



Annual Report 2005/06

The Year of **Copper**

Global commodity boom continues in fiscal year 2005/06.

Copper price and copper demand reach historic highs.

Norddeutsche Affinerie AG (NA) is the leading copper group in Europe and the largest copper recycler worldwide. It also holds a leading position in environmental protection. NA can again look back on a very successful fiscal year: in 2005/06 earnings (EBT) once again significantly exceeded the prior-year performance – the basis for continuing the shareholder-friendly dividend policy. There was an extraordinary rise in revenues of 90% due to the expansion of the product business and, in particular, due to the very strong increase in metal prices.

551,000 t

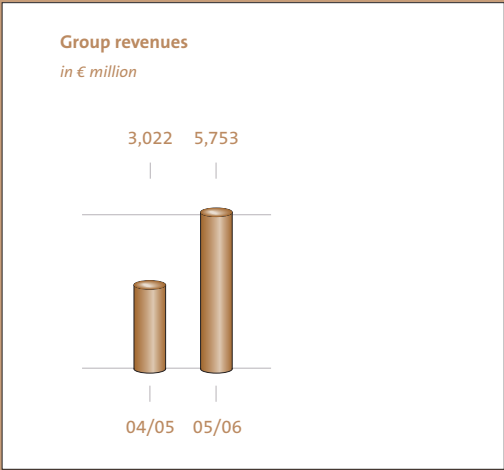
copper cathodes

22%

market share Europe

3,225

employees



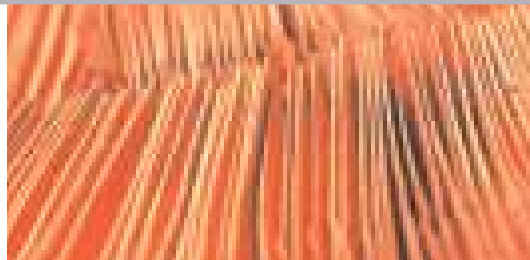
»2005/06 – The Year of Copper«

In the course of the continued international commodity boom, the copper price reached an historic high of almost US\$ 8,800/t. Copper demand rose likewise to an unprecedented level, supported by an unexpectedly strong economic trend in Europe and a persistent economic boom in Asia. The market supply was inadequate on account of low copper stocks and insufficient production growth.

The NA Group integrates the business segments of Copper Production and Copper Processing. We are represented in all the stages along the value added chain of copper, starting with the raw material treatment through cathode production to the production of copper products.

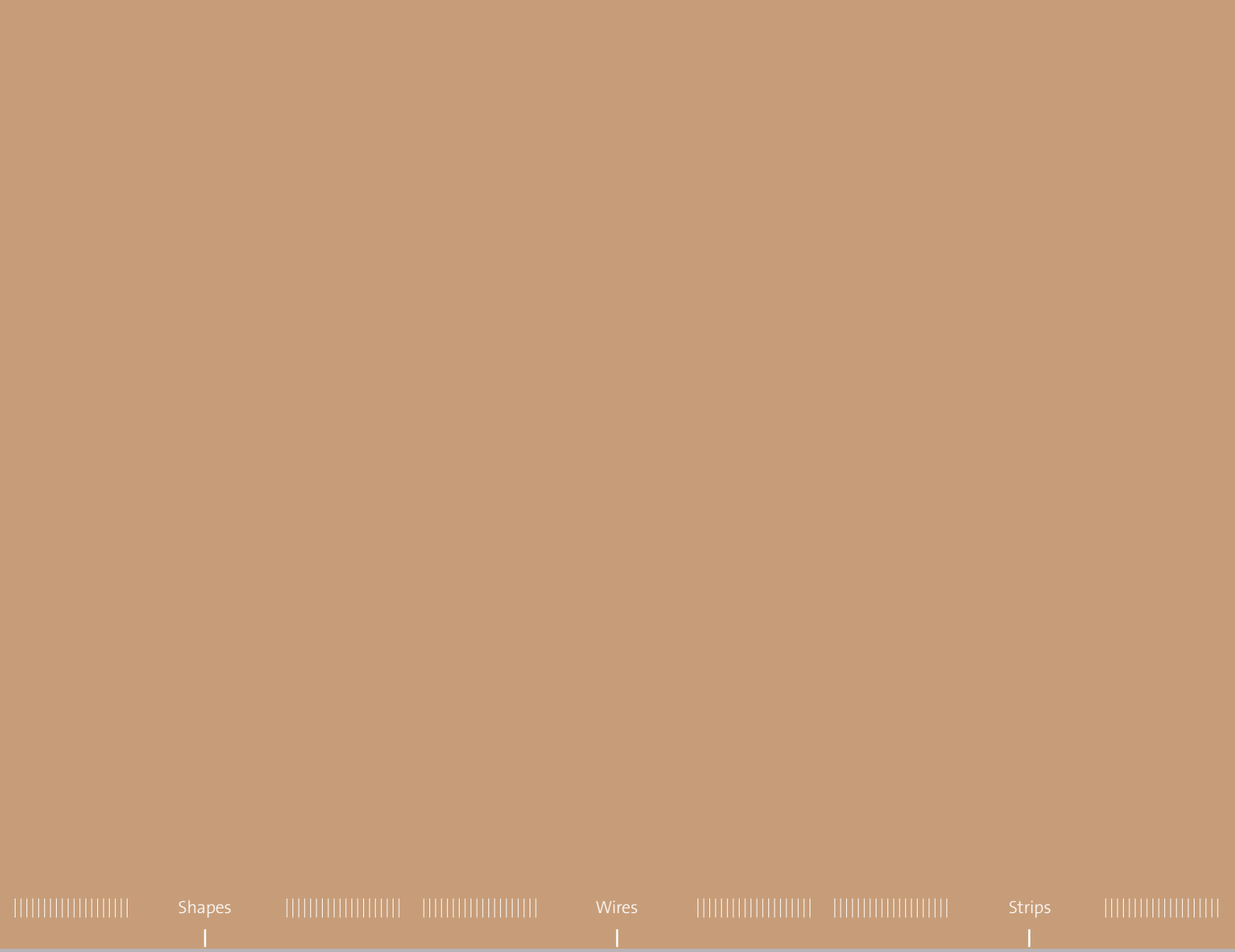
NA – Europe's leading integrated copper Group

||||| Cathodes |||||



COPPER PRODUCTION SEGMENT

We produce copper cathodes from copper concentrates and recycling raw materials. We buy both types of raw materials from all over the world. Most of our revenues are determined by treatment and refining charges, which are agreed with the raw material suppliers as a refining fee. This is why the copper price on the metal exchanges is a transitory item for us. Our copper cathodes fulfil the high quality requirements of the metal exchanges in all respects. The production of precious metals, sulphuric acid, iron silicate products as well as other metal and chemical products from the by-elements of copper is also included in the Copper Production Segment.



COPPER PROCESSING SEGMENT

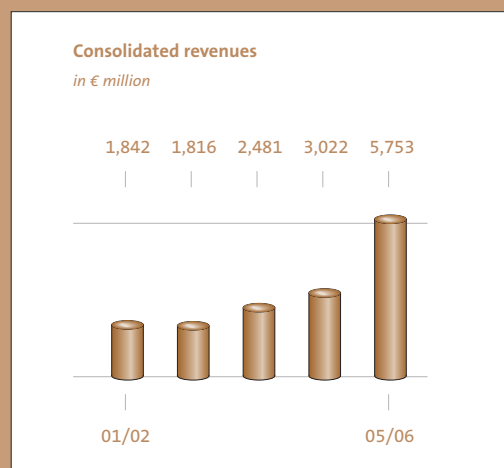
As an integrated Group, we process our copper cathodes into copper products ourselves. Apart from wire rod for the cable and wire industries, NA produces continuous cast shapes for the market and for processing internally into pre-rolled strip as well as strips and shaped wires. Our earnings are determined here by processing fees which reflect the value added.

NA 2005/06

- High treatment and refining charges in the concentrate business and increased refining charges for copper scrap result in improved earnings for copper production
- Production and sales of continuous cast wire rod and shapes were at a very high level
- Increased production and sales at the subsidiaries Schwermetall Halbzeugwerk (50%) and Prymetall (100%)
- Earnings improved again enabling a higher dividend to be recommended in the amount of € 1.05 per share (€ 1.00 per share in the prior year)

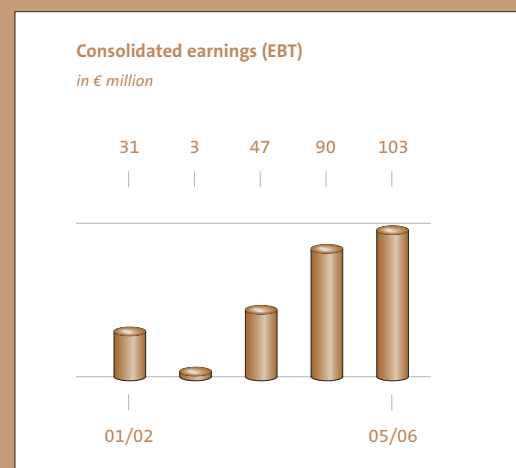
Revenues + 90%

The increased product business and, above all, much higher metal prices cause revenues to rise strongly.



Earnings + 14%

The high level of the prior year is surpassed once again on account of the very good business performance and the continuation of strict cost management.



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DEAR SHAREHOLDERS AND FRIENDS OF NORDDEUTSCHE AFFINERIE, Fiscal year 2005/06 has been extraordinarily successful for NA. The very good earnings before taxes (EBT) of the prior year were surpassed. Thus, it is possible to recommend an increase of the dividend from € 1 to € 1.05 per share at the Annual General Meeting on 29 March 2007. This corresponds to a dividend yield of 5.5%. Only very few shares worldwide can offer a comparable yield.

In the interests of our shareholders, we are resolutely continuing our policy of a high dividend yield. NA shares are a very attractive high dividend paying stock, which from our viewpoint still has considerable price potential to offer.

Fiscal year 2005/06 was characterised by several surprising developments on the metal markets, especially the copper market. Without exaggeration, it can be described as the year of copper: the copper price doubled in the course of the fiscal year, reaching historic highs, and subsequently stabilised at a slightly lower, but still high level. A market situation was responsible for this development, which was the result of production losses at mines and smelters, low stocks and good demand in Europe and worldwide. As a custom smelter, we benefited from this market situation through the treatment and refining charges and shape surcharges.

NA was also able to prove its high productivity in the last fiscal year and assert itself in tough global competition. We are on our guard because the fight for markets in all sectors has become more intense. A billion dollar heavy concentration process has begun in the mining industry. Global competition is a challenge which demands continuous improvement from us. We owe our operating strength not least to the great commitment of our employees.

In order to improve NA's competitive position further, we are working intensely on growth steps in Germany and abroad. Internally we have first and foremost the expansion of the copper concentrate processing facilities and the strengthening of our recycling activities. When expanding our operations, we target the best available technique, which fulfils our high demands on profitability, environmental protection and occupational safety.



Dr Werner Marnette Chief Executive Officer of Norddeutsche Affinerie

We are pressing on with the development of new copper products: the pilot plant for the preparation of the mass production of flexible solar cells on a copper, indium and selenium basis (CIS) is under construction. Both the production process and the cell's specific properties could be improved further. The aim is to begin with the production of market-mature products in 2008.

Our shareholders know that NA is doing its utmost to examine every possibility to make the business more international and to enter regions with strong growth. Concrete steps should unfold in the course of this year.

NA has stood up to international and national competition for the last 140 years. It expects fair conditions on other markets as well. We therefore observe with concern the oligopolistic structure in the German energy market. We should constantly remind ourselves that the increased energy prices in Germany represent a significant burden for all of Germany's energy-intensive industry – thus also for NA.

The Federal Cartel Office has given a clear signal, in that it has ascertained for 2005 that the electricity prices in Germany were too high due to the exploitive inpricing of CO₂ certificates. The EU Commission's initiative is also welcome which has identified the market concentration as the biggest risk for the success of the liberalisation process and will take increased action against anti-competitive violations.

It appears that our long-standing campaign for more competition and fair energy prices is bearing fruit. We call on the German Government and the legislature not to let up any more.

But it is not enough to wait for others: based on the prior years' measures, NA is intensifying its efforts to increase energy efficiency once again throughout the Group by making technical process changes. These have the aim of generally reducing energy consumption and increasing flexibility in the use of primary energy sources. Our success here in the past has already been very encouraging. Additional steps with high improvement potential are thus being implemented.

But the main emphasis is on the planning and realisation of our own electricity supply in Hamburg. The planned substitute fuel power plant will be a joint venture of NA and Hamburg Stadtreinigung (Waste Management), with which the electricity costs can be significantly reduced at NA's Hamburg site.

We have good reason to be optimistic: domestic economic activity in Germany is recovering after years of stagnation. We expect a rise in demand for copper and copper products. From NA's viewpoint, the course is set for us to continue operating successfully in future, and to offer our shareholders an attractive investment.



Werner Marnette



Dr Werner Marnette began his career at NA in 1978. He became a member of the Executive Board in 1990 and was appointed Chief Executive Officer in 1994. Since 2002 he has been Vice President of the Hamburg Chamber of Commerce.



Dr Bernd Drouven has been with the NA Group since 2001 and was appointed Chief Financial Officer on NA's Executive Board on 1 January 2006.

Dr Bernd Langner has worked for NA since 1982 and became a full member of the Executive Board on 1 January 2003. He is responsible for the Copper Processing Segment. Since January 2002 he has been the Managing Director of Prymetall in Stolberg.

Dr Michael Landau has been employed at Norddeutsche Affinerie since 1981. In March 1998 he was appointed a deputy member of the Executive Board and has been a full member since 1999. He is responsible for the Copper Production Segment.

»The London Metal Exchange remains the world centre for non-ferrous metal trading«

Discussion between Mr Martin Abbott, CEO London Metal Exchange (LME)
and Dr Werner Marnette, CEO Norddeutsche Affinerie AG (NA)
on 18 December 2006



MARNETTE: Mr Abbott, just a few weeks ago you took over the position of CEO of the LME, the leading metal exchange worldwide. You have therefore assumed this office at a very interesting time. The market for base metals is booming and we have seen how metal prices have risen to historic highs. At the same time the LME is facing some significant challenges. Tendencies towards consolidation can be observed in the international exchange environment and increase demands on technology and trading performance. In addition, the metal boom has increased the number and type of LME users. Looking back – how would you assess the year 2006?

ABBOTT: 2006 was indeed an excellent year for the LME with a very good business climate. Market fundamentals were reflected in the increased activity and liquidity at the LME.

MARNETTE: I am pleased that one of your first visits has brought you to NA. We use the LME, like many other copper producers, for our physical business and this is where the LME's real purpose lies. Part of the LME revenues are, however, also made by funds and other capital investors. How do you see the role of the metal exchanges for companies like NA?

ABBOTT: The LME has always been an industry-based market and it celebrates its 130th anniversary in 2007. For non-ferrous metals and meanwhile also for plastics, it offers the unique possibility of hedging against the risks of future price movements. In addition, every standardised LME contract allows for the possibility of physical delivery and any such delivery of metal must meet the highest quality standards. There are more than 400 listed warehouses at 32 locations in the U.S.A., Europe, the Middle East and the Far East. One of the most important functions for the industry as a whole is, however, the pricing, i.e. the provision of an internationally valid reference price that is used as

the basis of pricing for all aspects of the metals business from production through to fabrication and consumption.

MARNETTE: I am glad that you are still very much aware of the LME's role for industry. But the question was raised in the last few months about whether the funds have too much influence and consequently whether the LME price is still representative for physical business.

ABBOTT: To put it quite clearly, it is in the LME's quintessential interests and also its duty to ensure that the market is orderly and the LME certainly fulfils this obligation. The LME trade is extremely transparent and the quoted prices reflect trade and industry's supply and demand. It is true that business with hedge and pension funds has increased, but they also base their decisions on assumptions regarding the fundamental market trend. Above all, the liquidity of LME business has grown enormously as a result of its activities, which is very important for an independent price formation process. We will not discriminate against any market participant as long as they stick to the exchange rules. In addition, liquidity is the LME's lifeblood. The LME price is without doubt still representative for the physical business.

MARNETTE: I see that too. The LME with all its functions is currently irreplaceable for our physical business. However, another exchange, on which electricity is traded in Germany, causes us and all the other electricity customers considerable concern. I am speaking of the EEX (European Energy Exchange) in Leipzig, where the electricity prices are fixed – although under very intransparent conditions, which even the German Government's Monopoly Commission has ascertained. Unfortunately, the EEX has recently often been compared with the LME – a comparison that is completely unfounded.

ABBOTT: When comparing the LME with an exchange that is only active regionally, it must not be forgotten that the LME is a truly international market, with a price basis that is valid worldwide and is accepted by all market participants. The international orientation and size of the market does not permit any individual market participants to have a dominating position. Whether a customer buys copper at NA or from Chile or Australia – the same price basis applies. Some 95% of global metal trade is priced through the LME. But in doing so, the demand side is elastic, i.e. a customer can and will react to price changes. On top of that, metals can be stored and consumers can also store excess quantities in LME warehouses.

MARNETTE: A great deal must therefore still happen at the EEX. Mr Abbott, finally a quick look at the New Year. What do you expect for the LME?

ABBOTT: 2007 will continue to be exciting. At present, detailed discussions on strategy are being held at the LME. This concerns innovations and growth, independence and the further development of the LME's position in competition with other commodity forward exchanges, increased marketing as well as the future role of ring trading and electronic trade. The last two topics are very important for the LME. As you can see, there is a wide range of aspects requiring attention.

MARNETTE: There is a lot of work waiting for you. I am therefore particularly grateful to you for having this discussion with me. I wish you all the best and that you have the right touch in all your actions.

The electrical conductivity of copper is excellent and is only exceeded by silver. This makes the metal predestined for applications in the design and construction of ever more intelligent vehicles. Copper is applied in all of the vehicle's electronics, in the anti-blocking and vehicle safety systems as well as in navigation computers.



Copper is intelligent



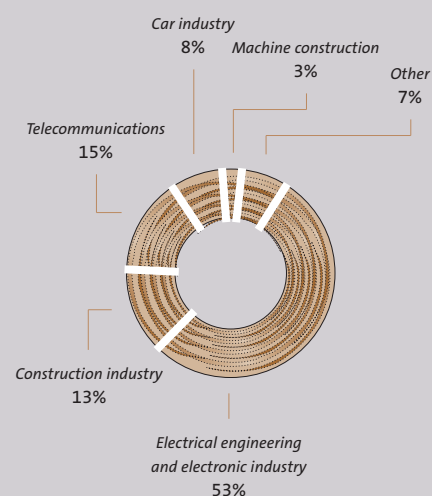
Copper – the intelligent material

In our society, quality of life and progress largely depend on the use of suitable base materials. Above all, materials with a variety of properties that are tailor-made for numerous product applications are in demand – like copper. The »red metal« has gone a long way since its prehistoric beginnings as a raw material for the production of things in daily use. Today the material of the future is not only used for traditional applications, but also forms an integral part of state-of-the-art technologies.

INFORMATION TECHNOLOGY, COMMUNICATIONS AND ENERGY

Information technology and communications are sectors that are unthinkable without copper and in which the metal could always assert itself regardless of how fast new developments follow one after another – notwithstanding the spread of glass fibre applications and wireless communications. Today, state-of-the-art technologies also use the existing copper cable networks and, in doing so, achieve the highest data throughput and transmission rates. Modern telephone systems and base stations for wireless communications likewise contain copper. This will also be the case in future.

NA sales by industries





»Quality and flexibility are essential when casting copper into copper shapes. They enable us to produce and supply the right copper product for the most varied areas of application, as required by the customer.«

Thomas Dreier, Smelter Operator in the Continuous Casting Plant, Hamburg

Apart from silver, no other metal has comparably high conductivity. When used as an ideal conductor in electricity networks, copper additionally benefits from its strength as well as its resistance to contraction and corrosion – it can be used without any other surface protection. Such applications account for about two thirds of global copper demand, for which above all wires and cable but also busbars are needed. The metal is likewise used for the manufacture of transformer and motor windings as well as for the construction of heat exchangers, whereby its excellent thermal conductivity also plays a role. Last but not least, electronics provide a wide area of application: the copper use ranges from printed circuit boards through electronic conductors to contacts and microprocessors.

Alternative power generation is also dependent on copper. All the possible systems need it in order to transmit the produced energy with the maximum of efficiency – an important topic for the future in which copper will play a special part.

ARCHITECTURE AND BUILDING

Copper pipes are the standard material for water and air conditioning installations in European countries and are also used for gas mains. They resist corrosion and handle pressure, cope with extreme temperatures and are characterised by a long life span and hygienic properties. Architects and designers appreciate the metal's properties: formability, resistance to the impact of air or moisture and, last but not least, its attractive appearance. They make copper into a gladly used, functional and artistic element for facades, roofing and interiors.

MOBILITY

Our mobile society depends on a highly developed transportation system and the car industry is a research-intensive key high-tech industry in Germany. Copper is indispensable in the construction of ever more intelligent vehicles. It is used in cables and electronic components – e.g. in anti-blocking and vehicle safety systems or navigation computers. Electric vehicles and those with hybrid engines, in which an electric motor complements the conventional motor, open up new areas of application. The use of copper has also increased overall in modern rail vehicles and aircraft.



Information about copper

www.kupfer-institut.de

Copper is corrosion resistant to a high degree and has a very long lifetime. In addition, it is characterised by excellent thermal conductivity and antibacterial properties. These make it an ideal material in building applications, not only for covering facades and roofing but also for water installations and air conditioning technology.



Copper is solid



»The metal markets all showed the same picture in the fiscal year, one of short supply and strong demand. This applies not only for copper but also for the other non-ferrous metals like lead, tin, zinc and nickel, which form the basis of our by-metal products.«

Jutta Reddig, Marketing By-metal Products, NA Lünen Works

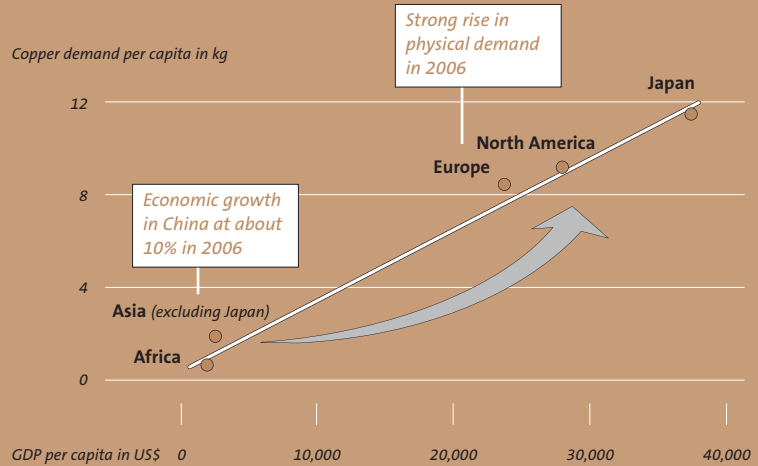


Fundamental change on the copper market

Globalisation and the economic upswing in Asia's densely populated countries have left their mark on the international metal markets. The copper world has also fundamentally changed.

In the years before 2003 there was a lack of investment at mines and smelters worldwide on account of the very low copper prices, which only resolved itself very slowly in view of the long time required for product development up to production maturity. In addition, the output of older mines was adversely impacted by declining copper contents in the ore, and production targets were missed on account of strikes, technical breakdowns as well as shortages of energy, water, equipment and qualified personnel.

Copper demand in line with growth



This situation resulted in a strong rise in copper demand, which up to now has been primarily caused by the economic boom in Asia. China and India are first and foremost the leaders in this development. But the economy is also booming in smaller Asian states like Vietnam, in particular due to extensive infrastructure projects and private consumption. Today, 42% of global copper demand originates in Asia (excluding Japan). Growth in demand in this region is forecast to total 70% by 2015.

In the highly developed traditional markets of North America, Europe and Japan, the percentage increase in demand is lower and they are more dependent on the economic trend. However, demand is also spreading here thanks to new areas of application and product developments. In view of the absolute market size, the quantities are also considerable, even with lower growth rates. The market share amounts to 46% of copper demand and is expected to rise 8% by 2010.

As a result of the high demand, copper production was insufficient from 2003 onwards despite increasing expenditure on capacity expansions. This led to a strong reduction in the copper stocks in the warehouses of the international metal exchanges and along the value added chain. Today, copper stocks worldwide are at an unusually low level.

Copper demand

in thousand tonnes (source: Brook Hunt Q3 2006)



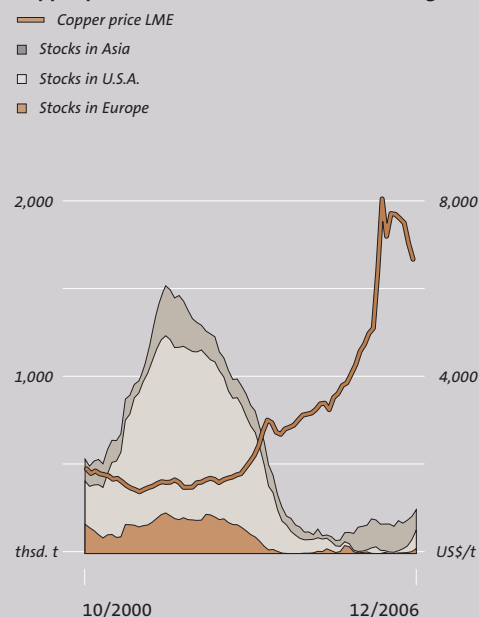
COPPER PRICING ON THE METAL EXCHANGE The current price cycle for copper basically differs as regards length and price level from those in the past. The copper price reached an historic high as a result of the fundamental market situation, which is characterised by short supply. The thus aroused interest of the capital markets in commodity investments likewise favoured the trend in prices. They are primarily formed on the London Metal Exchange, on which other non-ferrous metals and plastics are also traded in addition to copper. Other more locally oriented metal exchanges are located in New York and Shanghai.

HIGH COPPER PRICES IMPACT RAW MATERIAL AND PRODUCT MARKETS

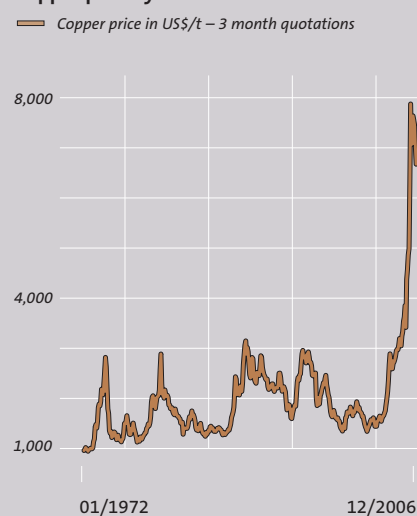
A high price level directly impacts NA's raw material and product markets: for the international mining industry it gives the immediate impulses for launching on to new mining projects and investing in capacity expansions. On the markets for scrap and other secondary raw materials, there was more incentive to collect and recycle materials. The continued high copper price does not directly have any noticeable serious adverse effects on product sales. Price-related substitution concerns only sub-sectors of the market, since there are hardly any alternatives for most applications. In addition, demand is supported by the mainly positive economic trend.

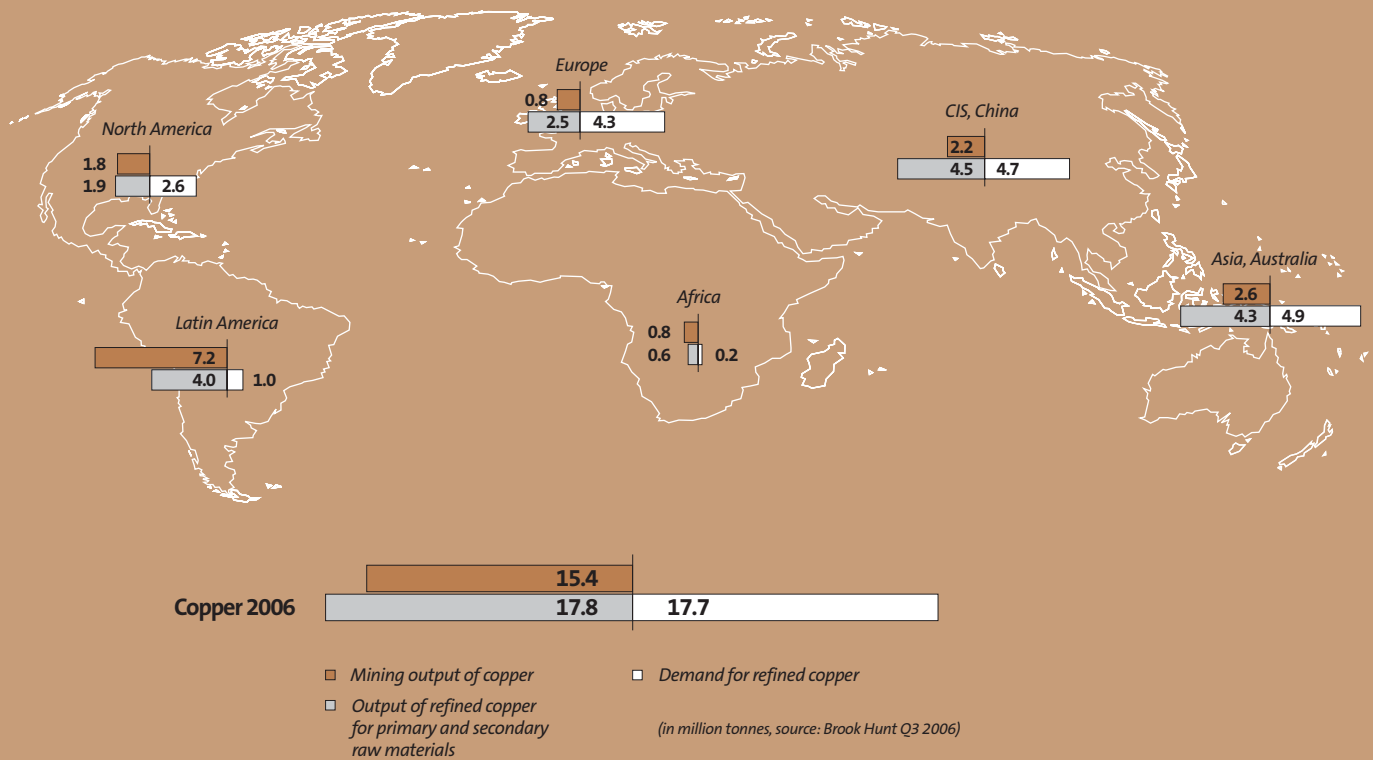
As an integrated copper Group with copper concentrates and recycling raw materials as its raw material base, we produce most of the copper cathodes for our Copper Processing Segment ourselves. Consequently, we have a reliable supply and are less dependent on the cathode markets than most other copper product suppliers. The copper price is a transitory item in this business model.

Copper price and stocks at the metal exchanges



Copper price cycles since 1972





Copper international

The market for copper has an international character. The major mining countries with an annual output of more than one million tonnes of copper in the concentrates are Chile, the U.S.A. and Indonesia. The production of refined copper is likewise concentrated primarily in Chile and the U.S.A., but is also very high in Japan and Europe. The traditional sales markets for copper are situated in the highly developed industrial countries. New, dynamically growing supply and demand centres have grown up in China and India.

Copper is an ideal recycling material: its material cycle can be closed without loss of quality again and again. It is therefore a pioneer of sustainable development. In addition, copper will play an important role in the expansion of alternative energy production – all the respective systems need the metal to transmit the energy produced with maximum efficiency.



Copper is sustainable



»NA shows that it feels responsibility for its neighbourhood. It involves itself in projects that incorporate ecological, ethical and social aspects. I find it especially good that the focus is on sponsoring regional projects in the local area and, most of all, on the vocational training of young people.«

Kristina Lau, apprenticed as office communications assistant in Hamburg



We are committed — in our vicinity to the advancement of young people

...AT THE SLOMANSTIEG SCHOOL Since the beginning of the school year 2004/05, NA has worked together with the Slomanstieg secondary school, which is located in NA's immediate vicinity in the Hamburg district of Veddel. More than 90% of the pupils come from migrant families. For the »Weekly Work Experience Day« project, 14-15 year old students from the eighth class come to our company's training workshop every Wednesday for a whole year, giving them the chance to be introduced to the typical working day as early on as possible. Thus, accompanied by two NA training supervisors and a technical instructor, they attend a long-term training course and on completion have an additional qualification, which will help them later when making their career choice. The scientific project consultant, Professor Reiner Lehberger, is convinced that students from secondary schools working closely with industry are more likely to be offered an apprenticeship than those without any practical experience. After successfully completing the first year, NA was able to offer apprenticeships to two of the students.



Dr Werner Marnette welcomes the young musicians at the rehearsal before the concert in Hamburg

...WITH MUSICAL TALENT Since its inception in 1986, the Schleswig-Holstein Music Festival (SHMF) has become an outstanding cultural event that, year after year, attracts people from far beyond the borders of Northern Germany. On the teaching side, the SHMF gives talented young artists from many countries the opportunity to learn and receive inspiration from experienced well-known musicians. We have sponsored the Schleswig-Holstein Music Festival since 2001 because this approach is also mirrored in the vocational training of young people at NA.

Since 2003 we have enabled one of the SHMF concerts to be held each year in the »Alte Schlosserei«, NA's communications centre. Against an industrial backdrop, the music performed develops a special charm and appeals to a wide audience.

...WITH A LOVE OF SPORTS NA has significantly increased its ongoing commitment to support Hamburg's most successful ladies volleyball team, NA.Hamburg, which plays in the top German league. The sponsorship of team sports, which demonstrate fairness and strengthen the team spirit, is especially close to our heart.





