respectively with the same three well-founded exceptions. The Declaration of Conformity can be accessed at www.na-ag.com.

Annual audit

The financial statements for the Company issued by the Executive Board in accordance with the German Commercial Code (HGB) and the consolidated financial statements prepared pursuant to IFRS – International Financial Reporting Standards for the fiscal year from 1 October 2004 to 30 September 2005 as well as the management report for the Company and its Group have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin und Frankfurt a. M., in accordance with the resolution passed at NA's Annual General Meeting held on 31 March 2005. The auditor has issued an unqualified report.

All the members of the Supervisory Board received copies of the financial statements and the audit reports as well as the Executive Board's recommendation for the appropriation of the net earnings. These documents were discussed in detail at the meetings of the Supervisory Board on 25 and 31 January 2006. During these meetings 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 findings of the audit performed by the auditor 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 and at their meeting on 31 January 2006 ascertained that, after the conclusion of its examination, it had no objections to raise. The Supervisory Board approved the financial statements, which are thus adopted, as well as the consolidated financial statements. The Supervisory Board concurred with the Executive Board's recommendation for the appropriation of the net earnings.

Change in the Executive Board

With effect from 31 July 2005 Dr Toralf Haag resigned from the Executive Board at his own request to take up other assignments. We regret Dr Haag's departure and thank him for his valued contribution to the Group.

On 14 December 2005 the Supervisory Board appointed Dr Bernd Drouven as the new Chief Financial Officer with effect from 1 January 2006. Dr Drouven has been employed in the NA Group since 2001. He was the Managing Director of the former subsidiary Spiess-Urania Chemical GmbH from 2001 until it was sold in 2003. Since January 2004 Dr Drouven has been a director at NA, responsible for Strategic Planning/International Relations.

The Supervisory Board thanks the Executive Board, the company management as well as all NA staff and the employees' representatives for their responsible, dedicated contributions and hard work during the year under review.

Hamburg, 31 January 2006

The Supervisory Board



Dr Ernst J. Wortberg
(Chairman)

SUPERVISORY BOARD

Dr Ernst J. Wortberg, Dortmund
Chairman
Former Chairman of the Executive Board of L. Possehl & Co. mbH, Lübeck

Hans-Jürgen Grundmann, Seevetal*
Deputy Chairman
Shop mechanic
Chairman of the Works' Council of Norddeutsche Affinerie AG

Gottlieb Förster, Itzstedt*
Union Secretary of the Industrial Union: Mining, Chemistry, Energy, Hanover
– Bayer Industry Services Geschäftsführung GmbH, Leverkusen
Member of the Supervisory Board
– Gerresheimer Glas GmbH, Düsseldorf
Member of the Supervisory Board
– Chemie Pensionsfonds AG, Munich
Member of the Supervisory Board

Dr Peter von Foerster, 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
Member of the Supervisory Board
– Desitin Arzneimittel GmbH, Hamburg
Deputy Chairman of the Advisory Board
– 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)
– mobilcom AG, Büdelsdorf
Member of the Supervisory Board (until 31 May 2005)
– 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 Galileo Joint Undertaking, Brussels, Belgium
– Ball Packaging Europe GmbH, Ratingen
Chairman of the Supervisory Board
– K+S Aktiengesellschaft, Kassel
Member of the Supervisory Board

Prof. Dr Ing. Jürgen Haußelt, Gernersheim
Head of the Institute for Material Research III of Forschungszentrums Karlsruhe GmbH, Karlsruhe
– Chair for Material Process Technology, Institut für Mikrosystemtechnik, Albert-Ludwigs-Universität, Freiburg i. Br.

Gerd Körner, Hamburg*
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

* elected by the employees

Rolf Schwertz, Datteln*

Bricklayer and boiler operator
Member of the Works Council of Norddeutsche
Affinerie AG, Hüttenwerke Kayser

Prof. Dr Fritz Vahrenholt, Hamburg

Chairman of the Executive Board of REpower Systems
AG, Hamburg
– Ersol Solar Energy, Erfurt
Member of the Supervisory Board
– ThyssenKrupp Technologies AG, Essen
Member of the Supervisory Board

Helmut Wirtz, Stolberg*

Managing Director of IG Metall, Stolberg

SUPERVISORY BOARD COMMITTEES**Conciliation Committee in accordance
with Section 27 § 3 Law on Co-determination**

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

EXECUTIVE BOARD**Dr Werner Marnette**, Hollenstedt

born: 27 September 1945
Chairman of the Executive Board and Director
of Labour Affairs appointed until 31 March 2010
– Leoni AG, Nuremberg
Member of the Supervisory Board
– L. Possehl & Co. mbH, Lübeck
Member of the Advisory Council

Dr Michael Landau, Mölln

born: 26 July 1950
Member of the Executive Board
appointed until 31 May 2007

Dr Toralf A. Haag, Hamburg

born: 29 March 1966
Member of the Executive Board until 31 July 2005

Dr Bernd E. Langner, Winsen/Luhe

born: 30 January 1949
Member of the Executive Board
appointed until 31 December 2008
– Prymetall GmbH & Co. KG, Stolberg
Spokesman of the Management Board

Dr Bernd Drouven, Hamburg

born: 19 September 1955
Member of the Board since 1 January 2006
appointed until 31 December 2008

Imprint

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Disclaimer

This report 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.



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