

**NA Group Information on the  
unaudited results of fiscal year 2002/03  
(October 2002 to September 2003)**

## **Positive result in fiscal 2002/03 in a very difficult economic environment – further performance enhancement and cost cutting in the Group**

Hamburg, 17 December 2003 – On 30 September 2003 Norddeutsche Affinerie (NA) ended fiscal 2002/03 with a pre-tax profit of 3 €m and thus achieved the forecast result for the year.

With an overall very good operative performance, the decline in earnings compared with the previous year is due to the difficult market and economic conditions. On the raw material markets, in particular the copper scrap market, there were severe supply shortages. The product markets were weak and a slight recovery did not take effect until the end of the fiscal year.

The NA Group responded to the difficult economic environment by taking extensive measures to enhance performance and reduce costs.

As to concentrate processing, with a throughput of 1,021,000 tonnes (958,000 tonnes in the previous year) NA exceeded the new processing capacity for the first time.

Due to the poor availability of copper scrap the cathode output in the NA Group decreased to 530,000 tonnes (554,000 tonnes in the previous year).

The production of our copper products, continuous cast wire rod and shapes, was quantitatively satisfactory. A decline of 5 % for shapes to 193,000 tonnes (203,000 tonnes in the previous year) was more than compensated by an increase of 20 % for wire rod to 342,000 tonnes (285,000 tonnes in the previous year). As a result of the economic downturn Prymetall and Schwermetall were affected by a significant decline in unit sales and prices for strip products.

Consolidated key figures in compliance with IFRS (unaudited)		Fiscal 2001/02	Fiscal 2002/03
		12 months	12 months
Turnover	€m	1,842	<b>1,816</b>
Gross profit	€m	357	<b>354</b>
Personnel expenses	€m	178	<b>192</b>
Depreciation	€m	56	<b>63</b>
EBITDA	€m	98	<b>79</b>
EBIT	€m	42	<b>16</b>
Earnings before taxes	€m	31	<b>3</b>
Annual surplus	€m	21	<b>4</b>
Earnings per share	€	0.61	<b>0.10</b>
Gross cash flow	€m	97	<b>64</b>
Capital expenditure	€m	47	<b>26</b>
Copper and copper alloys	1,000 t	726	<b>774</b>
Copper price (average)	US\$/t	1,525	<b>1,653</b>
Number of employees (average)		3,612	<b>3,458</b>

## **Group turnover and profit**

For fiscal 2002/03 the NA Group has for the first time adopted the International Financial Reporting Standards (IFRS). The key figures for the previous year were also calculated on the basis of IFRS for easy reference.

For the last fiscal year the NA Group generated a consolidated turnover in the amount of 1,816 €m (1,842 €m in the previous year). The slight decrease of 26 €m was due in particular to low metal prices.

Accordingly the gross profit totalling 354 €m was at the previous year's level (357 €m).

The increase in personnel expenses to 192 €m (178 €m in the previous year) is mainly attributable to the consolidation of Prymetall/Schwermetall, since they were included for the first time for 12 months (9 months in the previous year). The figure also includes nonrecurring expenditures for measures to adjust staffing levels at Hüttenwerke Kayser (HK) and Prymetall/Schwermetall.

Depreciation increased to 63 €m (56 €m in the previous year). This was above all attributable to additional depreciation at NA AG as well as the consolidation of Prymetall/Schwermetall for 12 months.

In view of the difficult market environment, earnings before interest, taxes and depreciation/amortisation (EBITDA) at 79 €m (98 €m in the previous year) were at a high level. Earnings before interest and taxes (EBIT) declined more than EBITDA to 16 €m (42 €m in the previous year) on account of increased depreciation.

The pre-tax profit for the NA Group in the amount of 3 €m (31 €m in the previous year) was just on the positive side. Overall the result was determined by the following:

- As in the previous year NA AG made a clearly positive contribution to earnings and thus accounted decisively for the break-even result in the Group.
- HK's result was very negative, above all due to the dramatic trend on the copper scrap markets. In HK's result the potential reversal of write-downs for copper inventories has not been fully realised. HK's result also includes nonrecurring severance payments for extensive adjustments to staffing levels.

- For market related reasons Prymetall/Schwermetall show a negative result. This was additionally weighed down by unexpected bad debts at three foreign customers as well as nonrecurring expenditure for cost cutting measures.
- The subsidiaries Deutsche Giessdraht, Retorte, CABLO and Peute Baustoff provided positive contributions to earnings.