Part reconstruction of the sleeping and living complex: extension in accordance with the plans of Architekturbüro nps tchoban voss

— to Hamburg

...FOR THE EMIGRANT MUSEUM BALLINSTADT Hamburg, as the gateway to the world, was the most important emigrant city in Europe at around 1900. About five million people boarded a ship here between 1850 and 1939 to start a better life. The emigrant halls were built for these people in Hamburg's Veddel district in 1901, in the immediate vicinity of our works, at the initiative of the Hamburg HAPAG General Director, Ballin. After the mass emigration in 1924 was over, the site and buildings were initially used for all sorts of things. Demolition came later and, with it, the end. Only one barrack remained which has become the core of the »Emigrant World BallinStadt« project that took second prize in the History Award in 2006. The BallinStadt is currently being partly rebuilt in accordance with the original plans. It should be inaugurated on 4 July 2007 and then bring history back to life as a museum. This project has a special symbolic meaning for NA on account of the company's location in Veddel and activities in international markets, because it stands on the one hand for cosmopolitanism and close transatlantic relations, but on the other for modern urban upgrading.



BallinStadt

www.ballinstadt.de

...FOR CHINA TIME The enormous economic potential of the Asian country makes China a determining factor in international trade and in the copper industry. At the same time, Hamburg holds an outstanding position in Europe on account of the about 400 Chinese firms that have settled here and 700 Hamburg companies that trade with China. To pay tribute to the long-standing and extensive relations, a nineteen-day event was started by the Senate in 2006 with which Hamburg wished to demonstrate and further enhance its China competence: so-called CHINA TIME. It was accompanied by an economic congress at the Hamburg Chamber of Commerce. NA supported these events, which had an impact far beyond Hamburg's borders, by realising a special project that attracted a great deal of attention: a copper dragon was made in our works as the symbol of China's significance in the global economy and the copper industry. Most of the huge sculpture, which weighed 4.4 tonnes, had a height of more than five meters and a length of about seven meters, was produced by NA's apprentices under the direction of the sculptor Adam Ostrowski. During CHINA TIME it floated on the Alster Lake as the central symbol in the middle of the city.



CHINA TIME

www.china-time.de

NA copper dragon on the Alster lake



– to environmental protection and fair energy prices

Off-gas cleaning at NA



...ENVIRONMENTAL PROTECTION We have firmly anchored our special responsibility towards mankind and environment in our corporate targets. This is why environmental management systems have been established at all the Group's central sites. The technical plants and production processes have to meet the highest requirements as regards environmental soundness and occupational safety and are international benchmarks. NA also contributes to the conservation of resources in its recycling business sector and thus to sustainable development. We undertake self-imposed obligations for the continuous improvement of our environmental and health performance, which go far beyond maintaining the legal requirements. Accordingly, NA has joined the chemical industry's global initiative »Responsible Care«, that represents the willingness to improve conditions continuously to protect health and the environment as well as the safety of employees and the neighbourhood.

...FAIR ENERGY PRICES The electricity price in Germany increased 140% from 2003 to 2006 to a peak of almost € 60/MWH and weighs on energy-intensive industry as well as private consumers to an extraordinary degree. The market-dominating position of the four major energy suppliers, which together hold more than 80% of production capacity, is the decisive factor for the electricity price increase. In order to counter this exploitive market behaviour, NA, as a particularly affected energy-intensive company, has repeatedly taken a stand in public with politicians, in the media and at all manner of events. Thus, in recent years NA has been one of the main voices of the debate today on the creation of competition in energy supplies.



– together with our employees

...WITH THE RELIEF PROJECT APE GAMA The employees of the NA Group were appalled at the awful devastation and countless deaths caused by the flood wave in the countries bordering the Indian Ocean two years ago. They immediately decided to have a collection throughout the Group so as to help the survivors in the redevelopment work. NA itself also participated financially and gave its personal support. In one joint project, a mobile water treatment was initially provided.

The second project was entitled »A roof over their heads« and covered the building of 10 semi-detached houses for families with children and those with victims among their relatives. Together they have formed a separate village with the name APE GAMA – our village, which was inaugurated in February 2006.

NA relief project in Sri Lanka: APE GAMA – our village



November/December 2005

NA optimised: *scheduled maintenance is performed in the primary smelter, while at the same time construction work to enhance performance is carried out.*

NA furthers its relations to the raw material producing countries: *the State President of Namibia H.E. Hifikepunye Pohamba visits NA.*



February 2006

NA sponsors at home: *more intensive commitment to the popular volleyball team from Hamburg's South rewarded by renaming it NA.Hamburg.*



January 2006

NA strategic: *resolution on further expenditure on recycling technology at NA's Lünen site.*

NA creates prerequisite for growth: *capital increase successfully carried out.*



March 2006

NA strategic: *setting up of KPV Kraftwerk Peute Verwaltungsgesellschaft mbH and KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG to prepare and manage construction of power plant.*

NA informs: *Annual General Meeting again attracts significant shareholder interest.*

April/May 2006

NA informs: NA's 140th anniversary is celebrated as a family day.

NA encourages young people: NA cooperates with the universities and organises a technical university day to inform them on career prospects.



August 2006

NA trains: 51 young persons are welcomed to NA by Hamburg's Mayor, Ole von Beust, and Werner Marnette, at the start of the new apprenticeship year.

Occupational safety has priority: NA is commended for its occupational safety by the Federation of the Chemical Industry in the Responsible Care competition.

The fiscal year in review

June/July 2006

NA strategic: Supervisory Board approves the first steps towards the expansion of the primary smelter.

NA in dialogue: continued strong interest in NA results in rush of visitors at information and discussion events for shareholders.



September 2006

NA communicates with the capital market: NA welcomes numerous analysts at the Capital Market Day where they are given presentations and participate in discussions on the Company.

NA supports CHINA TIME: copper dragon built at NA becomes the symbol of the event receiving nationwide recognition for the promotion of economic and cultural relations between Hamburg and China.

The shares of Norddeutsche Affinerie AG: a good investment

- *Long-term growth in the copper market*
- *Strong position in the European core market*
- *Market leader in the global copper recycling market*
- *High-performing and well qualified workforce*
- *International leading position in technology and environmental protection*
- *Top quality products*
- *Constant expansion of production capacities*
- *Good growth opportunities*
- *Healthy finances and high profitability*
- *High net asset value with very good dividends*
- *Extensive own electricity supply in preparation*

The indices DAX and MDAX on the German stock exchanges initially performed very strongly until spring 2006. This was followed by a weaker phase that was partly recouped as the fiscal year continued. The commodity markets were also characterised by rising prices, whereby the copper price hit an historic high.

PRICE PERFORMANCE AFFECTED BY UNCERTAINTIES ON THE COMMODITY MARKETS

The NA share price, which amounted to € 18.65 at the beginning of the fiscal year, rose to an historic high of € 26.98 by the end of March. It then clearly weakened in the following months despite NA's continued good business performance. The price moved between € 17.14 and € 20.24 until September. The reasons for the negative performance in the second half of the fiscal year were mainly general concerns about interest rates that spread to Europe from the U.S.A., as well as uncertainty about trends on the commodity markets. In addition, a weak U.S. dollar contributed to corrections, particularly on the European stock markets. At the end of the fiscal year NA shares closed at € 18.98, slightly up on the price at the beginning.

INVESTMENT WITH LONG-TERM PROSPECTS

Despite the volatile share performance in the last fiscal year, the long-term performance of NA shares is very positive. The share price gained almost 50% between the IPO in July 1998 and the end of the fiscal year 2005/06. In addition, our shareholders benefited from the high dividends paid by NA, which has meanwhile also established itself internationally as a high dividend yield stock.

The strong demand for copper, worldwide and especially in China, just as the positive economic trend in Europe have resulted in an increasing shortage of the metal and have thus created a positive market environment for NA shares. We also expect our shares to perform well in future and to orient themselves to our long-term successful growth policy.

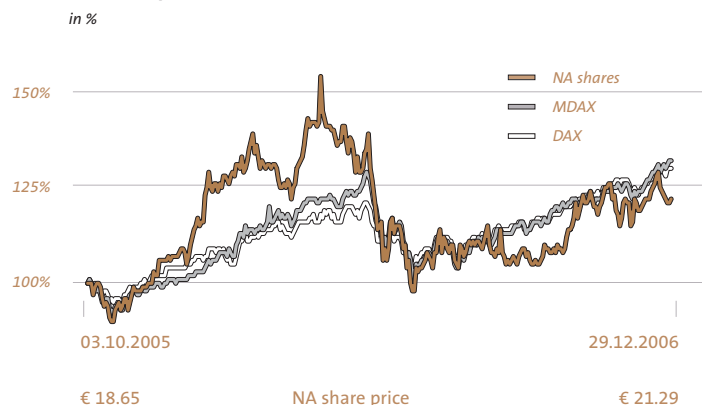
CAPITAL INCREASE HAS STRENGTHENED

NA'S POSITION FURTHER On 31 January 2006, NA carried out a 10% capital increase: 3.34 million shares were placed within a few hours at a price of € 23.10. The capital increase was carried out without subscription rights in accordance with the authorisation given at the Annual General Meeting on 31 March 2005 so as to avoid possible impacts on the price and costs for issuing an offering prospectus. It resulted in a cash inflow of € 77.2 million and has therefore strengthened NA's capital basis further for growth investments.

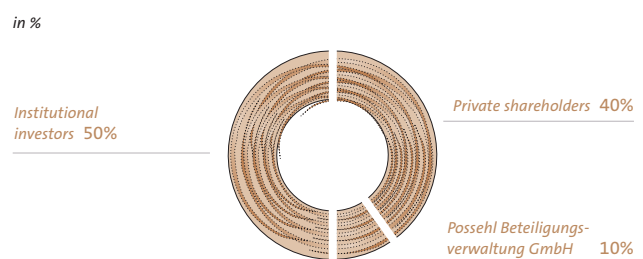
NA'S SHAREHOLDER STRUCTURE STILL CHARACTERISED BY HIGH FREE FLOAT

NA's shareholder structure was stable. 90% of the shares are in free float. 10% of NA shares are held by Possehl Beteiligungsverwaltung GmbH, Lübeck, 50% are held by institutional investors and 40% by private investors.

NA share performance since October 2005



Shareholder structure as at the end of September 2006



VERY GOOD DIVIDEND YIELD With the payment of a dividend of € 1 per share for fiscal year 2004/05, NA again positioned itself as good dividend paying stock. For 2005/06 the Executive Board and Supervisory Board will recommend the payment of a dividend of € 1.05 per share at the Annual General Meeting on 29 March 2007 and thus continue the established policy of a high payout ratio. The dividend yield on the basis of the closing price on the Frankfurt Stock Exchange on 29 September 2006 is very good at 5.5% and the payout ratio totalling 66% is again at a very high level. The remaining net income in the amount of € 20 million will be allocated to revenues reserves to strengthen NA's financial basis.

ACTIVE COMMUNICATION WITH THE CAPITAL MARKET We also increased communication with the capital market further in the last fiscal year and sought personal, open dialogues with private shareholders, institutional investors and the financial media. The Executive Board and investor relations team gave presentations on the company to a wide audience at national and international roadshows and investor conferences.

On 4 September 2006 NA invited 50 analysts, asset fund managers and other financial specialists to the first Capital Market Day at NA in Hamburg. This event created a new forum for us to exchange information with capital market participants. The possibility of getting to know NA's operations and staff was an additional attraction for many participants. In view of the very positive feedback, we are planning to hold another Capital Market Day this year.

NA attributes great importance to the communication with private shareholders. As part of the series »Dialogue with the shareholders«, many private shareholders could learn about the economic situation of their company and have a tour of the production sectors. In addition, NA also gave presentations at numerous other events, such as at the open day at the Hamburg Stock Exchange.

The great many stock analyses on NA reflect the interest of the financial world in our shares. The number of analysts' reports increased during the fiscal year from two to twelve.

NA will also continue and steadily enhance its policy of active communication with the capital market in future.

AGAIN MANY SHAREHOLDERS ATTENDED THE AGM As in previous years, the Annual General Meeting in 2006 turned out to be a crowd puller and attracted well over 2,500 shareholders to the Hamburg Congress Centrum. They took the opportunity to learn first-hand about the last fiscal year and NA's prospects.

Key figures of NA shares		2001/02	2002/03	2003/04	2004/05	2005/06
<i>Closing price in Frankfurt as at fiscal year-end</i>	<i>in €</i>	10.80	8.82	12.93	18.48	18.98
<i>Year high (close)</i>	<i>in €</i>	15.50	11.97	12.93	18.73	26.98
<i>Year low (close)</i>	<i>in €</i>	10.50	8.40	8.94	11.70	17.14
<i>Market capitalisation at fiscal year-end</i>	<i>in € m</i>	353	291	432	625	705
<i>Number of shares</i>	<i>in thousand units</i>	32,703	33,044	33,409.2	33,813.4	37,154.3
<i>Dividend or recommended dividend</i>	<i>in €</i>	0.65	—	0.65	1.00	1.05
<i>Payout ratio</i>	<i>in %</i>	68	—	76	75	66
<i>Earnings per share (IFRS)*</i>	<i>in €</i>	0.63	0.10	0.76	1.77	1.64
<i>Price/earnings ratio as at fiscal year-end*</i>		17.2	89.8	17.1	10.5	11.6

*on the basis of the LIFO inventory valuation method

Security Identification No.:	676650
International Securities Identification Number (ISIN):	DE 0006766504
Stock market segment:	MDAX
Stock exchanges:	all German regional stock exchanges
Issue price:	€ 12.78
Average daily trading volume:	192,104 shares in XETRA trading 64,164 shares at all German stock exchanges

Analyst coverage 2006

Bankhaus Lampe
 Berenberg Bank
 LBBW
 Credit Suisse
 Deutsche Bank
 Dresdner Kleinwort
 DZ Bank
 HSBC Trinkaus & Burkhardt
 HVB/Unicredit
 Nord LB
 M.M. Warburg
 West LB

Stock market codes

Deutsche Börse	NDA
Reuters	NAFG
Bloomberg	NDA GR

Report issued by the Executive Board and Supervisory Board on the Company's Corporate Governance

Responsible, transparent corporate governance oriented to increasing enterprise value has always been attributed great importance at Norddeutsche Affinerie AG. The Company complies with the recommendations of the German Corporate Governance Code with the following well-founded exceptions:

Publication of the consolidated financial statements will continue to take place within 120 days after the end of the fiscal year. By adhering to the 90 day time limit recommended in the Code, the consolidated financial statements would be published during the public holiday period at the end of the calendar year, since the Company's fiscal year differs from the calendar year, and would therefore receive insufficient attention. Furthermore, neither the compensation paid to members of the Executive Board nor to members of the Supervisory Board is detailed on an individualised basis. A compensation report on remuneration of the Executive Board is still not part of the Corporate Governance Report for fiscal year 2005/06. In the view of the Company's Executive Board and Supervisory Board, individualised details of the compensation paid to the members of the Executive Board and Supervisory Board of Norddeutsche Affinerie AG would have no significant additional value over the information on total remuneration in the notes to the financial statements. Despite this view, the Company intends to disclose the compensation paid to the Executive Board on an individualised basis in accordance with Section 314 par. 1 no. 6a, sentence 5 HGB (German Commercial Code) in the consolidated financial statements as of fiscal year 2006/07. It is also planned to disclose the compensation paid to the Supervisory Board on an individualised basis for fiscal year 2006/07.

The Company complies with the Code's voluntary proposals as far as possible. The principles of the Code have been implemented not only throughout the Company, but also at its subsidiaries by amendments and additions to the advisory board's directives and instructions for the respective management boards.

SERVICE AND INTERNET INFORMATION FOR OUR SHAREHOLDERS

Our shareholders are kept regularly informed about important dates by a financial calendar, which is published in the Annual Report, the quarterly reports and on the Company's website. As part of our investor relations activities, we hold regular meeting with analysts and institutional investors. In addition to an annual analysts' conference, conference calls for analysts are held in particular when the quarterly figures are published.

Declarations of Conformity with the German Corporate Governance Code, which are no longer up-to-date, can be accessed on the Company's website for five years.

ANNUAL GENERAL MEETING We have changed and thus simplified the registration and authorisation process for the Annual General Meeting to the so-called »record date«, which is generally used internationally. The deadline for the authorisation of shareholders is therefore 21 days before the Annual General Meeting. This increases the inducement, especially for our foreign shareholders, to take part in the Annual General Meeting and exercise their voting rights.

The relevant reports and documents for the Annual General Meeting are available on the website of Norddeutsche Affinerie AG (<http://www.na-ag.com>) and mailed to shareholders on request to assist them in exercising their rights and in their preparations for the Annual General Meeting. Shareholders unable to exercise their voting rights in person at the Annual General Meeting have the possibility of appointing a Company employee as proxy to act on their instructions. The proxy is also reachable to receive instructions during the AGM.

CLOSE COOPERATION BETWEEN EXECUTIVE BOARD AND SUPERVISORY BOARD

Executive Board and Supervisory Board work closely together in the interests of the Company. In particular, the Chief Executive Officer and the Chairman of the Supervisory Board are in regular contact and consult on the Company's strategy, business development and risk management. The Chief Executive Officer has always advised the Chairman of the Supervisory Board without delay about all matters of importance, which are significant for assessing the situation and development as well as for the management of the company. The Executive Board has explained in depth any deviations from the plans and targets to the Supervisory Board. Furthermore the Company's strategic orientation is always agreed with the Supervisory Board. For transactions of fundamental importance, the rules of procedure of the Supervisory Board specify provisions requiring the approval of the Supervisory Board.

The Company has a Supervisory Board pursuant to the Law on Co-determination. Representatives of the shareholders and the employees prepare the Supervisory Board's meetings separately with members of the Executive Board.

No former members of the Company's Executive Board are on the Supervisory Board.

The Company has taken out a D&O insurance policy (pecuniary loss/third party indemnity) for the Executive Board and the Supervisory Board as well as for the Management of the subsidiaries with suitable deductibles.

There were no cases of consultancy or other service contracts between members of the Supervisory Board and the Company in the fiscal year. Conflicts of interest of Executive and Supervisory Board members, which must be disclosed immediately to the Supervisory Board, did not occur.

COMMITTEES The Supervisory Board has formed a Personnel Committee consisting of six of its members with equal representation. In the fiscal year the Personnel Committee was mainly concerned with the appointment of a new Chief Financial Officer, the pension arrangements for newly-appointed members of the Executive Board and with the structure and level of remuneration for the Executive Board as a whole. The Chairman of the Supervisory Board is the Chairman of the Personnel Committee.

At the suggestion of the Personnel Committee, the Supervisory Board consults about the remuneration system for the Executive Board and examines this regularly.

The Supervisory Board has an Audit Committee consisting of four of its members with equal representation. The Chairman of the Supervisory Board is a member of the Audit Committee, but not its Chairman.

The German Corporate Governance Code recommends that the Chairman of the Audit Committee should have specialist knowledge and experience in the application of accounting principles and internal audit procedures. Norddeutsche Affinerie AG also follows this recommendation. Mr Ulf Gänger, Chairman of the Audit Committee, was a member of the Executive Board of Hamburgische Landesbank (now HSH Nordbank AG). He was the Chairman of the Supervisory Board of Helm AG for several years. In addition, Mr Gänger also has extensive practical knowledge and experience in handling internal audit procedures.

The Audit Committee has concerned itself in particular with the financial statements of NA AG and the consolidated financial statements of the last fiscal year, aspects of financial reporting, inter alia the difference between the valuation of inventories under HGB (German Commercial Code) and IFRS, risk management, the required independence of the auditor, the awarding of the audit assignment to the auditor, the focus of the audit and the agreement on fees.

The Committee Chairmen report regularly to the Supervisory Board on the respective Committee's work.

EXAMINATION OF EFFICACY The Supervisory Board has constantly and, in particular at its meetings on 14 December and 14 September 2006, again examined the efficacy of its activities and consulted on possibilities of optimising this.

INDEPENDENCE In its opinion, the Supervisory Board has a sufficient number of independent members.

TRANSPARENCY The requirement to present all target groups with the same information in both German and English at the same time is attributed great importance in our corporate communications. Private investors can keep up-to-date on current developments in the Group via the internet. Norddeutsche Affinerie's ad-hoc announcements and press releases are disclosed to the shareholders via the Company's website. The Company's Articles of Association are likewise accessible in the internet. The Declaration of Conformity and all no longer current Declarations of Conformity on the Corporate Governance Code are accessible on the website.

In accordance with Section 15a of the German Securities Trade Act, the members of the Executive and Supervisory Boards must disclose the acquisition and sale of company shares. In the fiscal year, the members of the Executive Board, Dr Werner Marnette, Dr Bernd Langner and Dr Bernd Drouven, and the members of the Supervisory Board, Prof. Jürgen Haußelt and Mr Helmut Wirtz advised the Company that they transacted notifiable business between 1 October 2005 and 30 September 2006, by the acquisition of 3,700 shares and the sale of 18,000 shares in the Company during that period. The Company has reported this to the Federal Authority for Financial Services Supervision (BaFin) and has published this information.

RESPONSIBLE HANDLING OF RISKS Good corporate governance includes the company's responsible handling of risks. Within the framework of our value-oriented Group management, our risk management ensures that risks are identified and the risk positions optimised. It is continuously evolved and adapted to the changing conditions.

Furthermore, compliance measures were performed in the area of capital market law. All relevant persons employed by the Company who have authorised access to inside information are additionally listed in an insider register administered by a Compliance Officer and informed about obligations arising out of insider law. Furthermore, project-related insider registers are compiled in individual cases and the additional persons, who are entrusted with inside information, informed accordingly about their obligations. If necessary, confidentiality agreements are concluded with these persons.

FINANCIAL REPORTING AND ANNUAL AUDIT

The consolidated financial statements of Norddeutsche Affinerie AG and its subsidiaries as well as the interim reports are prepared pursuant to International Financial Reporting Standards (IFRSs) in accordance with the current stipulations of the International Accounting Standards Board.

KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Berlin und Frankfurt am Main, was elected as the auditing company for fiscal year 2005/06 at the Annual General Meeting 2006.

Before submitting the proposal for the election of the auditors, the Audit Committee, in accordance with the recommendation of the Corporate Governance Code, demanded a declaration from the auditors as to whether, and in the affirmative, what professional, financial or other relationship exists between the auditing company and its executive bodies and auditors on the one hand and the Company and members of its executive bodies on the other hand and about circumstances that could cast doubt on the auditors' independence. The declaration has also been extended to cover the extent to which other services for the Company, in particular in the consultancy sector, have been provided for the previous fiscal year or have been contractually agreed for the following year.

Furthermore, the Audit Committee agreed with the auditors that the Chairman of the Audit Committee would be informed without delay about any grounds for disqualification, also in case such grounds should be immediately removed.

Finally, it was agreed with the auditors that they would report without delay about any facts and events of significance for the duties of the Supervisory Board, which come to light during the audit, and that the auditors would advise the Supervisory Board and made a note in the Auditors' Report, if they ascertain facts when performing the audit that are inconsistent with the Declaration of Conformity issued by the Executive Board and Supervisory Board.

The auditors attended the Supervisory Board's consultations about the financial statements and consolidated financial statements and reported on the main results of the audit.

The auditors did not ascertain any incorrectness in the submitted Declaration for the Corporate Governance Code.

REMUNERATION OF THE EXECUTIVE BOARD

The total remuneration of the Executive Board members is made up of fixed and variable components. The variable components include an annually recurring component linked to business performance and also components with long-term incentive and risk elements (Incentive Plan).

The Chairman of the Supervisory Board reported on the principles of the remuneration system and its changes at the Annual General Meeting on 30 March 2006. The Supervisory Board has discussed and examined the structure of the remuneration system for the Executive Board.

The total remuneration of the Executive Board for fiscal year 2005/06 amounts to € 2,687,956 and includes, apart from a fixed component in the amount of € 1,275,831, a performance-related component in the amount of € 1,412,125. In addition, the proportional fair value of the options acquired by the Executive Board as part of the new incentive plan amounted to € 357,757.

Former members of the Executive Board and their surviving dependants received a total of € 982,263, while the sum of € 10,375,675 has been provided for their pension claims.

NEW INCENTIVE PLAN The Company's Supervisory Board approved a new incentive plan for the Executive Board and senior staff on 8 December 2004. It can only be exercised for the first time two days after the Annual General Meeting in 2007.

The plan consists of two components:

Part A

The hurdle component considers the performance of NA shares (usually for three years) and is only then successful if NA shares have increased by a certain percentage set at the beginning of the lifetime (hurdle rate: usually 10%). The difference between the price when exercising the option plus the last dividend and the price at the beginning of the lifetime multiplied by the number of options is paid out.

Part B

The performance component takes the NA share performance in comparison with the CDAX into account and is released if NA shares have outperformed the CDAX over a period of three years.

Cap

The profit per option is limited to the NA share price at the beginning of the term.

The plan is not financed by a capital increase but under personnel expenses (phantom stocks) in the income statement.

The prerequisite for participation in the incentive plan is the continued ownership of a certain number of NA shares. One acquired share is entitled to five options each from plan part A and plan part B.

The principles of the remuneration system as well as the actual terms and conditions of the current incentive plan are published on the Company's website.

REMUNERATION OF THE SUPERVISORY BOARD

The remuneration of the Supervisory Board is laid down in the Articles of Association of Norddeutsche Affinerie AG. Each member of the Supervisory Board receives a fixed sum of € 10,000 per fiscal year in addition to the expenses incurred while performing his office. The Chairman of the Supervisory Board receives twice this sum, his deputy one and a half times this sum. Members of the Supervisory Board, who belong to a Supervisory Board committee, receive an additional € 2,500 per fiscal year per committee, however, at the most a total of € 5,000 per fiscal year. Supervisory Board members, who are in the chair of a Supervisory Board committee, receive an additional € 5,000 per fiscal year per chairmanship in a committee, however at the most € 10,000 per fiscal year.

Apart from fixed remuneration, the members of the Supervisory Board receive performance-related remuneration of € 200 per cent of the dividend per share paid to the shareholders in excess of 20 cents for the respective fiscal year.

The remuneration of the Supervisory Board amounted to a total of € 377,973 in fiscal year 2005/06.

DECLARATION OF CONFORMITY IN ACCORDANCE WITH SECTION 161 COMPANIES ACT

The Executive and Supervisory Boards of Norddeutsche Affinerie AG declare that in the period from 1 October 2005 to 24 July 2006 the recommendations of the Government Commission on the Corporate Governance Code in the version dated 2 June 2005 have been applied and subsequently the recommendations of the German Corporate Governance Code published on 24 July 2006 in the version dated 12 June 2006 was and is being applied with the following exceptions respectively:


- The Company's fiscal year ends on 30 September of each year. By adhering to the 90 day time limit, publication of the consolidated financial statements would take place during the public holiday period at the end of the calendar year and would receive insufficient attention (e.g. through the annual press conference and analysts' conference). Publication will therefore continue to take place within 120 days after the end of the fiscal year (*deviation from Code Section 7.1.2 sentence 2*).
- Disclosure of individualised details of the compensation paid to members of the Executive Board in the notes to the consolidated financial statements is being waived for fiscal year 2005/06 (*deviation from Code Sections 4.2.4, sentence 2, in the version dated 2 June 2005*).


- The revised recommendations on the disclosure of the total compensation of each member of the Executive Board, as stipulated in Code Section 4.2.4 and 4.2.5, divided into non-performance-related, performance-related and long-term incentive components with names given in a compensation report, as part of the Corporate Governance Report with explanations on the remuneration system for the Executive Board members are waived for fiscal year 2005/06. Likewise, the individualised presentation of the incentive programme for Executive Board members and the disclosure of individual details of pension commitments and provisions for pensions as well as details of the type of fringe benefits afforded by the Company are waived.
- The disclosure of individualised details of the compensation paid to members of the Supervisory Board, divided into components (*deviation from Code Sections 5.4.7, par. 3, sentence 1*) is being waived for fiscal year 2005/06.

In the view of the Company's Executive Board and Supervisory Board, individualised details of the compensation received by the Executive Board and Supervisory Board at Norddeutsche Affinerie AG would have no additional value over the information on the total amounts given in the notes to the consolidated financial statements. Despite this view, the Company intends to disclose the remuneration of the members of the Executive Board on an individualised basis in the consolidated financial statements as of fiscal year 2006/07 in accordance with Section 314 par. 1 no. 6a sentence 5 HGB (German Commercial Code) and to include a compensation report as part of the Corporate Governance Report. The compensation report will also include individualised details of the compensation paid to the Supervisory Board.

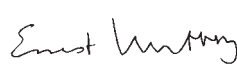
Hamburg, 30 January 2007

Executive Board


Dr Werner Marnette
(Chairman)


Dr Bernd Drouven
(Member of the Board)

Supervisory Board


Dr Ing. Ernst J. Wortberg
(Chairman)

Report by the Supervisory Board

DEAR SHAREHOLDERS, Norddeutsche Affinerie AG again performed well in fiscal year 2005/06 on the basis of the stable growth in the global economy and continued good demand for our copper products. The successful business development was attributable to an enhanced competitive and market position as well as rigid cost and risk management. All credit is due to the Executive Board, management and employees in all sectors for their contributions, which achieved the excellent business results.

In the last fiscal year 2005/06 the Supervisory Board was again in constant communication with the Executive Board and monitored and supervised the main business processes. The Supervisory Board supports the Group's strategic orientation and the business management of the Executive Board.

In the year under review, the Supervisory Board performed the functions incumbent on it by law and the Articles of Association. The Supervisory Board regularly advised the Executive Board on the management of the Company and constantly monitored the conduct of business. The Executive Board and Supervisory Board worked closely together; the aim is to achieve a sustained increase in enterprise value. The Supervisory Board was involved in all decisions of fundamental importance for the Company.

The Executive Board informed the Supervisory Board regularly, promptly and in detail, in written and verbal 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 reported on the Company's profitability, the course of business, the Group's position including the risk situation and risk management.

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 in detail at the Supervisory Board meeting on 28 June 2006. Actual business developments deviating from the prepared budgets and reported targets were depicted and explained and reasons given. All the important business transactions were discussed at length by the Supervisory Board and in the respective committees on the basis of the detailed reports received from the Executive Board. Documents needed for making decisions, in particular the financial statements, the consolidated financial statements and the audit report, were passed on to the members of the Supervisory Board in good time before the meetings and examined by us. The Supervisory Board gave its consent to important business requiring its approval.

Outside the Supervisory Board meetings, the Chairman of the Supervisory Board was in regular contact with the Executive Board and was kept informed about the current business situation and the key business issues.

Five Supervisory Board meetings and one extraordinary meeting were held in fiscal year 2005/06. 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 Conciliation Committee required by law in accordance with Section 27 par. 3 German Codetermination Act (MitbestG), the Supervisory Board again formed a Preparatory Committee, a Personnel Committee and an Audit Committee. Each Committee consists equally of representatives of the shareholders and the employees. With the exception of the Audit Committee, the Chairman of the Supervisory Board is also the Chairman of the Committees. The Chairman of the Audit Committee has specialist knowledge and experience in the application of accounting principles and internal audit procedures. The Personnel Committee convened five times in the year under review, the Audit Committee twice. The auditors attended one meeting of the Audit Committee. The Conciliation Committee and Preparatory Committee did not meet in the fiscal year. Amongst other things, the Personnel Committee focused on the appointment of Dr Bernd Drouven as the new Chief Financial Officer and on reviewing the structure and amount of compensation paid to the entire Executive Board as well as the pension rights for newly appointed members of the Executive Board.

The Audit Committee was concerned with awarding the audit assignment, determining the audit priority areas and the level of compensation for the auditors. It also monitored the auditors' independence. In addition, the Audit Committee in collaboration with the auditors examined matters in connection with the financial reporting, in particular with the measurement and management of inventories under non-current and current assets in accordance with IFRS and HGB, as well as with 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 at the meetings covered the developments on the metal and foreign exchange markets as well as the raw material, energy and product markets. The resultant impacts on the business performance of the Company and its individual Segments including the subsidiaries were discussed. In addition to the targeted expansion of the copper production operations at the Hamburg site, the Supervisory Board focused on the respective planning status of the erection of the SF power plant in Hamburg. At the meeting on 25 January 2006 and in particular at the extraordinary meeting on 31 January 2006, the Supervisory Board concerned itself with the cash capital increase from authorised capital and gave the required approvals. At each meeting the Supervisory Board was informed about the ongoing measures to enhance performance and increase enterprise value in the Group.

CORPORATE GOVERNANCE The Supervisory Board consulted about the structure of the remuneration system for the Executive Board and will review this at regular intervals. At several meetings the Supervisory Board reviewed its efficacy. Especially at the meetings on 14 December 2005 and 14 September 2006, the Supervisory Board examined the efficacy of its activities and discussed possibilities for improvement.

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

On 30 January 2007 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 2 June 2005 and the recommendations announced by the Government Commission on the German Corporate Governance Code on 24 July 2006 in the version dated 12 June 2006 were and will be applied respectively with the following well-founded exceptions. Publication of the consolidated financial statements will continue to take place within 120 days of the end of the fiscal year. By adhering to the 90 day time limit, publication of the consolidated financial statements would take place during the public holiday period at the end of the calendar year, since the Company's fiscal year differs from the calendar year, and would receive insufficient attention. Furthermore, neither the compensation paid to members of the Executive Board nor to members of the Supervisory Board is disclosed on an individualised basis. No compensation report on directors' emoluments as part of the Corporate Governance Report

will be made for fiscal year 2005/06. It is, however, intended to disclose the compensation paid to the Executive Board on an individualised basis in accordance with Section 314 par. 1 no. 6a sentence 5 HGB as well as the Executive Board's compensation in the notes to the consolidated financial statements as of fiscal year 2006/07. The Declaration of Conformity can be accessed at <http://www.na-ag.com>.

