

**COPPER MARKET**

With an expected copper demand of 4.4 million tonnes, China will have developed into the country with the highest copper demand in the world in 2007, and will have caught up with Europe as a whole and even overtaken it. The latest figures confirm that the country's strong economic dynamics are continuing. Growth should even have become stronger in the first quarter of 2007, reaching 11.1 %. It is even being acknowledged that the actual growth rate is much higher than the official data on the Chinese gross domestic product. There is hardly any doubt about the continuation of China's high copper demand, even if the cathode imports have currently declined a little. That this is only temporary and imports will soon rise again can be assumed from the latest developments on the supply side:

- Production for Chinese copper smelters has become expensive after the conclusion of the semi-annual contractual negotiations on the procurement of copper concentrates. The TC/RCs that have mostly been agreed by the major smelters for the second half of 2007 and 2008 amount to US\$ 60/t and cents 6/lb and with the deletion of the price participation clause are clearly under the level of the prior year, which will result in correspondingly reduced earnings.
- Stricter controls of copper scrap deliveries by the customs and the extensive rejection of quantities have paralysed the import business in Southern China. Some 120,000 tonnes of copper scrap is said to be stranded in the port of Hong Kong alone. It is not expected that the situation will ease here quickly and thus the scrap imports will be restricted for several months to come. This also is hitting the Chinese copper smelters hard since they are cut off from a significant source of raw materials.
- The nine members of the China Smelter Pool procurement team met mid July and considered countermeasures. They account for 68 % of national copper production. These countermeasures could amount to scaling down production in the second half of 2007. The entire copper production in China's smelters amounted to 2.3 million tonnes in 2006. If the smelter pool reduces production by 10-15 %, as has been mentioned, the Chinese market would be short of 150,000 to 240,000 t of copper to cover demand. This, however, would not be compensated by the ongoing expansion of smelter capacities in China, since new smelters likewise are faced with the constraints of securing raw materials economically.

➤ There was little change in the copper stocks of the SHFE in July. At about 90,000 tonnes, the warehouse quantities are about 10,000 tonnes down on the level in June 2007.

While China is being confronted by high copper demand with probably a lower output, the trend in the rest of the world is not much different. Above all, the labour disputes in the South and North American copper industry have had an adverse impact on output. Despite all the efforts to avoid production losses, they could not be avoided in the last two months. Barclays Capital Research Team estimates them at a total of 30,000 to 40,000 t. The copper stocks in the warehouses of the LME declined by some 15,000 t to 99,000 t in the first half of July and since then have stagnated at a level of about 100,000 t. The settlement copper price in July rose from US\$ 7,730/t to US\$ 8,159/t with fluctuations, backwardation for three month contracts rose in the last few days in July from about US\$ 100/t to US\$ 130 – 150/t. The major risk factor is still, however, the economic trend in the U.S.A. It remains to be seen whether the worsening crisis of the U.S. real estate market will spread and impact even more banks and funds. The beginning of August was very turbulent on the financial and stock markets.

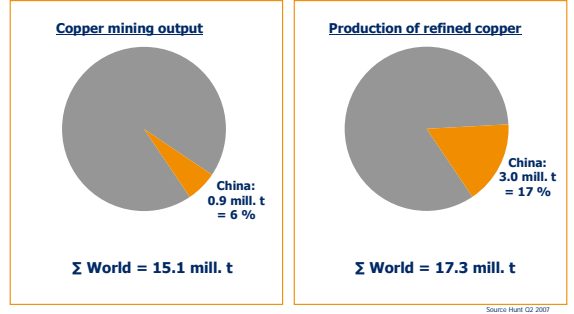
**COPPER RAW MATERIALS AND PRODUCTS**

While the concentrate market in the spot business is still characterised by short supply, the supply of copper scrap has again improved in Europe and North America (see above). On the copper product markets, a combination of factors, including in particular the summer season, has resulted in lower demand. This has especially affected sales of copper shapes and flat products.

**China is very dependent on copper raw material imports**



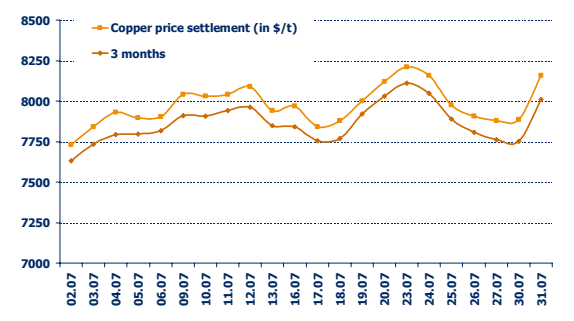
China's share of global copper production in 2006



**Copper price rises again to over US\$ 8,000/t in July**



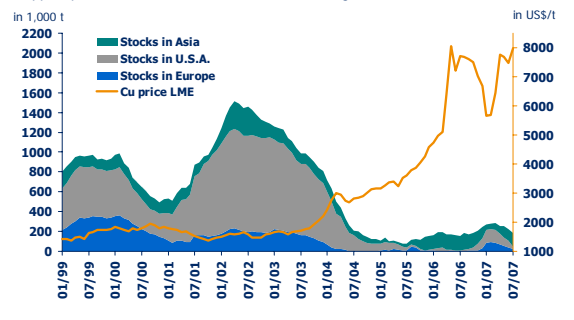
Copper price settlement LME July 2007 (in \$/t)



**After decline, LME copper stocks stagnate at about 100,000 tonnes**



Copper quotation and stocks on the metal exchanges



**GLOSSARY:**

- Backwardation: amount by which spot price is higher than 3 month price
- Comex: New York Commodity Exchange
- ICSG: International Copper Study Group
- LME: London Metal Exchange
- Settlement : cash selling rate
- SHFE: Shanghai Futures Exchange
- SRB: Strategic Reserve Bureau
- TC/RC: Treatment and refining charges for concentrates

This information contains forward-looking statements based on current assumptions and forecasts. Various known and unknown risks, uncertainties and other factors could have the impact that the actual future results, financial situation or developments differ from the estimates given here.

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