The capitalisation of latent taxes resulting from HK's accumulated losses resulted in the slightly higher after-tax profit compared with EBT. The annual surplus in the Group amounted to 4 €m (21 €m in the previous year).

Earnings per share declined from 0.61 € to 0.10 €. In view of this result the payment of a dividend for the last fiscal year will not be recommended at the Annual General Meeting.

The gross cash flow declined from 97 €m to 64 €m, above all due to the reduced profit.

After the construction of the Kayser Recycling System (KRS) and the completion of the various expansion projects in the previous years, capital expenditure dropped to about 26 €m (47 €m in the previous year). This was mainly directed into maintenance.

The consolidated results before taxes for fiscal 2002/03 show overall only a slight difference between accounting in compliance with the requirements of IFRS and the German Commercial Code (HGB). The main differences on the basis of IFRS arose due to higher depreciation, the calculation of financial instruments as well as the revaluation of financial assets.

In contrast, the consolidated balance sheet on the basis of IFRS differs more considerably in results compared with HGB accounting. A significant change is the increase in fixed assets due to the use of the straight-line depreciation method and longer useful life as well as the recovery of fiscal special depreciation and the capitalisation of general repairs. In addition, other provisions decrease since IFRS do not permit the formation of provisions for operating expenses.

There were only slight changes in the height of the pension obligations shown.

Due to the increase in fixed assets and the decrease in other provisions, there is a substantial increase in equity which results in an improved equity ratio in the NA Group.

The complete financial statements will be published at our DVFA analyst conference as well as at our annual press conference on 30 January 2004.

### **Copper market**

The upturn of the global economy in 2003 was noticeable on the copper market. After global copper demand only increased slightly in 2002, the demand for copper in 2003 rose by 4.3 % to 15.6 million tonnes. Thus the historical high of the year 2000 was even exceeded. The growth is, however, almost fully attributable to the rise in copper demand in China. In Europe, NA's most important market, copper demand stagnated still at the level of 4.1 million tonnes.

Since autumn 2002 the copper stocks at the warehouses of the London Metal Exchange (LME), the Commodity Exchange (COMEX) and the Shanghai Futures Exchange (SHFE) in Shanghai have declined. Whilst at the beginning of the fiscal year about 1.4 million tonnes were available, the stocks at the end of 2003 amount to 0.9 million tonnes. After a rather slow decline in the first half of the year the stock reduction accelerated in the summer and autumn months.

Since the beginning of the year it has already been apparent how the availability of cathodes has declined in Europe as well due to the high copper demand from Asia.

The strong cathode demand in Asia also led to a significant increase in the cathode premiums there to a level of currently more than 100 US\$/t. The premiums in Europe have also risen sharply and at 80 US\$/t are substantially more than the official premium for 2003 in the amount of 38 US\$/t.

The different premium levels have resulted in the flow of cathodes from the South American producers being shipped to Asia instead of to Europe, which has aggravated the shortage in Europe further.

The NA Group as an integrated copper producer has a clear advantage over its competitors on account of having its own cathode production. This reliable supply serves as the basis for the downstream copper processing in the NA Group. We are assuming that the cathode shortage will become even worse and the NA Group will continue to benefit from this trend.

The declining copper inventories at the metal exchanges were not immediately reflected in a higher copper price. From autumn 2002 until summer 2003 the copper quotations on the LME stagnated at around 1,600 US\$/t. The rates increased only after the signs of a global economic upswing became more apparent in summer 2003 and by fiscal year-end reached 1,794 US\$/t, thus some 24 % above the level at the beginning of the fiscal year. On average in the year under review the copper quotation amounted to 1,653 US\$/t (1,525 US\$/t).

However, the copper price in Euro could only follow this trend to a very limited extent due to the significant appreciation of the European currency against the US dollar. With an average of 1,527 €/t in the fiscal year it was even about 8 % lower than the average of the previous year (1,663 €/t).

At the middle of October 2003 the copper quotations rose to above the 2,000 US\$/t mark. They were given momentum above all from an improvement in the basic market situation. Currently copper is quoted at 2,208 US\$/t (1,790 €/t) on the LME.

## **Copper Production Segment**

### **Raw material markets**

Copper concentrates and recycling materials are the most important raw materials for the NA Group.