ANNUAL AUDIT The financial statements for the Company issued by the Executive Board in accordance with the HGB (German GAAP) and the consolidated financial statements prepared pursuant to IFRS – International Financial Reporting Standards for the fiscal year from 1 October 2005 to 30 September 2006 and the management report for the Company and its Group have been audited by KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, Berlin und Frankfurt am Main in accordance with the resolution passed at the Company's Annual General Meeting on 30 March 2006 and the subsequent audit contract awarded by the Supervisory Board. The auditor has issued an unqualified report. One focus of the audit was the correctness of the automated processing of invoices, filing and handling of payments for the Material Procurement Sector. All the Supervisory Board members 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 in good time. These documents were discussed in detail at the balance sheet meeting of the Supervisory Board on 30 January 2007. During this meeting the auditor reported on the main results of the audit and was available to give the Supervisory Board further information. The Supervisory Board agreed with the 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 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.

CHANGES IN THE COMPOSITION OF THE SUPERVISORY BOARD AND EXECUTIVE BOARD

The Supervisory Board appointed Dr Bernd Drouven as Chief Financial Officer with effect from 1 January 2006.

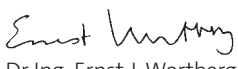
The Supervisory Board member, Mr Günter Kroll, went into retirement and stepped down from the Supervisory Board of Norddeutsche Affinerie AG at the close of 30 June 2006. We thank Mr Kroll for his constructive and competent contributions and for

his many years of successful work to the good of the Company. Dr Joachim Faubel has replaced him on the Company's Supervisory Board with effect from 1 July 2006.

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

Hamburg, 30 January 2007

The Supervisory Board


Dr Ing. Ernst J. Wortberg
(Chairman)



Dr Ing. Ernst J. Wortberg Chairman of the Supervisory Board

Supervisory and Executive Boards

SUPERVISORY BOARD

Dr Ing. 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

Dr Joachim Faubel, Hamburg*

Graduate engineer

Production control of Norddeutsche Affinerie AG

Successor for Mr Günter Kroll

since 1 July 2006

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)

– NAVIS Schiffahrts- und Speditions-

Aktiengesellschaft, Hamburg

Chairman of the Supervisory Board

– VON ESSEN KG BANKGESELLSCHAFT, Essen,

Chairman of the Advisory Board

(until 31 December 2005)

– 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 (until 31 December 2006)

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

Prof. Dr Ing. Jürgen Haußelt, Germersheim

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

- Chair for Material Process Technology,
Institut für Mikrosystemtechnik, Albert-
Ludwig University, 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
(until 30 June 2006)

Rolf Schwartz, 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
- VERBIO Vereinigte Bioenergie AG, Zörrbig
Chairman of the Supervisory Board

Helmut Wirtz, Stolberg*

Managing Director of IG Metall, Stolberg

* elected by the employees

SUPERVISORY BOARD COMMITTEES

Conciliation Committee in accordance with Section 27 par. 3 Law on Co-determination

Dr Ing. 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 Ing. Ernst J. Wortberg

Personnel Committee

Dr Ing. Ernst J. Wortberg (Chairman)
Dr Joachim Faubel (ab 01.07.2006)
Dr Peter von Foerster
Hans-Jürgen Grundmann
Gerd Körner
Günter Kroll (until 30 June 2006)
Prof. Dr Fritz Vahrenholt

Preparatory Committee

Dr Ing. Ernst J. Wortberg (Chairman)
Dr Peter von Foerster
Hans-Jürgen Grundmann
Günter Kroll (until 30 June 2006)
Rolf Schwertz (since 1 July 2006)

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 2010

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

Financial Information

Management Report

Business activities and Group structure ... 49

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Business development and results of operations ... 59

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Subsequent events ... 84

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Management Report

Business activities and Group structure

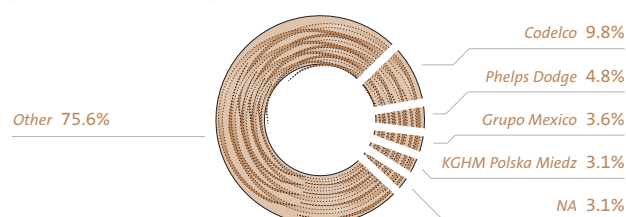
Leading integrated copper group

NA is an integrated copper group which is positioned along the value added chain of copper. In fiscal year 2005/06 it produced a total of 550,000 tonnes of copper cathodes and thus belongs to the group of the largest producers of refined copper worldwide. In 2006 global production of refined copper amounted to some 17.8 million tonnes. In the processing of copper concentrates, NA belongs to the leading group with its current processing capacity of more than one million tonnes. In the copper recycling sector, NA is the market leader, both as regards throughput and its processing possibilities for a great variety of materials. We maintain a strong position, in particular in the recycling of electrical and electronic scrap.

Copper output worldwide

total 17.8 mill. t refined copper, in %

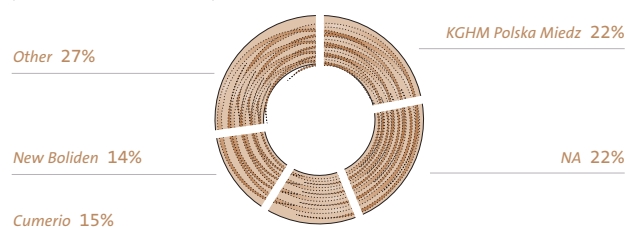
(Source: Brook Hunt, Q3 2006)



Copper output in Europe

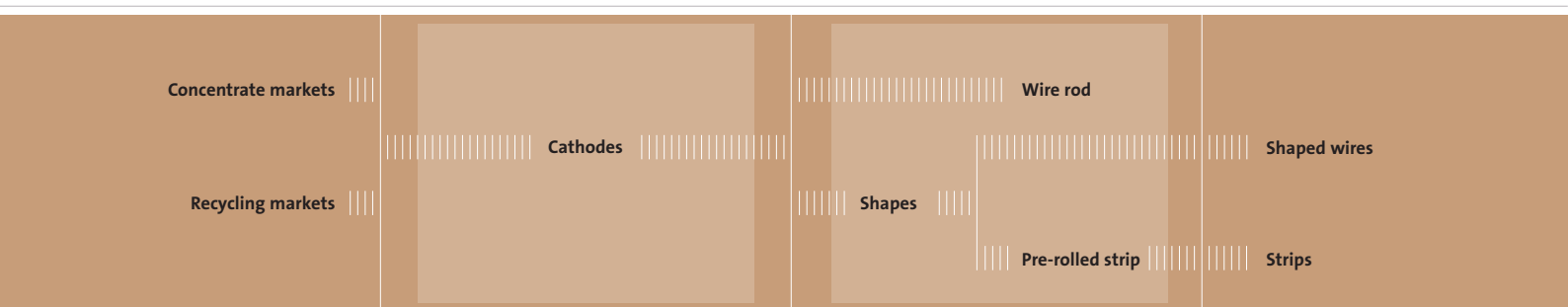
total 2.5 mill. t refined copper, in %

(Source: Brook Hunt, Q3 2006)



Value added chain

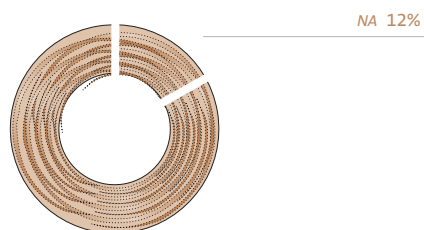
Mines and recycling market > Copper Production > Copper Processing > Processors and end users



Copper wire rod output in Europe 2006

total 3.6 mill. t, in %

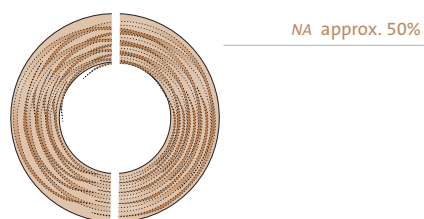
(Source: CRU International)



Copper shape output in Western Europe 2006

total free market approx. 530 thsd. t, in %

(Source: NA estimate)



NA business model

NA's core business focuses on the production of refined copper as well as on the processing of the refined copper into copper products. About 60% – related to the copper content – of NA's raw materials, which are sourced all over the world, consist of copper concentrates and about 40% of recycling materials. The copper raw materials are treated at NA in multi-stage melting and refining processes with copper cathodes as the end product. They form the basis of the copper trade on the international metal exchanges. At the next stage along the value added chain, copper products (e.g. continuous cast wire rod and shapes, strips and shaped wire) are produced from the copper cathodes for industrial processors. The product range is complemented by precious metals and specialty products made from the by-elements in the concentrates and recycling materials.

The NA Segments: Copper Production and Copper Processing

The NA Group with its registered office in Hamburg has an organisational structure that is based on the two business segments of Copper Production and Copper Processing. In addition, there are administrative sectors that do not belong to either of the two Segments, such as Central Services, Personnel Management and the Accounts Department.

The **Copper Production** Segment includes the smelting and refining activities at the Hamburg and Lünen sites just as smaller subsidiaries and holdings, which are active in connected business fields. Marketable copper cathodes are primarily produced from copper concentrates at the Hamburg headquarters, which is also the central production site. A variety of copper-containing secondary raw materials are likewise refined into copper cathodes at the NA recycling centre in Lünen. In addition to copper cathodes, gold, silver, sulphuric acid and iron silicate products are also produced and marketed in the Segment.

The **Copper Processing** Segment continues the value added of the copper. At the first processing stage, NA processes cathodes into continuous cast wire rod (NA Hamburg and Deutsche Giessdraht Emmerich, 60% NA) and continuous cast shapes (NA Hamburg). A significant part of the shapes is then processed into pre-rolled strip, strips and shaped wires at the affiliated company Schwermetall Halbzeugwerk (50% NA) and the subsidiary Prymetall (100% NA), both in Stolberg near Aachen.

Competitive position strengthened in the dynamic market

The NA Group's strength, which is based on the degree of Group-internal value added, has held up in the special market situation of fiscal year 2005/06. While the considerable shortage of copper cathodes in Europe partly resulted in significant production problems at copper product producers without their own supply basis, NA was able to achieve peak figures for sales of copper products thanks to having its own supply of copper cathodes and its long-term cathode procurement agreements. NA, as a dependable business partner, benefited particularly from its ability to provide a reliable and flexible delivery service in this market situation, since the customers' scheduling was dependent on individually adapted delivery solutions on account of their own low stocks and increasingly higher order intakes. This development strengthened our competitive position in the product markets further.

Organisational structure

MANAGEMENT BOARD																																	
Dr Marnette (CEO) Dr Drouven (CFO) Dr Landau (Copper Production) Dr Langner (Copper Processing)																																	
Copper Production				Copper Processing																													
Marketing Metallurgy	Marketing Recycling	Primary Copper Production	Secondary Copper Production	Copper Products																													
<table><tr><td></td><td>Capital</td><td>NA holding</td></tr><tr><td>CABLO Metall-Recycling & Handel GmbH, Fehrbellin</td><td>€ 767 thsd.</td><td>100%</td></tr><tr><td>RETORTE Ulrich Scharrer GmbH, Röthenbach</td><td>€ 2,045 thsd.</td><td>100%</td></tr><tr><td>Peute Baustoff GmbH, Hamburg</td><td>€ 52 thsd.</td><td>100%</td></tr></table>					Capital	NA holding	CABLO Metall-Recycling & Handel GmbH, Fehrbellin	€ 767 thsd.	100%	RETORTE Ulrich Scharrer GmbH, Röthenbach	€ 2,045 thsd.	100%	Peute Baustoff GmbH, Hamburg	€ 52 thsd.	100%	<table><tr><td></td><td>Capital</td><td>NA holding</td></tr><tr><td>Prymetall GmbH & Co. KG, Stolberg</td><td>€ 12,800 thsd.</td><td>100%</td></tr><tr><td>Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg</td><td>€ 12,500 thsd.</td><td>50%</td></tr><tr><td>Deutsche Giessdrath GmbH, Emmerich</td><td>€ 3,200 thsd.</td><td>60%</td></tr><tr><td>EIP Metals Ltd., Smethwick (UK)</td><td>£ 2,130 thsd.</td><td>100%</td></tr></table>				Capital	NA holding	Prymetall GmbH & Co. KG, Stolberg	€ 12,800 thsd.	100%	Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg	€ 12,500 thsd.	50%	Deutsche Giessdrath GmbH, Emmerich	€ 3,200 thsd.	60%	EIP Metals Ltd., Smethwick (UK)	£ 2,130 thsd.	100%
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Central Services																																	
Procurement Department	Logistics	Maintenance Process Technology	Technical Office	Analytical Laboratories	Energy Management	General Administration/ Works Security																											
Other investments																																	
				Capital	NA holding																												
CIS Solartechnik GmbH & Co. KG, Bremenhaven				€ 800 thsd.	50%																												
KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG, Hamburg				€ 100 thsd.	50%																												

Legal structure of the Group and main steps in its development

Norddeutsche Affinerie was founded in 1866 as a joint stock corporation with interests held by Norddeutsche Bank and Allgemeine Deutsche Kreditanstalt. After the initial public offering in 1998, the shares were initially listed in the SDAX market segment until they were admitted to the MDAX in 2003. Since then NA has also been listed in the Deutsche Börse's Prime Standard.

Today's integrated Group structure arose largely as a result of acquisitions. As of 31 December 1999 we acquired the majority interest in the copper recycling specialist Hüttenwerke Kayser AG, Lünen, which was amalgamated with NA effective 1 October 2003. A second step followed on 1 January 2002 with the acquisition of Prymetall GmbH & Co. KG with its 50 percent holding in Schwermetall GmbH & Co. KG in Stolberg.

In January 2006 NA increased its capital by € 8,552,752.64 to € 95,115,056.64. The funds raised should be used inter alia for the realisation of our power plant project. Since March 2006 NA has held 50% each of the shares in KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG (KPP) and KPV Kraftwerk Peute Verwaltungsgesellschaft mbH (KPV), both with their registered offices in Hamburg. KPV was established for the business management of the KPP project company.

Apart from the above, there were only minor changes to the Group structure in the last fiscal year. The company Berliner Kupfer-Raffinerie GmbH, which was only an inactive legal entity, ceased to exist in May 2006, while Hüttenwerk Kayser GmbH has been in liquidation since August 2006. In addition, the subscribed capital of Deutsche Giessdraht GmbH was reduced from € 6,200,000 to € 3,200,000 effective 29 September 2006.

Management and control

An Executive Board with four Board members manages the NA Group in collaboration with a management team consisting of the business directors of the individual subsidiaries and business units as well as the production sectors and departments.

The total remuneration of the members of the Executive Board is made up of fixed and variable components. The variable components include one-time as well as annually payable components linked to business performance and components with long-term incentive and risk elements. Our incentive plan provides a variable component with long-term incentive and risk elements.

Significant legal and economic factors for NA International copper and raw material markets

NA's business is affected by trends on the international copper market and on the global commodity markets, which in turn are dependent on the fundamental factors: production, availability and demand. The price basis of the raw material and product business is formed by the copper quotations on the London Metal Exchange (LME), which is organised as a commodity futures exchange. The price formation there is based on changes in the fundamental market situation, but is, however, influenced by the business activities of institutional investors. Further important factors are the general economic conditions, developments on the foreign exchange markets, political intervention in competition and directives and specifications relating to environmental protection.

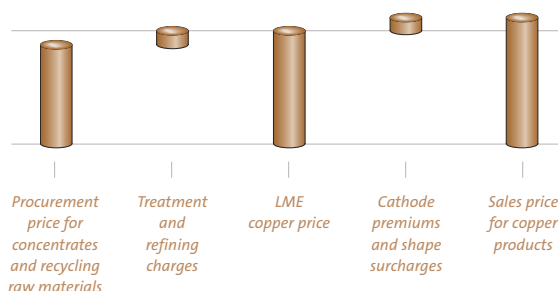
The LME copper price has always been a transitory item in NA's business, since it forms both the basis for raw material procurement and product sales. However, it does indirectly impact the quantity of raw materials and their availability and financing. In addition, it is also important for possible substitution symptoms.

In our raw material procurement department, treatment and refining charges are negotiated and agreed as the payment for the conversion of raw materials into copper cathodes. Premiums (e.g. for quality or type of price formation) and shape surcharges (for the conversion of cathodes into copper products) are fixed for copper products.

Energy price

The price trends on the energy markets have a critical impact on NA, as an energy-intensive enterprise. The energy market in Germany is characterised by oligopolistic structures that have resulted in excessive prices for electricity and gas. Consequently, for enterprises like NA, there is currently hardly any room for manoeuvre in energy procurement. This is why NA has decided in favour of building its own power plant on the basis of substitute fuel.

Price formation along the value added chain



Strategy and targets – Corporate management

NA has set itself ambitious strategic targets that go far beyond the year 2007

The international copper industry is an attractive global growth industry because copper is the metal of modern life and growth on account of its excellent physical, mechanical and chemical properties. It is the basis for energy production and distribution, for electrical drives, for computer technology, for communications and for many other applications.

NA is growing with this industry and participates actively in the international consolidation and restructuring of this global industry.

NA enjoys international acceptance as a leading company in the copper industry although the main production sites are currently still exclusively located in Germany. NA's trademarks are its operating strength in the production and processing of copper, its exemplary standard in environmental protection and recycling as well as its strong focus on markets and the specific needs of its supplies and customers.

NA is very well positioned, both in the European and the global raw material and product markets. It does not avoid the challenges of international competition, but demands that this must be fair and without hidden, national subsidies within the framework of the world trade agreement.

Operating strength is constantly enhanced

NA's central operating target still remains continuous improvement in its performance, its productivity and its quality in all stages of industrial value added. In doing so, NA is confident of its employees' knowledge and competence, which have grown over decades, and steadily develops these further.

Since the beginning of the '90s, the efficiency of energy utilisation (electricity, natural gas) has developed into an additional key issue, since most of NA's process, but first and foremost the process technology to protect the environment, are very energy-intensive. NA is also internationally exemplary in aspects of climate protection and actively supports the development of those regenerative energies in its own research work, that can be competitive long-term without subsidies.

In 2009 NA will be able to reduce its current dependence on the German energy suppliers and their market oligopoly noticeably by the construction and commissioning of its own power plant at the Hamburg site.

Creation of an international copper platform for NA's further growth

The quick consolidation of the European and global industrial environment as well as the expansion of the sales markets in India, China and South America offer NA the opportunity of further growth by internal capital expenditure as well as the investment or acquisition of external companies. NA is excellently positioned for this:

- NA can prove its operating performance potential at any time and has already shown this in several acquisitions. It is thus an interesting partner for other likewise globally active companies in order to utilise operating potential after a merger. This applies equally for the copper production and copper processing sectors.
- The positive development of NA's shareholder value and its solid balance sheet enable it to finance major investment projects and acquisitions.

In the next few years, NA will be able to further enhance its very good position in copper production from copper concentrates and recycling raw materials as well as in the wire rod, continuous casting and strip product sectors.

This gives NA the possibility of strengthening its role in the international copper industry and of creating a platform for long-term growth. At the same time, it pursues three strategic development targets:

- **Entry into international copper production**
Creation of an international network of attractive smelter capacities, the value of which is increased by the realisation of operational excellence by NA.
- **Contribution towards consolidation in copper processing**
Removal of structural weaknesses in the processing sector by implementing consolidation steps.

- **Forward integration**

Securing copper sales and strengthening the role as an attractive partner for international mining companies.

As a result of this strategy, NA will develop into an internationally operating copper enterprise, whose value will be constantly increased in the interests of its shareholders, employees and the community.

Further targets of the NA Group: quality, environmental protection, sustainability, social commitment

We see ourselves as a service provider on the raw material and product markets and attach great importance to product and service quality with the aim of achieving the highest supplier and customer satisfaction. Accordingly, it is of utmost importance to fulfil the high quality standards, just as to satisfy through technical and commercial service. The collaboration with our customers includes the joint development of new or the improvement of existing products. Close relationships with suppliers and customers, which are reflected in strategic partnerships or single-sourcing agreements, and a constant improvement of the cost position are the basis of successful business in markets with tough competition.

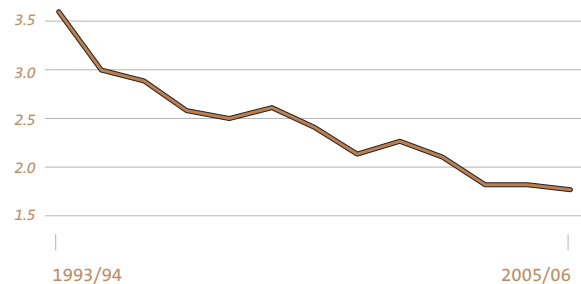
The improvement of environmental and climate protection is one of our priority objectives. We have invested more than € 250 million in environmental protection in Hamburg since 1981 and thus can be counted among the most environmentally friendly copper smelters in the world. Throughout the Group, NA seeks open dialogue with the authorities and environmental groups. In addition it takes on commitments in joint projects between the state and industry, such as the Environmental Partnership Hamburg. Since 1985, NA has concluded voluntary agreements with the respective authorities on the improvement of the environmental protection sector. These define measures that achieve maximum success in environmental protection while taking cost-efficiency into consideration. This year we have also set up a concept to reduce emissions at the Lünen works as well, which should be implemented by the end of 2009. It primarily contains measures that help to reduce fugitive emissions in the smelter plant sector as well as improvements in the storage and handling of dusting materials.

The successful reduction of fugitive emissions in the Hamburg secondary smelter was a very important environmental protection project involving an expenditure volume of some € 6 million. In achieving this, we developed innovative new technology for environmental protection, which should be duplicated for other production sectors – a project which was subsidised by the Federal Environmental Agency to the extent of € 1.5 million. As a result, NA is already largely adhering to the new stringent EU target values for heavy metal emissions that should apply from 2013 onwards.

NA's responsibility towards future generations is expressed as well in the economical use of raw materials and energy. Our main energy sources are electricity and natural gas – the NA Group consumes in total about 1.6 billion kWh of energy each year. Since fiscal year 1989/90, we have succeeded in reducing specific energy consumption per tonne of produced copper by almost two thirds.

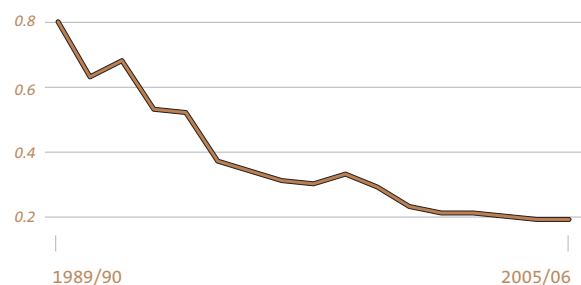
Specific energy consumption NA AG (Hamburg)

— in MWh/t copper production



CO₂ emissions NA AG (Hamburg) since 1990

— in t CO₂/t copper



In addition to the main target of increasing shareholder value, NA attributes great significance to accepting social responsibility. Thus, employee qualifications and profit-sharing are integral parts of corporate policy. Our innovative remuneration system gives all our employees the possibility of participating in the company's success. It is one of NA's professed targets to provide young people with career prospects. The above-average percentage of apprentices of more than 7% of the workforce reflects this ambition.

With our social commitment, we are very strongly anchored in the local vicinity of our production sites. In Hamburg, we sponsor, above all, youth and training projects as well as sports activities and cultural projects that contribute to the development of the urban districts in NA's vicinity and improve the career prospects of the young people living there.

NA's management control system is aimed at increasing shareholder value

NA's internal management control system focuses on increasing shareholder value. It evaluates the operating business of the Copper Production and Copper Processing Segments, as well as capital expenditure and performance enhancement measures at NA, on the basis of their return. For this purpose, earnings before interest and taxes (EBIT) are compared with capital employed.

ROCE (return on capital employed) is the ratio of EBIT to average capital employed. It therefore represents the efficiency with which capital is utilised to generate earnings.

ROCE is one of the most important internal investment appraisal ratios. Its value on the basis of the LIFO valuation increased continuously in recent years and should be maximised by selective measures.

In addition to ROCE, our decision-making processes in the evaluation of investment projects and optimisation measures also take account of such criteria as capital payback, redemption periods, the impact on earnings during the period and positive effects relating to environmental protection, occupational safety and quality improvement.

In view of the considerable impact of the metal price on the borrowing requirements, the ratio of net financial liabilities to EBITDA is a significant key financial management performance indicator. The level of financial liabilities largely depends on the working capital. Financial liabilities are managed and optimised by controlling and limiting inventories and payment terms.

NA adheres to a sound balance sheet structure. The key corporate management ratios are permanently monitored and corrective action taken when deviations are identified. NA thus maintains a degree of flexibility with regard to its financing which it can utilise for its strategic development.

Business development and results of operations

The positive trend in general economic conditions formed a very good basis for the very satisfactory business performance in all Segments in the fiscal year. We assess the NA Group's overall business development as very good in the year under review – in line with our previously announced expectations.

General economic conditions

Macroeconomic conditions prove to be positive

The macroeconomic conditions were positive in 2006 for the NA Group's business: according to calculations of the International Monetary Fund (IMF), the global economy achieved about 3.8% growth in 2006 compared with the previous year – above all attributable to the continued strong economic growth in China as well as the positive economic trend in Euroland. Economic dynamics in the U.S.A. remained high, but lost momentum in the course of the year.

U.S. growth clouded by the end of the real estate boom and decline in private consumption

Domestic demand in the world's largest economy declined significantly in the second half of 2006, due to the cooling of the real estate market. Housing investment declined and growth in expenditure on machinery and equipment weakened in the course of the year. Only the commercial construction industry continued to expand strongly. As a result, private household consumption was curbed, while the strong increase in energy prices also took away a considerable part of its buying power. On account of the better numbers for the first half-year, it is expected that growth for the whole year will amount to 3.5%.

Asia remains growth region

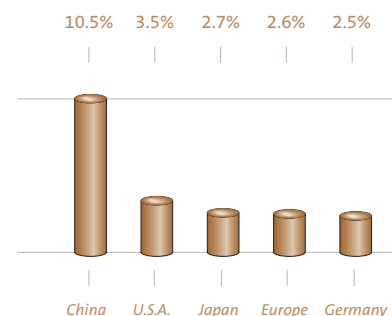
With an annual growth rate of some 10%, economic growth in China remains at a very high level. The reasons are accounted for by infrastructure measures, a rise in domestic demand as well as high capital expenditure and increased exports, which further enhance the trade surplus. The slight appreciation of the Chinese Yen has up to now only had a marginal effect. The measures taken by the Chinese government to slow the economy in order to counter overheating seem to have had only a limited impact.

In Japan, in addition to domestic demand from private households and corporate investment, exports have also increased substantially. Public-sector investment was weighed down by a more restrictive financial policy. Overall, the Japanese economy should achieve growth in real terms of 2.7% in 2006.

GDP growth 2006

(Forecast – Source:

The situation of the global economy and the German economy in autumn 2006)



High dynamics in Euroland

The economies of Euroland achieved total growth of 2.6% in 2006. Even countries with hitherto below-average economic development, such as Italy and Germany, generated substantial growth.

In addition to the improved trade balance in Euro-land, significant momentum also emanated from domestic demand. Increased earnings with at the same time low interest rates led to strongly increased corporate investment in plant and machinery just as building projects. Private consumption in Euroland increased slightly despite the at times very high prices for crude oil and energy.

Economic recovery in Germany continues

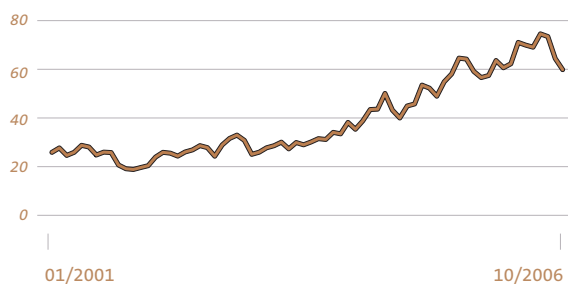
The German economy generated growth at a rate of 2.5% in 2006. On the one hand the rise in exports provided growth impulses, on the other, domestic demand as regards investment in plant and equipment just as construction projects increased strongly. Private consumption also rose slightly.

The main customer industries for copper viewed their economic situation as mostly positive: the global **automobile output** was about 5% up on the prior year. New vehicle registrations in Germany were 1% and order receipts from abroad as much as 6% up on the prior year. In the German **construction industry**, there were signs of an economic turnaround: an increase in demand for commercial buildings had already become apparent at the end of 2005. According to the German construction industry, demand spread in the course of 2006 and embraced all building sectors. The dynamic growth in German **machine building** continued. A significant role in achieving this was played not only by the increase in exports, but also in domestic demand. In view of the positive growth trend, production growth in German machine and plant construction is expected to amount to about 7%. The trend for companies in the German **electrical and electronic industry** was also very positive, which registered capacity utilisation of 85% and an overall 5% growth in revenues. Apart from an increase in revenues from abroad, 'the industry has for the first time in many years reported a significant rise in demand in Germany – not only for capital goods, e.g. from the automation and energy technology sectors, but also for electrotechnical consumer durables.

Price performance of Brent crude oil

in US\$/bbl

(Source: IEA, Degussa)



Financial burdens arising from lack of competition on German energy markets

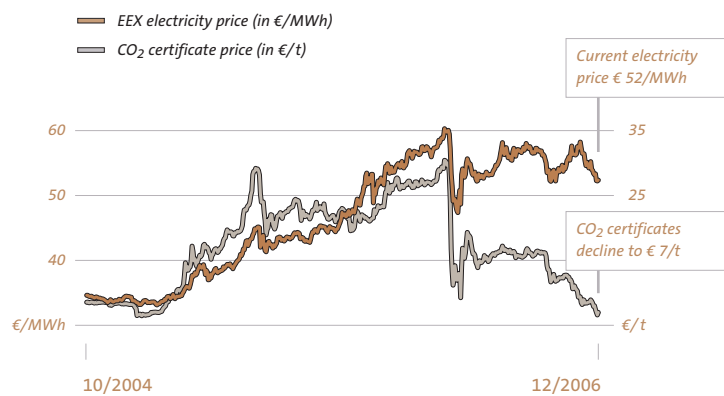
A worrying development in Germany has arisen due to the special situation on the energy markets, which feature few suppliers and high prices. It is not apparent that primary energy prices have had a direct impact here.

On the EEX (European Energy Exchange), electricity prices rose again sharply from € 50/MWh to a peak of almost € 60/MWh on 21 April 2006, a price jump that was attributable to the inpricing of CO₂ certificates by the electricity suppliers. Although the price for CO₂ certificates declined significantly as the year continued, the electricity prices stayed at their high level. The market dominant position of the energy producers can be regarded as the decisive factor for this development. More than 80% of production capacity is currently concentrated on four major supply companies. To counter this intransparent price trend, the Wirtschaftsvereinigung Metalle (Metal Industry Association) filed complaints at the Federal Cartel Office. In December 2006 the latter ascertained that in 2005 the market dominance was exploited by inpricing emission allowances which had been allocated free of charge.

U.S. dollar remains weak

At the beginning of the fiscal year, the Euro was quoted against the U.S. dollar at US\$ 1.20/€, a level it maintained with limited fluctuations until mid April 2006. After that the US currency weakened significantly to US\$ 1.29/€ at the beginning of June. Until the end of September 2006 the US\$ was in the range of US\$ 1.27/€. This gives an average quotation for the fiscal year of US\$ 1.23/€.

Trend in electricity and CO₂ certificate prices



Industry-specific general economic framework

Strong interest in metal raw materials continues

The worldwide boom for commodities also continued in 2006. They achieved the status of an established asset class on the international capital markets and attracted extensive interest from funds and other investors. The focus was on industrial raw materials, i.e. crude oil and industrial metals, whose fundamental market situation formed the basis for extraordinary price rises to historic highs. At the same time the markets for aluminium, lead, copper, nickel, zinc and tin, were impacted by similar factors, such as production shortages, too low stocks and strong demand as a result of the overall positive global economic trend.

Copper market has a stable basis

Initial assumptions that there might again be improved copper availability on the copper market as of the second half of 2005 had to be corrected as time went on. Refined copper production did not achieve the necessary growth to satisfy the high demand.

Global copper demand increases further

In 2006 **global** copper demand was driven on by the ongoing expansion of the Chinese economy and the positive economic trend in the traditional sales markets. Compared with the previous year, it increased substantially and reached a magnitude of 17.7 million tonnes of refined copper.

Of course, the conditions in **China**, which absorbs almost 25% of global copper output, contributed to a certain statistical uncertainty. Chinese cathode imports had declined substantially during the fiscal year – from January to September 2006 alone they decreased 42% to 592,000 tonnes compared with the previous year. This, however, was not so much the result of a corresponding drop in demand, but rather the widespread reduction of copper stocks along the value added chain, thus China was catching up on what had already happened in Europe and North America the year before. Inter alia the national Strategic Reserve Bureau (SRB) released a considerable part of its strategic copper inventories in order to be able to satisfy domestic demand. The height of Chinese copper demand in 2006 cannot be unequivocally calculated due to the lack of information on the extent of inventories used to cover demand – in market reporting the growth rates vary between 3 and 6%.