The market for copper concentrates is still impacted by a considerable shortage in supplies, which is caused in particular by production cutbacks at major mines. In addition, distortions in international competition also have an adverse impact. The treatment and refining charges in the spot market are at an extremely low level. As a result the procurement conditions under long-term agreements have also deteriorated further. However, compared with the spot market they are still at a clearly higher level.

The beginning of a recovery on the concentrate market was adversely impacted by a landslide at a major Indonesian mine. As a result there could be a loss of at least 30,000 – 40,000 tonnes of copper in concentrates on the market. Some copper smelters in Canada and Japan have already responded to this by announcing reductions in throughput.

For next year in contrast an improved supply and thus a recovery of the treatment and refining charges are expected. This is based on the announcement that the transport restrictions applying to a total of 290,000 tonnes of copper in the Tintaya (Peru) und Escondida (Chile) mines will be overturned.

In the last quarter the market for copper scrap was impacted by extremely short supplies and low refining charges. The meanwhile slight improvement in this situation only took effect after the copper price had increased considerably.

The procurement terms in the markets for secondary materials with low copper contents have deteriorated somewhat. This applies especially to so-called production scrap from semi-finished product fabricators. However, for recycling materials such as catalysts and electronic scrap the terms and conditions remained stable.

In the last few weeks the considerable copper price rise at the metal exchanges has resulted again in slightly improved availability of metal scrap. It remains to be seen whether this development will continue.

## **Metal Production**

### NA AG, Hamburg

The increasing weakness of the US dollar in the last fiscal year only affected us in our concentrate procurement to a limited extent since we had hedged the major part of our dollar receipts in advance. For the current fiscal year we have already hedged 90 % of our expected US dollar receipts.

In the fourth quarter of fiscal 2002/03 a high throughput of copper concentrates totalling 254,000 tonnes was achieved again. With a total of 1,021,000 tonnes our annual tonnage passed the one million tonne mark for the first time.

In Hamburg 92,000 tonnes of copper cathodes were produced in the last quarter of the fiscal year. Thus, at 373,000 tonnes, the total output reached the level of the previous year (374,000 tonnes).

The secondary and precious metal sectors in Hamburg were well supplied with raw materials in the last quarter. After commissioning a further top blown rotary converter, the silver output reached 832 tonnes (727 tonnes in the previous year). The gold output dropped slightly due to the raw materials to 25 tonnes (28 tonnes in the previous year).

On account of the increased throughput of concentrates, our output of sulphuric acid rose to a new high at 991,000 tonnes (953,000 tonnes in the previous year).

During a statutory overhaul of the waste heat boiler in the flash smelter in October 2003, extensive improvements were performed in the primary smelter. Consequently, the plant capacity could be increased once again. The processing of copper concentrates had to be interrupted during the necessary standstill but the loss will be made up over the next quarters.

### HK, Lünen

The measures taken to restructure HK extensively continue as planned. The operative and organisational preparations for the amalgamation of HK in NA AG are running to schedule.

Supplies for the KRS in Lünen were at a high level and will also continue to be secured.

The supply of copper scrap for the smelter plants could no longer be fully assured due to the general shortage. This was partly compensated by the delivery of copper intermediates from our Hamburg plants for processing in Lünen into copper cathodes.

In the operation of the KRS in Lünen the technical and economic target corridor was achieved at the beginning of the quarter. However, in the second half of August the unit had to be put out of operation as scheduled for maintenance work. During this process an outside company caused a standstill which delayed the resumption of production by about three weeks. It was possible to make up for part of the production loss by using existing old plants. The repairs to the plant are covered by insurance.

Due to the insufficient supply of copper scrap the tankhouse in Lünen was not fully utilised in the last quarter. Over the whole fiscal year the cathode output amounted to 157,000 tonnes (180,000 tonnes in the previous year).

Altogether 530,000 tonnes of copper cathodes were produced in the NA Group in the last fiscal year (554,000 tonnes in the previous year).

## **Copper Processing Segment**

### **Product markets**

The most important customer industries for our copper products are currently experiencing very different trends in business.

In the quantitatively largest market for refined copper materials, the cable and wire industries, the individual applications give likewise a very varied picture. The installation cable sector has stabilised at a low level. Here, weak demand from the construction industry has had an adverse impact on sales. The energy supply and distribution sector has picked up after many years of low investment in energy transfer networks. The enamelled wire sector, which represents a good indicator for the overall economic development, has also improved clearly this year.

A positive trend can also be observed in the data and communication cable sectors. After the boom in this industry ended, it declined by 5 % - 10 % per year.

Altogether the positive and negative developments in the cable and wire industries have evened out and the market as a whole proved to be very stable over the whole year.

Demand in certain sectors of the semis industry has particularly picked up. In Europe, the air conditioning pipe sector has gained. The good order receipts from the electrical engineering and electronics industries is also of note. Here the decline was extremely high in the last fiscal year. However, demand for copper materials for the construction industry is still very slow.

### **Continuous cast wire rod, shapes and flat products**

By the end of the fiscal year the NA Group had produced 774,000 tonnes (726,000 tonnes in the previous year) of copper and copper alloys. Inter-company supplies between Group companies are not included.

342,000 tonnes of continuous cast wire rod were produced in the fiscal year (285,000 tonnes in the previous year). Thus, a considerable increase was achieved in a stagnating environment.

We want to enhance this position further supported by the incipient growth in demand in the cable and wire industries.

Whilst sales of wire rod increased substantially, sales of continuous cast shapes declined slightly. In the fiscal year 193,000 tonnes (203,000 tonnes in the previous year) were produced. At the beginning of the fiscal year our customers in the semis industry were still optimistic. Accordingly, order receipts were also good. This changed in the spring after the expected overall economic recovery did not materialise and the exports from the European semis industry were weighed down by the weakness of the US dollar. During the summer many fabricators used the vacation period to reduce stocks and adapt capacities to the weak demand.

After the end of the vacation period, however, demand picked up significantly. There have been the first indications of an upturn in the electronics and communications industries and consequently specialty materials, such as oxygen-free copper, are in greater demand again.

Prymetall and Schwermetall continued to be adversely impacted as regards prices and quantities by the weak demand in the European semis industry. This applied especially in the summer months.

In the fiscal year sales at Prymetall totalled about 64,000 tonnes of strip and wire products, a decline of 4.6 % compared with the same period of the previous year. Schwermetall, as a fabricator of pre-rolled products, produced about 138,000 tonnes in the last fiscal year (NA's 50 % share of production), some 2 % less than in the previous year.

At Prymetall and Schwermetall order receipts have improved in the last few weeks so that we expect plant utilisation to improve considerably at the beginning of the new calendar year.

## **Human resources**

On average over the fiscal year the Group had 3,458 employees. On 30 September the number was down compared with the previous year by 325 to 3,386 employees. The decline was due above all to the sale of Spiess Urania Chemicals and adjustments to staffing levels at HK and Prymetall.

The increase in personnel expenses by 14 €m is to a great extent attributable to the fact that Prymetall and Schwermetall have been included in fiscal 2002/03 completely for 12 months (9 months in the previous year). This resulted in an increase of some 7 €m.

Despite the reduced payroll at HK and the resultant drop in pure labour costs, personnel expenses have increased by about 3 €m owing to the agreed severance payments in the redundancy programme of about 5 €m.

In particular, the increases in the wage scale as well as a rise in statutory social welfare contributions added to increasing personnel expenses at NA AG.

The optimisation measures being implemented throughout the Group will result in a significant reduction in the workforce, even if the measures are focusing on improving earnings. Staffing levels at the Hamburg site will also be adjusted.

At HK the staff has been reduced from 586 employees as at 30 September 2002 to 510 as at 30 September 2003. By the end of March 2004 there will still be about 400 employees on the payroll. This figure does not include apprentices and employees on early retirement schemes. By the end of 2005 the workforce will consist of about 370 employees.

At Prymetall the number of employees will decline from 374 as at 30 September 2003 (403 in the previous year) to some 325 as at 30 September 2005. Here again the figure does not include apprentices and employees on early retirement schemes.

On 15 August 2003 43 young people started their apprenticeships at NA AG in Hamburg. With a total of 146 apprentices which amounts to 7.2 % of the workforce, NA AG has one of the most extensive training programmes in the chemical industry in Northern Germany.

In the NA Group 209 apprentices are currently being trained in 15 different trades and professions. This amounts to 6.2 % of the workforce throughout the Group.

### **Corporate Governance**

On 11 December 2003 NA's Supervisory Board agreed to the intended amalgamation of Hüttenwerke Kayser AG in NA AG. The amalgamation of HK in NA is planned to be economically retroactive to 1 October 2003. HK's Supervisory Board and its Annual General Meeting have not yet given their consent but this is expected shortly.

With the amalgamation the possibilities are being created for integrating HK's business and production facilities even more strongly in the NA Group.