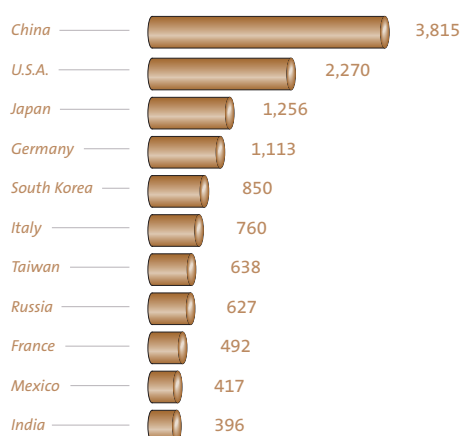
Demand was also strong on the traditional copper markets. In **Japan**, copper usage grew by some 4% to 5% as a result of the general economic recovery.

In the **U.S.A.**, after an initial positive trend until the summer, demand declined in the second half of 2006 as a result of the downturn of the real estate boom and substitution tendencies. Growth in U.S. copper demand over the whole year will therefore probably be low, at between about 1% and 3%.

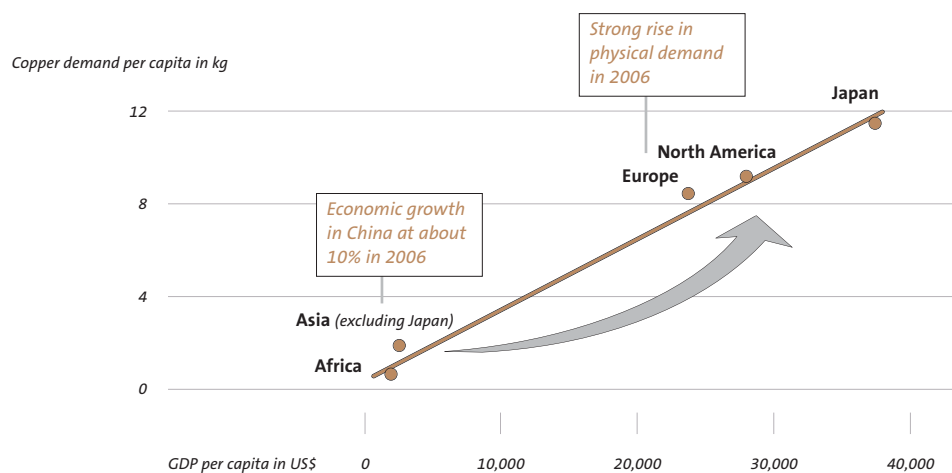
Copper demand

in thsd. t

(Source: Brook Hunt Q3 2006)



Copper demand in line with growth



The **European market** provided some surprises in that the trend in demand had been clearly underestimated. With a 7% rise to 3.8 million tonnes, West European copper demand reached a high and made up for the more moderate trend in other countries. The strong growth was attributable to the poor economic performance in the prior year, the stocking up of inventories, as well as, above all, to improved industrial production and the recovery in the construction sector. The two countries with the largest semi-finished product industries, Germany and Italy, made the greatest contribution to the increase in demand.

Increase in global copper production remains insufficient

A further significant factor for the market trend in 2006 was the insufficient output of the copper producers to cover demand. Although mining companies and smelters continued to expand their production capacities, there were delays in the commissioning of new projects and increasingly production stoppages and equipment breakdowns. The mining and metallurgical industry suffered from a susceptibility to technical problems due to the intensive utilisation of its production plants. There were shortages in the procurement of equipment and parts and a lack of qualified personnel.

The mining enterprises achieved very good results on the one hand owing to the high copper price, however on the other their production costs also rose – a situation in which the collective bargaining in the North and South American copper industry became very difficult and drawn-out.

There were disputes, such as those in Mexico, involving lengthy strikes and production standstills. The expected production quantities had to be repeatedly scaled down as a consequence.

Mining output in **North America** and **Asia** dropped in the first nine months of 2006 by 3.5% and 4.5% respectively, in **Latin America** it increased by 1%.

Africa's copper mining received new impulses and produced 15% more than in the previous year. In total, the **mining output worldwide** for copper was largely unchanged and thus even remained under the low growth level of 1.6% for 2005.

The trend in the production of refined copper was better, but it also did not meet expectations. Global output increased in the first nine months of 2006 by some 6%. The metallurgical industry expanded, above all, in China and India, while in Chile output was down year-on-year due to plant breakdowns and strikes.

Copper stocks remain at a very low level

The low copper stocks in the warehouses of the international metal exchanges did not provide any relief during the whole of the fiscal year as regards market supplies of copper cathodes. Movements in stock levels occurred – if at all – only at the metal exchanges' Asian warehouses in which most of the inventories were stored. Only occasionally were very small copper quantities available at the European sites. Compared with the beginning of the fiscal year, the LME copper stocks rose by only 38,000 tonnes, the COMEX stocks by just over 12,000 tonnes and the SHFE stocks by over 4,000 tonnes. The total copper stocks of all the metal exchanges amounted to 170,000 tonnes at the end of the fiscal year, an amount that could only cover global demand for 3.5 days. At times of oversupply, such as in 2002, the stocks in the warehouses of the metal exchanges were in contrast sufficient to cover six to seven weeks.

Copper price reaches historic high

The strong dynamics in the base metal price performance is due to fundamental market factors and investor activities. At times there have been extreme price fluctuations, sometimes varying in a range of US\$ 200 to 300 per tonne in just one day.

Even if an end to the price cycle was expected in many circles on the copper market at the beginning of October 2005, the copper price continued its upward trend. From the initial about US\$ 3,900 per tonne (settlement), the quotations rose to about US\$ 4,600 per tonne in December 2005.

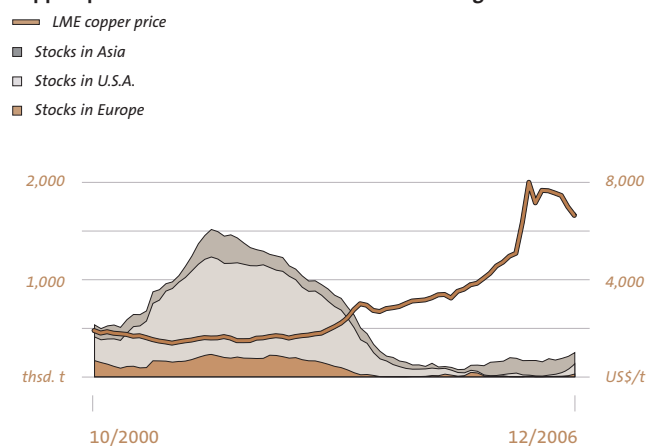
In 2006 trading on the metal exchanges took off slowly. New buying activities followed initial profit-taking and caused the copper price to rise again. The US\$ 5,000 per tonne mark was exceeded for the first time mid March. The copper price was boosted further until the summer and by mid May had reached an historic high of US\$ 8,788 per tonne.

Doubts about the strength of the global economy then made capital investors temporarily withdraw from the commodity and stock markets, which resulted in a significant price correction. From the summer to the end of the fiscal year, the copper price tended to move sideways and mostly stayed in the narrow range of US\$ 7,400 to 8,000 per tonne.

As at NA's balance sheet date, copper was quoted at US\$ 7,601 per tonne (settlement), the average value in the fiscal year amounted to US\$ 6,033 per tonne, 78% up on the previous year's figure (US\$ 3,382 per tonne).

In the futures term structure of the copper prices, the cash quotations were higher than the three-month quotations (backwardation) with few exceptions, a combination that reflects poor availability of supplies for prompt delivery. In November 2005 this difference was at times just over US\$ 200 per tonne, at the end of the fiscal year it was strongly fluctuating at mostly less than US\$ 20 per tonne.

Copper quotation and stocks on the metal exchanges



Copper price cycle since 1972



Production losses weigh on the concentrate market

The fundamental situation changed on the market for copper concentrates in the course of the fiscal year. While the spot market was still determined by good supplies and slow demand in 2005, the gap in the negotiating positions between mines/traders and smelters later became increasingly wider. Strikes and technical breakdowns in the mining industry resulted in production losses, as a result of which the supply on the concentrate markets reduced significantly. The negotiating positions hardened against the background of rising costs at mines and a good supply situation at the concentrate processors. This was reflected inter alia in the very difficult discussions about annual agreements held by the buying consortia of Japanese and Chinese smelters. The changed supply situation had to be taken into account both in the spot market and for the smelters' long-term contractual settlements and, as a result, treating and refining charges declined.

Disparate market trends for copper secondary raw materials

The international market for **copper scrap** was impacted by strong demand from Chinese buyers until spring 2006. The materials play an important role in China's raw material mix and must be mostly imported. However, the country does not strive for continuous market presence; alternating phases of intensive buying activity and market abstinence are typical for its buying policy. In 2005 China's imports of copper secondary raw materials totalled 4.8 million tonnes of material with an estimated copper content of 1.2 million tonnes according to the customs authorities' official statistics. A significant por-

tion of the quantities – better qualities with higher copper contents – were used in the manufacturing industry, the remainder by Chinese copper smelters.

The manufacturing industry in Europe also increasingly bought copper scrap on account of the high prices for copper cathodes. A shortage resulted which was not resolved until April/May 2006, when China withdrew from the international market as a buyer. There was again significantly more material available in Europe and North America, while refining charges – the fee for processing copper secondary raw materials – rose strongly. Copper smelters and other scrap processors in Europe took advantage of the improvement in availability and refining charges to build up their raw material supplies at very good procurement conditions. As of September 2006 China's influence increased once again: China's imports rose to 529,000 tonnes, a 31% increase compared with August 2006. The material was mostly sourced in Japan and North America. In Europe Chinese procurement activities remained low.

The availability of **copper-bearing production** residues with comparably low copper contents was good over the whole of the fiscal year – mainly due to the high utilisation of the production capacities in the manufacturing industry.

As to **electrical and electronic scrap**, the directives on Waste Electrical and Electronic Equipment, which have been law in Germany since 1 April 2006, have resulted in an improved material supply. The return system set up throughout Germany as a result of this law has meanwhile established itself and presents a wide basis for the collection of quantities in future.

Copper product markets in a good situation

In the West European cable industry, the first half of 2006 showed a production increase of 5.4% compared with the prior year, but dynamics weakened in the third quarter of the calendar year. Here, seasonal impacts must, however, be taken into account. West European demand for copper wire rod in the first three quarters of the calendar year was 4% up on the prior year. This development was mainly due to strong demand for standard and special cables. Binding wire was also in demand. The West European output of wire rod rose by 9%, to which the greatest contribution was made by the producers in Germany and Italy. The export business played an important role. Overall, 2006 is also seen as a good year for copper flat products. The largest customer sector, the electro and electronics industries, reported good demand for applications in the automotive, telecommunications and electric/electronic consumer goods sectors. Although demand has recently declined slightly compared with the high level at the beginning of the year, it is still at a good level. For copper pipes, signs of a weakening came primarily from North America, since here price-related substitutions were supported by the end of the real estate boom. In Asia the demand for tubes in the first half of 2006 was 7% down on the prior year. In Western Europe, demand impulses emanated from the more positive trend in the construction industry. In the first half of 2006, demand was 9.8% higher than the low prior year's figures. Increased exports to Eastern Europe contributed to stabilisation.

Results of operations

As in previous years, the NA Group is reporting in fiscal year 2005/06 in accordance with International Financial Reporting Standards (IFRS).

However, as a result of the amendment to IAS 2, all inventories available to the Group must be measured from fiscal year 2005/06 onwards using the average cost method. Only inventories that are tied up permanently in the production process continue to be measured at average historic acquisition cost. The former valuation using the LIFO method is no longer permissible under IFRS. The reporting of gains and losses due to changes in the carrying amounts of inventories because of fluctuations in the metal prices results in fictitious earnings. These would only be realised in the event of liquidation and, on account of the policy practised in the Group of covering the metal risks, lead to profits, which can be neither taxed nor distributed as dividends. This results in considerable discontinuities, which can lead to a loss of comparability.

In the interests of meaningful business reporting, we are therefore initially reporting the results of operations, financial position and net assets before the revaluation of the LIFO inventories in accordance with the average cost method, and will then explain how these are affected by the aforementioned revaluation.

Consolidated income statement*in € million**— Before revaluation of LIFO inventories —*

	2004/05	2005/06
<i>Revenues</i>	3,022	5,753
<i>Other income</i>	53	49
<i>Cost of materials</i>	(2,633)	(5,356)
Gross profit	442	446
<i>Personnel expenses</i>	(189)	(194)
<i>Depreciation and amortisation</i>	(64)	(52)
<i>Other expenses</i>	(90)	(89)
EBIT	99	111
<i>Net interest</i>	(9)	(8)
Earnings before taxes	90	103
<i>Income taxes</i>	(29)	(43)
Consolidated net income	61	60

Development of earnings and main items of the income statement

The earnings situation was once again very good in fiscal year 2005/06.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) of € 163 million were at the very high level of the prior year. At the same time, lower depreciation and amortisation resulted in a significant improvement in earnings before interest and taxes (EBIT) from € 99 million to € 111 million. Earnings before taxes also increased, by € 13 million to € 103 million (€ 90 million in the prior year). Increased tax expenditure resulted in a reduction of the consolidated net income to € 60 million, down from € 61 million in the prior year. After deduction of income attributable to minority interests, earnings per share amount to € 1.64 (€ 1.77 in the prior year).

The average capital employed in fiscal year 2005/06 amounted to € 660 million (€ 600 million in the prior year) and results in a return on capital employed (ROCE) of 16.8% compared with 16.5% in the prior year.

The value added statement presents the NA Group's economic performance after deduction of all materials and services, and depreciation and amortisation. The value added for fiscal year 2005/06 amounted to € 311 million (€ 293 million in the prior year).

The extent to which the various entitled groups participated in the Company's value added can be seen from the value added statement. This shows that the largest share, i.e. € 194 million, of net value added was distributed to the Group's employees.

Return on capital employed (ROCE)

in € thousand

	— Before revaluation of LIFO inventories —			
	01.10.2004	30.09.2005	01.10.2005	30.09.2006
<i>Equity including minority interests</i>	409,133	441,535	441,535	500,996
<i>Pension liabilities</i>	49,797	51,060	51,060	54,964
<i>Financial liabilities</i>	169,662	125,116	125,116	182,850
<i>Less cash and cash equivalents</i>	(15,824)	(29,678)	(29,678)	(6,566)
Capital employed as at balance sheet date	612,768	588,033	588,033	732,244
Average capital employed	600,401		660,139	
<i>Earnings before taxes</i>	89,850		103,076	
<i>Net interest</i>	9,475		7,918	
Earnings before interest and taxes (EBIT)	99,325		110,994	
Return on capital employed (ROCE)	16.5%		16.8%	

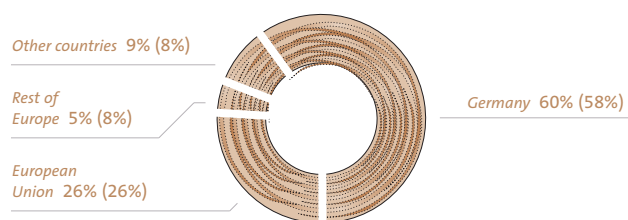
Value added statement

in € thousand

	— Before revaluation of LIFO inventories —			
	2004/05		2005/06	
Source				
<i>Group economic performance</i>	3,051,494	100%	5,780,837	100%
<i>Less materials and services</i>	(2,694,561)	(88%)	(5,418,577)	(94%)
Gross value added	356,933	12%	362,260	6%
<i>Less depreciation and amortisation</i>	(63,647)	(2%)	(51,584)	(1%)
Net value added	293,286	10%	310,676	5%
Application				
<i>Employees</i>	189,487	64%	193,993	62%
<i>Public sector</i>	29,076	10%	42,933	14%
<i>Banks</i>	13,949	5%	13,607	4%
<i>Shareholders</i>	37,154	13%	39,012	13%
<i>NA Group and minority interests</i>	23,620	8%	21,131	7%
Net value added	293,286	100%	310,676	100%

Revenues by regions

in % (previous years figures in brackets)



Development of revenues

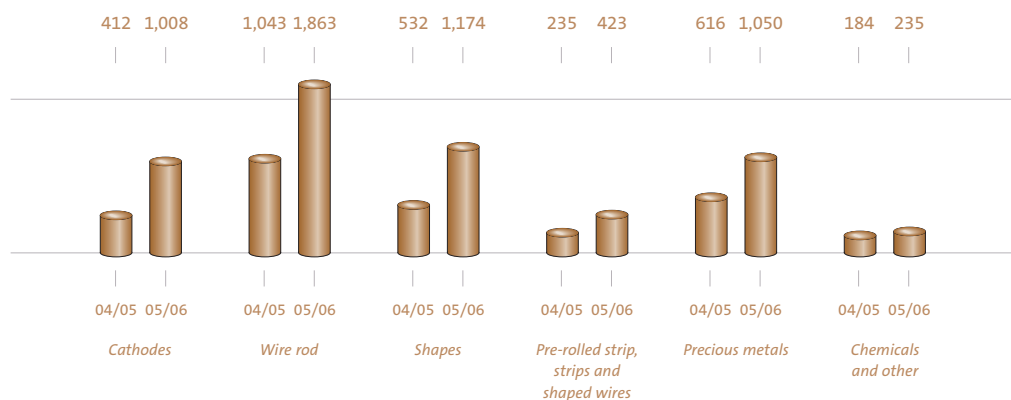
The consolidated revenues increased from € 3,022 million in the prior year to € 5,753 million in fiscal year 2005/06. This was due in particular to the significantly higher metal prices. However, increased unit sales of copper products and precious metals as well as trading transactions also made a substantial contribution to the higher revenues.

The NA Group generates most of its revenues with business partners in Germany (60%) and the European Union (26%).

Parallel to the rise in revenues, the cost of materials also increased from € 2,633 million to € 5,356 million, so that, after including other income, a gross profit of € 446 million remained (€ 442 million in the prior year).

Development of revenues by product groups

in € million



Results of operations after revaluation of the LIFO inventories due to the amendment of IAS 2

As a result of the amendment to IAS 2, the Group was obliged to measure all available metal inventories on the basis of the average cost method rather than the LIFO method used hitherto. As already mentioned in the previous chapter, Results of Operations, on page 67 of this Annual Report, this can lead to the reporting of fictitious earnings in the event of metal price fluctuations. The past fiscal year, in particular, was characterised by an extraordinary rise in the prices of the main metals. This severely restricts the meaningfulness of the presentation of the operating success after the revaluation of the LIFO inventories.

Nevertheless, the Group's earnings situation after revaluation of the LIFO inventories will be explained below in order to comply with the legal requirements. Management on the other hand uses, above all, information and key figures determined on the basis of the LIFO valuation, as presented in the previous section, Results of Operations, to control and evaluate the earnings situation of the Group.

Development of earnings and main items in the Income Statement

The earnings situation is also very positive, after including the revaluation of the LIFO inventories. EBITDA for fiscal year 2005/06 of € 383 million is significantly higher than the exceptionally large

amount of € 221 million for the previous year. This extraordinarily large figure is due to the substantially higher valuation of the existing metal inventories using the average cost method. The impact of this in the reporting period alone amounts to € 221 million and to € 58 million in the prior year. After taking into account depreciation and amortisation, EBIT increased from € 157 million in the prior year to € 332 million in the year under review. Earnings before taxes (EBT) amount to € 324 million (€ 148 in the prior year).

Consolidated income statement

in € million

— After revaluation of LIFO inventories —

	2004/05	2005/06
<i>Revenues</i>	3,022	5,753
<i>Other income</i>	68	135
<i>Cost of materials</i>	(2,590)	(5,221)
Gross profit	500	667
<i>Personnel expenses</i>	(189)	(194)
<i>Depreciation and amortisation</i>	(64)	(52)
<i>Other expenses</i>	(90)	(89)
EBIT	157	332
<i>Net interest</i>	(9)	(8)
Earnings before taxes	148	324
<i>Income taxes</i>	(52)	(132)
Consolidated net income	96	192

Return on capital employed (ROCE)*in € thousand*

	– After revaluation of LIFO inventories –			
	01.10.2004	30.09.2005	01.10.2005	30.09.2006
<i>Equity including minority interests</i>	437,335	504,620	504,620	696,160
<i>Pension liabilities</i>	49,797	51,060	51,060	54,964
<i>Financial liabilities</i>	169,662	125,116	125,116	182,850
<i>Less cash and cash equivalents</i>	(15,824)	(29,678)	(29,678)	(6,566)
Capital employed as at balance sheet date	640,970	651,118	651,118	927,408
Average capital employed	646,044		789,263	
<i>Result of ordinary activities</i>	147,966		323,742	
<i>Net interest</i>	9,475		7,918	
Earnings before interest and taxes (EBIT)	157,441		331,660	
Return on capital employed (ROCE)	24.4%		42.0%	

Value added statement*in € thousand*

	– After revaluation of LIFO inventories –			
	2004/05		2005/06	
Source				
<i>Group economic performance</i>	3,066,209	100%	5,866,242	100%
<i>Less materials and services</i>	(2,651,160)	(86%)	(5,283,316)	(90%)
Gross value added	415,049	14%	582,926	10%
<i>Less depreciation and amortisation</i>	(63,647)	(2%)	(51,584)	(1%)
Net value added	351,402	12%	531,342	9%
Application				
<i>Employees</i>	189,487	53%	193,993	36%
<i>Public sector</i>	52,309	15%	131,520	25%
<i>Banks</i>	13,949	4%	13,607	3%
<i>Shareholders</i>	37,154	11%	39,012	7%
<i>NA Group and minority interests</i>	58,503	17%	153,210	29%
Net value added	351,402	100%	531,342	100%

This results in consolidated net income of € 192 million for the past fiscal year and of € 96 million for the prior year. On this basis, earnings per share amount to € 5.30 (€ 2.80 in the prior year).

If the revaluation of the LIFO inventories is included, capital employed increases to € 789 million (€ 646 million in the prior year). On the basis of this and the reported EBIT, the return on capital employed after including the revaluation of the LIFO inventories amounts to 42.0%, after 24.4% in the prior year.

If the amended IAS 2 is also used as the basis for the value added statement, the picture is as follows. Net value added amounts to € 531 million in 2005/06 (€ 351 million in the prior year). The largest share, i.e. € 194 million, of net value added was distributed to the Group's employees. At the same time, a significant portion of the net added value remains in the Group, in order to compensate for possible future fictitious negative earnings.

Development of revenues

The revaluation of the LIFO inventories had no effect on the development of the revenues. Since we already commented on these in the previous chapter, Results of Operations, on page 67, repetition is waived here.

However, the revaluation of the LIFO inventories led to an increase in cost of materials to € 5,221 (€ 2,590 million in the prior year), resulting in a higher gross profit for the fiscal year 2005/06 of € 667 million (€ 500 million in the prior year).

Business review in the Segments

With good material availability, Copper Production Segment achieves high production output

The good general conditions on the raw material markets had a positive impact in the Copper Production Segment. Copper concentrates and recycling materials were available in sufficient quantities at good treatment and refining charges. Even the decline in treatment and refining charges for copper concentrates from February 2006 onwards in the spot business could not change this, because our smelter facilities in Hamburg are kept supplied with copper concentrates primarily on the basis of long-term contracts with a lifetime of several years. About 80 to 90% of the concentrate supplies are secured in this way. The remainder is covered in the spot business.

Copper Production Segment

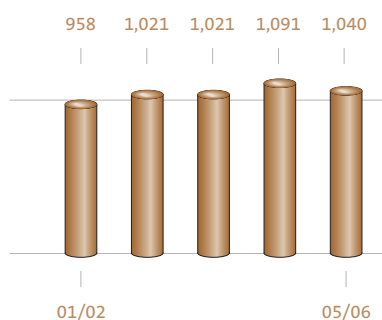
in € million

— Before revaluation of LIFO inventories —

	2004/05	2005/06
<i>Revenues</i>	2,276	3,980
<i>EBT</i>	56.3	67.0
<i>EBIT</i>	59.8	68.7
<i>Capital expenditure</i>	23.5	41.6
<i>Depreciation and amortisation</i>	42.7	40.3
<i>Average number of employees</i>	2,048	2,063
<i>Business units:</i>	<i>Marketing Metallurgy</i> <i>Marketing Recycling</i> <i>Primary Copper Production</i> <i>Secondary Copper Production/Precious Metals</i>	

Concentrate throughput

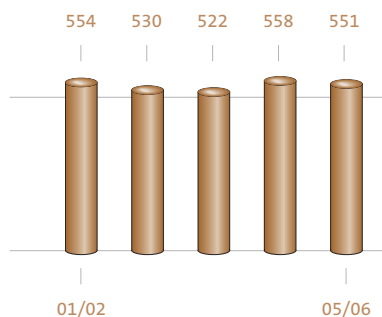
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Secondary raw materials are procured in a mixture of spot and long-term business, whereby the former outweighs the latter. Longer-term procurement contracts for copper scrap generally run for up to a year. In the recycling sector the supply of material improved in the course of the year and refining charges were increased. The utilisation of NA's processing capacities was thus assured due to a dependable supply of raw materials.

Cathode output

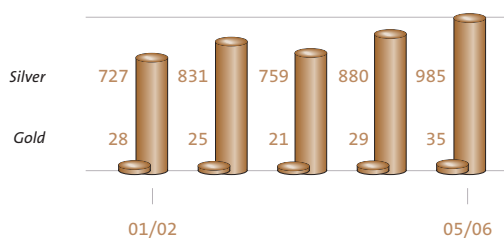
in thsd. t



High plant availability is particularly important for NA in combination with a good supply of raw materials. We realise economic advantages as a result. Improvements to plant technology are usually made while production continues. However, in some cases or in the event of major changes, short production stoppages may be required. This was also necessary in the first quarter of the fiscal year in order that general maintenance and repairs could be performed in the primary smelter (RWO). Despite the production stoppage, the **concentrate throughput** reached 1.04 million tonnes, but was nevertheless just under the 1.09 million tonnes achieved in the prior year. Consequently the output of sulphuric acid was also lower.

Gold and silver output

in t



In the recycling sector, we succeeded in increasing the processing of secondary raw materials at the Lünen site – in particular those containing more complex materials with low copper contents. The processing of electric and electronic scrap, a sector that is gaining increasingly in importance, rose 28%. The secondary smelter in Hamburg, which processes intermediates with copper, precious metal and lead contents, was well supplied and utilised at full capacity.

The production of **copper cathodes** in the Group totalling 551,000 tonnes was just under the very high output of the prior year (558,000 tonnes).

The **precious metals** contained in our raw materials, which we process into products, also made a significant contribution to improving revenues and earnings in the Copper Production Segment. Due to the good supply situation, we succeeded in increasing production once again in this product sector. While gold output amounted to 35 tonnes, 21% up on the prior year, the production of silver rose to 985 tonnes of silver, year-on-year a 12% increase.

As a result of the positive raw material markets and the production sectors' good operating performance, we succeeded in increasing earnings in the Copper Production Segment further. With revenues in the amount of € 3.98 billion, we generated earnings before taxes of € 67 million, an improvement of € 10.7 million compared with the prior year. As of 30 September 2006 the number of employees increased by 15 to a total of 2,063.

Copper Processing Segment benefits from strong growth in demand

In the Copper Processing Segment business performance reflected the strong growth in demand for copper products. It emanated – driven on by the economic recovery in Europe – from increased production in the energy cable and wire industries as well as in the semis industry. After a good start, the overseas export business stagnated on account of the high metal prices and the connected costs of financing. The low availability of copper cathodes on the market had a positive effect for NA: since we have our own cathode production sector, we had a significant advantage in the marketing of our products, since we could position ourselves as a reliable supplier, while competitors could not fulfil their delivery obligations due to a lack of cathodes.

Copper Processing Segment

in € million

– Before revaluation of LIFO inventories –

	2004/05	2005/06
<i>Revenues</i>	2,244	4,488
<i>EBT</i>	38.3	37.9
<i>EBIT</i>	44.2	44.1
<i>Capital expenditure</i>	9.8	5.1
<i>Depreciation and amortisation</i>	20.8	11.0
<i>Average number of employees</i>	1,109	1,117
<i>Business units:</i>	Copper Products Schwermetall Halbzeugwerk Prymetall	

The copper price rose sharply as a result of the high copper demand, which led to extraordinary price-related growth in Segment revenues. In addition, our production quantities and unit sales increased.

The order situation for continuous cast wire rod and shapes and pre-rolled strip is well balanced between long-term contracts to ensure basic utilisation and short-term spot orders. Single-sourcing agreements have been concluded with some customers lasting several years.

With this strategy, we succeeded in always ensuring the basic utilisation of our production plant and at the same time in benefiting from opportunities on growing markets. In fiscal year 2005/06 many customers substantially increased their total purchases over and above the basic quantity agreed in the annual contracts by taking additional quantities as spot business.

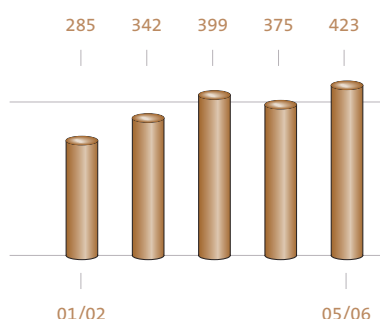
The output of **wire rod** in Hamburg and at our affiliate Deutsche Giessdraht GmbH, Emmerich (60%) reached an all-time high. Production rose 13% to a total of 423,000 tonnes in the fiscal year. The sales increase was attributable to the good economic trend in the energy sector and in the electro and electronics sectors. At the same time, it was possible to improve productivity of the plants in Hamburg and Emmerich even further.

The production of **continuous cast shapes** in Hamburg also achieved a record output of 266,000 tonnes, 12% up on the previous year. In particular, we enhanced our leading position in Europe for the production of cakes in high-purity copper qualities. The cakes produced in Hamburg are mainly processed into pre-rolled strip within the Group by our affiliate, Schwermetall Halbzeugwerk GmbH & Co. KG (50% NA) in Stolberg.

The output of **pre-rolled strip** was supported by a good to very good order intake. Schwermetall Halbzeugwerk thus produced 260.000 tonnes in the fiscal year (50% NA share), a 12% rise on the year before. At the same time, the value added is significantly higher due to the increased portion of self-cast alloys. In addition, we also entered new markets for pre-rolled strip.

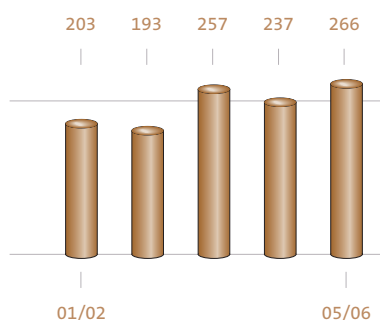
Wire rod output

in thsd. t



Continuous cast shape output

in thsd. t



Financial position and net assets

In the product sector of *copper strip and brass wire products*, which are produced by our subsidiary Prymetall GmbH & Co. KG in Stolberg, we have extended the share of products with high margins and, as planned, reduced the production of mass products with low margins. Sales of strip were very good, but revenues for brass wire products came under pressure at times owing to the poor availability of brass scrap. At 66,800 tonnes, the total output was 5,000 tonnes up on the previous year.

The Segment generated revenues in the amount of € 4.49 billion and thus exceeded the prior year figure by 100%. At € 37.98 million, earnings before taxes were just under the prior year's result (€ 38.25 million). After inclusion of the revaluation of LIFO inventories, the Segment's earnings amount to € 111.7 million, which is significantly higher than in the prior year (€ 49.9 million) due to the higher value of the copper inventories. Both Schwermetall Halbzeugwerk and Prymetall increased their profit contribution further.

In fiscal 2005/06 the Copper Processing Segment had an average of 1,117 employees (1,109 in the prior year).

Financial position

Principles and aims of financial management

The central aim of NA's financial management is the optimal utilisation of the available resources while at the same time ensuring liquidity. This requires the structure of the balance sheet to be in equilibrium. To ensure this, various financial ratios are calculated in the NA Group at regular intervals.

Gearing, or the ratio of net financial liabilities to equity, is an indicator of the structure of the funding. On 30 September 2006, this amounted to 35.2%, a very satisfactory level.

The ratio of net financial liabilities to earnings before interest, taxes, depreciation and amortisation (EBITDA) shows the length of time required to redeem the existing financial liabilities from the Group's income. With a ratio of 1.1, NA is also in a strong position here.

EBITDA-interest coverage, the ratio of EBITDA to net interest expense, expresses the number of times net interest expense is covered by earnings before interest, taxes, depreciation and amortisation. At 20.5, a very good factor was achieved for the past fiscal year.

If the revaluation of LIFO inventories is included, gearing amounts to 25.3%. The ratio of net financial liabilities to EBITDA amounts to 0.5 on this basis, EBITDA-interest coverage to 48.4.

Key Group financial ratios

	— Before revaluation — of LIFO inventories		— After revaluation — of LIFO inventories	
	30.09.2005	30.09.2006	30.09.2005	30.09.2006
<i>Gearing</i>				
= $\frac{\text{Net financial liabilities}}{\text{Equity}}$	21.6 %	35.2%	18.9%	25.3%
<i>EBITDA – interest coverage</i>				
= $\frac{\text{EBITDA}}{\text{Net interest expense}}$	17.2	20.5	23.3	48.4

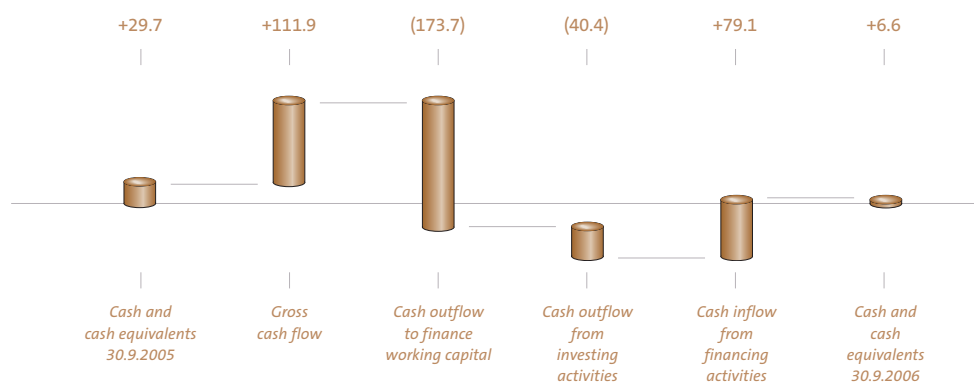
Liquidity and financial analysis

The cash flow statement shows the financing sources and the utilisation of the funds in the period under review.

Gross cash flow generated by operations in fiscal year 2005/06 amounted to € 112 million (€ 137 million in the prior year). The decline of € 25 million is due in particular to higher income tax payments.

Apart from the increased business volume, the sharp increase in metal prices in particular was responsible for tying up additional funds of € 174 million in working capital. Capital expenditure of € 40 million resulted in a further net cash outflow.

The cash outflows in excess of the gross cash flow from operating activities and for investing activities were financed by a capital increase carried out on 31 January 2006, which resulted in net proceeds of € 75 million, and borrowings in the amount of € 60 million. These amounts were partly compensated by payments of € 2 million for the redemption of loans

Source and application of funds*in € million*

and interest expense of € 14 million. Dividend payments of € 39 million to NA shareholders and minority interests and a payment of € 1 million to minority interests from a capital reduction resulted in further outflows.

As part of the capital increase on 31 January 2006, 3,340,919 shares were placed with German and international investors at a price of € 23.10 per share.

Cash and cash equivalents fell year-on-year from € 30 million to € 7 million.

Financial liabilities amount to € 183 million (€ 125 million in the prior year). These are due as follows

<i>in less than 1 year</i>	€ 94 million
<i>in 1 to 5 years</i>	€ 70 million
<i>in more than 5 years</i>	€ 19 million

After deduction of cash and cash equivalents, net financial liabilities amount to € 176 million as at 30 September 2006 (€ 95 million in the prior year).

An adequate liquidity reserve is ensured by unused portions of approved credit lines. In addition, apart from bilateral bank loans, the selective sale of receivables without recourse as part of factoring agreements is used as an off-balance-sheet financial instrument. Information on the conditions as regards interest rates for financial liabilities is provided on page 130 under Note 21.

Significance of off-balance-sheet financial instruments for the financial position

A significant off-balance-sheet financial instrument in the NA Group is the sale of receivables without recourse as part of factoring agreements. As at September 2006 receivables in the amount of € 38 million had been sold. These receivables were due in up to 90 days.

Net financial liabilities in the NA Group*in € thousand*

	30.09.2005	30.09.2006
<i>Financial liabilities</i>	125,116	182,850
<i>Less cash and cash equivalents</i>	(29,678)	(6,566)
Net financial liabilities	95,438	176,284

Capital expenditure analysis

In fiscal year 2005/06 we invested in general plant maintenance and expansion as well as in rationalisation steps and environmental protection.

Copper Production: expansion of processing capacity and ensuring competitiveness

In the Copper Processing Segment, capital expenditure focused on the gradual expansion of the concentrate processing capacity of our primary smelter in Hamburg. In the first expansion stage, the capacity in the primary smelter will be increased 5% by 2008 and further improvements made to environmental protection at the same time. Capital expenditure of some € 17 million has been planned for this. Further stages to achieve a concentrate throughput of 1.5 million tonnes p.a. are being planned. The whole project should be completed by 2010.

Additional investment projects are being carried out in the primary smelter to ensure NA's competitiveness. One of the main fields of activity is in the complex metallurgy sector, in which, as a result of our capital expenditure, we are able to process increasingly complex raw materials, such as copper concentrates with special impurities and electronic scrap. The by-metals can be extracted individually during this process and marketed as products. These measures should be completed by the beginning of 2007.

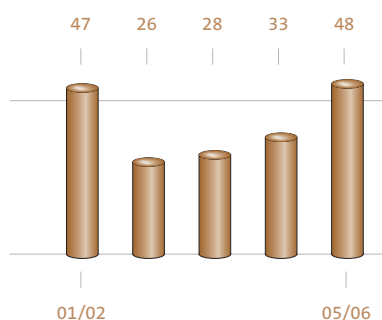
We commissioned a new material preparation plant at the Lünen recycling centre at the beginning of this year, which enables us to process a variety of materials that have not been pre-treated at all or only to a limited extent. This extends the range of recycling raw materials that we can treat.

We have started constructing a highly specialised sampling facility in Lünen to accommodate the increasing quantities of precious metal-bearing raw materials, in particular from the electrical and electronic scrap sectors. The plant will be commissioned in spring 2007. In addition, we are also expanding the sampling and processing capacities in Hamburg. In total, capital expenditure on the expansion of electrical and electronic scrap processing facilities amounts to € 9.7 million.

Copper Processing: enhancing performance and efficiency

In the Copper Processing Segment we modernised the oxygen enrichment of the combustion air and the off-gas systems in the continuous casting plants at the beginning of the fiscal year as part of a replacement project. This will enable us to enhance

Capital expenditure
in € million



performance and reduce costs further in future. The changeover to a new, very efficient process control system in the Hamburg continuous casting and rod plants will, as scheduled, be largely completed by summer 2007.

Capital expenditure at Schwermetall Halbzeugwerk and Prymetall concentrated in fiscal year 2005/06 on maintenance and measures to increase productivity. They were comparably small-scale projects.

Installation of the pilot production plant for CIS solar cells

The first plant parts for the pilot production of CIS solar cells in Hamburg were delivered and installed in summer 2006. Commissioning is scheduled for spring 2007.

Installation of the company's own power plant to reduce energy costs

As a measure to counter the unjustified strong rise in energy prices and to safeguard the viability of the Hamburg site, we plan, together with Stadtreinigung Hamburg (Hamburg waste management), to build a power plant in the NA works area, which will generate electricity on the basis of waste incineration (substitute fuel) and should supply the Hamburg works with electricity from 2009 onwards. With total capital expenditure of € 330 million and an input of 750,000 tonnes of substitute fuel p.a., this power plant will be the largest and most modern of its kind. KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG, Hamburg, which is equally owned by Stadtreinigung Hamburg and NA, was established for the planning, on which we worked intensively in the fiscal year, and for the construction of the power plant.

NA's Supervisory Board and Executive Board passed a resolution mid September 2006 on the first important construction measures to realise the SF power plant at the site of our subsidiary Peute Baustoff GmbH (PBG), in the immediate vicinity of the North Elbe River. PBG's operations will now be relocated to a site in the southern part of the works. The construction measures involve capital expenditure of € 15 million.

Net assets

Analysis of net assets structure

Total assets increased year-on-year by € 904 million to € 2,137 million. This is due in particular to the further sharp increase in metal prices and the higher volume of business, as a result of which inventories rose by € 323 million and trade accounts receivable by € 271 million. The revaluation effect for inventories resulted in this connection in an increase of € 221 million. In addition, significantly higher positive fair values of forward contracts on the metal exchanges had to be reported under the other assets, so that this balance sheet item increased by € 336 million.

Fixed assets declined slightly from € 366 in the prior year to € 360 million as at 30 September 2006. This item makes up 17% of the total assets (30% in the prior year).

Deferred tax assets increased by € 1 million to € 2 million as a result of loss carry-forwards at subsidiaries.

Equity increased by € 192 million to € 696 million. This was primarily due to the positive earnings for the fiscal year of € 192 million, including the revaluation effect for inventories of € 132 million, and the net proceeds of € 75 million from the increase in capital. Changes in accumulated other comprehensive income (€ 61 million) from the recognition of foreign exchange forward contracts with negative fair values, reduced by deferred taxes in the amount of € 25 million, had a compensatory effect.

Pension liabilities rose slightly on account of higher obligations by € 4 million to € 55 million. Other short-term and long-term provisions decreased by € 21 million to € 73 million.

The increase of € 53 million in deferred tax liabilities to € 128 million is mainly due to the difference between the valuation of inventories in accordance with IFRS and that for tax purposes.

Financial liabilities increased by € 58 million to € 183 million, mostly on account of the financing of the higher working capital.

Trade accounts payable rose by € 310 million to € 546 million. As already mentioned, the metal price increase and the increase in the business volume also had an impact here.

The increase of € 25 million in income tax payable to € 31 million was mainly due to the positive earnings for the fiscal year.

Consolidated balance sheet structure

in %

	– Before revaluation – of LIFO inventories		– After revaluation – of LIFO inventories	
	2004/05	2005/06	2004/05	2005/06
<i>Fixed assets</i>	32	20	30	17
<i>Inventories</i>	32	26	38	37
<i>Receivables, etc.</i>	33	54	30	46
<i>Cash and cash equivalents</i>	3	0	2	0
	100	100	100	100
<i>Equity</i>	39	28	41	33
<i>Provisions</i>	16	7	18	12
<i>Liabilities</i>	45	65	41	55
	100	100	100	100

The increase in other liabilities from € 140 million to € 424 million is attributable, in particular, to negative fair values from metal and foreign currency forward contracts.

In addition, the NA Group uses off-balance sheet fixed assets, such as forklift trucks, IT equipment and various construction machines, under operating leases. The related leasing expenditure for these amounted to € 4 million (€ 3 million in the prior year).

Other intangible assets: organisational and process advantages

The combination of primary copper production, recycling and precious metal production provides NA with a significant competitive advantage since it enables a wide range of raw materials to be processed and ensures a high yield of valuable metals. With the following value added stage of product fabrication, we additionally benefit from our strong focus on the customers in the downstream processing industry. Long-term relationships and partnerships are an important strategic target for NA. Suppliers and customers appreciate, above all, our service, as well as quality, know how and reliability.

Summary of economic situation

All production sectors and subsidiaries were profitable in fiscal year 2005/06, with the exception of EIP Metals Ltd. In line with the copper market, our raw material and product markets showed positive trends in fiscal year 2005/06 so that we could achieve significant improvements in earnings in the fiscal year as well as strengthen and even in some instances enhance our market position.

In the Copper Production Segment, our raw materials were sufficient and available at good conditions. The concentrate throughput was, however, slightly less than the throughput in the prior year on account of scheduled plant maintenance. As a result, the cathode output was also slightly down. In the recycling sector we succeeded in increasing the processing quantities by almost 10%. The supply of copper scrap was significantly higher at times, thus causing refining charges to increase.

In the Copper Processing Segment, demand was very high from the energy cable and wire industries as well as the semis industry in the fiscal year. We achieved higher production outputs in all product sectors, in some instances to record highs. Thus, the assumptions stated in the prior year's outlook were not only confirmed, but even exceeded, e.g. for flat products.

Subsequent events

Events of particular significance after the end of the fiscal year

As an energy-intensive copper producer, NA is dependent on the trend in energy prices. The measures taken by us in the last few years to reduce specific energy consumption were successful, but NA still remains a Group with energy-intensive production processes. Despite our own extensive endeavours and with the intervention of our trade association, we have still not succeeded in finding a political ruling on the comprehensible and acceptable fixing of energy prices. Since our former electricity supply agreement expired as at 31 December 2006, we were forced to conclude a new electricity agreement in November 2006 for the calendar year 2007 at significantly more unfavourable conditions.

Impacts on results of operations, financial position and net assets

The new electricity agreement results in € 16 million in additional costs per annum for NA, inasmuch as no internal measures can be taken to reduce electricity consumption and it cannot be replaced by another more cost-effective energy source. We have started programmes to compensate for this and possible other electricity price increases in the coming years, which will examine the metallurgical alternatives, process-technological changes through to the closure of production sectors. The aim of these programmes is to reduce energy costs.

The power plant on the basis of substitute fuel projected together with the Stadtreinigung Hamburg is a part of these measures.

The impact on the results of operations, financial position and net assets in fiscal year 2006/07 will be balanced by the measures taken and the positive effects of the market. The future energy price trend and possible regulative impacts imposed by the authorities will be decisive for our energy costs for the years until our power plant is commissioned.

Research and Development

Orientation of R&D activities

NA's very strong technological position in the metal production, recycling and processing sectors is the result to a great extent of many years of R&D activities, which provide the basis for improving NA's processes and products. The significant increase in productivity of more than 20% that NA has achieved in the last four years can also be attributed to contributions from the R&D sector. Its main task is the continuous improvement of production processes and process technology for copper production and as well the further development of copper products. At the same time, we pursue the targets of increasing productivity, improving quality and further improvements in compatibility with the environment as well as the conservation of resources. In addition, we wish to open up a future market for NA as a result of the development of the cost-effective and high-performing CIS solar cells.

R&D expenditure and capital investment

Expenditure for R&D amounted to some € 4.8 million in the last fiscal year and was mainly used for process optimisation projects.

About € 1 million (= NA's share of 50%) was spent on the CIS solar cell project in order to buy the first machines for the pilot plant.

NA did not buy any external R&D know how in fiscal year 2005/06.

R&D employees

The NA R&D team consists of 25 employees, including 9 engineers and scientists, who mainly work at the Hamburg, Lünen and Stolberg sites.

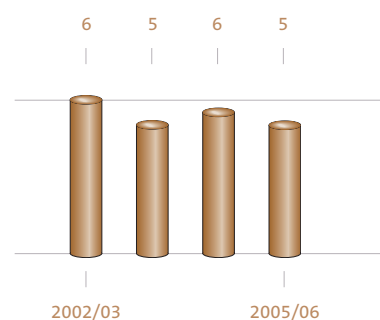
The number of employees working on the development of the solar cells should be gradually increased by 2008 from 11 to 16 as work in the pilot line progresses. Since this is a highly intensive project as regards development and technology, 80% of personnel are university graduates.

R&D results

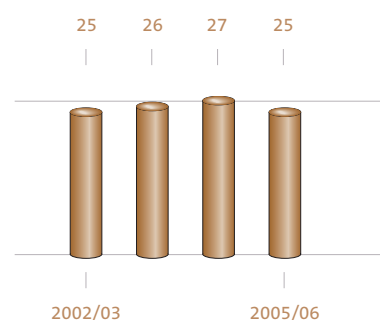
In the *Copper Production Segment* the focus was on projects to realise the future expansion of the concentrate processing capacity in Hamburg. We have developed a process to improve the cleaning of process gases with weak sulphur dioxide contents. In addition, we worked on possibilities to reduce the metal contents in slag.

R&D expenditure

in € million



R&D employees



Central Services

We have also concerned ourselves intensively with the behaviour of copper's by-elements, such as tin, zinc and nickel, in the recycling process. In collaboration with RWTH Aachen and TU Freiberg, we worked on the optimisation of our Kayser Recycling System (KRS), the central recycling facility at the Lünen site. We can use the results to improve the separation and marketing of by-metals and to reduce the cycle quantities.

In the **Copper Processing Segment** we have continued research work on the development of pure copper specialty products and supported the market launch and quality improvement of the hot-dip tinned thin strips, which were developed last year.

Another focal point was the **CIS solar cell project**. Here we succeeded in stabilising the performance of the solar cells in the laboratory and in improving their peak efficiency to about 12%. With the help of a pilot line, we want to transfer our know how to technical processes by the end of 2007 and develop ready-for-use products. In so doing, we are working together closely with the marketing specialists of our partner, Cordes & Graefe. The building for the pilot plant at NA's works has been erected as scheduled and the first machines were delivered and commissioned in July 2006. The start-up of the complete pilot line will probably take place in the second quarter of the new fiscal year 2006/07. In view of the strongly growing future market of solar technology, we have begun with the concept of a production plant in parallel with the pilot project so as to keep the time until we enter the market as short as possible.

Our Central Services sector supports the operational Segments with its services. In addition, it helps to identify and tap optimisation potential and thus makes a significant contribution to the NA Group's earnings.

In fiscal year 2005/06, our Material Procurement had to meet especially high demands in view of the increased demand for auxiliary materials and supplies as well as for processing plants throughout Germany.

In addition, there was particular focus on energy procurement and management. Since there was as good as no room for negotiation in electricity and gas prices on account of the specific anticompetitive market structures in Germany, we shifted our emphasis to achieving an improvement in basic conditions.

With the aim of keeping energy costs as low as possible until the completion of the planned power plant, we have pressed on with programmes to increase energy efficiency and reduce consumption further. The new components of the integrated energy concept have been in operation since mid March 2006, which has led to a further reduction in electricity and gas consumption. A component for the active participation in so-called minute reserve energy trading was integrated in NA's new energy control system.

Human resources

Basically we plan to reduce energy costs at NA by at least € 4–5 million p.a. by implementing further projects in this sector in the next 2–3 years.

We restructured the maintenance sector in the fiscal year to assist us in realising the target of reducing costs extensively, while at the same time increasing plant availability. Positive effects will be felt in the medium term.

The concentrate logistics has been restructured by the logistically optimised coordination of the individual process steps. The complexity was considerably reduced by having a service provider take over all the administration side. We will be able to realise significant cost advantages as of 1 January 2007 thanks to the relocation of the concentrate handling to Brunsbüttel and the direct access to a new storage hall. The advantages not only result from the direct reduction of transport fees, but also the storage of concentrates according to type and the production of homogeneous blends on site which will contribute to improving results in the smelting operations in Hamburg. In addition, there are now capacity reserves for the planned expansion of the concentrate processing facilities.

A service provider has also been found for sulphuric acid logistics, which can support the planned production expansion with modern equipment since it has its own shipping capacities, without which additional fixed-step costs would be incurred.

Personnel structure

As at 30 September 2006 there were 3,225 employees in the NA Group (3,187 in the prior year), of which 2,451 were employed at NA AG, with 2,005 (1,976 in the prior year) in Hamburg and 446 (448 in the prior year) in Lünen. In total, there were 232 apprentices at NA, corresponding to 7.2% of the workforce Group-wide.

Almost two thirds of the NA Group employees worked in the industrial sector, 13% as foremen in the production and maintenance sectors. About 24% of the white-collar employees are university graduates.

As part of the integration process, the collective wage agreement for staff at the Lünen works was changed from that of the metal-workers union to the chemical workers union, backdated to 1 January 2006. Thus, the same collective agreement applies at both NA AG sites.

Qualifications as a competitive advantage

We are convinced that German industrial enterprises can only succeed in international competition if they have motivated and highly qualified young employees.

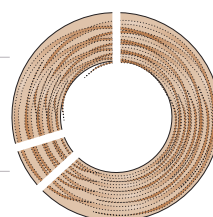
Personnel structure NA Group

Total 3,225

White collar 964

Apprentices 232

Blue collar 2,029



We therefore view our productive and committed employees as guarantors of NA's leading position in many sectors and support them with inter alia modern further education and vocational training.

As in the past, we again offered training in 16 different trades and professions in the new apprenticeship year. 65 young people could start their apprenticeships at NA after finishing their schooling. In Hamburg, the city's Mayor, Mr Ole von Beust, again welcomed NA's new apprentices in August 2005 and expressed his thanks at the same time for the great commitment in training young school leavers.

About 1,700 employees from all sectors participated in training courses during the fiscal year. In this way, we succeed in filling senior positions first and foremost with employees from within our own ranks.

We take unconventional routes in our work with schools. In 2004 we concluded a Cooperation Agreement with the Slomanstieg School, which is located in Veddel, a neighbouring Hamburg district, and has a high percentage of children from migrant families. With great success, we are introducing the pupils from the 8th class to the working world at NA one day a week and training them in the company's workshops.

As a result of the concern that less and less high school graduates decide in favour of a technical studies degree, NA arranged a Technical University Day for the first time on 30 May 2006 to which pupils from 160 high schools from in and around Hamburg were invited. Apart from NA, the five partner universities from Aachen, Clausthal, Freiberg, Hamburg-Harburg and Leoben provided information on engineering degree courses. The very positive response gave us reason to repeat this event in future each year.

In the fiscal year we started a personnel development programme for part of our senior staff which is supported by an external consultancy firm. All members of senior staff in the NA Group are being professionally trained in accordance with a management audit. A concept for condensed, practical management training has been developed for this.

»Group Ideas 3000« successfully completed

Our employees' suggestions for improvements make a significant contribution to enhancing productivity and cost-effectiveness. We have extended the company suggestion scheme once again in a Group-wide campaign »Group Ideas 3000«: each employee was requested to make a suggestion for improvement. The campaign ran from April 2005 to March 2006 and, with 3,440 suggestions submitted, clearly exceeded its ambitious target of generating a total of 3,000 suggestions within a year. The campaign has resulted in numerous quality improvements in addition to savings in the amount of some € 900 thousand.

Employees' profit-sharing

The performance and success-oriented remuneration is an elementary part of the payroll system at NA. The performance of the individual is therefore connected with the performance of the team, department or production sector.

The employee's performance (individual performance) and team performance (collective performance) complement each other and contribute substantially to the company's performance, the third component. These three components form the basis of our remuneration system.

Incentive plan for senior staff

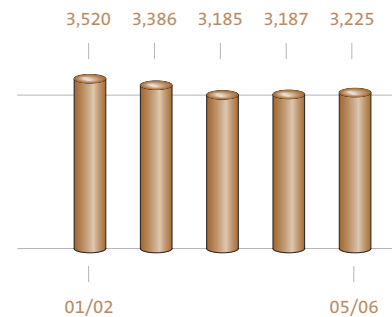
In December 2004 the Supervisory Board approved a new incentive plan in the form of a virtual stock option plan as part of capital market-oriented remuneration. The third tranche was issued in April 2006. This plan, which includes senior staff and employees paid above the tariff wage-scale, offers a remuneration component which can result in participation in the company's success if NA shares perform well and previously set benchmarks are fulfilled. The condition for participation is that the respective member of senior staff owns a fixed number of NA shares, depending on the level.

Employee share ownership – profit-sharing for employees

In future we would also like to enable as many employees as possible to participate in NA by owning a growing number of shares and have therefore given them the opportunity of acquiring these at a discount. In the last fiscal year 1,241 employees took advantage of this and bought a total of 25,731 NA shares.

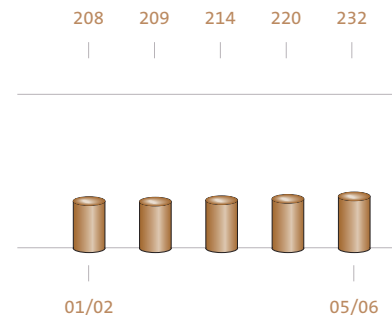
Employees

as at 30.09



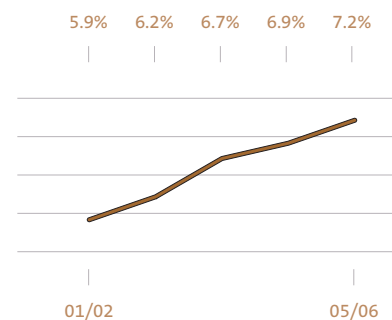
Apprentices

as at 30.09



Percentage of apprentices

in %



Early retirement scheme used to reduce personnel

On average, 102 employees of NA AG in Hamburg participated in the early retirement scheme. The block model was primarily used whereby the employee has an active phase of full-time working and a passive phase of equal duration without employment. On average 53 employees were in the active phase and 49 in the passive phase. At the end of the fiscal year, 164 employees were on the early retirement scheme, i.e. 5.1% of the workforce.

Occupational safety still at a very high level

The already very low accident frequency level at NA AG in Hamburg could again be slightly improved in the last fiscal year. With 6.0 notifiable accidents per one million hours worked, it was substantially under the average of the Employers' Liability Insurance Association of the chemical industry. NA AG was awarded second prize in a competition run by the Association of the Chemical Industry on the topic »Responsible Care: the tasks of Occupational Safety«. We owe this success to the constant improvements in occupational safety and also in health protection.

In the Lünen works the measures introduced are taking effect. Accident frequency has dropped significantly compared with the prior fiscal year and amounted to 10.6 notifiable accidents per one million hours worked.

Accident frequency at the other Group companies does not yet totally follow the good trend in Hamburg. However, since occupational safety is seen as a Group task, we are also making every effort to improve on this.

95 employees commended for length of service

The value of our personnel policy is reflected in the great solidarity our employees feel for their company. Some of them have even spent their entire working life at NA. In the period under review, 16 of our employees celebrated their 40th anniversary and 79 employees their 25th anniversary. Our thanks go to all of them for their loyalty and dedication.

Thanks from the Executive Board

The last fiscal year was extraordinarily successful. Our employees' great commitment and hard work played a decisive role in this, for which we would like to express our gratitude. Our thanks also go to the employees' representatives for the continued very constructive and trusting support.

Risk Report

Risk and Opportunity Management System

NA's business activities involve both current and future risks and opportunities, which are identified, evaluated and actively monitored as part of a systematic, continuous risk policy. In doing so, NA focuses on the central themes of raw material supplies, production, sales and energy supplies, depending on the magnitude of the potential risk and the probability of its occurrence.

The continual monitoring of relevant developments at NA and in its environment is the prerequisite for the early detection of risks and opportunities. Their evaluation and the prompt implementation of the necessary countermeasures ultimately lead to the best possible control of risks and the optimal utilisation of opportunities. Risk management is a company management task under the direct authority of the Chief Financial Officer.

NA's risk management system covers all Group sectors. The action taken is based on risk-related principles laid down by the management. Independent targets and risks are identified in each sector and the specific monitoring and control instruments defined. Depending on the type of risk, we use inter alia SAP-based instruments for early detection. Identified risks are classed according to their significance as risks in core processes, such as procurement, production and sales, as well as risks in support processes.

Risk management is active on different levels. Apart from the to some degree EDP-supported monitoring of potential risks at a departmental level, the development of risk-relevant topics is reported in regular executive meetings and necessary measures taken at once. New risks are identified as well by direct contact between the departments and the risk management as well as by support from internal audits. The whole risk management system has been documented in a form that can be audited and is reviewed annually in an audit during which newly identified risks are included.

The risk management system in relation to financial instruments

Financial risks

Inadequate availability of cash or cash equivalents is considered the main risk. NA's supply of liquidity is ensured by strong cash flow generation as well as existing short-term and long-term credit lines at the banks. Risks from changes in interest rates mainly concern only the short-term sector.

Additional liquid funds can be generated, if required, as part of a capital increase. NA has only taken advantage of this possibility once since the IPO in 1998, i.e. in January 2006. Bonds have as yet not been publicly placed.

We limit strains on liquidity arising from possible bad debts by hedging amounts outstanding. In addition to letters of credit and guarantees, trade credit insurance is used in particular to cover risks.

The trend in liquidity and receivables is examined in a weekly executive meeting attended by the Executive Board.

The existing instruments ensure NA's liquidity at all times and are appropriate to meet additional future demands on liquidity within the framework of an expansive business policy.

The financial instruments used to control risks refer in particular to the hedging of foreign exchange and metal price exposures.

NA continuously counters risks from metal price fluctuations, foreign exchange and interest rate changes by hedging with various financial instruments. Incoming and outgoing metal quantities from underlying transactions are charged up against each other each day and remaining open positions likewise squared each day by exchange transactions. Spot and forward contracts are used to hedge metal and foreign currency exposures. This hedging of metal prices almost fully neutralises the impacts of metal price fluctuations. The risk of price changes for the electricity supply is hedged by forward contracts in particular cases. Anticipated hedging is only performed to a limited extent.

Future income in foreign currencies is mainly hedged by futures and options. The relationship of the Euro to the U.S. dollar is of particular importance to NA in its exchange hedging strategy. Shifts in exchange rates can, however, only be hedged for a limited period.

An autonomous executive committee, on which the Executive Board is represented, examines trends on the metal and foreign currency markets as well as NA's price position. Consequently, any necessary steps can be taken promptly. Possible initial margin calls due to exchange transactions are accounted for. Open nominal volumes of our derivative financial contracts and the fair value of all open contracts are separately listed in the notes to the financial statements under Section 23.

There are no identifiable significant risks in the metal trading sector or in the foreign exchange positions at present.

Main individual risks

Risks in the business environment and industry

– Supply of raw materials

A possible shortage in supplies of suitable raw materials for the production plants is classified as a central risk. About 60% of the raw materials needed for copper production are procured in the form of copper concentrates. The remaining 40% are fed into the process in the form of a variety of recycling raw materials.

NA counters the risk of shortages in supplies of copper concentrates by means of long-term supply agreements, which cover 80 to 90% of the volume required. These are concluded with a number of different mines in a variety of countries and continents. In this way, we reduce the Group's dependence on individual suppliers and avoid production stoppages in the event that a

particular mine should fail to deliver. Treatment and refining charges are also agreed over several years so that short-term price surcharges on the concentrate market only have a limited impact on NA's earnings. The remaining quantities are procured from the spot market, which gives us the opportunity to utilise favourable market trends at short notice.

NA procures other raw materials – such as copper scrap and other recycling materials – on the international secondary markets. We have steadily reduced our dependence on the volatile copper scrap market by expanding our processing possibilities and increasing the input of complex recycling materials.

The Copper Processing Segment's supply of cathodes is largely covered by our own output in the Hamburg and Lünen tankhouses. In addition, cathodes are bought on the basis of annual agreements. Our integrated copper production ensures that the capacities in the Copper Production Segment are fully utilised and that the Copper Processing Segment remains a reliable supplier of copper products for its customers.

– Product sales

A possible drop in unit sales and processing margins as a result of economic impacts or lost market shares poses a significant risk. Additionally, the possible non-fulfilment of delivery obligations due to supply shortages also represents a risk.

The marketing of NA products is based on long-term customer relations. By working together closely with our customers, we identify trends on the sales markets and future requirements for our products in good time and include them in our planning.

Thanks to the extension of the value added chain by the acquisition of Prymetall and Schwermetall Halbzeugwerk (50% NA share) in 2002, we have opened up direct access to end processors for NA and are better able to anticipate market trends.

In the course of the fiscal year, demand for refined copper and copper products increased significantly. This market situation resulted in considerable difficulties at other competitors as regards fulfilling delivery obligations. NA was able to meet all its delivery obligations thanks to its own cathode production output and existing cathode procurement agreements and only had to buy small amounts of cathodes on the spot market.

– Energy markets

Above all, a supply of electricity at uneconomical prices is a central risk in the realisation of long-term successful production operations. The substantial increase in the cost of electricity in Germany results in higher production costs and weighs on the Group's competitiveness.

NA cannot escape the developments on the energy markets. As the most important measure to counter these developments, we are currently projecting a substitute fuel power plant to generate our own electricity supply that should be commissioned in 2009 and should secure the full and cost-effective supply of electricity at our main production site in Hamburg. This will mitigate the considerable burden of high electricity prices and also the risk of insufficient availability of electricity in the long term. In addition, we are working on further measures to increase energy efficiency, for example, the utilisation of surplus energy from our production processes.

Performance-related risks

Production

Risks exist in the form of production stoppages and poor utilisation of capacities, which lead to a decline in the economic efficiency of the plants.

The primary corporate target is the securing of high plant availability in the long term. The successful realisation of this target, while at the same time improving plant efficiency, is the result of the good interplay between NA's production sectors and service sectors. Great importance is attributed to both a high standard of maintenance and the fast and professional implementation of repair measures in the event of damage. Our employees' high qualifications and motivation have also made a significant contribution to achieving this goal.

Extensive plans for the use of alarm systems and for averting dangers are available to prevent possible breakdowns in the 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 of the important production plants in the NA Group limit potential contingency risks.

Environmental protection

The central risk is to be found in equipment breakdowns impacting the environment. The precondition for an integrated copper production in Europe and, in particular in Germany, is that the production technology is environmentally safe and adheres to the relevant laws, requirements and directives. NA's plants fulfil these requirements absolutely and are of a leading standard in environmental protection worldwide. Further advancements are continuously achieved by targeted investment and constant process optimisation and ensure that the Group's industrial location is secured in the long term.

Other risks

Personnel risks

Risks in the personnel sector exist in the impairment of employees' health and adverse impacts on production by a lack of training and motivation. Great importance is attributed to occupational safety and health protection at NA and a high standard is continuously maintained as the result of the intensive supervision provided by the internal Departments for Occupational Safety and Health Protection.

We give the employees extensive training at seminars and in-house courses to qualify them to meet requirements.

Employee motivation is promoted, above all, by an incentive-oriented company suggestion scheme and performance-related reimbursement schemes.

Information technology risks

System breakdowns and unsatisfactory data security are IT risks which can result in a hindrance to the commercial and technical processes.

In the IT sector, NA is covered for possible breakdowns in its operating systems by suitable precautions taken by the data processing centre. The software is continually adapted, as required, to fulfil business and legal demands.

Assessment of the Group's risk situation by the management

The assessment of current and future risk-relevant factors has shown that there are no risks posing a threat to NA's continued existence. Major risk exposure is identified and managed as far as possible by corresponding countermeasures. A current example of this is how NA is distancing itself from the energy price trend in Germany by erecting the substitute fuel power plant. Our raw material procurement policy is based on long-term and diversified supply sources. Dependence on individual suppliers and customers is avoided. The successful concept of an integrated copper producer has made NA more crisis-proof in changing market situations.

NA is also well positioned in the financial sector.

The solid balance sheet structure with high equity ratio safeguards the Group from possible economic burdens. The generation of a high cash flow and the various possibilities of obtaining further liquid funds assure the continuity of ordinary business operations and enable capital expenditure on both internal and external growth. Overall, we are of the opinion that in our existing risk and opportunity management system we have an appropriate system to manage this subject area. There are no significant changes to report compared with the prior fiscal year.