For the first time we are publishing the unaudited financial statements in compliance with International Financial Reporting Standards (IFRS) and will report on the figures for fiscal 2002/03 and for the comparable period in accordance with these new regulations in our new Annual Report 2002/03 when the financial statements have been fully audited.

### **Operative and strategic measures to improve earnings**

The persistently weak market environment in NA's core market, general cost increases such as in the energy sector as well as distortions in international competition on the raw material markets have noticeably weighed on earnings in the NA Group. NA could, however, prevent the NA Group from showing losses as a whole. The constant improvement programmes implemented over many years have thus had a very positive impact, particularly at the Hamburg site.

Supported by its many years of experience in process and plant optimisation, NA responded to the negative economic environment early on and extensively by initiating Group-wide programmes to improve earnings. In a number of projects the potential for improvement in the amount of about 80 €m is being processed and implemented since the beginning of 2003. Over 90 % of this should be realised by 2006. The most important projects are dyNAmic Plus in Hamburg, HK dyNAmic in Lünen and Euro-Copper in Stolberg. All these projects are subject to strict project organisation and stringent controlling.

### dyNAmic plus

The dyNAmic plus project is the most extensive improvement programme in the NA Group and is divided into five different areas of investigation. It was started in June 2003. The central functions (administration), the service sectors, raw material procurement and production in the business unit Metallurgy, marketing and production in the business unit Copper Products are being optimised. Higher-level focal points are the Group-wide logistics, the IT sector and maintenance.

### HK dyNAmic

HK dyNAmic started in November 2002. The most important measures from this project are the down-sizing of the plant concept including closing down the old shaft furnace operations, the optimisation of the KRS, the closure of an anode furnace and the basic supply of copper anodes from Hamburg.

The elaborated measures necessitate staffing levels to be adjusted, affecting about 220 employees. By April 2004 85 % of the steps to reduce the workforce will have been implemented.

### Euro-Copper

The Euro-Copper project has been running at Prymetall since January 2002. The project combines a number of operative improvements and the optimisation of plants.

### Strategy project NAcademia

Apart from the pure measures to enhance efficiency and reduce costs we are currently giving great priority to examining the NA Group's growth strategy. The aim is to adapt NA to the changed outline conditions in international competition on the raw material and product markets. A focal point in this work is therefore also the internationalisation of NA's business activities.

A starting point for this internationalisation could arise from the Cooperation Agreement signed with the Yunnan Copper Industry Group (Yunnan), China, on 12 September 2003. The cooperation with Yunnan Copper pursues two goals: firstly NA will provide know-how on technology and environmental protection. Secondly NA is aiming at developing activities in the strongly growing Chinese copper market.

## **Outlook**

NA is currently concentrating on significantly further improving its international competitive position in both business segments. As a result we will be optimally prepared for future economic growth. To achieve this, NA is also preparing to launch on to international and fast growing copper markets as quickly as possible. The focus, above all, is on the Asian growth markets.

Although it is generally expected that the economic environment will improve in the fiscal 2003/04, NA still assesses the chances for a fast economic upturn in the German and European core markets with considerable caution. A further appreciation of the Euro against the US dollar could lessen the impact.

Demand for cathodes and copper products will increase along with the upturn in Europe, our core market. We are therefore assuming that sales of our products will increase.

In the copper production sector we will enhance the high production level and use the plant improvements performed in October 2003 economically. We are currently assuming that the situation with the treatment and refining charges will ease slightly but not until the second half of 2004 when the announced production expansions at the copper mines increase concentrate supplies. As a result of the rise in the copper price we are assuming that the refining charges for copper scrap will improve slightly.

Currently we have observed that the market is picking up for all our copper products. At the same time copper cathodes are in short supply as a raw material. In this phase NA has the advantage of being able to secure the production of copper products (continuous cast wire rod, shapes, rolled products) on the basis of its own cathode output. As an integrated copper producer, this is a significant advantage over competition and ensures reliability in deliveries for our customers.

The first quarter of the current fiscal year will still be adversely affected by the seasonal impacts on production in December and by the scheduled loss of production in October 2003.

The trend in business is estimated as positive despite existing general uncertainties and the impact of the first quarter, since the prerequisites for positive results have been created in all Group sectors or will be created in the next few months.

An important contribution is the turnaround at HK at the beginning of 2004 and its intended amalgamation in NA AG. With this development we are supporting NA's foremost target of continuing its previous dividend policy again as soon as possible.

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