The Audit Committee formed from NA'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 to ensure it adheres to 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.

Forecast

NA Group future orientation

The NA Group will continue to concentrate on its core business of copper production and copper processing, also in the coming years. We are thus relying on our strengths that lie in the integrated production of copper, the strong focus on our raw material suppliers and customers, technical know how, environmentally friendly production as well as our highly qualified and motivated employees. We will continue to examine options for external international growth and work intensely on increasing productivity as well as cost optimisation.

Copper Production: further enhancement of our competitive position

In the Copper Production Segment, it is our target to develop the Hamburg and Lünen sites further by expanding and optimising the concentrate processing and recycling activities with the aim of consolidating and enhancing our position in international competition.

We will continue our long-term expansion policy in concentrate processing. The Future RWO project – the cost-effective expansion of the existing primary smelter – targets a medium-term increase in throughput by roughly a further 35% to 1.5 million tonnes p.a. This will be performed in several stages until the year 2010. This process causes the least loss of production and earnings, enables the project to be optimised continually and minimises the overall capital expenditure requirement. The first part should be realised in 2008.

Recycling: diversification of input materials

Today, recycling is an integral part of sustainable development and is used as a tool for environmental protection and to secure raw material supplies. Recycling materials are increasingly complex composite materials with significant high-grade metal contents. They are part of the new structures in the closed loop economy. The supply of these »modern« recycling materials in Europe is increasing rapidly. Innovative, high-performing process technology, like the facilities at NA, is required to recycle them. Regardless of price-related market fluctuations, we are adhering to our successful strategy of a wide diversification of the recycling materials used, which include both industrial residues as well as those from the waste disposal business and the end-of-life sector.

Wide range of production sites targeted

The Group's future must be secured by a broader spectrum of production sites. We will therefore continue to pursue merger and acquisition opportunities as well as growth options in the copper production and processing sectors in the next few years so as to develop NA further.

Copper Processing: customer orientation, product quality and service

The Copper Processing Segment continues to focus on customer orientation, top product quality as well as reliability and continuous service. We wish to gain further customers with this strategy and enhance the close partnerships with our current customer base in the coming years. Examples of customer-specific product and process developments are high-purity copper materials and continuous cast wire rod coils with weights of up to eight tonnes in individual packaging.

Particularly with volatile copper markets, it is of great importance that we are able to advise our customers on commercial aspects. Our internet portal Copper-Online provides an instrument to enable them to safeguard themselves against copper price fluctuations by hedging. We are convinced that this business policy of strong customer focus will lead to significantly improved sales in all the markets, to which we have access.

In addition, we expect our wire rod business to be enhanced as a result of the closure of a competitor's wire rod production plant in England at the end of 2006.

Prymetall will intensify its specialisation in high-grade products, as already started in the last two years, and has already started breaking away from the production of products with low margins.

Testing and realisation of CIS solar cell production

The pilot trials for the CIS solar cell project will run until the end of 2007, during which the feasibility of producing CIS solar cells on the basis of the continuous strip technology should be established on an industrial-scale. This will provide inter alia the basis for the final decision on setting up subsequent production.

Realisation of our own power plant to reduce energy costs

The central project outside of the core business in the next two years is the realisation of the power plant within NA's works precincts, which will put our electricity supply on a significantly more cost-effective basis. However, until it is commissioned in 2009, we must accept the high prices of the electricity suppliers in Germany when procuring electricity. As a result, measures to reduce energy consumption are attributed special significance in the Group.

Global economic growth expected to decline slightly

While the IMF has forecast a decline in growth for the industrial nations from 3.1% to 2.7% for 2007, it expects an almost unchanged growth rate of 10% for China's economy. The global economy will lose considerable impetus and strength due, in particular, to the probable weakening of the U.S. economy. Thus, according to the IMF, growth in global trade is expected to decline from 8.9% to a total of 7.6% for 2007.

The forecasts on economic development in Germany are impacted by uncertainties. These are also reflected in the expectations of the various economic research institutes which differ significantly as regards the strength and duration of the current upswing. Apart from the unforeseeable trend in the price of crude oil, one of the main factors for this is the increase in German VAT as of 1 January 2007, which should have a deflating impact on consumption in Germany.

It is not possible at present to assess to what extent consumers have brought forward their purchases to 2006. In addition, it is still unclear whether the long-standing trend of declining activity in the construction industry has only been interrupted temporarily or whether a turnaround actually took place in 2006. The German economic research institutes have agreed on a middling scenario with economic growth at 1.4% on account of the obvious uncertainty in forecasts with the main driving force in 2007 coming from expenditure on equipment and machinery.

Future overall economic picture

At the beginning of the new fiscal year the copper price dropped slightly to just under US\$ 7,000 per tonne (settlement). The price initially proved to be on a firm footing at this level. In December 2006, the copper quotations dropped further and reached a level under US\$ 6,500 per tonne. Before the Christmas break, the special impact of year-end dispositions of market participants with low trading volumes took effect.

At the beginning of January 2007, the copper prices were under pressure due to extensive sales, above all, by institutional investors and within a few days declined to under US\$ 6,000 per tonne.

A quick end to the structural copper shortage is nevertheless not in sight so that we are not expecting a return to the price lows of past years in the near future. Although the high copper price level creates ambitious production targets and promotes expenditure on capacity expansions, there are still production risks, above all due to strikes and technical problems. The collective bargaining in the global

copper industry in 2007 will not have the dimensions of the year 2006, and thus the potential production losses resulting from labour disputes should be less than in the previous year. For 2007, the independent International Copper Study Group expects an increase in global mining production of almost 7%. As to the production of refined copper, it reckons with a rise of almost 4%.

In the U.S.A., one of the traditional main markets for copper, the downturn on the real estate market has given rise to many imponderable questions. It is thought possible that the U.S. economy could cool down with corresponding consequences for copper demand there. The threshold countries, however, form antipoles. Although China caused a stir in 2006 by reducing its cathode imports substantially, which was seen in some quarters as an indication of declining copper demand, it is meanwhile generally agreed that this was attributable above all to the extensive reduction of off-exchange inventories. It can be expected that Chinese copper imports will increase again more strongly after the end of this development in line with the continued good economic trend and China's copper demand will increase again on the global market. The prospects for copper demand in Europe are also very positive in view of the good economic trend. Overall it is thought possible that global copper demand will rise by 4% in 2007.

The still low level of stocks in the warehouses of the metal exchanges and along the value added chain will also continue to give the copper market strong support. Whether the latest increase in inventories at the LME, particularly in the U.S. warehouses, reflects a weaker copper demand or only the shifting

of quantities and is temporary, is not yet certain. The beginning of a possible reversal of the economic trend must therefore still be confirmed. The revival of China's demand could, however, quickly put an end to the build-up of stocks.

The disequilibria in the global copper balance will also continue in 2007 and 2008. Excess production must be expected, which will, however, be comparably small and thus should offer the copper price a good fundamental basis.

The activities of funds and other capital investors on the copper market will still count among the factors that determine the price performance. The uncertainties they create still continue and therefore make a forecast difficult.

Future expected results of operations

In assessing the results of operations in the next two years, we are assuming demand for copper products will rise due to the continued good economic trend worldwide. Treatment and refining charges for concentrates will stay roughly at the current level. For copper scrap we expect international competition to increase again and a more changeable business development than in the prior year. In assessing the exchange rate, we presume that the US\$: € ratio will remain as at the end of the fiscal year. The metal prices and thus also our expected revenues remain at a high level, depending on demand.

The gross profit, which is important for us, will continually grow in the coming years on account of the planned higher throughput. The expected cost increases, above all from the still rising energy prices, will be compensated on average by rationalisation and performance enhancement. On balance we forecast slightly rising profits.

The announced reduction of corporation tax in Germany will result in a decrease in the tax rate at NA. Earnings per share will therefore rise both in the Group and in NA AG.

Future expected financial position

The planned internationalisation as well as the capacity expansions in copper production and the power plant, which is planned jointly with Stadtreinigung Hamburg (Hamburg waste management), require higher capital investment in the coming fiscal years, for which we carried out a capital increase in fiscal year 2005/06.

The net working capital will only change to the extent of the business expansion. Thus, the cash inflow from operating activities will rise significantly in the coming years. These funds will be used for the financing of investments. Acquisitions to promote internationalisation, which represent a central part of the NA strategy, must first of all become concrete before they can be considered in a forecast. Of course, there is sufficient financing potential available in order to finance acquisitions which are part of strategic development.

Opportunities

The general economic conditions, in particular for copper producers but also for fabricators of downstream copper products, are assessed positively due to the rising global demand for copper. The fragmented copper industry in Europe will be consolidated in the coming years.

NA will play an active role in this development and enhance its position in Europe. Our supplies for the processing sector are assured thanks to our own cathode production – a significant success factor. The necessary financial strength is available thanks to NA's sound structure.

Outside of Europe, we are striving to position ourselves in the strongly growing copper markets. In doing so, we can use our experience in operating one of the most high-performing smelters worldwide.

In future, permanent measures to reduce costs and enhance performance will still be a central part of NA's strategic orientation. The gradual increase in concentrate throughput, measures taken for the processing of complex raw materials, reduction of energy consumption including our own electricity supply, capacity expansions in the production of wire rod and shapes as well as product optimisation at the subsidiaries offer further earnings potential, particularly with positive market conditions.

Statement on the anticipated development of the NA Group

The consolidation of the mining companies, rising energy prices and an unfavourable ratio of the U.S. dollar to the euro are negative factors, quite apart from the potential risk of a declining economic trend in China. On the other hand the current signs indicate more towards a continued strong demand for copper products and a good supply of copper concentrates. Whether the rise in copper stocks at the metal exchanges and the declining copper prices at the beginning of 2007 will be sustained, remains to be seen. Our internal measures to reduce energy costs and enhance performance compensate for rising costs.

Against the background of the very successful fiscal year 2005/06, we expect good results and a high cash flow for this fiscal year.

Consolidated income statement

for the period 1 October 2005 to 30 September 2006 (IFRS)

in € thousand

	Notes	2005/06	adjusted* 2004/05
Revenues	1	5,753,016	3,022,352
Changes in inventories of finished goods and work in process		110,239	40,842
– thereof from revaluation of LIFO inventories using the average cost method		85,405	14,715
Own work capitalised		2,987	3,015
Other operating income	2	22,275	23,660
Cost of materials	3	(5,221,378)	(2,590,199)
– thereof from revaluation of LIFO inventories using the average cost method		135,261	43,401
Gross profit		667,139	499,670
Personnel expenses	4	(193,993)	(189,487)
Depreciation and amortisation	5	(51,584)	(63,647)
Other operating expenses	6	(90,092)	(89,172)
Operational result		331,470	157,364
Result from investments	7	190	77
Interest income	8	5,689	4,474
Interest expense	8	(13,607)	(13,949)
Earnings before taxes		323,742	147,966
– thereof from revaluation of LIFO inventories using the average cost method		220,666	58,116
Income taxes	9	(131,520)	(52,309)
– thereof from revaluation of LIFO inventories using the average cost method		(88,587)	(23,233)
Consolidated net income		192,222	95,657
– thereof from revaluation of LIFO inventories using the average cost method		132,079	34,883
Income attributable to minority interest	10	(1,125)	(1,412)
Consolidated net income after minority interest		191,097	94,245
– thereof from revaluation of LIFO inventories using the average cost method		132,079	34,883
Basic earnings per share	11	5.30	2.80
– thereof from revaluation of LIFO inventories using the average cost method		3.66	1.03
Diluted earnings per share	11	5.30	2.79
– thereof from revaluation of LIFO inventories using the average cost method		3.66	1.03

*Adjustment due to the revision of IAS 2

Consolidated balance sheet

as at 30 September (IFRS)			
in € thousand	Notes	30.09.2006	adjusted* 30.09.2005
Assets			
<i>Intangible assets</i>		27,906	29,209
<i>Property, plant and equipment</i>		330,512	334,582
<i>Investment property</i>		45	128
<i>Interests in affiliated companies</i>		272	273
<i>Investments</i>		629	616
<i>Other financial assets</i>		778	867
<i>Financial assets</i>		1,679	1,756
Fixed assets	12	360,142	365,675
<i>Deferred tax assets</i>		1,621	597
– thereof from revaluation of LIFO inventories using the average cost method		0	(713)
<i>Non-current receivables and other assets</i>	14	26,426	24,859
Non-current assets		388,189	391,131
<i>Inventories</i>	13	794,522	471,432
– thereof from revaluation of LIFO inventories using the average cost method		325,920	105,254
<i>Trade accounts receivable</i>		468,236	197,233
<i>Other receivables and assets</i>		478,660	142,889
<i>Current receivables and other assets</i>	14	946,896	340,122
<i>Short-term security investments</i>	15	386	200
<i>Cash and cash equivalents</i>	16	6,566	29,678
Current assets		1,748,370	841,432
Total assets		2,136,559	1,232,563

*Adjustment due to the revision of IAS 2

	Notes	30.09.2006	adjusted* 30.09.2005
Equity and liabilities			
<i>Subscribed capital</i>		95,115	86,562
<i>Additional paid-in capital</i>		101,941	34,731
<i>Retained earnings</i>		550,683	396,740
<i>Changes in accumulated other comprehensive income</i>		(54,353)	(17,714)
– thereof from revaluation of LIFO inventories using the average cost method		195,164	63,085
<i>Minority interest</i>		2,774	4,301
Equity	17	696,160	504,620
<i>Pension liabilities</i>	18	54,964	51,060
<i>Deferred tax liabilities</i>	19	127,778	74,670
– thereof from revaluation of LIFO inventories using the average cost method		130,756	41,456
<i>Other long-term provisions</i>	20	32,106	35,205
<i>Long-term provisions</i>		214,848	160,935
<i>Long-term financial liabilities</i>		88,785	104,408
<i>Other long-term liabilities</i>		588	340
<i>Long-term liabilities</i>	21	89,373	104,748
Non-current provisions and liabilities		304,221	265,683
<i>Other short-term provisions</i>	20	40,655	58,331
<i>Short-term financial liabilities</i>		94,065	20,708
<i>Trade accounts payable</i>		546,410	236,070
<i>Income tax payable</i>		31,369	6,860
<i>Other short-term liabilities</i>		423,679	140,291
<i>Short-term liabilities</i>	21	1,095,523	403,929
Current provisions and liabilities		1,136,178	462,260
Liabilities		1,440,399	727,943
Total equity and liabilities		2,136,559	1,232,563

*Adjustment due to the revision of IAS 2

Consolidated cash flow statement

<i>in € thousand</i>	2005/06	2004/05
<i>Earnings before taxes</i>	323,742	147,966
<i>Depreciation and amortisation</i>	51,584	63,647
<i>Impairment losses on current assets</i>	56	168
<i>Revaluation of LIFO inventories using the average cost method</i>	(220,666)	(58,116)
<i>Change in long-term provisions</i>	805	6,576
<i>Gain from disposal of fixed assets</i>	237	1,169
<i>Result from investments</i>	(190)	(77)
<i>Net interest expense</i>	7,918	9,475
<i>Income taxes paid</i>	(51,598)	(34,192)
Gross cash flow	111,888	136,616
<i>Change in receivables and other assets, including short-term security investments</i>	(362,465)	(52,252)
<i>Change in inventories</i>	(103,909)	(38,236)
<i>Change in short-term provisions</i>	1,955	(14,801)
<i>Change in liabilities (excl. financial liabilities)</i>	290,703	89,389
Cash outflow (inflow in the prior year) from operating activities (net cash flow)	(61,828)	120,716
<i>Purchase of fixed assets</i>	(47,808)	(33,355)
<i>Payments for the acquisition of interests in subsidiaries</i>	0	(1,733)
<i>Proceeds from the disposal of fixed assets</i>	1,533	679
<i>Interest received</i>	5,689	4,474
<i>Dividends received</i>	190	77
Cash outflow from investing activities	(40,396)	(29,858)
<i>Proceeds from capital increases</i>	74,804	4,653
<i>Proceeds from issuance of bonds and taking up financial liabilities</i>	59,712	5,507
<i>Payments to minority interest from capital decrease</i>	(1,200)	0
<i>Payment for the redemption of bonds and financial liabilities</i>	(1,991)	(50,065)
<i>Interest paid</i>	(13,607)	(13,949)
<i>Dividends paid</i>	(38,606)	(23,150)
Cash inflow (outflow in the prior year) from financing activities	79,112	(77,004)
<i>Net change in cash and cash equivalents</i>	(23,112)	13,854
<i>Cash and cash equivalents at beginning of period</i>	29,678	15,824
Cash and cash equivalents at end of period	6,566	29,678

Further information on the consolidated cash flow statement is given on page 134 of this annual report.

Consolidated statement of changes in equity

<i>in € thousand</i>	Subscribed capital	Additional paid-in capital	Retained earnings	Changes in accumulated other comprehensive income	Minority interest	Total
Balance as at 30.09.2004	85,528	29,409	296,009	(6,136)	4,323	409,133
Revaluation of LIFO inventories using the average cost method			28,202			28,202
Adjusted balance as at 30.09.2004	85,528	29,409	324,211	(6,136)	4,323	437,335
Capital increase	1,034	3,618				4,652
Dividend payments			(21,716)		(1,434)	(23,150)
Consolidated net income			94,245		1,412	95,657
– thereof from revaluation of LIFO inventories using the average cost method			34,883			34,883
Cash flow hedges				(18,454)		(18,454)
Exchange differences				26		26
Deferred taxes on changes in accumulated other comprehensive income				6,850		6,850
Additions to equity by joint venture partner		1,704				1,704
Balance as at 30.09.2005	86,562	34,731	396,740	(17,714)	4,301	504,620
– thereof from revaluation of LIFO inventories using the average cost method			63,085			63,085
Capital increase and reduction	8,553	68,622			(1,200)	75,975
Costs of capital increase after tax effect of € 957 thousand		(1,412)				(1,412)
Dividend payments			(37,154)		(1,452)	(38,606)
Consolidated net income			191,097		1,125	192,222
– thereof from revaluation of LIFO inventories using the average cost method			132,079			132,079
Cash flow hedges				(61,480)		(61,480)
Exchange differences				12		12
Deferred taxes on changes in accumulated other comprehensive income				24,829		24,829
Balance as at 30.09.2006	95,115	101,941	550,683	(54,353)	2,774	696,160
– thereof from revaluation of LIFO inventories using the average cost method			195,164			195,164
Total income and expense for fiscal year 2004/05			94,245	(11,578)		82,667
Total income and expense for fiscal year 2005/06			91,097	(36,639)		154,458

Further details of changes in equity are given on page 126 of this report.

Changes in fixed assets of the Group

as at 30 September 2005

in € thousand

	Acquisition or construction cost 01.10.2004	Additions in the fiscal year	Disposals	Transfers
Intangible assets				
1. Licenses, industrial property rights and similar rights and assets, and licenses to such rights and assets	25,134	1,188	1,744	0
2. Goodwill	42,065	1,105	0	0
3. Payments on account	0	329	0	0
	67,199	2,622	1,744	0
Property, plant and equipment				
1. Land and buildings	312,643	5,176	3,049	810
2. Technical equipment and machinery	874,675	16,682	30,747	4,298
3. Other equipment, factory and office equipment	62,753	3,824	3,081	52
4. Leased assets	9,390	171	75	0
5. Payments on account and assets under construction	5,550	6,217	278	(5,160)
	1,265,011	32,070	37,230	0
Investment property	363	0	0	0
Financial assets				
1. Interests in affiliated companies	2,325	0	27	0
2. Loans to affiliated companies	465	0	0	0
3. Investments	1,089	25	12	0
4. Loans to enterprises in which investments are held	625	0	0	0
5. Other loans	443	37	78	0
	4,947	62	117	0
	1,337,520	34,754	39,091	0

There were no intangible assets, apart from goodwill, with indefinite useful lives as at 30.09.2005

Exchange differences (net)	Depreciation, amortisation and write-downs 30.09.2005	Carrying amount 30.09.2005	Carrying amount 30.09.2004	Systematic depreciation and amortisation in the fiscal year	Impairment losses in the fiscal year
0	20,668	3,910	5,982	3,237	14
0	18,200	24,970	32,065	0	8,200
0	0	329	0	0	0
0	38,868	29,209	38,047	3,237	8,214
3	228,952	86,631	87,358	6,663	0
12	639,220	225,700	246,889	40,210	1,128
1	52,035	11,514	11,612	3,403	58
0	5,078	4,408	4,995	721	0
0	0	6,329	5,550	0	0
16	925,285	334,582	356,404	50,997	1,186
0	235	128	141	13	0
0	2,025	273	300	0	0
0	0	465	465	0	0
0	486	616	603	0	0
0	625	0	0	0	0
0	0	402	443	0	0
0	3,136	1,756	1,811	0	0
16	967,524	365,675	396,403	54,247	9,400

Changes in fixed assets of the Group

as at 30 September 2006

in € thousand

	Acquisition or construction cost 01.10.2005	Additions in the fiscal year	Disposals	Transfers
Intangible assets				
1. Licenses, industrial property rights and similar rights and assets, and licenses to such rights and assets	24,578	665	1,757	480
2. Goodwill	43,170	0	0	0
3. Payments on account	329	49	5	(322)
	68,077	714	1,762	158
Property, plant and equipment				
1. Land and buildings	315,583	1,122	649	577
2. Technical equipment and machinery	864,927	20,987	9,276	4,680
3. Other equipment, factory and office equipment	63,550	4,376	4,090	40
4. Leased assets	9,486	4,639	102	0
5. Payments on account and assets under construction	6,329	15,939	40	(5,455)
	1,259,875	47,063	14,157	(158)
Investment property	363	0	267	0
Financial assets				
1. Interests in affiliated companies	2,298	0	1	0
2. Loans to affiliated companies	465	0	0	0
3. Investments	1,102	13	0	0
4. Loans to enterprises in which investments are held	625	0	625	0
5. Other loans	402	18	107	0
	4,892	31	733	0
	1,333,207	47,808	16,919	0

There were no intangible assets, apart from goodwill, with indefinite useful lives as at 30.09.2006

Exchange differences (net)	Depreciation, amortisation and write-downs 30.09.2006	Carrying amount 30.09.2006	Carrying amount 30.09.2005	Systematic depreciation and amortisation in the fiscal year	Impairment losses in the fiscal year
0	21,081	2,885	3,910	2,117	0
0	18,200	24,970	24,970	0	0
0	0	51	329	0	0
0	39,281	27,906	29,209	2,117	0
3	234,903	81,733	86,631	6,489	32
11	669,234	212,095	225,700	38,663	18
0	52,156	11,720	11,514	3,442	0
0	5,832	8,191	4,408	815	0
0	0	16,773	6,329	0	0
14	962,125	330,512	334,582	49,409	50
0	51	45	128	8	0
0	2,025	272	273	0	0
0	0	465	465	0	0
0	486	629	616	0	0
0	0	0	0	0	0
0	0	313	402	0	0
0	2,511	1,679	1,756	0	0
14	1,003,968	360,142	365,675	51,534	50

Notes to the financial statements

GENERAL REMARKS

As required by Regulation (EC) No. 1606/2002 of the European Parliament and of the Council dated 19 July 2002 on the application of international accounting standards and Section 315a par. 1 of the German Commercial Code (HGB), the consolidated financial statements of Norddeutsche Affinerie AG, Hamburg, as at 30 September 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRSs) approved and published by the International Accounting Standards Board (IASB), as adopted by the European Union. The interpretations of the International Financial Reporting Interpretations Committee (IFRICs) have been taken into account. No accounting policies in accordance with German law that do not comply with IFRS have been applied.

The consolidated financial statements have been prepared in euros. All amounts with the exception of earnings per share and the proposed appropriation of earnings are shown in currency units of thousand.

Current and non-current assets are shown as separate categories. Current assets and liabilities are expected to be realised within twelve months of the balance sheet date or are held primarily for trading purposes.

Assets and liabilities have been measured as a general rule at amortised acquisition or construction cost. Derivative financial instruments and available-for-sale financial assets have been stated at fair value. The preparation of financial statements in accordance with IFRS requires the Executive Board to make estimates and assumptions in significant areas that have an impact on the measurement and reported amounts of the assets and liabilities in the balance sheet, and on income and expenditures. Estimates and assumptions are primarily applied in the defining of useful lives for fixed assets, the computation of discounted cash flows in conjunction with impairment tests, and the recognition of provisions for pension obligations and for pending losses and environmental protection. Actual amounts could differ from those estimates. Where they had an impact on the measurement, the assumptions and estimates on which measurement was based are disclosed separately under the respective item in these notes.

SCOPE OF CONSOLIDATION

In addition to the parent company, Norddeutsche Affinerie AG, six further companies, in which Norddeutsche Affinerie AG holds the majority of the voting rights either directly or indirectly and thus has control, were included in the consolidated financial statements as at the balance sheet date. In accordance with IAS 31, Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg, CIS Solartechnik GmbH & Co. KG, Bremerhaven, and,

for the first time, the newly established KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG, Hamburg, were consolidated proportionately. A 50% investment is held in each of these three companies. They are managed jointly with other partners (joint ventures). The accounting policies applied comply with those for fully consolidated subsidiaries.

Schwermetall Halbzeugwerk's share of the Group's assets as at 30 September 2006 amounted to € 78,558 thousand, its share of the non-current liabilities to € 18,675 thousand and its share of the current liabilities to € 32,225. This company contributed € 7,575 thousand to the Group's net income in the reporting period, and € 173,962 thousand to its revenues.

CIS Solartechnik's share of the Group's assets and current liabilities as at 30 September 2006 amounted to € 1,159 thousand and € 92 thousand respectively. This company's contribution to the Group's net income in the reporting period amounted to € -308 thousand. No revenues were generated, since the Company has not to date been operationally active.

KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG's share of the Group's assets and current liabilities as at 30 September 2006 amounted to € 1,348 thousand and € 142 thousand respectively. The company's contribution to the Group's net income in the reporting period amounted to € -353 thousand. The company also generated no revenues, since it has to date only carried out planning work.

Dormant subsidiaries or subsidiaries with little business activity, which are immaterial for the fair presentation of the Group's overall financial position, performance and cash flows, are not consolidated. They are recognised at fair value or, if that value cannot be determined, at amortised cost. These companies account for less than one percent of the balance sheet total, revenues and earnings.

CONSOLIDATION POLICIES

The financial statements of companies included in the consolidated financial statements are prepared in accordance with uniform accounting policies applied to the Norddeutsche Affinerie Group. The financial statements of all companies that are either significant or subject to a statutory audit requirement are audited by independent auditors.

Capital consolidation is performed at the time of the acquisition using the purchase method, whereby the acquisition cost of the acquired interest is allocated to the fair values of acquired assets and liabilities of the subsidiary at that time. Any unallocated difference is recognised as goodwill and tested annually for impairment. Goodwill is not systematically amortised, in accordance with IFRS 3.

Receivables, liabilities and contingent liabilities, and revenues, other income and expenses between group companies are eliminated. Profits resulting from transactions between group companies are eliminated, if significant.

With the exception of one subsidiary, all the entities included in the consolidated financial statements are German companies. That subsidiary's financial statements are converted into euros in accordance with the concept of the functional currency. Assets and liabilities are translated at the mid-market rates on the balance sheet date and the income statement at the average rates for the year. Any resultant translation differences are recognised directly in equity until the possible disposal of the subsidiary.

The same consolidation policies are applied accordingly for proportionally consolidated joint ventures. The consolidation procedures required for transactions between such companies and the remaining Group companies are performed proportionately based on the interest in the joint ventures.

CHANGES IN ACCOUNTING POLICIES ON ACCOUNT OF NEW STANDARDS AND INTERPRETATIONS

The IFRSs that form the so-called stable platform and must be applied for fiscal years, which begin on or after 1 January 2005, were applied in fiscal year 2005/06.

Of the Standards amended here, IAS 2, IAS 8, IAS 10, IAS 16, IAS 21, IAS 24, IAS 27, IAS 28 and IAS 31 were applied for the first time in the accompanying financial statements, to the extent that they are of significance for the NA Group's business activities.

Revised standards were applied in compliance with the respective transitional provisions. Unless regulated otherwise by the individual standards as explained separately in the following, they were applied retrospectively. Accordingly, presentation is as if the new accounting policies had always had to be applied. The prior year's comparative figures are amended accordingly and identified as »adjusted«.

The main impacts on the periods covered by the 2005/06 consolidated financial statements are as follows:

IAS 2 »Inventories«

The LIFO method (last-in-first-out) is no longer permitted as a general rule unless this sequence of consumption corresponds with the actual sequence of consumption. We therefore only now use the average cost method when calculating the acquisition or production costs of substitutable inventories. Metal inventories permanently tied up in the production process are therefore measured at the lower of average historical acquisition costs and net realisable value. In accordance with IAS 8, the revaluation was performed for the first time in the opening book values as at 1 October 2004. The following adjustments were made for the periods under review:

<i>in € thousand</i>	30.09.2006	30.09.2005
<i>Inventories</i>	325,920	105,254
<i>Retained earnings brought forward</i>	63,085	28,202
<i>Equity</i>	195,164	63,085
<i>Deferred taxes</i>	130,756	42,169

<i>in € thousand</i>	2005/06	2004/05
<i>Changes in inventories</i>	85,405	14,715
<i>Cost of materials</i>	(135,261)	(43,401)
<i>Earnings before taxes</i>	220,666	58,116
<i>Income taxes</i>	88,587	23,333
<i>Consolidated net income</i>	132,079	34,883

IAS 21 »The Effects of Changes in Foreign Exchange Rates«

In accordance with the revised standard, the functional currency of the company included in the consolidated financial statements depends on the primary economic environment of the respective company. The investigation of the functional currencies of the companies included in the consolidation did not result in any changes.

IFRIC 4 »Determining whether an Arrangement contains a Lease«

The IASB published Interpretation IFRIC 4 in December 2004. The issues addressed in this Interpretation are how to determine whether an arrangement is, or contains, a lease, and when a reassessment of this should be made. In addition, it shows how the payments for the lease should be separated from payments for any other elements in the same arrangement.

Norddeutsche Affinerie AG applied this interpretation voluntarily for the first time in fiscal year 2005/06. Qualification of individual agreements as leases and the classification of these agreements as finance leases with the consequence of the recognition of the leased objects resulted in the recognition of property, plant and equipment of € 4,305 thousand and corresponding liabilities of € 4,305 thousand.

Standards/Interpretations not adopted early

The IASB has issued the following Standards, Interpretations and revisions to existing Standards, adoption of which is not yet obligatory, and which are also not being adopted early by Norddeutsche Affinerie AG:

IFRS 7 »Financial Instruments: Disclosures«

The IASB published IFRS 7 in August 2005. This Standard combines the disclosures on financial instruments, which were up to now covered by IAS 30 »Disclosures in the Financial Statements of Banks and Similar Financial Institutions« and IAS 32 »Financial Instruments: Disclosure and Presentation« and amends or enhances the individual disclosure requirements. IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007.

The Standard, which must be applied by all companies, will result in additional disclosure requirements for financial instruments when applied by Norddeutsche Affinerie AG for the first time in fiscal year 2007/08.

Amendment to IAS 1 »Presentation of Financial Statements« – disclosures on capital

In August 2005, the IASB announced an amendment to IAS 1 in connection with the publication of IFRS 7 »Financial Instruments: Disclosures«, stating that information shall be published in the financial statements, which enables users to evaluate the entity's objectives, policies and processes for managing capital. The revised IAS 1 shall be applied for annual periods beginning on or after 1 January 2007. Adoption of the revised IAS 1 by Norddeutsche Affinerie AG in fiscal year 2007/08 will result in additional disclosures in the notes to the financial statements.

Amendment to IAS 19 »Employee Benefits« – recording of actuarial gains and losses, multi-employer plans and note disclosures

The IASB published an amendment to IAS 19 in December 2004. The amendment affects the following:

- provision of an additional option for the recognition of actuarial gains and losses outside profit or loss in equity in the period in which they are incurred,
- obligation to recognise receivables or liabilities arising from the contractual agreements for multi-employer plans, which, as a result of insufficient information, are recognised as defined contribution plans,
- presentation of defined benefit plans that share risks between various entities under common control and
- amended disclosures in the notes to the financial statements on defined benefit pension plans.

Unless optional, the amendments to IAS 19 shall be applied for periods commencing on or after 1 January 2006.

Adoption of these amendments to IAS 19 by Norddeutsche Affinerie in fiscal year 2006/07 will probably only result in amended disclosures in the notes to the financial statements on defined benefit pension plans. A changeover from the recording of actuarial gains and losses using the corridor method to their direct recognition in equity is not currently planned. The Group has no multi-employer pension plans.

ACCOUNTING POLICIES

Revenue and expense recognition

Revenues and other operating income are realised when the services are performed or the significant risks and rewards of ownership of the goods are transferred to the customer.

Operating expenses are recognised when incurred. Interest income and expense are recognised in the periods to which they relate. If income or expenses arise as a result of profit and loss transfer agreements, they are realised at the end of the respective fiscal year. Interest expense from leasing agreements is calculated using the effective interest method. Dividends to which Group companies are entitled are recognised as income at the time that the right to receive them arises.

Fixed assets

If intangible assets are acquired, they are recognised at acquisition cost. If internally generated intangible assets that will generate future economic benefit are involved, they are recognised at their creation cost and amortised systematically straight-line over their expected useful lives of generally three to fifteen years. The consolidated financial statements do not include any intangible assets with indefinite useful lives.

Property, plant and equipment used in business operations for more than one year are measured at acquisition or construction cost less systematic depreciation. Construction costs include all direct costs as well as a reasonable share of the construction related overheads. Borrowing costs are not taken into account. Systematic depreciation is recorded using the straight-line method. The depreciation periods used correspond to the expected economic useful lives in the Group. The following main useful lives are applied:

<i>Buildings</i>	25 to 40 years
<i>Site installations</i>	10 to 25 years
<i>Technical equipment and machinery</i>	5 to 20 years
<i>Factory and office equipment</i>	3 to 20 years

Current repair costs are recognised in profit or loss for the period. General overhauls or maintenance measures resulting in the use of significant components are recognised as an asset if it is probable that future economic benefits will flow to the Group and the costs can be measured reliably.

Leased property, plant and equipment that satisfy the criteria of IAS 17 for a finance lease are also recognised within the fixed assets. This is the case if all significant risks and rewards of economic ownership are with the respective Group company. Such property, plant and equipment are recognised at fair value or, if lower, at the present value of the minimum lease payments, and depreciated using the straight-line method over the lease term or, if it is expected that ownership will be obtained at the end of the lease term, over the economic useful life. The future lease payment obligations are recognised as a liability at their present value.

Impairment losses on intangible assets and property, plant and equipment are recorded in accordance with IAS 36 if the fair value less the costs of disposal or the value in use has fallen below its carrying amount. Impairment is tested on the basis of the smallest cash generating unit.

Financial assets are capitalised at cost at the time of acquisition. Long-term or non-interest-bearing loans are discounted, unless they are immaterial. Held-to-maturity financial assets are measured at amortised costs at the balance sheet date.

Buildings held as investment property are measured at amortised cost less systematic straight-line depreciation in accordance with the aforementioned useful lives for buildings.

Inventories

Inventories are measured at acquisition or production cost. Production cost includes all direct costs as well as a reasonable share of the production-related overheads. In accordance with IAS 2, all substitutable inventories are valued applying the average cost method. Metal inventories that are tied up permanently in the production process, on the other hand, are measured at historical cost. They are recognised in this connection at the balance sheet date at the lower of acquisition or production cost and net realisable value less the estimated costs necessary to make the sale. Net realisable value is determined as a general rule based on the net sales price of the finished product.

Amending the sequence of consumption procedure for the valuation of inventories as required under the revised IAS 2 would lead to considerable discontinuity and a loss of comparability, unless further information were provided. The operating activities of the Group would accordingly not be appropriately presented. The impact of the revaluation of LIFO inventories on the respective items is therefore presented separately.

Receivables and other assets

Receivables and other assets are recognised at amortised cost. Any risk in the receivables is provided for by specific allowances or lump-sum allowances for doubtful debts. Non-interest-bearing receivables due in more than a year are discounted. For receivables due within one year, it is assumed that the fair value corresponds to the face value. Receivables denominated in foreign currencies are translated at the offer price as of the balance sheet date.

Other current assets

Short-term security investments are accounted for as available-for-sale financial assets at fair value based on the stock exchange price as at the balance sheet date. Provided they do not result from impairment losses, gains and losses on measurement are recognised in equity. Accumulated gains or losses are recognised in profit or loss on disposal of the security investments.

Cash and cash equivalents are recognised at amortised cost. Foreign currency balances are translated at the offer price as of the balance sheet date.

Deferred taxes

In accordance with IAS 12, deferred taxes are recognised on all differences between the tax bases of individual companies and the corresponding carrying amounts under IFRS, if these differences will reverse in the future and result in future taxable or deductible amounts. Deferred tax assets are recognised to the extent that they can be used. Tax loss carryforwards are capitalised if they are realisable within the foreseeable future. Deferred tax assets and deferred tax liabilities are offset if they relate to income taxes levied by the same taxation authority and the current taxes can be set off against each other.

Provisions

Provisions for pension and similar obligations are determined based on actuarial reports in accordance with the projected unit credit method prescribed by IAS 19. The demographic assumptions as well as the expected salary and pension trends and the discount rate are determined on the basis of current estimates as of the balance sheet date. Thereby, actuarial gains and losses can result from deviations in the actual parameters compared with the assumptions used for the calculation. In accordance with the corridor method described in IAS 19, actuarial gains and losses at the beginning of the fiscal year are amortised if they exceed 10% of the defined benefit obligation or the fair value of plan assets at the beginning of the fiscal year. The amount recognised for the period equals the amount exceeding the corridor divided by the remaining working lives of the employees participating in the pension plan. The interest portion included in the pension costs is recorded as net interest expense.

Other provisions are recognised for all other uncertain obligations and risks of the Group, for which an obligation to third parties results from past events, the settlement of which is expected to result in an outflow of cash resources, and the amount of which can be reliably estimated. If the effect of the time value of money is material, long-term provisions are recognised at their present value.

Liabilities

Financial liabilities are generally recognised at amortised cost. Interest-free or low-interest liabilities maturing in more than a year are discounted if the effect of the time value of money is material. It is assumed for liabilities due in less than a year that the fair value corresponds to the settlement amounts.

At the inception of the lease, finance lease liabilities are recognised at the present value of the minimum lease payments or, if lower, at the fair value of the leased items. In subsequent periods, the redemption portion included in the minimum lease payments reduces the liability. Liabilities denominated in foreign currencies are measured on initial recognition applying the current exchange rate and, at the balance sheet date, at the bid rate.

Financial instruments

Derivative financial instruments are employed in the NA Group to hedge the risks arising from fluctuations in interest rates and foreign exchange rates, and to hedge non-ferrous metal price risks.

In accordance with IAS 39, all derivative financial instruments are stated at fair value. Changes in the fair value of those derivatives that are not a component of a cash flow hedge are recognised in profit or loss. For fair value hedges, gains and losses on changes in the fair values of the hedged items are recognised in profit or loss at the same time as the gains and losses on changes in the fair values of the derivatives. For cash flow hedges, on the other hand, gains or losses on the effective part of the derivative are recognised in equity, while gains and losses on the ineffective part of the derivative are recognised in profit or loss. The gain or loss on the effective part is realised as soon as the hedged transaction is recognised in profit or loss.

Contracts covering the delivery of non-ferrous metals were concluded in fiscal year 2005/06 not only to cover the expected demand for raw materials and the expected sale of finished products, but also to exploit price fluctuations between short-term and long-term forward prices. Price-fixed metal delivery contracts were therefore also recognised as derivative financial instruments at fair value, recognising gains or losses in profit or loss for the period.

The methods and aims of the Group's financial risk management, and the notional and fair values of the derivative financial instruments are described in Note 23 to the financial statements.

The fair values of financial instruments are determined by reference to commensurate market and exchange values or valuation methods. For cash and cash equivalents as well as other non-derivative financial instruments, with the exception of liabilities to banks, the fair values correspond to the carrying amounts on the respective balance sheet dates.

Changes in fair value are recognised in profit or loss for derivatives in the NA Group, which regardless of their economic hedge effect do not fulfil the criteria of IAS 39 for qualification as hedge accounting.

In 2005/06, a reduction of € 42.9 million in the existing market values was recognised in equity. At the same time, an adjustment of € 94.9 million to the positive fair values, which was recorded in the income statement, had a positive impact on earnings. Valuation effects in current assets have had a reverse impact.

Share-based remuneration components

Since 2004/05, the Executive Board, senior staff and non-tariff staff in the Group have been able to participate in a share-based remuneration component with cash settlement, for which the recognition and measurement regulations of IFRS 2 had to be applied.

The resultant liability is measured in accordance at the fair value of the issued options. The resultant personnel expenses are recognised pro rata temporis in profit or loss over the waiting period of the options. This is recalculated for each balance sheet date during the blocking period and until the options are exercised, on the basis of an option price model taking into account changes in the measurement parameters. The impact on the financial statements for 2005/06 is shown in the explanations on the personnel expenses in Note 4.

NOTES TO THE INCOME STATEMENT

1. Revenues

<i>in € thousand</i>	2005/06	2004/05
By product groups		
<i>Copper cathodes</i>	1,007,560	411,850
<i>Continuous cast wire rod</i>	1,862,677	1,042,586
<i>Continuous cast shapes</i>	1,174,349	531,936
<i>Pre-rolled strip, strips and shaped wires</i>	422,908	235,025
<i>Precious metals</i>	1,050,153	616,406
<i>Chemicals</i>	31,333	30,897
<i>Other</i>	204,036	153,652
	5,753,016	3,022,352

The revenues from continuous cast wire rod and shapes also include revenues from »Wandelkathoden« (copper on account), which have already been sold, but cannot be delivered in the required shapes until receipt of the customers' specifications.

Further details of Group revenues are provided in the segment reporting on pages 135 to 138.

2. Other operating income

<i>in € thousand</i>	2005/06	2004/05
<i>Reversal of provisions</i>	821	2,555
<i>Cost reimbursement and services for third parties</i>	12,355	12,465
<i>Exchange gains</i>	1,046	258
<i>Gains on disposal of fixed assets</i>	739	140
<i>Damages and indemnities</i>	806	564
<i>Other income</i>	6,508	7,678
– of which rent received on investment property	113	175
	22,275	23,660

3. Cost of materials

<i>in € thousand</i>	2005/06	adjusted* 2004/05
<i>Raw materials, supplies and merchandise</i>	5,129,143	2,501,674
– <i>thereof from the revaluation of LIFO inventories using the average cost method</i>	(135,261)	(43,401)
<i>Cost of purchasing services</i>	92,235	88,525
	5,221,378	2,590,199

*Adjustment due to revision of IAS 2

Cost of materials increased parallel to the higher revenues, mainly on account of the higher level of metal prices. Taking into account the changes in inventories,

the cost of materials ratio increased to 89.1% (84.6% in the prior year). This was due to the higher metal prices.

4. Personnel expenses and human resources

<i>in € thousand</i>	2005/06	2004/05
<i>Wages and salaries</i>	155,610	154,839
<i>Social security, pension and other benefit expenses</i>	38,383	34,648
– <i>of which for pensions</i>	7,217	4,976
	193,993	189,487

The pension expenses primarily comprise allocations to the provisions for pensions and to externally funded pension plans.

A share-based remuneration component with cash in lieu has been in force for the Executive Board, senior staff and non-tariff staff in the Group since 2004. The prerequisite for participation is that the respective senior staff must hold a certain number of NA shares. The options granted can be exercised after a waiting period of three years, at the earliest, however, after the third ordinary Annual General Meeting since the commence-

ment of the term of the respective tranche. They must be exercised within a year. The right to exercise the options as well as the amount of the bonus to which each participant is entitled when exercising option rights are determined on the basis of two performance criteria, which depend firstly on the absolute increase in the NA share price and secondly on the performance of the NA shares compared with the CDAX as the reference index.

The granted entitlements to share options have developed as follows:

	1st tranche	2nd tranche	3rd tranche	Total
<i>Outstanding options as at 01.10.2005</i>	484,950	424,900	0	909,850
<i>Options granted in the fiscal year</i>	0	0	393,000	393,000
<i>Options realised in the fiscal year</i>	11,500	5,400	0	16,900
<i>Options expired in the fiscal year</i>	0	0	0	0
<i>Outstanding options as at 30.09.2006</i>	473,450	419,500	393,000	1,285,950

No waiting periods had expired as at the balance sheet date. The weighted average remaining contract term for all options is 24 months.

The resultant personnel expenses are recognised pro rata temporis over the waiting period of the options. In the past fiscal year these amounted to € 1,974 thousand (€ 1,075 thousand in the prior year). The options issued are measured at fair value on the basis of a Black-Scholes option pricing model both for NA AG shares and for the CDAX reference index. The share and index performance at future dates is simulated as part of a Monte Carlo Simulation. The fair value is recalculated as at each balance sheet date during the blocking period and until the options are exercised, on the basis of an option price model taking into account changes in the measurement parameters. The fair value per option right amounted as at 30 September 2006 to between € 3.26 and € 6.99 (between € 0.89 and € 6.58

in the prior year), while the provision for this as of the balance sheet date amounted to € 3,049 thousand (€ 1,075 thousand in the prior year). The following parameters were assumed:

<i>Non-risk interest rate</i>	3.75%–3.78%
<i>NA AG share price as at valuation date</i>	€ 19.00
<i>NA AG share volatility</i>	33.89%
<i>CDAX performance as at valuation date</i>	540.58
<i>CDAX volatility</i>	15.22%
<i>Correlation NA AG/CDAX</i>	55.99%

The expected volatility was determined on the basis of the historical development of the share price.

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

	2005/06	2004/05
<i>Blue collar</i>	2,036	2,042
<i>White collar</i>	955	932
<i>Apprentices</i>	196	184
	3,187	3,158
<i>– thereof number of employees in joint venture</i>	134	128

5. Depreciation and amortisation

Depreciation and amortisation for the Group totalled € 51,584 thousand (€ 63,647 thousand in the prior year). This comprises depreciation of € 49,459 thousand on property, plant and equipment (€ 52,183 thousand in the prior year), amortisation of € 2,117 thousand on intangible assets (€ 11,451 thousand in the prior year) and depreciation of € 8 thousand on investment property (€ 13 thousand in the prior year). In the prior year, amortisation on intangible assets included impairment losses of € 8,200 thousand on goodwill.

Impairment losses on property, plant and equipment and on licenses, industrial property rights and similar rights and assets, and licenses to such rights and assets in the reporting period amounted to € 50 thousand (€ 1,200 thousand in the prior year).

In accordance with IFRS 3, no systematic amortisation was recorded on goodwill in the reporting period. Furthermore, no impairment losses resulted from the regular impairment tests foreseen by IFRS 3. The impairment tests are based on the measurement of the value in use of the individual cash generating units, applying the discounted cash flow method.

In this process, the projected cash flows forecasted in the Group budget for the next four years are rolled forward and discounted as at the balance sheet date without taking into account a further growth rate for future years. The interest rate applied for this discounting amounted as at 30 September 2006 to 7.0% (previous year: 6.5%). In forecasting the cash flows, the Group budget takes into account both historical experience and future market and industry expectations.

A precise breakdown of depreciation and amortisation on intangible assets, property, plant and equipment and financial assets is provided in the details of changes in fixed assets on pages 86 to 89.

6. Other operating expenses

<i>in € thousand</i>	2005/06	2004/05
<i>Expenses relating to prior periods</i>	1,179	2,351
<i>Allocations to provisions</i>	768	5,248
<i>Sundry expenses</i>	26,437	21,212
<i>Administrative expenses</i>	22,063	27,856
<i>Selling expenses</i>	38,753	31,631
<i>Other taxes</i>	892	874
	90,092	89,172

Expenses relating to prior periods primarily comprise losses on the disposal of fixed assets. The selling expenses mainly comprise freight costs.

7. Result from investments

<i>in € thousand</i>	2005/06	2004/05
<i>Income from profit and loss transfer agreements</i>	6	0
<i>Income from investments</i>	184	77
	190	77

Income from investments consists solely of dividends from non-consolidated subsidiaries.

8. Net interest expense

<i>in € thousand</i>	2005/06	2004/05
<i>Income from loans reported under financial assets</i>	23	29
<i>Interest and similar income</i>	5,666	4,445
<i>Interest and similar expenses</i>	(13,607)	(13,949)
	(7,918)	(9,475)

Interest and similar expenses include the interest component of the pension costs in the amount of € 1,620 thousand (€ 3,256 in the prior year).

9. Income Taxes

Income taxes comprise income taxes paid or owed and deferred taxes. Income tax expense including deferred taxes is made up as follows:

<i>in € thousand</i>	2005/06	adjusted* 2004/05
<i>Income taxes</i>	53,644	32,246
<i>Deferred taxes</i>	77,876	20,063
– <i>thereof from the revaluation of LIFO inventories using the average cost method</i>	88,587	23,233
	131,520	52,309

*Adjustment due to revision of IAS 2

Income taxes include back payments (refunds) of taxes of € 2,178 thousand, which mainly relate to the years 2000, 2001 and 2002 (€ –6,905 thousand in the prior year).

Deferred taxes result from the different timing of carrying amounts between the tax bases of the companies and the consolidated balance sheet. They are calculated using the balance sheet oriented liability method and the tax rates expected at the time of realisation. These are generally based on the legal situation applying as of the balance sheet date.

In accordance with IAS 12.81, the actual tax expense must be reconciled to the tax charge that would have resulted if the theoretical tax rates were applied to the reported consolidated pre-tax earnings. The aggregate tax rate of 40% used in the reconciliation consists of 25% corporation tax plus a solidarity surcharge of 5.5% on the corporation tax liability, plus an effective trade tax rate of 18.5% determined on the basis of various municipal rates.

<i>in € thousand</i>	2005/06	adjusted* 2004/05
Reconciliation:		
Earnings before income taxes	323,742	147,966
Theoretical tax charge at 40%	129,497	59,186
Change in theoretical tax charge due to:		
– loss carryforwards	(740)	(1,962)
– deviating tax rates	824	646
– taxes for prior years	2,178	(6,905)
– reduction and increase of corporation tax	(738)	0
– non-deductible expenses	625	1,116
– non-taxable income	(126)	228
Income taxes	131,520	52,309
– thereof from the revaluation of LIFO inventories using the average cost method	88,587	23,233

*Adjustment due to revision of IAS 2

The following deferred tax assets and liabilities result from recognition and measurement differences in indi-

vidual balance sheet items and from tax loss carryforwards:

<i>in € thousand</i>	2005/06		adjusted* 2004/05	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
<i>Intangible assets</i>	7,213	9,852	8,576	9,855
<i>Property, plant and equipment</i>	848	46,885	750	45,730
<i>Financial assets</i>	12	5	15	10
<i>Inventories</i>	0	130,756	0	42,794
– thereof from the revaluation of LIFO inventories using the average cost method	0	130,756	0	42,169
<i>Receivables and other assets</i>	66,106	203,975	33,203	61,595
<i>Sundry current assets</i>	0	0	0	0
<i>Pension liabilities</i>	2,638	0	1,475	0
<i>Other provisions</i>	8,830	1,136	17,133	991
<i>Liabilities</i>	212,175	36,777	45,533	25,655
<i>Tax loss carryforward</i>	5,407	0	5,872	0
<i>Offsetting</i>	(301,608)	(301,608)	(111,960)	(111,960)
Consolidated balance sheet total	1,621	127,778	597	74,670

*Adjustment due to revision of IAS 2

Based on the forecast profit expectations of the subsidiaries, it is assumed in accordance with IAS 12.34 that the loss carryforwards will be fully utilised. This also applies to EIP Metals Ltd., Smethwick, England, which has become profitable in the first few months of 2006/07 following initial losses.

The recognition of the related deferred taxes because of the reassessment of the usability of the tax loss carryforwards results in income of € 740 thousand (€ 1,962 thousand in the prior year).

The amount of deferred taxes resulting from items charged or credited directly in equity has increased, after offsetting, compared with the previous year (deferred tax assets of € 12,018 thousand) to deferred tax assets of € 36,847 thousand.

On 9 November 2006, after the balance sheet date, the lower house of the German Federal Parliament passed the Law on Tax Measures Accompanying the Introduction of the European Company and the Amendment of further Tax Regulations. The recognition of corporation tax reduction amounts on account of Section 37 (2) German Corporation Tax Act will result in a tax refund of approximately € 3,150 thousand in 2006/07.

10. Income attributable to minority interest

Of the reported net income for 2005/06 of € 192,222 thousand (€ 95,657 thousand in the prior year), € 1,125 thousand is attributable to the minority interest (€ 1,412 thousand in the prior year). This relates to the interests of other shareholders in Deutsche Giessdraht GmbH, Emmerich.

11. Earnings per share

Basic earnings per share are calculated by dividing the consolidated net income without minority interest by

the weighted average number of shares outstanding during the fiscal year.

<i>in € thousand</i>	2005/06	adjusted* 2004/05
<i>Consolidated net income without minority interest</i>	191,097	94,245
<i>Weighted average number of shares (in 1,000)</i>	36,041	33,601
Basic earnings per share in €	5.30	2.80
– <i>thereof from the revaluation of LIFO inventories using the average cost method</i>	3.66	1.03

*Adjustment due to revision of IAS 2

To determine the diluted earnings per share, the maximum number of shares, which would be issued if all conversion rights on convertible bonds were exercised, is added to the weighted average of the shares outstanding in the fiscal year. Where applicable, the consolidated net income is increased at the same time by the interest expense incurred on convertible bonds less the corresponding taxes.

Since no conversion rights on convertible bonds existed in the fiscal year, the diluted earnings per share corresponded with the basic earnings per share for the fiscal year. The diluted earnings per share for the prior year are calculated as follows:

<i>in € thousand</i>	2005/06	adjusted* 2004/05
<i>Consolidated net income</i>	191,097	94,245
<i>+ Interest expense on convertible bonds</i>	0	0
<i>– Taxes</i>	0	0
<i>Adjusted earnings for the period</i>	191,097	94,245
<i>Weighted average number of shares – diluted (in 1,000)</i>	36,041	33,813
Diluted earnings per share in €	5.30	2.79
<i>– thereof from the revaluation of LIFO inventories using the average cost method</i>	3.66	1.03

*Adjustment due to revision of IAS 2

NOTES TO THE BALANCE SHEET

12. Fixed assets

The breakdown and development of the Group's fixed assets are presented on pages 106 to 109 of this report.

Intangible assets include licenses acquired for a consideration and goodwill on consolidation. Most of the carrying amounts relate to goodwill for Prymetall in the amount of € 6,322 thousand, as well as goodwill at NA AG in the amount of € 17,439 resulting from the acquisition of the Prymetall Subgroup, which is due to synergy effects between NA AG and Schwermetall Halbleitungswerk GmbH & Co. KG. This interest was allocated in the prior year to the Prymetall Subgroup. The amended allocation has not had any further accounting consequences.

Development costs were capitalised provided the recognition criteria in IAS 38 were completely satisfied. In the past fiscal year, these related to a portion of the development costs of € 70 thousand for CIS Solartechnik GmbH & Co. KG, Bremerhaven. A subsidy of € 31 thousand was deducted from these development costs, so that a capitalisable asset of € 39 thousand remains. This subsidy was granted on condition that regular business activities continue at the facility in Bremerhaven during the period covered by the subsidy.

Rented and leased property, plant and equipment totalled € 8,191 thousand (€ 4,408 thousand in the prior year), and mainly consisted of tanks for storing sulphuric acid, motorcars and two modern acid tank ships, which are classified as assets due to a newly concluded freight contract. The leasing agreements are generally based on fixed rental arrangements. Collateral has not been given for them.

As at 30 September 2006, Group fixed assets with a carrying amount of € 1,526 thousand were pledged as security for loans (€ 569 thousand in the prior year). Purchase commitments for property, plant and equipment amounted at that date to € 13,981 thousand (€ 10,743 thousand in the prior year).

The market value of real estate and buildings held as investment property amounted to € 1,083 thousand. Rental income of € 684 thousand was expected on this as at 30 September 2006, of which € 114 thousand is due within a year.

A detailed overview of the interests included in the financial assets of Norddeutsche Affinerie AG is presented on page 141 of this report.

13. Inventories

<i>in € thousand</i>	30.09.2006	adjusted* 30.09.2005
<i>Raw materials and supplies</i>	432,139	228,681
<i>Work in process</i>	234,289	154,808
<i>Finished goods, merchandise</i>	122,842	87,943
<i>Payments on account of inventories</i>	5,252	0
	794,522	471,432
– <i>thereof from the revaluation of LIFO inventories using the average cost method</i>	325,920	105,254

*Adjustment due to revision of IAS 2

The change in the sequence of consumption process due to the revision of IAS 2 resulted in an increase of € 325,920 thousand in the carrying amount of inventories (€ 105,254 thousand in the prior year) compared with the LIFO method previously applied.

Write-downs on inventories in the fiscal year amounted to € 2,229 thousand (€ 4,796 thousand in the prior year).

14. Receivables and other assets

<i>in € thousand</i>	Maturing in			Total	
	less than 1 year	1 to 5 years	more than 5 years	30.09.2006	30.09.2005
<i>Trade accounts receivable</i>	468,236	0	0	468,236	197,233
<i>Receivables from related parties</i>	6,198	0	0	6,198	5,505
<i>Other receivables and assets</i>	472,462	0	26,426	498,888	162,243
				973,322	364,981

The increase in trade accounts receivable is due especially to the higher Group revenues as a result of the metal prices. In addition, receivables of € 38 million (€ 37 million in the prior year) were sold without recourse as part of factoring agreements.

Receivables from related parties primarily comprise receivables from Schwermetall Halbzeugwerk GmbH & Co. KG, which is consolidated proportionately, and some minor receivables from non-consolidated subsidiaries.

Other receivables and assets as at 30 September 2006 include positive fair values of € 460,125 thousand (€ 112,415 thousand in the prior year) from derivative financial instruments as well as an asset amount from an over-funded pension fund in the amount of € 26,426 thousand. They also include claims for tax refunds from the tax authorities in the amount of € 2,163 thousand (€ 16,143 thousand in the prior year) and prepaid expenses of € 303 thousand.

15. Short-term security investments

This item comprises fixed-interest securities, all of which are pledged.

16. Cash and cash equivalents

Cash and cash equivalents consist of current accounts and time deposits, as well as cash in hand and cheques. Deposits at the banks are mostly euro deposits at various banks.

17. Equity

As part of the authorisation given at the Annual General Meeting on 31 March 2005, it was resolved on 31 January 2006 to increase the subscribed capital by 10% for a contribution in cash, excluding shareholder subscription rights, and to place the shares as part of an accelerated book building. The proceeds from the placement of 3,340,919 new no-par-value shares with a calculated par value of € 2.56 per share amounted to € 23.10 per share. The proceeds from the issue, after deducting the costs of the increase in capital, totalled € 75,762,102.03. As a result, the subscribed capital of Norddeutsche Affinerie AG amounts as at 30 September 2006 to € 95,115,056.64 and is divided into 37,154,319 bearer shares. The share premium of € 67,209,349.39 from the increase in capital was allocated to additional paid-in capital. The costs of the share issue (€ 2,369 thousand) reduced by all of the associated income tax benefits (€ 957 thousand) have been deducted directly from additional paid-in capital.

It was resolved at the Annual General Meeting on 30 March 2006 that new authorised, unissued capital would be created. Accordingly, the Executive Board is empowered, subject to the approval of the Supervisory Board, to increase the subscribed capital by 29 March 2011 by up to € 47,557,527.04 by issuing new shares once or in several instalments for a cash contribution or a contribution in kind.

In addition, the share capital has been conditionally increased by up to € 41,500,000.00. It will be used to grant rights to the holders of warrants and/or convertible bonds that can be issued by 30 March 2010.

Retained earnings include the consolidated net income, the revenue reserves of all Group companies, the accumulated retained earnings of the subsidiaries since their initial consolidation and the accumulated amounts resulting from consolidation adjustments recognised in profit or loss for the period. The legal reserve of € 6,391 thousand, which is not available for dividend payments, is also included here.

The effects of derivative financial instruments as part of cash flow hedges (€ -91,238; € -29,758 thousand in the prior year) and exchange differences of € 38 thousand (€ 26 thousand in the prior year) are reported in the changes in accumulated other comprehensive income. Deferred taxes of € 36,847 thousand (€ 12,018 thousand) were recognised for these two matters.

Minority interests comprise the interests of non-Group shareholders in the equity of fully consolidated companies. As at 30 September 2006 these only exist at Deutsche Giessdraht GmbH.

A detailed statement of changes in equity is presented on page 105 of this Annual Report.

Proposed appropriation of earnings

The separate financial statements of Norddeutsche Affinerie AG have been prepared in accordance with German GAAP (HGB – German Commercial Code).

<i>Net income for the year of Norddeutsche Affinerie Aktiengesellschaft</i>	€ 58,750,000.00
<i>Allocations to other revenue reserves</i>	€ 19,737,965.05
Unappropriated earnings	€ 39,012,034.95

We will propose to the Annual General Meeting that Norddeutsche Affinerie AG's unappropriated earnings

of € 39,012,034.95 be used to pay a dividend of € 1.05 per no-par-value share (= € 39,012,034.95).

18. Pension liabilities

Retirement benefits for employed persons are granted in the Group based on both defined benefit plans and defined contribution plans. The expenditure incurred for these is included in the personnel expenses.

The majority of the pension benefit plans are defined benefit plans. Both funded and unfunded plans exist.

The pension liabilities were computed based on the following assumed market discount rates, salary and pension trends:

	30.09.2006	30.09.2005
<i>Discount rate</i>	4.50%	4.00%
<i>Expected income trend</i>	2.50%	2.25%
<i>Expected pensions trend</i>	5.00% every 3 years	4.00% every 3 years
<i>Expected return on plan assets</i>	4.50%	4.50%
<i>Fluctuation</i>	0.00% to 10.00%	1.00% to 10.00%

The retirement age was assumed to be the earliest possible age at which an employee can claim benefits under the state pension scheme in accordance with the 1999 Pension Reform Act. The corresponding calculation bases are based on Prof. Klaus Heubeck's 2005G mortality tables.

In the event of over-funded pension plans, the resulting assets are reported under other assets in accordance with IAS 19.58. The net liability recognised in the consolidated balance sheet for defined benefit plans is arrived at as follows:

<i>in € thousand</i>	2005/06	2004/05
<i>Present value of unfunded pension obligations</i>	38,348	38,469
<i>+ Present value of funded pension obligations</i>	257,907	262,262
<i>= Present value of pension obligations</i>	296,255	300,731
<i>– Fair value of plan assets</i>	(238,993)	(230,955)
<i>– Unrealised actuarial losses</i>	(28,724)	(43,575)
<i>= Net debt included in the balance sheet</i>	28,538	26,201
<i>+ Assets in accordance with IAS 19.58</i>	26,426	24,859
= Net liability per balance sheet	54,964	51,060

The net liability developed as follows during the past fiscal year:

<i>in € thousand</i>	2005/06	2004/05
<i>Net liability at the beginning of the fiscal year</i>	51,060	49,797
<i>+ Net expense recognised in the income statement</i>	9,943	8,847
<i>– Payments to beneficiaries during the fiscal year (unfunded plans)</i>	(3,188)	(3,138)
<i>– Payments to pension funds during the fiscal year (funded plans)</i>	(2,851)	(4,446)
= Net liability at the end of the fiscal year	54,964	51,060

The following amounts were recognised in the income statement:

<i>in € thousand</i>	2005/06	2004/05
<i>Current service cost</i>	7,257	5,529
<i>Interest expense on the pension obligation</i>	11,805	12,806
<i>Expected return on plan assets</i>	(10,185)	(9,550)
<i>Actuarial gains and losses</i>	1,066	15
<i>Assets taken over</i>	0	47
Total amounts affecting income	9,943	8,847

The actual return on plan assets was € 5,531 thousand higher than the expected return.

Expenditure for defined contribution plans for Group retirement pensions amounted to € 32 thousand in the year under review.

19. Deferred tax liabilities

The breakdown of the deferred tax liabilities is presented in Note 9 Income taxes.

20. Other provisions

The individual classes of provisions developed as follows during the past fiscal year:

<i>in € thousand</i>	Balance per 01.10.2005	Used	Released	Allocated	Balance per 30.09.2006
<i>Personnel provisions</i>	42,907	6,679	32	8,045	44,241
<i>Environmental provisions</i>	8,444	301	1	93	8,235
<i>Expected losses on onerous contracts</i>	32,843	24,295	132	5,123	13,539
<i>Sundry provisions</i>	9,342	4,269	656	2,329	6,746
	93,536	35,544	821	15,590	72,761

The allocations to personnel and environmental provisions include compounded interest of € 487 thousand.

The personnel provisions consist mainly of obligations to employees relating to Christmas bonuses, outstanding holiday claims, anniversary bonuses, bridging loans, profit-sharing bonuses and from the early retirement scheme. Environmental provisions primarily include rehabilitation measures at the Hamburg and Lünen sites. Various methods are available to carry out these measures. The probable costs are determined taking into account experience to date in comparable cases, existing surveys and the rehabilitation method that will probably be used on the basis of present knowledge.

Provisions for expected losses on onerous contracts were recognised for treatment and refining charges that will not cover the costs. Full costs on the basis of the Group budget for the following year were taken for the calculation of the provisions, taking into account expected cost increases. In addition, expected losses are included from the sale of sulphuric acid arising during the smelting process.

21. Liabilities

<i>in € thousand</i>	Maturing in			Total	
	less than 1 year	1 to 5 years	more than 5 years	30.09.2006	30.09.2005
<i>Financial liabilities</i>	94,065	69,592	19,193	182,850	125,116
– <i>thereof lease liabilities</i>	949	3,128	4,133	8,210	4,428
<i>Trade accounts payable</i>	546,410	0	0	546,410	236,070
<i>Advance payments received on orders</i>	693	0	0	693	737
<i>Payables to related parties</i>	975	0	0	975	2,425
<i>Income tax liabilities</i>	31,369	0	0	31,369	6,860
<i>Other liabilities</i>	422,011	588	0	422,599	137,469
				1,184,896	508,677

The conditions with respect to liabilities to banks from loans and their carrying amounts as at 30 September 2006 are presented in the following table:

Weighted average interest rate	Fixed interest period until	Carrying amount € thousand
<i>Euribor + Margin</i>	2007	20,000
3.4%	2007	30,672
<i>Euribor + Margin</i>	2008	3,734
4.6%	2008	14,332
4.9%	2009	22,928
3.8%	2010	3,986
<i>Euribor + Margin</i>	2011	3,731
4.7%	2011	16,505
4.8%	2013	21,138
4.4%	2014	588
6.0%	2016	1,278
		138,892

Of this total, € 81,525 thousand comprises long-term and € 57,367 thousand short-term financial liabilities. In addition, a bank overdraft of € 35,749 thousand is included under short-term financial liabilities.

The nominal values of liabilities to banks mainly correspond to the fair values.

Interest-swap agreements have been concluded in the NA Group to hedge variable interest agreements. Based on current market interest rates, the fair value of the long-term financial liabilities amounts to € 89,350 thousand.

At subsidiaries, security of € 13,694 thousand has been provided for bank loans and overdrafts in the form of mortgages and fixed assets.

Finance lease liabilities are reported under the financial liabilities in the accompanying balance sheet. They include the present value of the minimum lease payments and the contractually guaranteed residual values at the end of the lease term. Payments are due as follows:

<i>in € thousand</i>	less than 1 year	1 to 5 years	more than 5 years	Total
<i>Minimum lease payments</i>	1,272	4,336	5,162	10,770
<i>Interest portion</i>	323	1,208	1,029	2,560
<i>Redemption portion</i>	949	3,128	4,133	8,210

Other liabilities relating to social security contributions as at 30 September 2006 amount to € 4,149 thousand (€ 8,059 thousand in the prior year). Further material items under other liabilities are tax liabilities of

€ 58,904 thousand and negative market values of € 344,326 thousand for metal futures and foreign currency forward contracts.

22. Contingent liabilities and other financial commitments

<i>in € thousand</i>	2005/06	2004/05
<i>Contingent liabilities under discounted bills</i>	547	424
<i>Capital commitments</i>	13,981	10,743
<i>Commitments under tolling agreements</i>	5,459	7,959
<i>Warranty obligations and other contingencies</i>	3,200	5,171
	23,187	24,297

Capital commitments relate exclusively to property, plant and equipment. Other financial commitments under a long-term contract starting on 1 January 2007 with a term of 20 years amount to € 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 by the Group companies. These obligations are matched by corresponding recourse claims.

Financial commitments under operating leases

As at 30 September 2006, minimum lease payments under operating leases amounted to € 8,352 thousand (€ 11,004 thousand in the prior year). These are due as follows:

<i>in € thousand</i>	less than 1 year	1 to 5 years	more than 5 years	Total
<i>Minimum lease payments under operating leases</i>	2,590	5,613	149	8,352

Lease payments in 2005/06 recognised as an expense amounted to € 3,968 thousand (€ 2,958 thousand in the prior year).

23. Financial instruments

As a result of its business operations, the NA Group is in particular exposed to non-ferrous metal price and exchange rate fluctuations as well as credit risks relating to receivables. It is therefore company policy to mitigate these risks by entering into non-ferrous metals futures and foreign currency forward contracts covering primarily copper and the U.S. dollar. Ingoing and outgoing metal quantities from underlying transactions are offset and remaining quantities likewise settled each day by exchange transactions.

Furthermore, currency forward contracts and metal futures contracts were concluded in the past fiscal year to hedge the future earnings. Provided the criteria for cash flow hedges were fulfilled, the results of these hedge transactions were recognised in the accompanying financial statements initially in equity in the amount of the effective part of the hedge transaction. They are recognised in profit or loss for the current fiscal year as soon as the underlying hedged transaction is recognised in the income statement.

Since delivery agreements for non-ferrous metals are used both to cover the expected raw material requirement or the expected sale of finished products and to exploit market opportunities that arise due to maturity congruencies, price-fixed metal delivery agreements have also been recognised as derivative financial instruments. Gains and losses from the contrary development of the fair value of the hedged items and the hedge transactions are thus recognised directly in profit or loss.

Future receipts in foreign currencies are hedged in particular by forward contracts and options. Fundamental changes in exchange rates, in particular between the euro and the U.S. dollar, can, however, only be hedged for a limited time.

We work exclusively with first-class brokers and banks on all metal and foreign exchange transactions.

The supply of sufficient liquidity to the Group is ensured not only by the Group's strong cash flow but also by the short-term and long-term credit lines available at our banks. Fluctuations in cash flow can thus be absorbed.

An autonomous executive committee, on which the Executive Board is represented, monitors the developments on the metal and foreign currency markets regularly and promptly, as well as NA's price and liquidity position. Possible margin calls due to exchange transactions are taken into account. All of the U.S. dollar receipts for fiscal year 2006/07 had already been hedged at the end of December 2006.

To minimise credit risks, we monitor the receivables from our business associates each day. In addition to instruments customary on the market, such as letters of credit and guarantees, we also use trade credit insurance to hedge potential bad debts. Receivables are also sold without recourse as part of factoring agreements. The maximum potential credit risk on all the receivables corresponds to their carrying amounts.

Interest derivatives are used in addition to hedge interest rate risks that arise.

<i>in € million</i>	Notional amounts	
	30.09.2006	30.09.2005
Non-ferrous metal futures contracts (exchange)		
<i>Maturity of up to 1 year</i>	842.6	474.3
<i>Maturity of 1 to 5 years</i>	430.8	360.2
	1,273.4	834.5
Non-ferrous metal futures contracts (physical)		
<i>Maturity of up to 1 year</i>	629.2	222.7
<i>Maturity of 1 to 5 years</i>	30.0	9.4
	659.2	232.1
Foreign currency forward contracts		
<i>Maturity of up to 1 year</i>	619.2	195.9
<i>Maturity of 1 to 5 years</i>	363.9	285.9
	983.1	481.8
Options		
<i>Metal options</i>	32.1	0.0
<i>Foreign currency options</i>	64.4	79.8
Interest derivatives	70.6	40.0

The notional amount of the derivative financial instruments is the sum of the notional amounts of all purchase and sales contracts. By contrast, the fair value is based on the measurement of all contracts at the prices on the measurement date. It indicates the potential impact on income of the prompt settlement of all derivatives as at the balance sheet date without taking into account the underlying transactions. As of the balance sheet date, the fair value amounted to € -1.7 million for metal futures contracts, which is made up of negative fair values of € 450.4 million and positive fair

values of € 448.7 million. Negative fair values for interest derivatives amounted to € 0.6 million. Negative fair values of € 0.6 million and positive fair values of € 5.7 million existed for foreign currency forward contracts, which resulted altogether in a market value of € 5.1 million. Option contracts, for which a premium was paid, are recognised under other assets in the balance sheet, and had a positive fair value of € 3.3 million at the balance sheet date.

24. Research and development

Research and development costs in the NA Group amounted in 2005/06 to € 4.8 million.

The Group received non-refundable government subsidies of altogether € 443 thousand for research work at CIS Solartechnik GmbH & Co. KG, Bremerhaven. These consist of an investment subsidy of € 325 thousand, which was deducted from the fixed assets, and a subsidy for ongoing costs of € 118 thousand, which

has been recognised in profit and loss under other operating income. The subsidies were granted on condition that regular business activities continue at the facility in Bremerhaven during the period covered by the subsidies.

NOTES TO THE CASH FLOW STATEMENT

The cash flow statement reports the cash flows in the NA Group in fiscal year 2005/06 and in the prior year. In accordance with IAS 7, a distinction is made between the cash outflow or inflow from operating activities, the cash outflow from investing activities and the cash inflow or outflow from financing activities.

On the basis of the earnings before taxes, gross cash flow is first of all reported, after adjusting for depreciation and amortisation, non-cash expenses and income as well as net financial expenses and income taxes paid. Net interest expense consists of interest income of € 5,689 thousand (€ 4,474 thousand in the prior year) and interest expense of € 13,607 thousand (€ 13,949 thousand in the prior year). In the prior year, write-ups were set off against the corresponding depreciation and amortisation.

The cash outflow (inflow in prior year) from operating activities (net cash flow) is arrived at by adjusting the gross cash flow for changes in working capital.

The cash outflow from investing activities for the reporting period mainly results from the purchase of fixed assets. In detail, € 714 thousand (€ 1,505 thousand in the prior year) was invested in intangible assets, € 47,063 thousand (€ 31,788 thousand in the prior year) in property, plant and equipment and € 31 thousand (€ 62 thousand in the prior year) in financial assets.

The cash inflow (outflow in the previous year) from financing activities in 2005/06 resulted from proceeds and payments from taking up and redeeming financial liabilities, proceeds from increases in capital, payments for dividends and interest payments. In the prior year this item also included payments made for convertible bonds that had matured under a share option plan.

SEGMENT REPORTING

<i>in € thousand</i>	Copper Production Segment		Copper Processing Segment		Other		Group total	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
<i>Revenues</i>								
<i>Total revenues</i>	3,979,731	2,276,418	4,488,422	2,244,117	2,902	1,215		
<i>Inter-segment revenues</i>	2,649,004	1,465,988	69,035	33,410	0	0		
<i>Revenues with third parties</i>	1,330,727	810,430	4,419,387	2,210,707	2,902	1,215	5,753,016	3,022,352
<i>Earnings before taxes</i>	66,998	56,275	37,976	38,254	(1,898)	(4,679)	103,076	89,850
<i>EBIT</i>	68,744	59,836	44,139	44,150	(1,889)	(4,661)	110,994	99,325
<i>EBITDA</i>	109,085	102,579	55,192	64,902	(1,699)	(4,509)	162,578	162,972
<i>Result from investments</i>	175	56	9	5	6	16	190	77
<i>Fixed assets</i>	266,322	266,939	90,915	96,746	2,905	1,990	360,142	365,675
<i>Capital expenditure</i>	41,580	23,549	5,124	9,776	1,104	30	47,808	33,355
<i>Depreciation and amortisation</i>	40,341	42,743	11,053	20,752	190	152	51,584	63,647
<i>Other non-cash expenses</i>	13,899	(11,753)	(10,352)	3,256	(731)	440	2,816	(8,057)
<i>Segment assets</i>	989,469	701,915	808,190	389,822	4,793	5,297	1,802,452	1,097,034
<i>Segment liabilities</i>	830,196	398,048	296,167	125,437	3,408	4,672	1,129,771	528,157
<i>Average number of employees</i>	2,063	2,048	1,117	1,109	7	1	3,187	3,158
<i>Personnel expenses</i>	127,026	123,914	66,672	65,489	295	84	193,993	189,487

The accompanying segment reporting complies with the internal organisation and reporting in the NA Group. Allocations to the segments are based on the process cycles that are in place and the existing production structure. All amounts and results that cannot be allocated to one of the two defined segments are reported in the »Other« column.

The Segment information was determined applying the accounting policies described in the notes, but using the LIFO method for the valuation of inventories. This is because the internal reporting to Management is also based on the figures obtained by the application of the LIFO method to facilitate decision-making and the Group management control. These figures are regarded as the most suitable for the external presentation of each Segment, since they are far less strongly influenced by metal price fluctuations.

The reconciliation of the Segment results to earnings before taxes reported in the Income Statement after revaluation of LIFO inventories using the average cost method is as follows:

	Copper Production Segment		Copper Processing Segment		Other		Group total	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
After revaluation of LIFO inventories using average cost method:								
in T€								
Difference in earnings from revaluation of LIFO inventories	146,943	46,449	73,723	11,667	0	0	220,666	58,116
Earnings before taxes	213,941	102,724	111,699	49,921	(1,898)	(4,679)	323,742	147,966
EBIT	215,687	106,285	117,862	55,817	(1,889)	(4,661)	331,660	157,441
EBITDA	256,028	149,028	128,915	76,569	(1,699)	(4,509)	383,244	221,088
Segment assets	1,208,553	774,057	915,026	422,934	4,793	5,297	2,128,372	1,202,288

Geographical segmentation is not necessary because all of the NA Group's significant production sites are in Germany.

The NA Group generates most of its revenues with business associates in countries in the European Union. The exact breakdown of revenues by segments and regions is as follows:

[illegible]

Copper Production Segment

- *Business Unit Marketing Metallurgy*
- *Business Unit Marketing Recycling*
- *Production Sector Primary Copper Production*
- *Production Sector Secondary Copper Production/Precious Metals*

The Copper Production Segment includes all areas from the procurement of copper and precious metal-bearing raw materials to the production of marketable metals. The raw materials fundamentally comprise copper concentrates, copper-bearing recycling materials and precious metal-bearing raw materials. These are processed, above all, into tradable copper cathodes as well as marketable gold, silver and platinum group metal products. At the same time, the natural by-products extracted from the raw materials are also processed into products, such as sulphuric acid and iron silicate stone.

The vast majority of the copper cathodes produced are passed on to the Copper Processing Segment. Precious metals, sulphuric acid and iron silicate stone are in contrast mainly sold to external customers. In the Copper Processing Segment, the copper cathodes are processed into copper products and then sold to external customers. As a result, the Copper Production Segment generates most of its revenues within the Group.

The Copper Production Segment also includes the production of high-grade selenium products as well as the environmentally friendly dismantling of cables and the sale of the granules produced from this.

Copper Processing Segment

- *Business Unit Copper Products*
- *Prymetall*
- *Schwermetall Halbzeugwerk*

The Copper Processing Segment includes all of the areas engaged in the production and sale of continuous cast wire rod and shapes, pre-rolled strip, strips and shaped wires as well as copper trading. The copper

cathodes produced in the Copper Production Segment are the main starting products. The vast majority of the Segment's products are sold in Europe.

Segment data

The revenues of the individual segments consist on the one hand of inter-segment revenues and secondly of revenues with third parties outside the Group. The total third party revenues correspond with the consolidated revenues of the Group. The conditions and prices for products and services exchanged between Group companies and segments correspond to those with non-related third parties.

Earnings before taxes represent the contributions of the respective segments to Group earnings and include earnings attributable to the minority interest in subsidiaries.

EBIT (earnings before interest and taxes) of the individual segments is derived from earnings before taxes, adjusted for the respective net interest. EBITDA (earnings before interest, taxes, depreciation and amortisation) is EBIT plus depreciation and amortisation.

The result from investments comprises dividend payments from non-consolidated companies.

Segment fixed assets are also reported. Goodwill from consolidation is allocated to the respective segment. Depreciation and amortisation on fixed assets are reported accordingly.

Allocations to provisions, to the extent that they can be allocated to the segments, and write-downs in current assets are included under the non-cash expenses.

Segment assets totalling € 1,802,452 thousand (€ 1,097,034 thousand in the prior year) comprise all assets except for deferred tax assets of € 1,621 thousand (€ 597 thousand in the prior year) and cash and cash equivalents of € 6,566 thousand (€ 29,678 thousand in the prior year). Inventories were also recognised here using the LIFO method.

Segment liabilities include provisions allocated to the segments as well as trade accounts payable and other liabilities for each segment. They are reconciled as follows:

<i>in € thousand</i>	2005/06	adjusted* 2004/05
<i>Total segment liabilities of the individual segments</i>	1,129,771	528,157
<i>Financial liabilities</i>	182,850	125,116
<i>Deferred taxes</i>	127,778	74,670
<i>Total Group liabilities</i>	1,440,399	727,943

**Adjustment due to revision of IAS 2*

The average number of employees for each segment includes the employees of all the companies which were fully consolidated in the accompanying financial statements. Employees of the proportionately consolidated companies were included in accordance with the Group's holding. Personnel expenses are reported accordingly.

OTHER INFORMATION

Related parties

In accordance with IAS 24, related parties are regarded as all persons and entities that are influenced by or that can influence the company.

In the NA Group, several companies purchase various services from and provide various services to related companies as part of their normal business activities. Such deliveries and services are charged at market prices. Services are charged on the basis of existing contracts.

Individual shareholders of Norddeutsche Affinerie AG do not exercise a significant influence on the Group. The relationships to the Executive Board and Supervisory Board are disclosed below.

Information on the Executive Board and Supervisory Board

Total remuneration

The total remuneration of the Executive Board for 2005/06 amounted to € 2,687,956 and included a fixed component for the past fiscal year of € 1,275,831 and a performance-related component of € 1,412,125. In addition, the proportional fair value of the options acquired by the Executive Board as part of an incentive plan amounted to € 357,757.

Former members of the Executive Board and their surviving dependents received a total of € 982,263, while € 10,375,675 has been provided for their pension entitlement.

The remuneration of the Supervisory Board for 2005/06 amounted to € 377,973.

Shareholdings

Members of the Supervisory Board hold 8,985 shares and members of the Executive Board hold 18,651 shares in Norddeutsche Affinerie AG.

Directors' dealings

The members of the Executive Board, Dr Werner Marnette, Dr Bernd Langner and Dr Bernd Drouven, and the members of the Supervisory Board, Prof Hausselt and Mr Wirtz, have notified the Company that they transacted notifiable business in the period from 1 October 2005 to 30 September 2006, in that they purchased a total of 3,700 no-par-value shares and sold a total of 18,000 no-par-value shares during that time. The Company has reported this to the Federal Authority for Financial Services Supervision and has published this information.

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

The declaration required under Section 161 German Companies Act has been issued by the Executive Board and Supervisory Board and has been made accessible to the shareholders on the Company's website.

Notification in accordance with Section 160 paragraph 1 No. 8 German Companies Act

L. Possehl & Co. mbH, 23552 Lübeck informed us in the name of and on behalf of the Possehl Foundation, 23552 Lübeck in their notification dated 8 June 2006 in accordance with Section 21 paragraph 1 and Section 24 of the Securities Trading Act that the voting rights of Possehl Beteiligungsverwaltung GmbH, 23552 Lübeck, L. Possehl & Co. mbH, 23552 Lübeck and the Possehl Foundation, 23552 Lübeck in NA AG had exceeded the threshold of 10% on 6 June 2006 and now amounted to 10.0005%.

Auditors' fees

The following fees were recorded as expenses in fiscal year 2005/06 for services rendered by the group auditors, KPMG Deutsche Treuhand-Gesellschaft, Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, and further KPMG international firms:

<i>Audit services</i>	€ 412 thousand
<i>Other assurance and valuation services</i>	€ 5 thousand
<i>Tax services</i>	€ 17 thousand
<i>Other services</i>	€ 99 thousand

The audit fees include in particular the fees for the audit of the consolidated financial statements, and the audit prescribed by law of Norddeutsche Affinerie AG and its consolidated subsidiaries. Of the amounts shown, € 511 thousand were due to the German auditors.

Events after the balance sheet date

NA concluded a new electricity agreement for the year 2007 in November 2006. Without further internal measures that would reduce the electric power requirement or would replace this with other cheaper sources of energy, this will result in additional costs of € 16 million p.a. In order to compensate these and further possible increases in the price of electricity in the coming years, we have started programmes aimed at reducing the consumption of electricity, the utilisation of other sources of energy and the generation of as much electricity as possible internally.


Apart from this, no events of particular importance, which are significant for the consolidated financial statements and could result in a changed assessment of the Group, have occurred since the end of 2005/06.

Hamburg, 5 January 2007

Norddeutsche Affinerie AG

Hovestrasse 50
20539 Hamburg

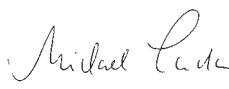
THE EXECUTIVE BOARD



Dr Werner Marnette



Dr Bernd Drouven



Dr Michael Landau



Dr Bernd Langner

INVESTMENTS AS PER SECTION 285 NO. 11 HGB (GERMAN COMMERCIAL CODE) AS AT 30 SEPTEMBER 2006

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 Norddeutsche Affinerie AG		€	95,115				
2 Deutsche Giessdraht GmbH, Emmerich	60	€	3,200	1	60	7,412	2,988
3 Prymetall GmbH, Stolberg	100	€	30	1	100	31	0
4 Prymetall GmbH & Co. KG, Stolberg	100	€	12,800	1	100	22,522	7,804
5 CABLO Metall-Recycling & Handel GmbH, Fehrbellin	100	€	767	1	100	5,461	2,445
6 RETORTE Ulrich Scharrer GmbH, Röthenbach	100	€	2,045	1	100	3,689	1,005
7 Peute Baustoff GmbH, Hamburg	100	€	52	1	100	872	758
8 EIP Metals Ltd., Smethwick (UK)	100	£	2,130	4	100	993	(24)
9 Hüttenbau-Gesellschaft Peute mbH, Hamburg	100	€	26	1	100	87	0
10 Hüttenwerk Kayser Lünen GmbH i.L., Lünen	100	€	26	1	100	27	1
11 E.R.N. Elektro-Recycling NORD GmbH, Hamburg	70	€	512	1	70	978	376
12 CIS Solartechnik GmbH & Co. KG, Bremerhaven	50	€	800	1	50	3,594	(695)
13 KPP Kraftwerk Peute Projektmanagement GmbH & Co. KG, Hamburg	50	€	100	1	50	(1,076)	(1,176)
14 KPV Kraftwerk Peute Verwaltungsgesellschaft mbH, Hamburg	50	€	25	1	50	24	(1)
15 C.M.R. International N.V., Antwerp	50	€	1,000	1	50	1,321	33
16 VisioNA GmbH, Hamburg	50	€	25	1	50	19	1
17 Schwermetall Halbzeugwerk GmbH, Stolberg	50	€	52	4	50	68	14
18 Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg	50	€	12,500	4	50	25,577	7,168
19 JoSeCo GmbH, Kirchheim/Schwabia	33	€	225	6	33	189	11
20 PHG Peute Hafen- und Industriebetriebsgesellschaft mbH, Hamburg	7	€	26	1	7	79	3

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

Companies 12, 13 and 18 were consolidated proportionally.

We have audited the consolidated financial statements prepared by Norddeutsche Affinerie AG, comprising the balance sheet, the income statement, the statements of changes in equity and cash flows and the notes to the consolidated financial statements, together with the group management report for the fiscal year from 1 October 2005 to 30 September 2006. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a paragraph 1 HGB are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB [»Handelsgesetzbuch«: German Commercial Code] and the 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 consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to 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 consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation,

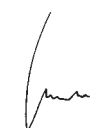
the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315a paragraph 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg, 5 January 2007

KPMG Deutsche Treuhand-Gesellschaft
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft



Krall
Auditor



Retzlaff
Auditor

Main investments of Norddeutsche Affinerie AG

Copper Production	Copper Processing	Others
<p>CABLO Metall-Recycling & Handel GmbH, Fehrbellin</p> <p>Capital: € 767 thousand NA holding: 100% Business activity: cable recycling Business Directors: Dr Michael Liesegang</p>	<p>Deutsche Giessdraht GmbH, Emmerich/Rhine</p> <p>Capital: € 3,200 thousand NA holding: 60% Business activity: wire rod Managing Director: Dr Stefan Schneider</p>	<p>KPP Kraftwerk Peute Projektmanagement mbH & Co. KG</p> <p>Capital: € 100 thousand NA holding: 50% Business activity: power plant project Management: KPV GmbH Investment since: 27.03.2006</p>
<p>PEUTE BAUSTOFF GmbH, Hamburg</p> <p>Capital: € 52 thousand NA holding: 100% Business activity: trade in construction materials Managing Director: Manfred Hamann</p>	<p>Prymetall GmbH & Co. KG, Stolberg</p> <p>Capital: € 12,800 thousand NA holding: 100% Business activity: copper semis Business Directors: Dr Bernd Langner Dr Holger Artelt Dr Jürgen Jestrabek</p>	<p>CIS Solartechnik GmbH & Co. KG, Bremerhaven</p> <p>Capital: € 800 thousand NA holding: 50% Business activity: development CIS Management: VisioNA GmbH Investment since: 27.05.2005</p>
<p>RETORTE Ulrich Scharrer GmbH, Röthenbach</p> <p>Capital: € 2,045 thousand NA holding: 100% Business activity: selenium products Managing Director: Bernd Treiber</p>	<p>EIP Metals Ltd., Smethwick (UK)</p> <p>Capital: £ 2,130 thousand NA holding: 100% Business activity: slitting centre Managing Director: Dr Holger Artelt</p>	
	<p>Schwermetall Halbzeugwerk GmbH & Co. KG, Stolberg</p> <p>Capital: € 12,500 thousand Prymetall holding: 50% Business activity: pre-rolled strip in Cu and Cu alloys Managing Director: Dirk Harten</p>	

Anodes

Positive electrodes of an electrolytic cell, end-product of the RWO; copper content about 99.5%.

Anode slimes

Important by-product of the copper tankhouse, which settles on the bottom of an electrolytic cell as the copper anodes dissolve. The precious and non-soluble components of the anodes are recovered with the anode slimes (e.g. silver, gold, selenium and lead).

Backwardation

Price relationship on the LME, when the spot price is higher than the forward or futures price. The price difference between cash and three month transactions is generally quoted; an indication of poor availability of cathodes for prompt delivery.

Cathodes

Product of the copper tankhouse (copper content > 99.99%) and the first marketable product in copper production which can be sold on the metal exchanges.

CIS solar cells

For these solar cells, a two millionth of a meter thin film made of a copper, indium and selenium compound is applied to a carrier foil of copper, titanium or stainless steel. The name CIS is a combination of the first letters of the metals: copper, indium and selenium.

Collection points

Companies and industrial enterprises where metal-bearing production residues arise. These can be pre-treated and processed in the Lünen recycling centre in an environmentally friendly process.

COMEX

Together with the LME, one of the two most important metal exchanges. It is of particular importance to the American market.

Commodity

Collective term for materials traded on the exchanges. These include non-ferrous metals, such as copper and tin, but also crude oil, beef, grain and coffee.

Continuous cast wire rod

Semi-finished product produced in a continuous process for the production of copper wire with a standard diameter of 8 mm. Other dimensions can also be supplied.

Continuous casting

Continuous casting produces a continuous strand. During the casting process, sizes of various lengths are separated from the casting billet by a flying saw. A variety of profiles (billets and cakes) and lengths can be created. These so-called continuous cast shapes are processed further by rolling and pressing into sheets, foils, profiles and tubes.

Converter

A furnace in which metal production or refining processes are typically carried out through oxidation. Copper matte from the flash smelter is treated in the converter into blister copper.

Copper concentrates

A product resulting from the processing (enriching) of copper ore, NA's main raw material. Since copper is found principally only in ores in compound form and in low concentrations (0.5 to 4% copper content), the ores, after extraction from the mine, are enriched in processing facilities into concentrates (copper content of 25 to 40%).

Copper tankhouse

In the copper tankhouse an electrochemical process, the last refining stage in copper recovery, takes place. Anodes and cathodes are hung in a sulphuric acid solution (electrolyte) and connected to an electric current. Copper and soluble impurities (nickel, etc.) are dissolved in the electrolyte. Copper from the solution is deposited on the cathode with a purity of more than 99.99%. More precious elements (e.g. silver and gold) and insoluble components settle as so-called anode slimes on the bottom of the tankhouse cell.

Flash smelter

First phase in the processing of copper concentrate. The concentrate, which is suspended in a reaction shaft, reacts with oxygen and is melted through the heat released. Sulphur and iron are separated into intermediary products. The copper is then enriched in the copper matte (copper content about 65%).

Iron silicate

A by-product of the (primary) copper concentrate smelting process. During such process the iron contained in the copper concentrate is combined with silicate flux to yield iron silicate. As granules or in a lumpy form it is mainly used in the construction industry.

KRS

Kayser Recycling System; a state-of-the-art recycling plant in Lünen for the treatment of a large range of copper bearing secondary raw materials.

LME

London Metal Exchange: the most important metal exchange in the world with the highest turnover.

OF copper

Oxygen-free copper. Special copper brand with high conductivity for electric and electronic applications.

Primary copper

Copper recovered from copper ores.

Recycling materials

Materials in a closed loop economy. They arise as residues from production processes or during the preparation of end-of-life products and rejects and are ideal for recycling.

RWO

The primary smelter at NA's production site in Hamburg.

Secondary copper

Copper produced from recycling material.

Settlement price

Official cash selling rate on the LME; price basis in annual sales agreements.

Shape surcharge

Fee for refining copper cathodes into copper products.

Single sourcing

A product or service is only procured from one supplier.

Smelter

A part of a works or company, in which crude metal or bullion are recovered, is called a smelter. Typical products are lead bullion or blister copper.

Spot market

Daily business; market for prompt deliveries.

Stainless steel cathode sheets

Negatively polarised electrodes used in the copper tankhouse, on to which the copper ions which are dissolved from the anodes are deposited cathodically as metallic copper.

Sustainable Development

Lasting future-oriented development targeted since the 1992 UN Conference as being the most sensible ideal of the way forward in environmental protection.

TOP ROD

Oxygen-free copper wire rod which depending on the customer's requirements contains alloying elements of up to 5%.

Top blown rotary converter (TBRC)

A single-stage pyrometallurgical facility for the recovery of precious metals from the anode slimes in the copper tankhouse.

Treatment and refining charges (TC/RCs)

Compensation which NA receives for the processing of copper concentrates and other raw materials into copper.

EBT (earnings before tax) is an indicator of a company's earning power.

EBIT (earnings before interest and tax) is an indicator of a company's operative earning power, ignoring its capital structure.

EBITDA (earnings before interest, taxes, depreciation and amortisation) is an indicator of a company's operative earning power, ignoring its capital structure and propensity to invest.

ROCE (return on capital employed) is the ratio of EBIT to average capital employed. It therefore represents the efficiency with which capital was utilised to generate earnings in the period under review.

Capital employed is the sum of equity, provisions for pension liabilities and financial liabilities, less cash and cash equivalents.

Gearing is the ratio of net financial liabilities to equity.

Net financial liabilities consist of long and short-term financial liabilities less cash and cash equivalents.

Gross cash flow is the sum of the generated cash and cash equivalents before taking into account cash related changes in working capital.

Net cash flow is the generated surplus of cash and cash equivalents after taking into account cash related changes in working capital. It is available for payments in conjunction with the company's investing and financing activities.

Free cash flow is the generated surplus of cash and cash equivalents taking into account cash related changes in working capital and after deducting capital expenditure. It is available for the company's dividend and interest payments as well as for the redemption of financial liabilities.

Imprint

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Disclaimer

This annual 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.

Key Figures

NA Group, in accordance with IFRS, until 2000/01 as per HGB (German Commercial Code)		1999/2000	2000/01	2001/02	2002/03	2003/04
Copper price LME settlement (average)	US\$/t	1,787	1,684	1,525	1,653	2,607
Results						
Revenues	€ m	1,897	2,010	1,842	1,816	2,481
EBITDA	€ m	107	111	98	79	129
EBIT	€ m	74	65	42	16	58
EBT	€ m	69	57	31	3	47
Net income	€ m	41	42	21	4	27
Gross cash flow	€ m	78	86	97	64	118
Balance sheet						
Total assets	€ m	691	709	955	914	990
Non-current assets	€ m	237	259	464	437	396
Capital expenditure	€ m	79	69	47	26	28
Depreciation and amortisation	€ m	33	47	56	63	70
Equity	€ m	260	280	397	391	409
NA shares						
Market capitalisation****	€ m	378	396	353	291	432
Earnings per share	€	1.20	1.26	0.63	0.10	0.76
Dividend per share	€	0.75	0.75	0.65	–	0.65
Human resources						
Number of employees (average)		3,154	3,195	3,374	3,458	3,206
Personnel expenses	€ m	150	168	178	192	180
Production						
Cathodes**	1,000 t	503	540	554	530	522
Continuous cast wire rod**	1,000 t	382	347	285	342	399
Continuous cast shapes	1,000 t	197	204	203	193	257
Pre-rolled strip	1,000 t	–	–	149***	138	122
Strips	1,000 t	–	–	59***	52	63
Shaped wires	1,000 t	–	–	12***	12	13
Gold	t	20	23	28	25	21
Silver	t	483	680	727	831	759

* without revaluation of LIFO inventories using average cost method

** including Hüttenwerke Kayser (HK) and HK's share of Deutsche Giessdraht since 1 January 2000

*** since fiscal year 2001/02; rounded up to twelve months

**** at fiscal year-end

		2004/05*	2005/06*	+/-
Copper price LME settlement (avg.)	US\$/t	3,382	6,033	+78.4%
Results				
Revenues	€ m	3,022	5,753	+90.4%
EBITDA	€ m	163	163	—
EBIT	€ m	99	111	+12.1%
EBT	€ m	90	103	+14.4%
Net income	€ m	61	60	(1.6%)
Gross cash flow	€ m	137	112	(18.2%)
Balance sheet				
Total assets	€ m	1,128	1,811	+60.5%
Non-current assets	€ m	366	360	(1.6%)
Capital expenditure	€ m	33	48	+45.5%
Depreciation and amortisation	€ m	64	52	(18.8%)
Equity	€ m	442	501	+13.3%
NA shares				
Market capitalisation****	€ m	625	705	+12.8%
Earnings per share	€	1.77	1.64	(7.3%)
Dividend per share	€	1.00	1.05	+5.0%
Human resources				
Number of employees (average)		3,158	3,187	+0.9%
Personnel expenses	€ m	189	194	+2.6%
Production				
Cathodes**	1,000 t	558	551	(1.3%)
Continuous cast wire rod**	1,000 t	375	423	+12.8%
Continuous cast shapes	1,000 t	237	266	+12.2%
Pre-rolled strip	1,000 t	116	130	+12.1%
Strips	1,000 t	50	54	+8.0%
Shaped wires	1,000 t	12	13	+8.3%
Gold	t	29	35	+20.7%
Silver	t	880	985	+11.9%

Financial calendar



Interim report on 1 st quarter 2006/07	<i>31 January 2007</i>
Annual Press Conference	<i>31 January 2007</i>
DVFA Analysts Conference	<i>31 January 2007</i>
Annual General Meeting	<i>29 March 2007</i>
Dividend payment	<i>30 March 2007</i>
Interim report on 2 nd quarter 2006/07	<i>9 May 2007</i>
Interim report on 3 rd quarter 2006/07	<i>14 August 2007</i>
Open Day at the Hamburg Stock Exchange	<i>10 November 2007</i>
Preliminary financial statements 2006/07	<i>19 December 2007</i>

